

**ANNUAL REPORT**  
OF THE QSUPER BOARD OF TRUSTEES **2011**



# Contents

## FEATURES

- 3 QSuper profile**  
An overview of QSuper – who we are, our vision and our values
- 4 Chairman's report**  
QSuper's initiatives for the future
- 5 QSuper Board of Trustees**  
A winning team – meet our QSuper Board members
- 6 Year in review**  
This year's achievements and QSuper's strategic vision
- 7 Investments**  
Market conditions and QSuper's investment returns
- 8 Financial summary**  
An overview of financial results
- 9 Products**  
A snapshot of the range of products on offer to members
- 11 Appendix**  
The QSuper Board is committed to high standards of corporate governance
- 20 State Public Sector Superannuation Scheme**  
Annual financial statements for the year ended 30 June 2011

## Contacting QSuper

### Contact Centres

70 Eagle Street Brisbane  
63 George Street Brisbane  
Ph 1300 360 750  
(+617 3239 1004 if overseas)  
Fax 1300 241 602  
(+617 3239 1111 if overseas)  
Monday to Friday  
8.30am to 5.00pm AEST  
GPO Box 200  
Brisbane Qld 4001  
[qsuper.qld.gov.au](http://qsuper.qld.gov.au)

### Additional copies

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

### Warning

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

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

# QSuper profile

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

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

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

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

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

## Our vision...

QSuper has built a high level of trust and a reputation for integrity by providing valued products and superior service to generations of members. The QSuper Board respects the importance of QSuper's primary objective, which is to give our members financial dignity and quality of life in retirement. The QSuper Board's vision reflects this commitment, which will help our members achieve an adequate income in retirement.

...improving retirement outcomes for members.

## Purpose of this report

The QSuper Board is pleased to present the annual report for the twelve months ending 30 June 2011. This report has been prepared for the Queensland Parliament, and other individuals and organisations sharing an interest in the objectives, achievements and future direction of QSuper. The report also contains QSuper's Audited Financial Records and the auditor's report.



# Chairman's report

by Bob Scheuber  
Chairman of the QSuper Board

It's been a tough year for Queensland, with much of the state devastated by natural disaster. QSuper itself was also affected by flooding in the Brisbane CBD, but thanks to the hard work and dedication of QSuper Limited staff I'm pleased to say the impact on members was minimal.

## Investment market performance

The past twelve months has seen investment markets continue to recover from the global financial crisis. This has been good news for QSuper members, as growth in financial markets has improved returns and has led to a stronger performance for QSuper's investment options. However, there remains some uncertainty regarding the future state of financial markets, and the period ahead is likely to remain challenging for investors.

## External superannuation environment

The 2010/2011 financial year was a relatively quiet year on the legislative front, with only minor changes to superannuation proposed in the Budget. Many of the proposals made in the previous year's Budget, and the 'Stronger Super' reforms the Commonwealth Government in response to last year's Cooper Review into the superannuation system, have yet to be passed into law.

One of the Commonwealth Government's reforms as part of 'Stronger Super' is the introduction of SuperStream, a package of measures implemented from 1 July 2011 and designed to enhance 'back office' processes of the super industry. QSuper strongly supports the changes as they align with QSuper's internal change program, which is aimed at improving systems and processes within QSuper and is discussed in more detail in the Chief Executive Officer's report.

## Investment capability

A key focus for the Board over the last two years has been the building of an internal investment capability within QSuper Limited, so QSuper can have greater control over how members' money is invested. This project reached another significant milestone in May 2011, with the Capital Markets function coming online. This team provides QSuper with a greater level of control over its investment processes by allowing certain portfolio management decisions to be directly executed without undue reliance on external managers.

## Q Invest ownership

In August 2010, the QSuper Board became the sole shareholder of Q Invest Limited – one of the largest financial planning organisations in Queensland. Q Invest was previously jointly owned by the Board and QIC (ABN 95 942 373 762). QSuper is excited by this opportunity to strengthen our relationship with Q Invest, and we are strongly focussed on helping our members grow their super by ensuring they have the information and advice they need.

## QSuper's Strategic plan

The main focus for the QSuper Board going forward is to set the strategic direction and vision for the future, and to create the framework the Fund needs to deliver on our core promise of helping members achieve better retirement outcomes. A key element of QSuper's strategy looking forward is exploring what we need to change as a fund to further strengthen our partnership with members. The Trustees and I are currently finalising the new strategic plan, and are looking at ways to improve the services and products that are offered.

## Acknowledgements

On behalf of the QSuper Board, I would like to express my appreciation to my fellow Trustees, QSuper's Chief Executive Officer, Rosemary Vilgan, our Executive Management Team, and all staff for their hard work in what has sometimes been a challenging year. I would also like to thank the Auditor-General of Queensland, Q Invest, and our external investment managers and service providers for their ongoing assistance.

The upcoming year will be the beginning of a new era for QSuper, and our 'member first' philosophy will continue to guide our progress. Every future decision and action we make in the coming months and years will continue to be driven by our goal of improving retirement outcomes for all QSuper members.

**Bob Scheuber**  
Chairman of the QSuper Board

# QSuper Board of Trustees

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

The Board of Trustees of the State Public Sector Superannuation Scheme (ABN 32 125 059 006) is known as the QSuper Board of Trustees (the QSuper Board), and is responsible for overseeing the operation of QSuper. The QSuper Board meets on a regular basis to discuss key areas of the Fund, including the creation and implementation of QSuper's strategic direction, the formulation of the investment strategy, and service delivery to members.

## Employer Trustees

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



**Bob Scheuber, AM (Chairman)**

Former Chief Executive Queensland Rail  
Appointed: December 2007



**John Carpendale**

Former superannuation fund executive  
Appointed: June 2006



**Natalie MacDonald**

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



**Peter Henneken, AM**

Former Director-General Department of Employment and Industrial Relations  
Appointed: December 2007



**Walter Ivessa**

Assistant Under Treasurer Queensland Treasury  
Appointed: June 2009



**Norelle Deeth**

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

## Member entity Trustees

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



**Steve Ryan (Deputy Chairman)**

President Queensland Teachers' Union  
Appointed: June 1994



**Karen Peut, PSM**

Executive Director Department of Transport and Main Roads  
Appointed: May 1985



**Tom Jeffers**

Vice-President Australian Workers' Union Queensland  
Appointed: August 2007



**Gay Hawksworth, OAM**

Former State Secretary Queensland Nurses' Union  
Appointed: December 2007



**Amanda Richards**

Assistant General Secretary Queensland Council of Unions  
Appointed: September 2008



**Michael Barnes**

General Secretary Queensland Police Union of Employees  
Appointed: June 2009

## Meeting attendance

Bob Schueber	John Carpendale	Natalie MacDonald	Peter Henneken	Walter Ivessa	Norelle Deeth	Steve Ryan	Karen Peut	Tom Jeffers	Gay Hawksworth	Amanda Richards	Michael Barnes
11	11	8	11	11	11	11	10	8	11	10	10
11	11	11	11	11	11	11	11	11	11	11	11

■ Number of Board meetings attended

■ Number of Board meetings the trustee was eligible to attend



# Year in review

by Rosemary Vilgan  
Chief Executive Officer,  
QSuper and QSuper Limited

Although returns for QSuper's investment options continue to recover from the global financial crisis, it's becoming clearer that the focus for the super industry needs to be on more than just good returns.

## New logo introduces new era

QSuper has a fresh new look and feel, with our new logo launched to members in August 2011. However this change extends beyond just a new logo; essentially it marks the start of an exciting journey for QSuper as we explore innovative new ways in which we help members accumulate super to live the retirement lifestyle they want to live.

QSuper recognises that every member's situation is different, and this has been the catalyst for rethinking the services and products we provide to our members. We've therefore been looking closely at how we can provide the information and support to help members make the right decisions at the right time so they can enjoy a comfortable lifestyle in retirement.

## Improving our business capability

At QSuper we recognise how important effective internal processes are in creating the strong framework needed to turn ideas into reality. Through our Corporate Change Program we have been improving efficiencies in business processes and systems, and several important milestones have been reached, including the delivery of a new receipting process and a new workflow system.

As part of QSuper's strategy of better personalising our service offer, we have been reviewing how to make education and information more accessible and have introduced new initiatives designed to make the process of providing our members with access to the financial advice they need more streamlined.

## Recognition of our hard work

QSuper has reached some impressive milestones over the last twelve months, with our Accumulation account receiving a platinum rating for the fifth year in a row from SuperRatings, an independent superannuation ratings agency. The QSuper Pension account similarly received a platinum rating, and had the additional prestige of being a finalist for SuperRatings' Pension Fund of the year award. In addition, I'm delighted to report that in 2011 QSuper's Contact Centre was recognised as the best in Queensland for its size.<sup>1</sup> This award reflects the hard work and dedication of our Contact Centre staff over the past financial year.

These are excellent achievements, reaffirming QSuper's position as one of Australia's leading funds, and recognises our commitment to providing members both with real service and a great value product through some of the lowest fees in Australia.

This year has also seen the Queensland State Actuary complete his report on QSuper's defined benefit arrangements for the three years ending 30 June 2010, which confirms these arrangements are in a sound position. A detailed summary of the Actuarial Investigation can be found in the appendix of the financial statements on pages 56 and 57.

I believe the business improvements of the last financial year have laid the foundation for a stronger fund for the years to come. Many dedicated staff are working to achieve great things for our members, so I know I can look forward to the future with great excitement and confidence in our vision.

**Rosemary Vilgan**

Chief Executive Officer, QSuper and QSuper Limited

<sup>1</sup> Annual contact centre awards, Australian Teleservices Association, Queensland Chapter.

# Investments

## Financial markets 2010/2011

Against the backdrop of measured growth in economic activity among the world's major economies, global financial markets continued to recover from the depths of the global financial crisis recorded in early 2009. Much of the economic recovery is due to the continued efforts by authorities in the largest economies to maintain fiscal and monetary policy settings at highly accommodative levels.

However, the recovery in global markets over 2010/2011 was not smooth. In Europe, the ongoing sovereign debt crisis continued to be a major headwind to financial market performance. In the US, authorities needed to inject additional unconventional monetary stimulus to prevent the recovery in output and employment from stalling. Global markets experienced further volatility following the devastating earthquake-tsunami combination in Japan in early March. The Australian sharemarket underperformed global peers over the year, as while strong global demand for resources buoyed local share prices, this was mostly offset by the Reserve Bank's persistent efforts to avoid the build-up of inflationary pressures.

## Solid returns

The 2010/2011 financial year has seen strong returns across QSuper's nine investment options. QSuper continues to monitor and modify portfolio positions as necessary to balance risks with the returns expected from our investments.

## Internal investment capability

QSuper Limited has been steadily building internal investment capability over the past three years. The additional capability is now in place and the team is responsible for assisting the Board to set the Fund's investment strategy, engaging specialised external managers and implementing strategy. The building of this capability enables the Board to take a greater control over how members' money is invested.

## Market conditions – looking forward

The period ahead is likely to remain challenging for investment markets. In part this concern reflects expectations that global authorities will continue to gradually withdraw the monetary and fiscal stimuli that have supported the current recovery. The ongoing impacts of the fiscal austerity packages in Europe, the end of quantitative

easing in the US and the tightening of financial conditions in China will all likely contribute to more testing conditions for markets in the year ahead.

## Our future

The 2011/2012 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 billions<sup>1</sup>



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

Investment returns <sup>2</sup>								
QSuper investment option <sup>3</sup>	Accumulation account				QSuper Pension account			
	Crediting rate 2010/2011	Compound 3-year return	Compound 5-year return	Compound 10-year return	Crediting rate 2009/2010	Compound 3-year return	Compound 5-year return	Compound 10-year return
QSuper Balanced (Default)	7.81%	2.14%	3.24%	5.17%	9.04%	2.73%	3.91%	5.91%
QSuper Moderate	5.87%	3.32%	3.92%	4.86%	6.93%	3.70%	4.46%	5.54%
QSuper Socially Responsible	5.89%	1.45%	2.12%	n/a	6.92%	1.54%	2.30%	n/a
QSuper Indexed Mix	9.19%	3.14%	n/a	n/a	10.50%	2.96%	n/a	n/a
QSuper Aggressive	9.99%	-0.32%	1.70%	4.00%	11.58%	0.78%	2.70%	4.95%
Cash	4.05%	3.90%	4.19%	4.24%	4.77%	4.44%	4.87%	4.99%
Diversified Bonds	5.33%	9.63%	7.35%	n/a	6.38%	9.07%	7.34%	n/a
Australian Shares	7.09%	0.40%	2.81%	n/a	8.27%	0.32%	3.03%	n/a
International Shares	17.18%	-1.62%	0.17%	n/a	19.78%	0.23%	1.44%	n/a
Defined Benefit account								
	Crediting rate 2010/2011	Compound 3-year return		Compound 5-year return	Compound 10-year return			
	7.81%	2.14%		3.62%	6.01%			

<sup>2</sup> Past performance is not a reliable indicator of future performance. <sup>3</sup> This information is reflective of our investment options as at 30 June 2011.

# Financial summary

## Financial summary

<b>QSuper net assets available to pay benefits as at 1 July 2010</b>	<b>\$27,904.2m</b>
<b>Revenue</b>	
Investment revenue	\$3,230.1m
Employer contributions	\$3,231.7m
Member contributions	\$882.7m
Transfers from other funds	\$513.0m
Other revenue	\$2.3m
<b>Total revenue</b>	<b>\$7,859.8m</b>
<b>Expenses</b>	
Benefits paid	\$2,199.4m
Direct investment expenses	\$87.3m
Administration expenses	\$75.8m
Strategic and change initiative expenses	\$8.1m
Financial planning expenses	\$14.7m
Income tax expenses	\$703.0m
Other expenses	\$10.3m
<b>Total expenses</b>	<b>\$3,098.6m</b>
<b>QSuper net assets available to pay benefits as at 30 June 2011</b>	<b>\$32,665.4m</b>

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

## Membership summary

Number of members at 30 June 2011	544,082	
Accounts opened	82,211	
Accounts closed	44,721	
Number of accounts at 30 June 2011	755,004	
	<b>30 June 2010</b>	<b>30 June 2011</b>
Average account balance <sup>1</sup>	\$66,727	\$70,443

<sup>1</sup> This reflects the average balance for QSuper accounts and will not reconcile to the amount of QSuper net assets available to pay benefits. QSuper has a split funding arrangement with the Consolidated Fund whereby once a benefit for defined benefit members becomes payable the employer's share of these benefits will be met by the Consolidated Fund at that time.

# Products

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

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

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

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

## Product growth

The growth of funds in QSuper Accumulation accounts in comparison to funds in QSuper Defined Benefit accounts has steadily continued. This is because the Accumulation account is the default account, while Defined Benefit, State and Police accounts are closed to new members. Further growth is due to retiring and resigning members often converting their Defined Benefit, State, or Police accounts to an Accumulation account.

## Accumulation account

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

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

As of 1 July 2009, QSuper members and their spouses have had the option to have their non-Queensland Government employer pay super contributions on their behalf into a QSuper Accumulation account. As at 30 June 2011, nearly 20,000 members were utilising this option.

Accumulation account	30 June 2010	30 June 2011
Accounts (active)	247,202	256,046
Accounts (retained)	328,913	360,846
Income protection benefits paid	2,485	3,132
Rollovers to QSuper	24,897	29,009
Members making voluntary contributions	76,029	76,280
Accumulation accounts opened via spouse deposits	1,217	945
Income		
<i>Contribution</i>	\$3,819.6m	\$4,108.7m
<i>Investment</i>	\$2,002.0m	\$1,989.6m
<i>Miscellaneous</i>	\$0.5m	\$1.8m
Total	\$5,822.1m	\$6,100.1m
Expenditure	\$2,533.9m <sup>1</sup>	\$2,865.1m
Balance of accounts	\$20,396.6m <sup>2</sup>	\$22,996.3m

<sup>1</sup> The 2010 year has been adjusted due to a retrospective restatement of income tax.

<sup>2</sup> This amount includes some reserves held by the Consolidated Fund.

## Defined Benefit account

A QSuper Defined Benefit account provides accrued and insured benefits based on a member's salary, contribution rate and length of membership. On 12 November 2008 the Defined Benefit account was closed to new members. Members who had an existing Defined Benefit account at 12 November 2008 could continue to hold membership. Employer contributions are not paid directly into QSuper – instead they are paid into a reserve held by the Queensland Treasury Corporation, which is used to fund the benefits of Defined Benefit account members as required.

Defined Benefit account	30 June 2010	30 June 2011
Accounts (active)	76,106	71,853
Accounts (retained)	44,880	44,518
<b>Benefit payments</b>		
Age retirement	2,289	3,376
Permanent disability	257	220
Resignation	1,496	2,733
Retrenchment	185	334
Income protection benefits paid	1,555	1,637
Income		
<i>Contribution</i>	\$1,332.7m	\$1,461.6m
<i>Investment</i>	\$715.3m	\$790.9m
<i>Miscellaneous</i>	\$0.3m	\$0.3m
Total	\$2,048.3m	\$2,252.8m
Expenditure	\$1,326.4m	\$1,765.7m
Balance of accounts	\$6,144.7m	\$4,237.2m
Crediting rate	12.26%	7.81%

# Products

## QSuper Pension account

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

### Transition to retirement

The transition to retirement option allows certain members to open a QSuper Pension account and draw an income while still employed. The transition to retirement option was implemented by QSuper in July 2006 and as at 30 June 2011 there were 3,474 members utilising this option. These members and their balances are included in the information for QSuper Pension accounts.

## 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 not paid directly into QSuper – instead they are paid into a reserve held by the Queensland Treasury Corporation which is used to fund the benefits of State and Police members as required.

QSuper Pension account	30 June 2010	30 June 2011
Accounts	17,452	20,419
New accounts opened	2,835	3,843
Income		
<i>Contribution</i>	\$906.5m	\$1,208.0m
<i>Investment</i>	\$520.7m	\$449.6m
<i>Miscellaneous</i>	\$0.0m	\$0.2m
Total	\$1,427.2m	\$1,657.8m
Expenditure	\$519.4m	\$618.8m
Balance of accounts	\$4,392.8m	\$5,431.8m

State and Police accounts	30 June 2010	30 June 2011
Accounts	1,412	1,322
<b>Benefit payments</b>		
<i>Age retirement</i>	79	59
<i>Ill-health retirement</i>	2	1
<i>Death</i>	2	2
<i>Resignation</i>	9	11
<i>Retrenchment</i>	1	3
Total	93	76
Income protection benefits paid	27	22
Income	Included in Defined Benefit account	
Expenditure	Included in Defined Benefit account	
Balance of accounts	Included in Defined Benefit account	
Crediting rate	Resignation 11.86%	Resignation 7.41%
	Preserved 12.26%	Preserved 7.81%

# Appendix

## 2010/2011 Annual report of the QSuper Board of Trustees

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

### Governance

The *Superannuation (State Public Sector) Act 1990* entrusts the Board to administer QSuper. In carrying out this function the Board is committed to complying with its legislative and regulatory obligations as well as fulfilling its fiduciary responsibilities. In accordance with industry standards and regulatory requirements, the QSuper Board has a clearly defined, transparent framework for the division of responsibilities in the oversight and operation of QSuper, as well as the accountability and suitability of all parties involved in the supervision and administration of the Fund.

### Composition and appointment of the Board

A Trustee's appointment to the QSuper Board is prescribed under the *Superannuation (State Public Sector) Act 1990*. The QSuper Board is comprised of six employer Trustees, appointed by the Treasurer, and six member entity Trustees. Of the six member entity Trustees, one is nominated by the Australian Workers' Union, Queensland, and the remainder are nominated by the Queensland Council of Unions. The Treasurer, as Minister, appoints a Trustee as Chairman following consultation with the QSuper Board. Trustees serve on the QSuper Board for a term of three years, after which they may be nominated for re-appointment. QSuper Trustees are also Directors of QSuper Limited.

### Remuneration of the QSuper Board

During 2010/2011, the QSuper Board was remunerated in accordance with rates approved by the Minister in consultation with the QSuper Board. This remuneration represents an all inclusive fee encompassing all QSuper Board related activities (including committee memberships and QSuper Limited Directorship). QSuper Board members who are also employees of the Queensland Government are not remunerated for their Trustee duties.

# Appendix

## Queensland Government Trustees

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

#### **Former Chief Executive Officer of Queensland Rail**

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

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

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

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

Mr Scheuber is Deputy Chairman of the Investment Committee, a member of the Human Resources Committee and a former member of the Audit and Risk Committee.

### **Mr John Carpendale**

#### **Former superannuation fund executive**

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

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

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

Mr Carpendale is a member and former Chairman of the Product Committee and a member of the Investment Committee.

### **Ms Natalie MacDonald**

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

*BA, MBA, M.Comm*

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

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

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

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

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

*B.Bus, BA, FIPAA, FAICD*

Trustee on the QSuper Board (appointed December 2007), Director of QSuper Limited (appointed December 2007), Chairman of the Safety, Rehabilitation and Compensation Commission, Chairman of the Portable Long Service Leave Authority (QLeave) Board, and Chairman of the Fitness Sport & Recreation Industry Training Council.

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

Mr Henneken is a member of the Investment and Human Resources Committees.

### **Mr Walter Ivessa**

#### **Assistant Under Treasurer Queensland Treasury**

*B.Ec*

Trustee on the QSuper Board (appointed June 2009), Director of QSuper Limited (appointed June 2009), Member of the Public Trust Investment Board.

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

Mr Ivessa is a member of the Audit and Risk Committee.

### **Ms Norelle Deeth**

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

*BA, B.Com, Dip Ed*

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

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

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

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

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

## Member entity Trustees

### **Mr Steve Ryan**

**President**

**Queensland Teachers' Union**

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

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

Mr Ryan is Chairman of the Human Resources Committee and a member of the Investment Committee.

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

**Executive Director**

**Department of Transport and Main Roads**

*MAICD*

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

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

Mrs Peut is a member of the Product Committee.

### **Mr Tom Jeffers**

**Vice-President**

**Australian Workers' Union, Queensland**

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

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

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

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

**Former State Secretary  
Queensland Nurses' Union**

*RN, Dip.Nursing*

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

Ms Hawksworth has been involved with the Queensland Nurses' Union since 1982, and recently retired from the position of State Secretary after 16 years in the job. She is a life member of the Queensland Nurses Union.

Ms Hawksworth has extensive expertise and knowledge in employment and industrial relations.

Ms Hawksworth is Chairman of the Product Committee.

### **Ms Amanda Richards**

**Assistant General Secretary**

**Queensland Council of Unions**

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

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

Ms Richards is a member of the Audit & Risk Committee.

### **Mr Michael Barnes**

**General Secretary**

**Queensland Police Union of Employees**

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

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

Mr Barnes is a member of the Product and Human Resources Committees.

# Appendix

## Board and management responsibilities

The QSuper Board generally meets on a monthly basis. Throughout the course of the 2010/2011 financial year, eleven meetings were held. 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. The QSuper Board also has procedures in place to ensure that the Executive Committee is appropriately qualified and experienced to discharge its responsibilities.

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

## Board Committees

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

During 2010/2011, the following committees were constituted by the QSuper Board:

- Investment Committee
- Audit and Risk Committee
- Product Committee
- Human Resources Committee.

## Investment Committee

Members:

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

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

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

### Mr Michael Rice

Mr Rice specialises in providing strategic advice to financial institutions, government agencies, industry associations and large superannuation funds. He has extensive experience in the financial services industry including:

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

### Mr Ian Macoun

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

Mr Macoun has more than 16 years as a Chief Executive and Chief Investment Officer of successful investment management firms, and 17 years in the Queensland public sector. He has extensive investment, financial, public sector and business experience, including:

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

### Ms Lorraine Berends

*FIAA, B.Sc, FASFA, MAICD*

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

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

## Audit and Risk Committee

Members:

- Ms Norelle Deeth (Chairman)
- Mr Walter Ivessa
- Ms Natalie MacDonald
- Ms Amanda Richards
- Mr Stephen Maitland.

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

### Mr Stephen Maitland, OAM, RFD

*B Ec, M Bus, LL M, FCPA, FAICD, FCIS, F.Fin, FAIM*

Mr Maitland is a qualified accountant and company secretary with over 35 years experience in all aspects of the banking and finance industry. He was Chief Executive Officer of the Queensland Office of Financial Supervision (1992 to 1999), and is currently:

- a non-executive Director of Australian Unity Limited
- a non-executive Director of Buderim Ginger Limited
- a non-executive Director of RACQ Limited.

### Product Committee

Members:

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

This Committee's principal duties and responsibilities include overseeing:

- the Board's strategic focus on marketing initiatives including the development and implementation of a comprehensive marketing strategy for QSuper
- the product lifecycle, including the development of new QSuper products as well as the continuous improvement of existing products
- the insurance products of QSuper and consideration of new initiatives and the strategic direction of claims management.

### Meeting attendance record

Trustee	Board meetings		Audit and Risk Committee		Investment Committee		Product Committee		HR Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended	Held	Attended
Bob Scheuber	11	11	4	4	11	11			2	0
John Carpendale	11	11			11	11	5	5		
Natalie MacDonald	11	8	7	5						
Peter Henneken	11	11			11	11			2	2
Walter Ivessa	11	11	7	7						
Norelle Deeth	11	11	7	7			2	2		
Steve Ryan	11	11			11	11			2	2
Karen Peut	11	10					5	5		
Tom Jeffers	11	8	4	2			5	5		
Gay Hawksworth	11	11					5	3		
Amanda Richards	11	10	3	2						
Michael Barnes	11	10					5	2	2	0
Independent committee members										
Michael Rice					11	11				
Ian Macoun					11	11				
Lorraine Berends					11	11				
Stephen Maitland			3	3						

### Human Resources Committee

Members:

- Mr Steve Ryan (Chairman)
- Mr Bob Scheuber
- Mr Peter Henneken
- Mr Michael Barnes.

The Committee provides advice to the Board on Board performance matters, as well as Trustee Role Description documents and, as QSuper Limited is a wholly owned subsidiary, the Committee also oversees human resources matters pertaining to QSuper Limited staff.

# Appendix

## QSuper Limited Executive Committee

Chaired by the Chief Executive Officer, the Executive Committee includes the Chief Financial Officer, Chief Investment Officer, Chief Officer Member Outcomes, Chief Officer Member Administration, Chief Officer Systems & Change, Chief Officer Strategy & Product Development, and Chief Officer Human Resources. The Committee is responsible for addressing strategic corporate issues, and providing assistance and advice to the Chief Executive Officer and the QSuper Board.

## QSuper Limited organisational chart

The chart below represents QSuper Limited's organisational structure as at 30 June 2011.



## 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 2010/2011, the QSuper Board continued to ensure that robust and effective processes and systems were being applied and enhanced to support the implementation of the Fund's Risk Management Framework so that the Fund's risk management practices are consistent with legislation and best practice.

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

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

Compliance with the RMS/RMP is required to be audited each year and this document is a key focus of the Australian Prudential Regulation Authority's prudential reviews.

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

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

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

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

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

### Risk management processes

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

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

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

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

### Compliance Framework

The Compliance Framework, which is based on AS/NZS 3806 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 and Risk Committee and the Trustee (including reporting of exceptions), in line with the various practices governing operation of the risk and compliance frameworks.

### Governance

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

During 2010/2011, a number of Trustee policies and programs were reviewed in line with regulatory requirements including, for example, the Adequacy of Resources policy. Several policies were amalgamated into a single Governance policy including the previous Code of Conduct, Conflicts of Interest, Fit and Proper, Remuneration, Trustee, and Responsible Officer Training policies.

# Appendix

## Resourcing

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

- an annual budget-setting process, and regular monitoring and reporting on tracking against forecasts
- a requirement for all 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 and Risk Committee. In determining which areas to audit, consideration is given to the work undertaken by the QSuper Board's external auditors and the internal risk and compliance program. During 2010/2011, some of the audits completed were:

- core business testing
- IT change management
- risk management
- program management
- external manager oversight.

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

## External audit – Auditor-General of Queensland

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

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

## Trustee policies

### Right to Information Act and Privacy

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

The 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 the public interest to release such information (e.g. information subject to legal professional privilege or commercially sensitive information).

Requests for information can be made in two ways:

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

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

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

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

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

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

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

### QSuper's privacy policy

QSuper's privacy policy is set out in the *Your Privacy* fact sheet, which is available by contacting QSuper on 1300 360 750 or accessing the QSuper website at [qsuper.qld.gov.au](http://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 which is aimed at the prevention, detection, ongoing monitoring and timely and effective response to potential incidents of fraud
- implementing and monitoring controls which assist with the prevention of fraud
- establishing clear reporting policies and procedures.

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

## Whistleblower protection

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

## Major service providers

### Administrator

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

### Investment Manager

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

### Financial planning

Q Invest<sup>2</sup>  
Central Plaza Two  
Level 8, 66 Eagle Street  
Brisbane Qld 4000

### Internal auditor

Ernst & Young<sup>3</sup>  
Waterfront Place  
Level 5, 1 Eagle Street  
Brisbane Qld 4000

### External auditor

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

### Actuary

State Actuary  
Level 2, 33 Charlotte Street  
Brisbane Qld 4000

### External insurer

TAL Life Limited  
(formerly TOWER Australia Limited)<sup>4</sup>  
Ground Level, 80 Alfred Street  
Milsons Point NSW 2061

### Custodian

National Australia Bank Asset Servicing<sup>5</sup>  
Level 12, 500 Bourke Street  
Melbourne Vic 3000

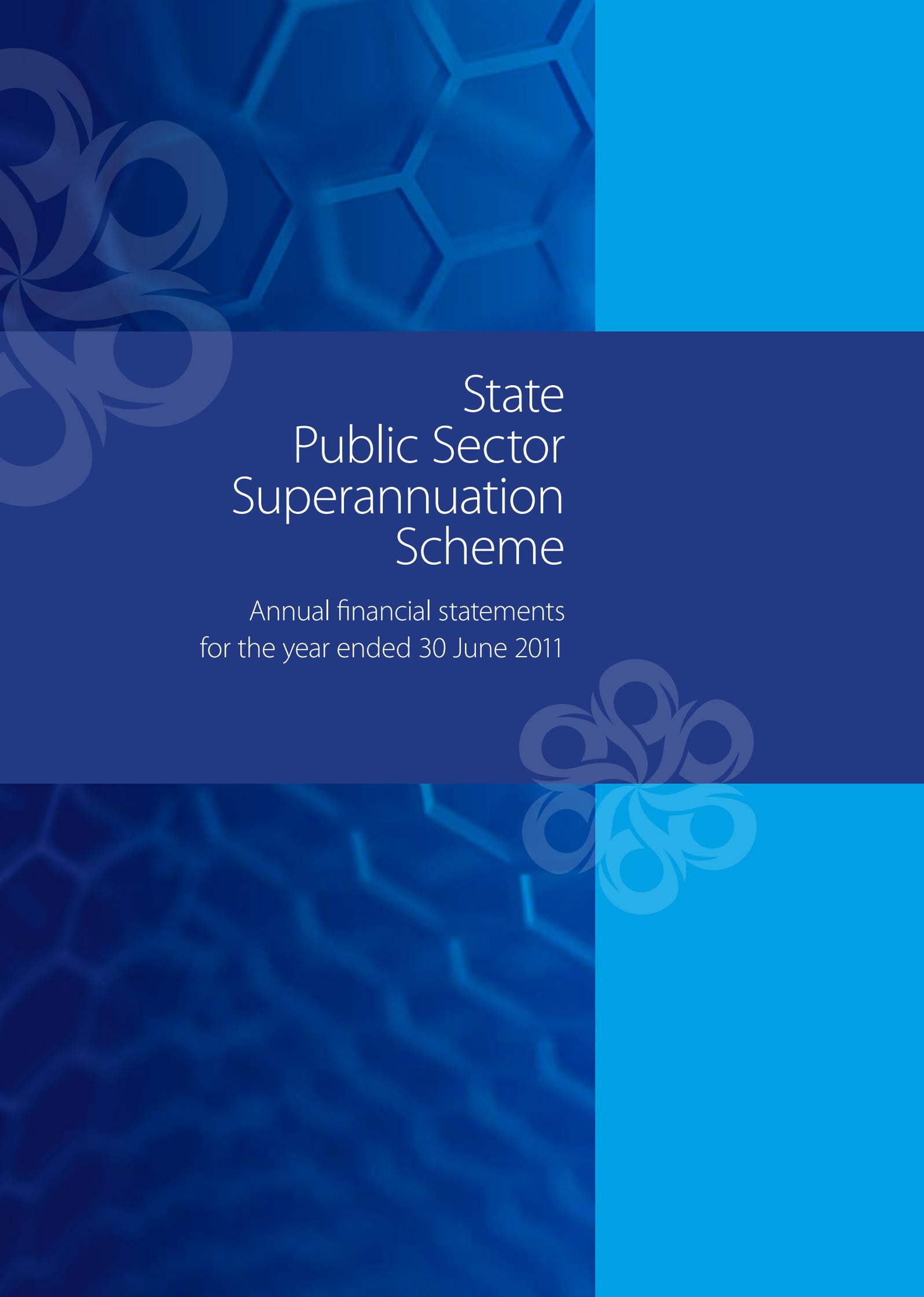
<sup>1</sup> QSuper Limited (ABN 50 125 248 286, AFSL 334546) is a wholly owned subsidiary of the QSuper Board of Trustees.

<sup>2</sup> Q Invest Limited (Q Invest) ABN 35 063 511 580 AFSL 238274. Q Invest is wholly owned by the QSuper Board of Trustees, and is a separate legal entity which takes full responsibility for the financial services and products it provides.

<sup>3</sup> Ernst & Young Australia (ABN 75 288 172 749).

<sup>4</sup> TAL Life Limited (ABN 70 050 109 450, AFSL 237848).

<sup>5</sup> National Australia Bank Limited (ABN 12 004 044 937, AFSL 230686).



# State Public Sector Superannuation Scheme

Annual financial statements  
for the year ended 30 June 2011



## CONTENTS

### **22** Statement of net assets

### **23** Statement of changes in net assets

### **24** Notes to the financial statements

Note 1	Operation of QSuper	24
Note 2	Significant accounting policies	24
Note 3	Significant accounting judgements, estimates, and assumptions	30
Note 4	Investments	30
Note 5	Investment in Q Invest Limited	36
Note 6	Investment in QSuper Limited	36
Note 7	Liability for accrued benefits	36
Note 8	Vested benefits	37
Note 9	Reserves	37
Note 10	Accumulated funds	37
Note 11	Change in net market value of investments	38
Note 12	Employer contributions	39
Note 13	Funding arrangements	39
Note 14	Income tax	40
Note 15	Related parties	42
Note 16	Financial instruments	44
Note 17	Capital guarantee	52
Note 18	Insurance	52
Note 19	Commitments and contingent liabilities	53
Note 20	Post balance date events	53

### **54** Statement of the QSuper Board of Trustees

### **55** Independent Auditor's report

### **56** Appendix

# Statement of net assets

as at 30 June 2011

	Notes	2011 \$'000	2010 \$'000
<b>ASSETS</b>			
<b>Cash</b>		<b>73,430</b>	<b>50,674</b>
<b>Receivables</b>			
Contributions receivable		-	30,353
GST receivable		2,307	2,680
Sundry receivables and prepayments		540	2,228
		<b>2,847</b>	<b>35,261</b>
<b>Investments</b>			
Cash and short term deposits	4	1,793,795	2,925,046
Equities	4	12,397,566	8,670,842
Preference shares	4	16,461	6,421
Listed trusts	4	693,435	726,773
Derivative assets	4	8,382,092	12,649,252
Other interest bearing securities	4	9,197,496	5,743,018
Unlisted unit trusts	4	8,328,193	9,670,174
Unlisted partnerships	4	39,780	-
Investments in service providers	5, 6	61,490	43,656
		<b>40,910,308</b>	<b>40,435,182</b>
<b>Tax assets</b>			
Deferred tax assets	14	219,241	360,168
<b>Total assets</b>		<b>41,205,826</b>	<b>40,881,285</b>
<b>LIABILITIES</b>			
Benefits payable		14,267	11,491
Administration and investment management fees payable		15,738	19,788
Sundry payables		547	742
Derivative liabilities	4	8,306,958	12,778,183
Current tax liabilities		133,663	94,472
Provision for superannuation contributions surcharge		69,285	72,375
<b>Total liabilities</b>		<b>8,540,458</b>	<b>12,977,051</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>		<b>32,665,368</b>	<b>27,904,234</b>
<b>Represented by:</b>			
Reserves	9	611,750	537,934
Accumulated funds	10	32,053,618	27,366,300
<b>NET ASSETS AVAILABLE TO PAY BENEFITS</b>		<b>32,665,368</b>	<b>27,904,234</b>

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

# Statement of changes in net assets

for the year ended 30 June 2011

	Notes	2011 \$'000	2010 \$'000
<b>NET ASSETS AVAILABLE TO PAY BENEFITS at the beginning of the financial year</b>		<b>27,904,234</b>	<b>23,403,538</b>
<b>Investment revenue</b>			
Distributions/Dividends		1,647,361	4,288,683
Change in net market value of investments	11	1,580,378	(1,595,944)
Interest revenue		2,399	2,171
		<b>3,230,138</b>	<b>2,694,910</b>
<b>Contribution revenue</b>			
Employer contributions	12	3,231,658	2,926,049
Member contributions		882,694	870,804
Transfers from other funds		513,033	432,562
		<b>4,627,385</b>	<b>4,229,415</b>
<b>Other revenue</b>			
Insurance recoveries		436	256
Sundry revenue		1,847	462
		<b>2,283</b>	<b>718</b>
<b>Total revenue</b>		<b>7,859,806</b>	<b>6,925,043</b>
<b>Less:</b>			
<b>Benefits paid</b>		<b>2,199,354</b>	<b>1,791,833</b>
<b>Direct investment expenses</b>		<b>87,308</b>	<b>67,529</b>
<b>General administration expenses</b>			
Administration fee	15(d)	75,803	71,392
Strategic and change initiative fee	15(d)	8,104	11,800
Other fees		1,958	2,478
Financial planning fee	15(d)	14,667	14,405
Superannuation contributions surcharge		3,562	4,166
Insurance premiums	18	4,909	4,042
		<b>109,003</b>	<b>108,283</b>
<b>Total expenses</b>		<b>2,395,665</b>	<b>1,967,645</b>
<b>Total change in net assets before income tax</b>		<b>5,464,141</b>	<b>4,957,398</b>
Income tax expense	14	703,007	456,702
<b>Total change in net assets after income tax</b>		<b>4,761,134</b>	<b>4,500,696</b>
<b>NET ASSETS AVAILABLE TO PAY BENEFITS at the end of the financial year</b>		<b>32,665,368</b>	<b>27,904,234</b>

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

# Notes to the financial statements

for the year ended 30 June 2011

## 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 13.

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

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

## Note 2 Significant accounting policies

### (a) Basis of preparation

#### *General*

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

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

#### *Accounting policies*

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

#### *Rounding*

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

### (b) Statement of compliance

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

# Notes to the financial statements

for the year ended 30 June 2011

## Note 2 Significant accounting policies (continued)

### (c) New accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently been issued or drafted but are not yet effective have not been adopted by QSuper for the annual reporting period ended 30 June 2011. These are outlined in the table below.

AASB Amendment/ Standard	Title	Nature of change to accounting policy	Application date of standard	Application date for the Fund
2010-4	<i>Further Amendments to Australian Accounting Standards Arising from the Annual Improvements Project</i>	No change to accounting policy	1 January 2011	1 July 2011
2010-5	<i>Amendments to Australian Accounting Standards</i>	No change to accounting policy	1 January 2011	1 July 2011
2009-14	<i>Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement</i>	No change to accounting policy	1 January 2011	1 July 2011
AASB 124 (2009)	<i>Related Party Disclosures</i>	No change to accounting policy	1 January 2011	1 July 2011
AASB 9	<i>Financial instruments</i>	Potential change to accounting policy following implementation of ED 179	1 January 2013	1 July 2013
AASB 1053	<i>Application of Tiers of Australian Accounting Standards</i>	No change to accounting policy	1 July 2013	1 July 2013
2010-2	<i>Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements</i>	No change to accounting policy	1 July 2013	1 July 2013
2010-6	<i>Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets</i>	No change to accounting policy	1 July 2011	1 July 2011
2010-8	<i>Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets</i>	No change to accounting policy	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 179 *Superannuation Plans and Approved Deposit Funds* (ED 179). The impact of ED 179 has been analysed further below.

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

The AASB approved its Exposure Draft (ED) on superannuation plans and released it for public comment on 20 May 2009. It is proposed that the ED will replace AAS 25 and will bring disclosures by superannuation funds more in line with similar entities such as managed investment schemes. Although the ED is silent on application dates, it is anticipated that it will be applicable as a new standard for annual reporting periods beginning on or after 1 July 2013 and will, therefore, apply to comparative information from 1 July 2012.

# Notes to the financial statements

for the year ended 30 June 2011

## Note 2 Significant accounting policies (continued)

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

- broadly applying presentation principles and requirements of applicable Australian Accounting Standards as opposed to the requirements of AAS 25 that override certain requirements
- calculating defined benefit liabilities based on accrued rather than vested benefits
- the proposal of five financial statements including a statement of changes in member benefits, statement of changes in equity, and 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.

### (d) Cash

Cash represents cash at bank.

### (e) Receivables

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

### (f) Goods and services tax (GST)

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

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

### (g) Taxation

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

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

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted at the Statement of net assets date and any adjustment to tax payable in respect of previous years.

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

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

# Notes to the financial statements

for the year ended 30 June 2011

## Note 2 Significant accounting policies (continued)

### (h) Investments

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

#### **Portfolio investments**

Investments of QSuper are initially recognised at cost, being the fair value of the consideration given. After initial recognition, investments are measured at net market value. Gains or losses on investments are recognised in the Statement of 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. 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 is considered appropriate for valuation.
- Interests in pooled investment vehicles are recorded at the redemption price as quoted by the investment manager.
- Interests in unlisted trusts, property, infrastructure, and collective investment schemes are recorded at the most recent valuation obtained from the managers adjusted for subsequent calls and redemptions and significant changes in underlying values.
- Derivative financial instruments including forward exchange contracts, fixed interest rate futures are recorded at market rates at close of business on the balance date.

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 2011, QSuper had a 100% interest in Q Invest Limited (refer note 5) and a 100% interest in QSuper Limited (refer note 6). 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.

### (i) 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.

### (j) Benefits payable

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

### (k) Payables

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

# Notes to the financial statements

for the year ended 30 June 2011

## Note 2 Significant accounting policies (continued)

### (l) Superannuation contributions surcharge

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

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

The *Superannuation Laws Amendment (Abolition of Surcharge) Act 2005* abolished both the superannuation contributions surcharge and the termination payments surcharge in respect of superannuation contributions and certain termination payments made or received on or after 1 July 2005. Assessments for surcharge in respect of contributions and payments for the year ended 30 June 2005 and prior years will continue to be issued and remain payable.

### (m) Liability for accrued benefits

#### *Defined Benefit account*

The liability for accrued defined benefits is actuarially measured on at least a triennial basis. This liability represents QSuper's obligation to pay benefits in the future, and is determined on the basis of the present value of expected future payments which arise from membership of the scheme up to the measurement date. The figure is determined by reference to expected future salary levels and by application of a market-based, risk adjusted discount rate and relevant actuarial assumptions (refer note 7). In accordance with AAS 25, this liability 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.

### (n) 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 receipted and when the transaction is processed and allocated to the members' 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.

# Notes to the financial statements

for the year ended 30 June 2011

## Note 2 Significant accounting policies (continued)

### (o) 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 units trusts are recognised as investment income on the date when it is deemed that QSuper is presently entitled to the trust income.

##### *Changes in net market value of investments*

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

##### *Interest revenue*

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

#### Contributions revenue

##### *Employer contributions*

Employer contributions are brought to account on an accruals basis whereby any contributions owing for the financial year (up to the final pay cycle) 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.

### (p) 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 the year ended 30 June 2011

## **Note 3 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 16 – 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 4 – valuation of unlisted investments and level 3 investments
- note 14 – deferred income tax

## **Note 4 Investments**

QSuper has a direct contractual custody relationship with National Australia Bank Asset Servicing (NAB) with the majority of investments held directly by QSuper.

Investments, including derivatives of QSuper are managed by selected investment managers and QSuper Limited's internal investment team on behalf of the Board (QSuper Limited's provision of investment services is in addition to its administrative 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 the year ended 30 June 2011

## Note 4 Investments (continued)

	2011 \$'000	2010 \$'000
<b>Investment assets</b>		
<b>Cash and short term deposits</b>	1,793,795	2,925,046
Cash and deposits	<b>1,793,795</b>	<b>2,925,046</b>
<b>Equities</b>		
Listed equity securities	12,259,091	8,545,083
Unlisted equity securities	138,475	125,759
	<b>12,397,566</b>	<b>8,670,842</b>
<b>Preference shares</b>		
Preference shares non redeemable	781	-
Preference shares redeemable	15,680	6,421
	<b>16,461</b>	<b>6,421</b>
<b>Listed trusts</b>		
Unit trusts	185,482	123,787
Property trusts	507,953	602,986
	<b>693,435</b>	<b>726,773</b>
<b>Derivative assets</b>		
Futures	34,218	14,760
Warrants	3	-
Swaps	878,294	760,021
Forward foreign exchange contracts	7,469,577	11,874,471
	<b>8,382,092</b>	<b>12,649,252</b>
<b>Other interest bearing securities</b>		
Fixed interest bonds	216,536	317,221
Floating rate notes	19,282	1,121,216
Discount securities	8,625,213	3,836,556
Perpetual securities	-	26,741
Asset-backed securities	336,465	441,284
	<b>9,197,496</b>	<b>5,743,018</b>
<b>Unlisted unit trusts</b>		
Unlisted unit trusts	8,328,193	9,670,174
	<b>8,328,193</b>	<b>9,670,174</b>
<b>Unlisted partnerships</b>		
Unlisted partnerships	39,780	-
	<b>39,780</b>	<b>-</b>
<b>Total investment and derivative assets</b>	<b>40,848,818</b>	<b>40,391,526</b>

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

# Notes to the financial statements

for the year ended 30 June 2011

## Note 4 Investments (continued)

	2011 \$'000	2010 \$'000
<b>Derivative liabilities</b>		
Swaps	890,292	765,098
Futures	24,131	90,092
Forward foreign exchange contracts	7,392,535	11,922,993
<b>Total derivative liabilities</b>	<b>8,306,958</b>	<b>12,778,183</b>

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

The categories used to describe the investment assets and liabilities have been modified from the prior year to better describe the nature of the investments. This has resulted in some comparative information being adjusted to conform to the new presentation. In particular, in line with market convention, Cash and deposits are now disclosed as a net amount rather than as a separate asset and liability as in prior years. This has resulted in the prior year's Total investment and derivative assets total and the Total derivative liabilities total decreasing by \$2,041,088,000. This change in presentation does not affect the total Net Assets reported in the prior year.

### (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 2011.

# Notes to the financial statements

for the year ended 30 June 2011

## Note 4 Investments (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
<b>Total</b>	<b>12,978,918</b>	<b>17,065,458</b>	<b>703,689</b>	<b>30,748,065</b>

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.

# Notes to the financial statements

for the year ended 30 June 2011

## Note 4 Investments (continued)

30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Listed equity securities	8,417,333	127,556	194	8,545,083
Unlisted equity securities	-	115,437	10,322	125,759
Preference shares redeemable	6,421	-	-	6,421
Listed unit trusts	123,787	-	-	123,787
Property trusts	602,986	-	-	602,986
Futures	(75,332)	-	-	(75,332)
Swaps	-	(5,077)	-	(5,077)
Forward foreign exchange contracts	-	(48,522)	-	(48,522)
Fixed interest bonds	-	317,221	-	317,221
Floating rate notes	-	1,121,216	-	1,121,216
Discount securities	-	3,836,556	-	3,836,556
Perpetual securities	-	26,741	-	26,741
Asset-backed securities	-	441,164	120	441,284
Unlisted unit trusts	-	9,670,174	-	9,670,174
<b>Total</b>	<b>9,075,195</b>	<b>15,602,466</b>	<b>10,636</b>	<b>24,688,297</b>

Investments not included in the above table are cash and deposits (\$2,199,722,000) and outstanding settlements (\$725,324,000). Both these investments and the investments illustrated in the fair value hierarchy table equates to the total investments as at 30 June 2010 (\$27,613,343,000) 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 equities \$'000	Unlisted equities \$'000	Floating rate notes \$'000	Asset backed securities \$'000	Unlisted unit trusts \$'000	Unlisted partnerships \$'000	Total \$'000
<b>Opening balance</b>	<b>194</b>	<b>10,322</b>	<b>-</b>	<b>120</b>	<b>-</b>	<b>-</b>	<b>10,636</b>
Total realised/unrealised (gains) and losses	(194)	(1,616)	(2,564)	165	15,428	(1,869)	9,350
Purchases/applications	-	888	1,614	2,010	363,166	41,649	409,327
Sales/redemptions	-	(7,649)	-	(269)	(64,352)	-	(72,270)
Issues	-	-	-	-	-	-	-
Settlements	-	-	-	-	-	-	-
Transfers into level 3	24	-	16,168	12,131	320,262	-	348,585
Transfers out of level 3	-	(1,939)	-	-	-	-	(1,939)
<b>Closing balance</b>	<b>24</b>	<b>6</b>	<b>15,218</b>	<b>14,157</b>	<b>634,504</b>	<b>39,780</b>	<b>703,689</b>

# Notes to the financial statements

for the year ended 30 June 2011

## Note 4 Investments (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:

	<b>Listed equities</b>	<b>Unlisted equities</b>	<b>Floating rate notes</b>	<b>Asset backed securities</b>	<b>Unlisted unit trusts</b>	<b>Unlisted partnerships</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Total gains/(losses) recognised in the Statement of changes in net assets for the year	(194)	(886)	(16)	165	-	-	(931)
Total unrealised gains/(losses) recognised in the Statement of changes in net assets for assets held at end of reporting year	-	(730)	(2,548)	-	15,428	(1,869)	10,281

### (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 Floating rate notes, Asset backed securities, Unlisted equities and Unlisted unit trusts into Level 3 during the year. The investment in Forest Enterprises Australia Limited was transferred to Level 3 during the year following the delisting of the security on 31 August 2010.

# Notes to the financial statements

for the year ended 30 June 2011

## Note 4 Investments (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 class
State Street Global Advisors Australia Ltd	Australian Equities
	International Equities
	Global Listed Real Estate Equities
Dimensional Fund Advisors Australia Ltd	Australian Equities
	International Equities
	Emerging Market Equities
Bridgewater Associates	Hedge Fund
AMP Capital Investors	Responsible Investment Leaders Balanced Fund (Socially Responsible Investment Option)
QIC Ltd	Cash
	Defined Benefit Mandate
	Global Fixed Interest
	Global Real Estate
	Global Infrastructure
	Global Private Equity
	Hedge Fund
	Capital Markets (ceased 9 May 2011)
QSuper Limited	Capital Markets (commenced 9 May 2011)

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

### Note 5 Investment in Q Invest Limited

QSuper holds a 100% interest in Q Invest Limited after acquiring the remaining 50% of Q Invest Limited for \$3.2 million on 9 August 2010. As the investment is deemed immaterial under AASB 1031 *Materiality*, disclosures relating to AASB 3 *Business Combinations* have not been included in the notes to the financial statements.

Q Invest Limited's principal activities consist of the provision of financial planning advice. The carrying amount of the investment as at 30 June 2011 approximates fair value.

### Note 6 Investment in QSuper Limited

QSuper holds a 100% interest in QSuper Limited. QSuper Limited's principal activities consist of providing key administration and investment services to QSuper, as well as ancillary services to Queensland Treasury. The carrying amount of the investment as at 30 June 2011 approximates fair value.

### Note 7 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.

# Notes to the financial statements

for the year ended 30 June 2011

## Note 7 Liability for accrued benefits (continued)

The difference existing between net assets available to pay benefits per the Statement of net assets and the value of accrued benefits as at measurement date is explained by QSuper's funding arrangements. Further details are provided in note 13.

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

## Note 8 Vested benefits

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

	2011 \$'000	2010 \$'000
<b>Vested benefits</b>	<b>56,448,660</b>	<b>51,424,064</b>

The difference between net assets available to pay benefits and the value of vested benefits as at reporting date is explained by QSuper's funding arrangements (refer note 13). In accordance with AAS 25, vested benefits have not been shown on the face of the financial statements.

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 in the prior year was \$51,200,865,000

## Note 9 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	350,017	71,952	421,969
Unallocated contributions reserve	8,345	10,535	18,880
Insurance reserve	179,572	(8,671)	170,901
<b>Reserves</b>	<b>537,934</b>	<b>73,816</b>	<b>611,750</b>

Refer note 2(n) for the accounting policies for Reserves.

## Note 10 Accumulated funds

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

	2011 \$'000	2010 \$'000
Balance at the beginning of financial year	27,366,300	23,072,985
Total change in net assets after income tax	4,761,134	4,500,696
Transfers (to)/from reserves	(73,816)	(207,381)
<b>Accumulated funds at end of financial year</b>	<b>32,053,618</b>	<b>27,366,300</b>

# Notes to the financial statements

for the year ended 30 June 2011

## Note 11 Change in net market value of investments

	2011 \$'000	2010 \$'000
<i>(i) Investments unrealised at balance date</i>		
Cash and deposits	(5,919)	1,081
Listed equity securities	146,219	(992,901)
Unlisted equity securities	21,599	16,427
Preference shares non redeemable	(296)	-
Preference shares redeemable	2,265	(448)
Listed unit trusts	19,506	(18,819)
Property trusts	3,779	(23,886)
Futures	9,978	(75,412)
Warrants	(1)	-
Swaps	4,027	19,433
Forward foreign exchange contracts	77,042	(48,522)
Fixed interest bonds	(23,560)	40,845
Floating rate notes	(2,472)	1,375
Discount securities	52,902	16,067
Perpetual securities	-	(1,141)
Asset-backed securities	4,610	735
Unlisted unit trusts	95,573	561,019
Unlisted partnerships	(1,869)	5,167
Total	403,383	(498,980)
<i>(ii) Investments realised during the year</i>		
Cash and deposits	(61,478)	-
Listed equity securities	(94,700)	(3,157)
Unlisted equity securities	(596)	4,456
Preference shares non redeemable	-	-
Preference shares redeemable	158	-
Listed unit trusts	1,378	(4,063)
Property trusts	12,441	(3)
Futures	472,660	(93,710)
Warrants	(6)	-
Swaps	(7,713)	3,544
Forward foreign exchange contracts	688,551	-
Fixed interest bonds	(22,813)	-
Floating rate notes	(587)	(851)
Discount securities	310,428	16,270
Perpetual securities	(1,077)	-
Asset-backed securities	(1,239)	(2)
Unlisted unit trusts	(118,412)	(1,019,448)
Unlisted partnerships	-	-
Total	1,176,995	(1,096,964)
<b>Total changes in net market value</b>	<b>1,580,378</b>	<b>(1,595,944)</b>

# Notes to the financial statements

for the year ended 30 June 2011

## Note 12 Employer contributions

	Notes	2011 \$'000	2010 \$'000
<i>Accumulation account</i>			
Employer contributions		1,865,198	1,682,544
<i>Defined Benefit account</i>			
Employer contributions – salary sacrifice		226,460	203,505
Employer contributions – Consolidated Fund	(i)	1,140,000	1,040,000
		1,366,460	1,243,505
<b>Employer contributions</b>		<b>3,231,658</b>	<b>2,926,049</b>

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

## Note 13 Funding arrangements

### Defined Benefit arrangement

Standard members' contributions are made to QSuper at a rate ranging from 2% to 11.5% (2010: 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 2010 to June 2011 and amounted to \$1,140 million for 2011 (2010: \$1,040 million). These transfers are considered to approximate last minute funding.

### Accumulation arrangement

Where members have chosen an accumulation-style benefit, all member and employer contributions are paid to QSuper, other than where a member transfers from the Defined Benefit account. In this instance, the benefit arising in relation to the defined benefit membership remains under the abovementioned last minute funding arrangement. Employer contributions to QSuper for members who do not contribute are at a rate ranging from 3% to 9% (2010: 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 the year ended 30 June 2011

## Note 14 Income tax

### (a) Income tax expense

Major components of income tax expense are:

	2011 \$'000	2010 \$'000
<i>Current income tax</i>		
Current income tax expense	565,214	357,004
Adjustments in respect of current income tax of previous years	(3,134)	662
<i>Deferred income tax</i>		
Movement in deferred tax asset	134,871	93,804
Movement in deferred tax liability	6,056	5,232
<b>Income tax expense reported in the Statement of changes in net assets</b>	<b>703,007</b>	<b>456,702</b>

A reconciliation between prima facie income tax expense and income tax expense as reported in the Statement of changes in net assets before income tax is as follows:

	Notes	2011 \$'000	2010 \$'000
Increase in net assets before income tax		5,464,141	4,957,398
Prima facie income tax expense at the tax rate of 15%		819,621	743,610
Increase in income tax expense due to:			
Benefits paid		329,903	268,775
Superannuation contributions surcharge		534	625
Increase/(decrease) in income tax expense due to:			
Differences between tax and accounting net investment income <sup>1 2</sup>		58,704	(413,980)
Non-assessable member contributions and transfers in		(201,122)	(191,796)
Imputation and foreign tax credits <sup>2</sup>		(191,624)	(86,977)
Group life proceeds, notional insurance and anti-detriment		(37,716)	(37,129)
Exempt pension income		(72,253)	(14,538)
Other		94	(14)
Retrospective restatement	14(b)	-	187,464
		706,141	456,040
(Over)/under provision for taxation – prior year		(3,134)	662
<b>Income tax expense reported in the Statement of changes in net assets</b>		<b>703,007</b>	<b>456,702</b>

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 the year ended 30 June 2011

## Note 14 Income tax (continued)

### (b) Retrospective restatement

During the financial year, an error was identified in a previous year in the calculation of income tax which has required retrospective restatement in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The error resulted from a trust distribution from an unlisted unit trust received on transition in April 2010 not being correctly captured in the income tax calculations. This led to an overstatement of the carried forward losses in the deferred tax asset with the resultant income tax expense being understated.

For the prior period presented as the comparative year, the amount of the correction included in each financial statement line item affected was:

	2011 \$'000	2010 \$'000
<i>Statement of net assets</i>		
Net deferred tax asset	-	(187,464)
<i>Statement of changes in net assets</i>		
Income tax expense	-	187,464

There was no correction required at the beginning of the earliest prior period presented.

### (c) Deferred income tax

Deferred income tax relates to the following:

	2011 \$'000	2010 \$'000
<i>Movements in deferred tax asset</i>		
Opening balance	369,128	462,932
Change to Statement of changes in net assets	(134,871)	(93,804)
	<b>234,257</b>	<b>369,128</b>
<i>Deferred tax asset comprises:</i>		
Net realised and unrealised capital losses	234,257	369,128
<b>Total deferred tax asset</b>	<b>234,257</b>	<b>369,128</b>
<i>Movements in deferred tax liability</i>		
Opening balance	8,960	3,728
Change to Statement of changes in net assets	6,056	5,232
	<b>15,016</b>	<b>8,960</b>
<i>Deferred tax liability comprises:</i>		
Contributions receivable	-	3,998
Interest income receivable	-	30
Unrealised gains in investment	14,935	4,629
Other	81	303
<b>Total deferred tax liability</b>	<b>15,016</b>	<b>8,960</b>
<b>Net deferred tax asset</b>	<b>219,241</b>	<b>360,168</b>

# Notes to the financial statements

for the year ended 30 June 2011

## Note 15 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
Ms Karen Shirley Peut, PSM	Mr Robert Ernest Scheuber, AM
Mr Stephen Robert Ryan	Mr John Joseph Carpendale
Mr Kilian Thomas Jeffers	Mr Peter Henneken, AM
Ms Lorraine Gay Hawksworth, OAM	Ms Natalie Margaret MacDonald
Ms Amanda Marion Richards	Mr Walter Ivessa
Mr Michael Ian Barnes	Ms Norelle Deeth

There were no new appointments to, or resignations from, the QSuper Board of Trustees during the financial year. In July 2011, Ms Natalie Margaret MacDonald has informed the QSuper Board of Trustees of her intention to resign from her position as Trustee with a date to be determined between herself and the Chairman.

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
Ms Helen Davis	Chief Officer Member Outcomes
Ms Bronwyn Friend (to 11/10/2010)	Acting Chief Officer Member Administration
Mr Matthew Halpin (from 12/10/2010)	Chief Officer Member Administration
Mr Brad Holzberger	Chief Investment Officer
Mr Paul Landy (from 15/12/2010)	Chief Officer Human Resources
Mr Michael Pennisi (from 02/11/2010)	Chief Officer Strategy & Product Development
Mr Baden Sharples	Chief Officer Systems & Change

### (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.

# Notes to the financial statements

for the year ended 30 June 2011

## Note 15 Related parties (continued)

### 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		2011 \$'000	2010 \$'000
Short-term employee benefits	(i)	3,192	2,707
Post-employment benefits	(ii)	275	230
Other long-term employee benefits	(iii)	65	45
Termination benefits		-	207
<b>Total compensation made</b>		<b>3,532</b>	<b>3,189</b>

(i) Short-term employee benefits includes 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	2011	2010
\$0 to \$19,999	7	7
\$20,000 to \$39,999	-	4
\$40,000 to \$59,999	4	-
\$60,000 to \$79,999	-	1
\$80,000 to \$89,999	1	-
<b>Total compensation made</b>	<b>12</b>	<b>12</b>

The number of executives who received or were due to receive compensation:

Executive fixed compensation	2011	2010
\$20,000 to \$39,999	(i) -	1
\$40,000 to \$59,999	(i) 1	1
\$60,000 to \$79,999	(i) -	1
\$120,000 to \$139,999	1	-
\$200,000 to \$219,999	1	-
\$220,000 to \$239,999	1	1
\$260,000 to \$279,999	1	1
\$280,000 to \$299,999	1	-
\$320,000 to \$339,999	-	1
\$400,000 to \$419,999	(ii) -	1
\$420,000 to \$439,999	1	-
\$480,000 to \$499,999	-	1
\$520,000 to \$539,999	2	1
<b>Total compensation made</b>	<b>9</b>	<b>9</b>

(i) Senior management temporarily relieving executive positions.

(ii) Former executive.

# Notes to the financial statements

for the year ended 30 June 2011

## Note 15 Related parties (continued)

### (c) Employer sponsor

Employer funding arrangements are discussed in note 13.

### (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 15(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 (refer note 2(o)).

During the financial year, fees paid/payable to QSuper Limited aggregated \$94,285,000 (2010: \$83,192,000).

#### Transactions between QSuper and Q Invest Limited

QSuper holds a 100% interest in Q Invest Limited after acquiring the remaining 50% of Q Invest Limited for \$3.2 million on 9 August 2010. Q Invest Limited provides financial planning advice to QSuper members. During the financial year, financial planning fees paid/payable to Q Invest Limited for services provided aggregated \$14,667,000 (2010: \$14,405,000).

## Note 16 Financial instruments

### (a) General

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

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

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

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

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.

# Notes to the financial statements

for the year ended 30 June 2011

## Note 16 Financial instruments (continued)

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 2011 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%
Outstanding settlements	5%
Derivatives	15%

The increase / (decrease) in the market price against the investments of QSuper at 30 June would have increased / (decreased) the amount in net assets available to pay benefits by the amounts shown below. This analysis assumes that all other variables in particular, interest rates and foreign exchange rates remain constant. The analysis is performed on the same basis for 2010 whereby the assets which are applied are the non interest bearing instruments and are not guaranteed.

# Notes to the financial statements

for the year ended 30 June 2011

## Note 16 Financial instruments (continued)

Sensitivity of price risk and changes on net assets				
	%	Carrying Amount	(Decrease) \$'000s	Increase \$'000s
<b>30 June 2011</b>				
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
Outstanding settlements	5	793,920	-	-
Derivatives - net <sup>1</sup>	15	84,109	(114,909)	114,909
<b>Total</b>		<b>22,353,464</b>	<b>(3,336,224)</b>	<b>3,336,224</b>
<b>30 June 2010</b>				
Listed equity securities	15	8,545,083	(1,281,762)	1,281,762
Preference shares	15	6,421	(963)	963
Listed trusts	15	726,773	(109,016)	109,016
Unlisted assets	15	9,796,188	(1,469,390)	1,469,390
Outstanding settlements	5	725,324	-	-
Derivatives - net <sup>1</sup>	15	(132,078)	(290,789)	290,789
<b>Total</b>		<b>19,667,711</b>	<b>(3,151,920)</b>	<b>3,151,920</b>

<sup>1</sup> 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 the year ended 30 June 2011

## Note 16 Financial instruments (continued)

### Foreign currency exposure

Currency (AUD equivalent)	2011 \$'000	2010 \$'000
United States of America (USD)	923,108	270,910
European Community (EUR)	221,723	130,933
Japan (YEN)	324,375	239,960
Great Britain (GBP)	87,860	(44,626)
Canada (CAD)	213,410	125,789
Switzerland (CHF)	214,308	128,431
Hong Kong (HKD)	106,142	84,854
Sweden (SEK)	82,183	49,828
Singapore (SGD)	45,075	34,713
Other currencies	107,410	82,663
<b>Net foreign currency exposure</b>	<b>2,325,594</b>	<b>1,103,455</b>

### 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 key management personnel, 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 table 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	%	2011 \$'000	%	2010 \$'000
United States of America (USD)	10%	(83,919)	10%	(24,628)
European community (EUR)	10%	(20,157)	10%	(11,903)
Japan (YEN)	5%	(15,446)	20%	(39,993)
Great Britain (GBP)	5%	(4,184)	5%	2,125
Canada (CAD)	5%	(10,162)	5%	(5,990)
Switzerland (CHF)	5%	(10,205)	5%	(6,116)
Hong Kong (HKD)	10%	(9,649)	5%	(4,041)
Sweden (SEK)	10%	(7,471)	5%	(2,373)
Singapore (SGD)	10%	(4,098)	5%	(1,653)
Other currencies	5%	(5,115)	5%	(3,936)
<b>Total</b>		<b>(170,406)</b>		<b>(98,508)</b>

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

# Notes to the financial statements

for the year ended 30 June 2011

## Note 16 Financial instruments (continued)

Sensitivity of foreign exchange and changes on net assets				
Effect of decrease in AUD relative to foreign currency exchange rates	%	2011 \$'000	%	2010 \$'000
United States of America (USD)	10%	102,568	10%	30,101
European community (EUR)	10%	24,636	10%	14,548
Japan (YEN)	5%	17,072	20%	59,990
Great Britain (GBP)	5%	4,624	5%	(2,349)
Canada (CAD)	5%	11,232	5%	6,620
Switzerland (CHF)	5%	11,279	5%	6,760
Hong Kong (HKD)	10%	11,794	5%	4,466
Sweden (SEK)	10%	9,131	5%	2,623
Singapore (SGD)	10%	5,008	5%	1,827
Other currencies	5%	5,653	5%	4,351
<b>Total</b>		<b>202,997</b>		<b>128,937</b>

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 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)
<b>Total</b>	<b>996,398</b>	<b>8,967,441</b>	<b>-</b>	<b>216,536</b>	<b>22,361,485</b>	<b>32,541,860</b>

### 30 June 2010

	Floating interest rate \$'000	1 year or less \$'000	1 to 5 years \$'000	More than 5 years \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets	4,109,372	4,581,396	-	26,741	31,674,017	40,391,526
Financial liabilities	(771,622)	-	-	-	(12,006,561)	(12,778,183)
<b>Total</b>	<b>3,337,750</b>	<b>4,581,396</b>	<b>-</b>	<b>26,741</b>	<b>19,667,456</b>	<b>27,613,343</b>

# Notes to the financial statements

for the year ended 30 June 2011

## Note 16 Financial instruments (continued)

### Interest rate sensitivity analysis

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

	Change in variable		Sensitivity of interest income and changes on net assets	
	2011	2010	2011 \$'000	2010 \$'000
Interest rate	+ 50 bps <sup>1</sup>	+ 75 bps	(137,278)	(65,157)
Interest rate	- 50 bps	-25 bps	137,333	21,736

<sup>1</sup> Basis Points (bps) – 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.

# Notes to the financial statements

for the year ended 30 June 2011

## Note 16 Financial instruments (continued)

### Credit quality per class of debt instruments

The tables below analyses 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 2011 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	2,917	1,147	-	4,064
Asset backed securities	312,119	9,278	911	322,308
<b>Total</b>	<b>315,036</b>	<b>10,425</b>	<b>911</b>	<b>326,372</b>

### Short-term credit ratings

	A1+ to A1 \$'000	Total \$'000
Discount securities	8,625,213	8,625,213
<b>Total</b>	<b>8,625,213</b>	<b>8,625,213</b>

As at 30 June 2011, all holdings in short term discounted securities were rated A1+.

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 \$23,590,275,000. 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.

# Notes to the financial statements

for the year ended 30 June 2011

## Note 16 Financial instruments (continued)

### (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 assets 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 8 and the appendix to the financial statements. The contractual maturity of QSuper's derivatives are based on undiscounted cashflows.

30 June 2011

	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	12-60 months \$'000	60+ months \$'000	No stated maturity \$'000	Net market value \$'000
<i>Financial Liabilities</i>							
Benefits payable	14,267	-	-	-	-	-	14,267
Trade and other payables	16,285	-	-	-	-	-	16,285
<b>Total undiscounted financial liabilities (excluding derivatives)</b>	<b>30,552</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,552</b>
<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 exchange 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)
<b>Total undiscounted derivatives inflow/(outflow)</b>	<b>18,045</b>	<b>23,129</b>	<b>45,955</b>	<b>1,881</b>	<b>(13,876)</b>	<b>-</b>	<b>75,134</b>

# Notes to the financial statements

for the year ended 30 June 2011

## Note 16 Financial instruments (continued)

30 June 2010

	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	12-60 months \$'000	60+ months \$'000	No stated maturity \$'000	Net market value \$'000
<i>Financial liabilities</i>							
Benefits payable	11,491	-	-	-	-	-	11,491
Trade and other payables	20,530	-	-	-	-	-	20,530
<b>Total undiscounted financial liabilities (excluding derivatives)</b>	<b>32,021</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32,021</b>
<i>Derivatives</i>							
Fixed interest futures							
Gross cash inflow	-	-	14,760	-	-	-	14,760
Gross cash outflow	-	(11,070)	(79,022)	-	-	-	(90,092)
Forward foreign currency contracts							
Gross cash inflow	4,999,185	6,875,286	-	-	-	-	11,874,471
Gross cash outflow	(5,044,966)	(6,878,027)	-	-	-	-	(11,922,993)
Other							
Gross cash inflow	-	-	-	4,780	755,241	-	760,021
Gross cash outflow	-	-	-	-	(765,098)	-	(765,098)
<b>Total undiscounted derivatives inflow/(outflow)</b>	<b>(45,781)</b>	<b>(13,811)</b>	<b>(64,262)</b>	<b>4,780</b>	<b>(9,857)</b>	<b>-</b>	<b>(128,931)</b>

### (f) Fair value

QSuper's financial instruments are measured at net market value, which approximates net fair value. The methods of determining net market value are described in note 2(h).

## Note 17 Capital guarantee

The QSuper Defined Benefit account was underwritten to provide the members of the closed Voluntary Preservation Plan (VPP), a capital guarantee that the 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 2011 (net of reimbursements) is \$7,230,000 to date (2010: \$6,898,000).

## Note 18 Insurance

Eligible employees of a small number of employers are covered by external insurance arrangements, while the majority of QSuper members have their insurance provided by QSuper on a self-insurance basis. Refer note 9.

# Notes to the financial statements

for the year ended 30 June 2011

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

The Board has 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.

QSuper has no other known commitments or contingent liabilities as at 30 June 2011.

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

No matters or circumstances have arisen since 30 June 2011 that has significantly affected or may significantly affect the operations in future financial years or the state of affairs of QSuper in subsequent financial years.

# Statement of the QSuper Board of Trustees

of the State Public Sector Superannuation Scheme for the year ended 30 June 2011

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 2011 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*, *Superannuation Industry (Supervision) Act 1993* and Regulations, Requirements under Section 13 of the *Financial Sector (Collection of Data) Act 2001*, APRA Guidelines on Derivative Risk Statements for Superannuation Entities Investing in Derivatives, and with Australian Accounting Standards and other mandatory professional reporting requirements in Australia.
3. The accompanying financial statements are in agreement with the accounts and records of QSuper and the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects.
4. QSuper has been conducted in accordance with the *Superannuation (State Public Sector) Deed 1990* and the requirements of the *Superannuation (State Public Sector) Act 1990*.



**R E Scheuber**  
Chairman



**R A Vilgan**  
Chief Executive Officer

Brisbane  
25 August 2011

# 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 2011 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 2011 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.

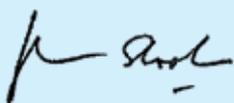
### *Independence*

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 2011.



**G G Poole** FCPA  
Auditor-General of Queensland  
5 September 2011

Queensland Audit Office  
Brisbane

# 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 (continued)

### **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.

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**Contact Centres**

70 Eagle Street Brisbane  
63 George Street Brisbane

Ph 1300 360 750  
(+617 3239 1004 if overseas)  
Fax 1300 241 602  
(+617 3239 1111 if overseas)

Monday to Friday  
8.30am to 5.00pm AEST

GPO Box 200  
Brisbane Qld 4001

**[qsuper.qld.gov.au](http://qsuper.qld.gov.au)**