

QIC

PILLAR III DISCLOSURE 2017

OCTOBER 2017



IMPORTANT INFORMATION

QIC European Investment Services Limited

Registered in England and Wales 7804418

Authorised and regulated by the Financial Conduct Authority

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FCA Pillar 3 Disclosure

This is the Pillar 3 disclosure made in accordance with the UK Financial Conduct Authority ("FCA") Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") as laid out in section 11. The BIPRU Pillar 3 disclosure rules implement the European Union's Capital Requirements Directive ("CRD") which came into effect on 1 January 2007

The FCA framework consists of three "pillars":

1. Pillar 1 sets out the minimum capital requirements by a business dependent on the size and nature of the entity;
2. Pillar 2 deals with the Internal Capital Adequacy Assessment Process ("ICAAP") and seeks to identify firm-wide risk within the context of the risk management framework to determine whether the capital required under Pillar 1 is sufficient to support those risks.
3. Pillar 3 complements Pillar 1 and Pillar 2, through capital requirement disclosures, to enable market participants to assess key information on the capital, risk exposures and risk assessment processes of the entity.

The information below is unaudited and applies solely to QIC European Investment Services Limited ("QEIS").

Scope and Application of Requirement

QEIS was set up in December 2011 and received FCA authorisation on 16 May 2012 as a "**BIPRU €50,000 limited licence firm**". QEIS is also subject to CRDIII requirements, given its limited activity license and inability to hold or administer client assets / monies.

QEIS'S principle business is to provide discretionary portfolio management, trade execution and advisory services to its parent company, QIC Limited (QIC). These services are provided to QIC in relation to Irish UCITS sub-fund in addition to Australian domiciled mandates managed by QIC.

Location and Frequency

QEIS'S Pillar 3 disclosures are published and available on QIC's external website in accordance with **BIPRU 11.3.10R**

QEIS' Pillar 3 disclosures are published annually as-of QEIS's Accounting Reference Date ("ARD") or more frequently as required under **BIPRU 11.3.8R**. QEIS's ARD is **30 June**.

Materiality

BIPRU Pillar 3 rules (**BIPRU 11.3.5R** and **BIPRU 11.4.1R**) provide that Pillar 3 disclosures are only required where the information would be considered material to a user relying on that information to make economic decisions. Where disclosures are considered not material, QEIS's Pillar 3 disclosures include a statement to that effect.

Risk Environment

The material risks to which QEIS is exposed are operational and business related as QEIS does not invest its own capital. QEIS is therefore not materially exposed to credit, market or liquidity risks.



Business risk: Risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The possibility that QEIS may not be able to achieve the targets set out in its business plan. The QEIS Board reviews company strategy at each meeting. QEIS revenues are based on a “cost-plus” model with QIC, as such, only a Parent failure would impact QEIS revenues and capital. We consider these risks to be Low due to QIC’s business activities and tight risk and control environment.

Operational risk: Risk of loss resulting from inadequate internal processes and failures in relation to the people and systems. All QEIS staff use an enterprise-wide trading and risk platform that is well established and subject to routine reviews, oversight and audit activities. Whilst operational errors will occur, the risk of a moderate operational risk event occurring is considered Low.

Credit risk: Risk of loss as a result of default by creditors. Credit risk currently is considered to be very low as QEIS currently services one customer, QIC (its parent) and all cash deposits for working capital purposes are undertaken with highly rated counterparties and reviewed at least annually. Additionally, QEIS does not use its balance sheet to invest.

Market risk: Risk of loss resulting from fluctuations in the market value of positions attributable to changes in market variables, such as interest rates, foreign exchange rates, equity and commodity prices or an issuer's credit worthiness. QEIS carries no principal positions and only holds cash in sterling therefore market risk is considered to be very low.

Business continuity: Risk of not being able to carry on critical business activities due to loss of resources. The possibility of a serious event occurring (such as a major disaster impacting our London office) does remain, although the likelihood of such an event occurring is considered Rare. If an event were to occur that prevented QEIS staff from conducting business, then QIC would be able to arrange for replacement staff to take over functions, so the consequence of such an event is being rated as Serious.

People: Risk of loss or adverse consequences arising from inadequate strategic and operational processes and decisions relating to the recruitment, retention and management of staff. QEIS has key person risk generally, relating to key investment decision makers in Global Liquid Securities (GLS). However, if a key person event were to occur then QIC would be able to arrange for replacement staff to take over functions with relative ease, so the consequence of such an event is being rated as Moderate.

Risk Appetite and Mitigation

The firm seeks a low overall risk environment by ensuring that risk management systems and controls are embedded at all levels of the business and subject to regular monitoring and adjustment. Key Risk Registers and Risk Appetite Statements are used to identify and rank firm risks and establish mitigation actions that are subject to board review and approval.

Governance Framework

QEIS is a limited company which has a Board of Directors (“Board”) as its governing body. The board meets on a bi-monthly basis and reviews among other things the risk management and control frameworks, regulatory updates, and any work required to meet regulatory developments, Internal Capital Adequacy Assessment Process (ICAAP), and internal and external audit reports.

Capital Adequacy and Resources

As of June 30, 2017, QEIS’ capital resource is £1,000,001 which consists entirely of Tier 1 capital and no deductions. As QEIS is a BIPRU 50K limited license firm, its Pillar 1 capital requirement is based on the greater of:



- The base capital requirement of €50,000;
- The Sum of QEIS' Credit **and** Market Risk Capital Requirements; or
- QEIS' Fixed Overhead Requirement.

QEIS has sought outside professional advice to ensure the correct application of the FCA's Capital Requirements Directive. It has been determined that the appropriate capital requirement is £602,879 which constitutes QEIS' Fixed Overhead Requirement (FOR). This is an intuitive result given the low market and credit risk to which QEIS is presently exposed.

ICAAP & Stress Testing

QEIS maintains an Internal Capital Adequacy Assessment Process ("ICAAP") outlining the firm's Pillar 1 ("core") and Pillar 2 ("other") capital requirements. In assessing the amount of "other" (aka Pillar 2) capital required, the firm considers the impact of operational, regulatory, and business risks occurring as well as the cost of winding down the business. QEIS has concluded that no additional Pillar 2 capital is required at this time.

Remuneration Practices

The Financial Conduct Authority ("FCA") sets out a code of conduct in section **SYSC 19C** of its Handbook with regards to remuneration practices (aka "The Remuneration Code"). The code aims to establish risk-conscious compensation policies that have the effect of promoting sound risk management.

Remuneration Governance and Proportionality

Given the nature and scale of our business, QEIS falls into "Proportionality level 3" for Pillar 3 disclosure and has therefore applied (or dis-applied), where relevant, the provisions of the FCA's Remuneration Code.

QEIS's Remuneration Policy governs the design and management of all compensation arrangements across the firm. The Board is responsible for the application and maintenance of this policy, with delegations in place to manage any conflicts and ensure that accountabilities are clearly defined with the appropriate checks and balances.

Link between Pay and Performance

The Remuneration Policy seeks to retain and recruit high calibre staff through competitive Total Target Remuneration packages while balancing long term and short term incentives through a mixed-pay structure. This structure comprises 3 components:

- Total Fixed Remuneration – calibrated to a market median benchmark for each employee
- Short Term Incentive* – subject to achievement of Key Performance Indicators ("KPIs")
- Long Term Incentive* – profit sharing to encourage long term retention and value creation

*eligibility dependent



Aggregated Remuneration of Code Staff

QEIS has identified 10 “Code Staff” who materially exert influence over the firm’s risk profile. These 10 staff comprise senior management in front office, risk, and finance divisions and two non-executive directors.

Aggregate Code Staff Compensation for 2016-17 fiscal year: **£3,260,165**

NB1: Three code staff members are employees of QIC Limited (the Parent Company), two of which receive no compensation from the UK regulated entity. Nevertheless, they have been included in the above disclosure in light of their significant influence on QEIS activities. The third code staff member received remuneration from QEIS until they repatriated back to Australia in December 2016.

NB2: Non-Executive Directors of QEIS receive a fixed fee for their services which is unconnected to the performance of QEIS or its Parent Company.