

Forecast Report

2012-2013

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Introduction

The growth profile of the Australian funds management industry is positive. However, global markets continue to be volatile with investors moving quickly between lower and higher risk asset classes. The size and profile of the Australian market has attracted a plethora of fund managers competing aggressively for market share. Margins in QIC's target market continue to come under pressure from more increasingly price-sensitive clients and also as a result of competition.

QIC has a diversified portfolio of investment teams covering a broad spectrum of asset classes. As clients look to increase or reduce their risk exposures, QIC is able to offer a broad range of investment products or solutions. QIC's activities are directed towards growth in existing client mandates from new inflows and good investment performance, as well as from the successful pursuit of new clients.

QIC's 2011-2012 Earnings Before Interest and Tax of \$38.6M was well above budget. Strong investment performance in the private capital asset classes generated performance fee revenue above budget. Whilst cost containment measures adopted throughout the business resulted in most expense categories being comparable to the prior year, some one-off items were recognised in 2011-2012. These include office tenancy costs and offshore expansion initiative costs.

	Forecast for 2012-13	Explanation
EBIT	\$47.4M	Profitability is forecast to increase largely due to revenue improvements and cost containment measures. A strong revenue growth target has been set as a first step towards achieving QIC's 3 year growth targets. Investment management fees have been budgeted at a higher level than the actual 2011-2012 amounts. To achieve corporate revenue growth targets over the longer-term, the business is investing in offshore expansion initiatives and enhancing QIC's sales and distribution functions.
QIC Growth Fund – 5 year return	Performance exceeds CPI+4% over a five-year period	The Growth Fund seeks to achieve performance in excess of CPI + 4% pa over five year periods.

Strategic Priorities for 2012-13

- A preferred partner for our Queensland Government clients and other public sector investors
- A leading specialist asset manager
- A growth-oriented business
- Managing for the long term

Major Projects for 2012-13

- Outsourcing of back and middle office functions – completed November 2012
- International operations – the increasingly global nature of QIC's investment products will require QIC to take a more structured approach to international business development including placement of investment professionals into overseas offices.
- Rationalising QIC's office space so that all staff are located in one building and in fewer square metres.

Market Environment in 2012-13

The recent volatility in economic markets, weather and natural phenomena is manifesting itself in increased caution on the part of some investors. As a consequence, a higher proportion of investment funds are being directed towards less risky, and lower cost, investments such as index funds, cash and fixed interest.

QIC's primary target market comprises larger Australian superannuation funds. As a result of regulatory change and competitive pressures, this target market is undergoing a period of consolidation and internalisation of activities that were previously outsourced.

The growth profile of the Australian investment management industry is resulting in increased competition for investment mandates. Almost all of the world's top 20 fund managers now have operations in Australia competing with very large domestic competitors.

This report has been prepared based on information available as at 10 January 2013 and has been prepared for general information purposes. Representations made in this report are forecasts only, are subject to change and should not be relied upon.

* The financial information provided in this document is unaudited.