

A quarterly publication from QIC - September 2009

In this edition

Doug provides an update on QIC's strategic review process

QIC's new organisational structure

QIC's high-level functional structure and leadership team

QIC welcomes Robert Hines

Robert joins QIC as Chief Financial and Operating Officer

Message from Doug



In the last edition of The View, I spoke about the drivers of the recovery and the key indicators of recovery that we are looking for. Now, following one of the worst financial years on record for the

funds management industry, it appears that some of these signs of recovery, or 'green shoots', are starting to hold foot. Major global equity markets continue to rally, business sentiment is improving, and the US housing market appears to have bottomed. In Australia, consumer spending has remained resilient and demand for housing continues to rebound. However, the scale of the collapse in demand in the last six months has meant that there is still significant spare production capacity in the system. I expect that we will see more job losses in Australia in the coming months as businesses continue to feel the effects of the downturn in economic activity.

Still, it does appear that the worst may be behind us. The global financial crisis (GFC) has presented the funds management industry with some of the most significant challenges we have ever faced and the environment that we operate in has irrevocably changed. QIC's strong focus on risk management has meant that we have managed the challenges better than most and we recently undertook a strategic review to ensure that we are appropriately structured and resourced to continue to deliver on our clients' investment objectives in the new 'post-GFC' world.

The review also addressed our changing relationship with QSuper. QSuper recently became a regulated fund licenced by

APRA and is taking a more hands-on approach to investment governance. Like many other super funds, QSuper is also looking at in-sourcing some of the other functions that QIC has historically provided (e.g. strategic investment services and investment administration activities). We are currently working very closely with QSuper to help them achieve their objectives and I am confident that this process will be beneficial for both QSuper and QIC. QSuper will continue to grow as a large, successful and independent super fund and QIC will continue to be a leading institutional investment manager that counts QSuper as one of our largest and most valued clients.

In this edition of The View, I'd like to bring you up to date with some of the outcomes that have resulted from our strategic review process, including our new high-level organisational structure and key appointments.

Refined strategy: a sharper focus

The QIC Board recently approved a direction and strategy that will see QIC continue as a specialist investment solutions provider, but with a sharper focus. This focus will continue to be on delivering client outcomes to retain and grow with our clients, with a commitment to:

- developing best-in-class funds management capabilities;
- providing best-in-class investment solutions utilising QIC's existing strengths;
- creating new capabilities to ensure QIC's continued growth; and
- growing our implementation and advisory solutions.

In particular, we have formally established the QIC 'House of Boutiques' business model. Each boutique will now be accountable not only for their investment performance, but also for their own business performance. This means that our clients can enjoy the specialisation, responsiveness and client-alignment of a boutique with the backing, risk management and robust systems of a large investment manager.

As part of this process, we reviewed each QIC investment team in terms of their ability to continue as a commercially successful business, either by continuing to be or becoming a best-in-class investment boutique.

As a result, QIC is committed to and has invested in the ten boutiques that comprise the QIC House of Boutiques (refer page 3 for details) and has chosen to discontinue its Implemented Solutions and Global Tactical Asset Allocation businesses. The Australian Equities team has also been restructured into two separate boutiques: QIC Australian Small Companies Equities (led by Stuart Jordan) and QIC Australian Large Companies Equities (led by Paul Barnes), including after-tax management capabilities.

Through the QIC House of Boutiques, we will continue to leverage our best-in-class internal capabilities to deliver investment solutions for our clients and will only pursue implemented strategies in areas where we believe we can add significant value for clients.

Continued on page 2

Message from Doug (continued)

New organisational structure

QIC's new high-level functional structure is complete (refer to page 3 for details), and we are now in the process of recruiting for outstanding roles in the new leadership team.

Some of these roles have already been filled. I am pleased to announce that Robert Hines has joined QIC as our new Chief Financial and Operating Officer. Robert was formally CFO and then Head of the Retail Bank at the Bank of Queensland and he brings a wealth of knowledge and skills to QIC. To find out more about Robert and his new role, read his profile on page 4.

I also welcome Chris Nicholls, who has commenced with QIC in the role of Managing Director – People, Culture & Change in September.

A role that hasn't yet been filled is our new Head of Funds Management position. The person in this role will not be Chief Investment Officer, but will provide leadership and direction to the various asset classes and lead QIC's shift to a more commercially-focused organisational culture with regard to the provision of investment solutions. Getting the right person in this role is critical for the success of QIC's future direction and we are currently seeking candidates globally for this position.

Work is now progressing on the next organisational levels and the functional areas of the business and we expect this process to be completed by the end of September.

Trevor Rowe's departure

In July, Trevor Rowe advised me and the Executive team that he would not be seeking another term as Chairman of the Board of QIC when his current term expires at the end of September.

Trevor's passion and commitment to QIC, along with that of the rest of the Board, is one reason for QIC's continuing success. I thank him for the dedication and high level of integrity he has shown for the past eight years in his role as Chairman and wish him well for the future.

Growing global presence

It would be an understatement to say that 2008-2009 was a tough year for investment returns. However, adversity often leads to opportunity for the savvy investor. Across all the asset classes we manage, our portfolio managers have demonstrated strong discipline and conviction and positioned their portfolios for solid long-term performance. Because of this, QIC is in an enviable position to take advantage of the opportunities the current climate is presenting. This includes opportunities overseas. QIC recently opened up the Global Fixed Interest Alpha Fund to international investors and we have also entered into a Memorandum

of Understanding (MOU) with the Korean Investment Corporation. These initiatives have helped us to expand our global presence and we are now focusing on identifying opportunities that will further enhance our global profile.

Focus on delivering client outcomes

While there will be further changes at QIC as we continue to adapt to our constantly changing operating environment, one thing that will not change is our focus on delivering client outcomes. I am confident that my team at QIC will embrace this period of change and I have no doubt that we will be in an even better position to help you overcome the challenges and exceed your investment objectives.

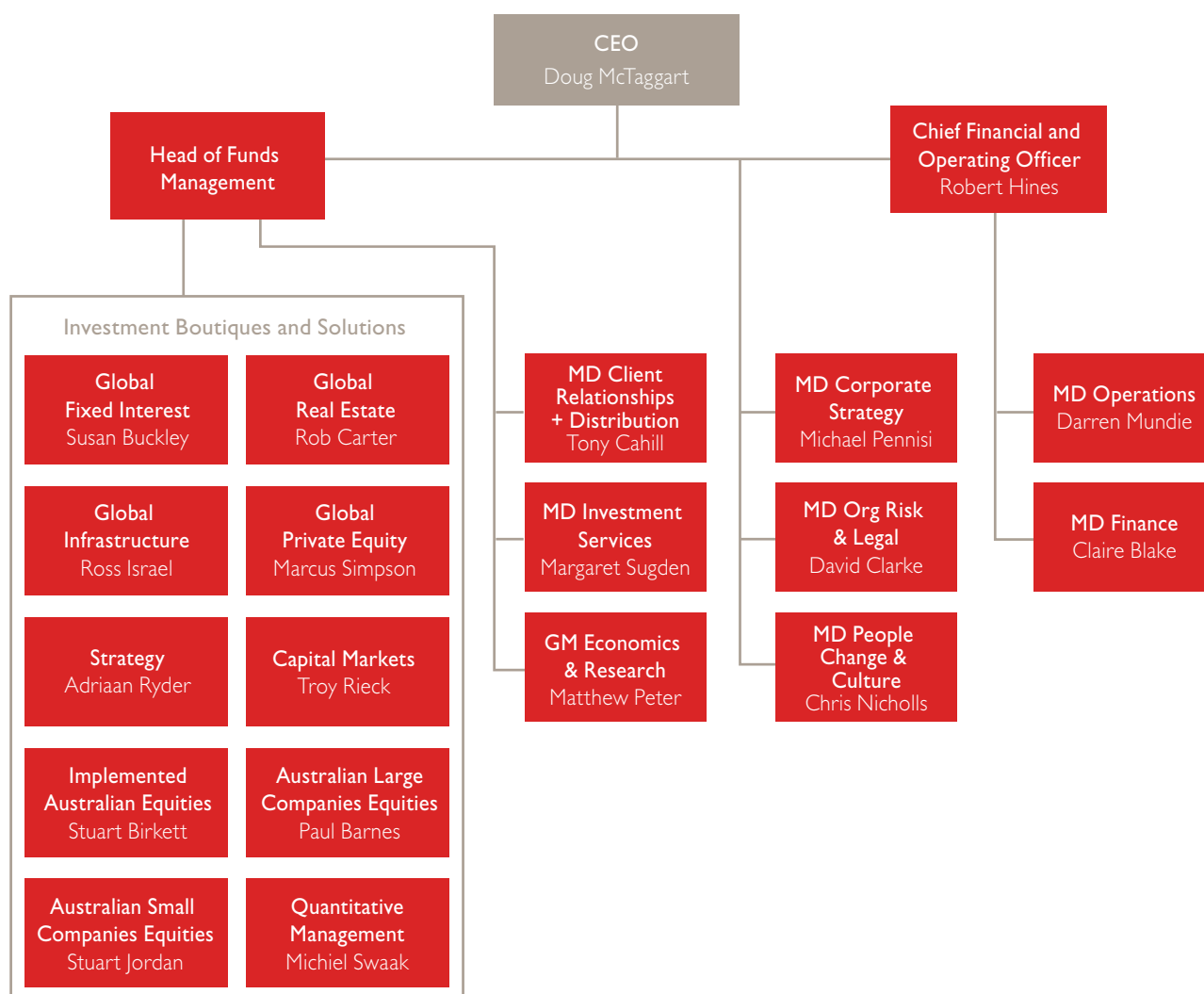
As usual, if you have any feedback, questions or challenges for me or the QIC team, please send them directly to me at d.mctaggart@qic.com.

Doug McTaggart
Chief Executive

Financial market snapshot

Key Market Indicators (as at 31 August 2009)	FYTD	1 Year	3 Year	5 Year	10 Year
Australian Shares	14.4%	-8.1%	0.1%	9.5%	8.6%
International Shares (Unhedged)	7.9%	-14.9%	-8.6%	-0.8%	-2.8%
International Shares (Hedged)	11.4%	-18.4%	-6.0%	3.2%	0.7%
Australian Bonds	1.0%	7.7%	6.3%	5.9%	6.2%
International Bonds (Unhedged)	-0.6%	10.7%	4.3%	2.4%	3.2%
International Bonds (Hedged)	2.0%	9.3%	7.9%	7.4%	7.7%
Direct Property (Australia)	1.0%	-15.2%	3.2%	7.5%	8.6%
Listed Property (Australia)	18.8%	-34.5%	-19.8%	-6.0%	3.3%
Inflation (CPI)	-	1.5%	2.7%	2.9%	3.2%

High-level organisational structure and leadership team



QIC Global Fixed Interest strengthens team

QIC Global Fixed Interest (QIC GFI) has further strengthened its capabilities with two senior appointments. Andrew Ticehurst has been hired as a Senior Portfolio Manager, GFI Macro, and Max Bulloch joins the team as Senior Portfolio Manager, Investment Grade Credit.

Both Andrew and Max are high-caliber recruits who bring a wealth of experience and a strong track record to the team.

With 20 years experience in financial markets, Andrew joins QIC GFI from the National Australia Bank, where he was a proprietary trader in the FX Global Capital Management Group. Andrew also has experience as an economist, strategist, portfolio manager, asset class head and product champion across fixed income and

FX markets for Suncorp, AMP Hendersons, Macquarie Bank, Merrill Lynch and the Commonwealth Department of Treasury.

Max joins QIC GFI from Cheyne Capital Management in London, where he was a Partner and directly responsible for the management of more than US\$1 billion. Max has extensive international experience with a proven track record of performance, particularly in long/short credit portfolios and the innovative strategies used across QIC GFI's portfolios.

Both appointments follow a global search for expertise to match the needs of the growing team. They also follow the departures of senior team member Rob Jewell and team member Steven Smith in late July, who both left QIC after

the recruitment process had already commenced. We wish Rob and Steve all the best in meeting their new challenges.

QIC GFI has been very pleased with the quality of candidates that these and other prospective roles have attracted. With the team growing to more than 20 staff in recent years, QIC GFI's architect and Managing Director, Susan Buckley, is in constant contact with a range of prospective investment professionals who are keen to join her successful team.

The hiring is set to continue, with QIC GFI confident of adding further depth to the GFI Macro team very soon via another senior appointment.

Economic and market snapshot

The June quarter represented a turning point for the stabilisation of the global economy, following its disastrous collapse in the wake of the failure of Lehman Brothers. A precondition for a break in the vicious cycle of plunging financial markets, collapsing household and business confidence and falling economic activity was the arrest of systemic risk to the global financial system. Throughout the March quarter, central banks formulated policies designed to support the banking system and maintain the flow of credit to the economy. Many of these policies were initiated in the June quarter and have resulted in a stabilisation of the global financial system.

Governments also began or continued the implementation of large-scale fiscal packages in the June quarter. Economic activity within the Asian region in particular has benefited from early and large fiscal and monetary stimulus. Major Asian economies such as China, Japan and South Korea have implemented sizeable macroeconomic stimulus packages, and the region as a whole is currently leading the stabilisation and recovery of the global economy.

As is typically the case, global equity markets served as a barometer for the turnaround in economic conditions and began to rally in early March at a time when economic data releases in developed economies were still strongly negative. The rally extended throughout the June quarter and into July, as data releases showed stabilising conditions in the global economy and in financial markets, and as reported US company earnings outperformed market expectations. The recovery in equity markets has been rapid and has outpaced the recovery in the real economy. According to most standard valuation metrics, equity markets are now close to fair value.

Despite the better news over the June quarter, growth in most advanced economies is only just beginning to emerge from contraction, and stabilisation within labour markets is unlikely until late in 2009 or in the first half of 2010. High rates of unemployment will dampen consumer spending in coming quarters, while fiscal fade will begin to weigh on demand towards the end of 2010 and in the first half of 2011. Consequently, the pace of recovery in the global economy will be gradual.

The Australian economy has proved to be resilient, with confidence rebounding and consumer spending remaining robust in the June quarter. Substantial fiscal handouts and robust labour market conditions have underpinned consumption growth, with the substantial fiscal handouts, low interest rates and only a moderate increase in the unemployment rate. As in the rest of the world, the equity market rally is also buoying sentiment. While exhibiting signs of slowing in the second half of 2008, the housing market data has improved recently, with house prices and dwelling approvals rebounding in the June quarter as policy initiatives stimulate activity. Indeed, the RBA has moved to a neutral bias, with the Governor observing that *"we can much more easily imagine upside risks to the outlook, to balance out the downside ones, than was the case six months ago"*.



Matthew Peter
QIC Chief Economist

QIC Forecast	Australia			US			Europe		
	Current	Dec-09	Jun-10	Current	Dec-09	Jun-10	Current	Dec-09	Jun-10
Interest rates	3.00%	3.25%	3.50%	0-0.25%	0-0.25%	0.50%	1.00%	1.00%	1.00%
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Economic growth	2.3%	0.8%	2.6%	0.4%	-2.6%	1.6%	0.6%	-4.4%	0.6%

QIC welcomes Robert Hines



We are pleased to welcome Robert Hines, who has joined QIC as our new Chief Financial and Operating Officer.

Robert joins us from Bank of Queensland, where he most recently held the position of Group Executive, Retail Financial Services, for two years, and the role of Chief Financial Officer for seven years prior to that.

Robert has 25 years experience in retail and investment banking in London, Brisbane and Sydney. Robert has also had exposure to the

funds management industry in his roles as Chief Financial Officer at Suncorp and Nat/West Markets and prior to that in a government-owned company environment at Tarong Energy and Energex.

In his new role, Robert will have a number of key responsibilities:

- supporting the CEO in the achievement of QIC's strategic and business objectives
- providing leadership and direction to the finance and operations functions to meet QIC's objectives

- overseeing financial control and profitability across QIC through appropriate planning, financial analysis, reporting, monitoring and corrective action
- fulfilling statutory accounting responsibilities for QIC as a corporation
- providing advice and recommendations to the Executive Leadership Team members, CEO and Board
- enabling strategic decision-making and recommending actions to achieve QIC's objectives.



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