



20 September 2010

## Portfolio update at 30 June 2010

The Future Fund Board of Guardians today released its portfolio update for the financial year to 30 June 2010.

### Future Fund

The Future Fund's return for the financial year ending 30 June 2010 (excluding the Fund's Telstra holding) was 10.6%. The positive returns of the first three quarters of the year were modestly reduced by a negative return of 1% for the final quarter.

The Future Fund's holding in Telstra generated a return of 6.7% for the financial year.

Reflecting the long-term investment mandate for the Future Fund, the Board continues to focus on performance over rolling ten year periods.

The asset allocation of the Future Fund at 30 June 2010 is shown below:

Asset class	A\$ million	Percentage of Fund (ex Telstra)
<b>Australian equities</b>	7,465	11.8
<b>Global equities</b>		
Developed markets	13,778	21.8
Developing markets	1,986	3.1
<b>Private equity</b>	1,895	3.0
<b>Property</b>	3,125	5.0
<b>Infrastructure</b>	2,865	4.5
<b>Debt securities</b>	13,822	21.9
<b>Alternative assets</b>	9,871	15.6
<b>Cash</b>	8,266	13.1
<b>Total (ex Telstra)</b>	63,074	100
<b>Telstra holding</b>	4,272	-
<b>Total Future Fund assets</b>	67,346	-

*Data may not sum due to rounding*

Mr David Murray, Chair of the Future Fund Board of Guardians, said that the Fund had been able to take advantage of the better conditions during 2009/10 while avoiding the worst extremes of volatility in previous years.

"Improved market confidence through the year has seen performance pick up, albeit that the outlook for global markets remains fragile in the aftermath of the global financial crisis.

"Cash holdings in the portfolio were reduced from 41% to 13% over the year as capital was deployed into a range of strategies consistent with our long term objective.

"The listed equities exposure was built as markets demonstrated some recovery from the volatility of recent times, but the design of the portfolio means we are less reliant on equity markets to generate returns than many other investors. Draw downs in our private equity program have been modest, but opportunities are beginning to increase.

"The Alternatives program, which uses skilled managers to take advantage of capital scarcity and market inefficiency through a diverse range of strategies, has grown from 5% to 16% of the portfolio. The Debt program remains a significant part of the portfolio and we have taken the opportunity during the year to rotate away from the holdings built opportunistically during the early stages of the credit crisis to longer term and higher yielding securities.

"Property and infrastructure assets provide consistent income streams over the long term that are expected to increase in line with inflation. Over the year, the allocation to these two categories has grown from around 4% to nearly 10% of the portfolio."

On 20 August 2009 the Board disposed of 684.4 million shares in Telstra through an underwritten sale to institutional investors. The sell-down is in line with the Board's plan to reduce the portfolio's holding in Telstra in an orderly manner over the medium term and to build a portfolio consistent with its long term strategy.

### **Nation-building Funds**

Since 1 January 2009 the Board of Guardians has also had responsibility for the investment of the assets of the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund.

At 30 June 2010 the value of the Building Australia Fund was A\$9,763 million, the Education Investment Fund stood at A\$5,516 million and the Health and Hospitals Fund stood at A\$4,736 million.

The investment mandates for the Nation-building Funds set a benchmark return of the Australian three month bank bill swap rate +0.3% per annum calculated on a rolling 12 month basis. The mandates require that investments minimise the probability of capital loss over a 12 month horizon. Consistent with the mandates, the assets of the three Funds are invested in combinations of short and medium term debt instruments.

The quarterly return for each of the Funds was 1.1%. For the year the Education Investment Fund and Building Australia Fund both returned 4.6% while the Health and Hospitals Fund returned 4.7%. The 12 month benchmark return for each Fund was 4.2%.

Details of the transfers to and withdrawals from the Nation-building Funds are available on the Department of Finance and Deregulation's website: [www.finance.gov.au](http://www.finance.gov.au)

The Board's Annual Report for the 2009/10 year is expected to be tabled in Parliament by 31 October 2010.

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