



4 September 2009

Portfolio update at 30 June 2009

The Future Fund Board of Guardians today released its portfolio update for the financial year to 30 June 2009.

1. Future Fund

The Future Fund (ex Telstra) returned 5.1% for quarter ending 30 June 2009, giving a return for the financial year of minus 4.2%.

The Future Fund's holding of approximately two billion shares in Telstra generated a return of 4.9% for the quarter and minus 11.4% for the financial year.

Since 1 July 2007, when reporting against the Government's benchmark return of at least CPI+4.5% over the long term commenced, the annualised return (ex Telstra) of the Future Fund is minus 1.3% pa.

Since May 2006, when the first contribution to the Future Fund was made, a total of \$51.328 billion has been contributed (excluding transferred Telstra shares). Removing the impact of income flowing from the Telstra assets (dividends, imputation credits and proceeds of sales) earnings of \$151 million have been added to these contributions since inception. This means there has been no loss of the capital value of Government contributions despite the challenging conditions in investment markets over the last two financial years.

Mr David Murray AO, Chair of the Future Fund Board of Guardians, said the period since the Future Fund's creation, and the last two years in particular, had been challenging for investors.

"Despite a difficult environment, the original cash contributions to the fund have been protected and we are continuing to build towards our long term objective.

"Through the first eight months of the last financial year, we saw unprecedented volatility in credit and equity markets as the financial crisis extended to have a broader global economic impact.

"Over recent months we have seen confidence and indicators improve which has boosted returns over the final quarter. While the current positive momentum is encouraging, significant issues still need to be worked through across global markets. This presents both challenges and opportunities for investors and we will maintain our prudent approach to building the portfolio.

"The decision to make substantial investments in credit markets alongside equity markets during the first stage of the investment program has meant that the portfolio was able to avoid some of the more extreme negative market sentiment over the year whilst benefiting from the turnaround over the last few months."

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The asset allocation of the Future Fund at 30 June 2009 was as follows:

| Asset class | A\$ million | Percentage of Fund (ex Telstra) |
|---------------------------------|-------------|------------------------------------|
| Australian equities | 4,494 | 8.3 |
| Global equities | | |
| Developed markets | 7,273 | 13.4 |
| Developing markets | 1,728 | 3.2 |
| Private equity | 1,240 | 2.3 |
| Property | 757 | 1.4 |
| Infrastructure | 1,178 | 2.2 |
| Debt securities | 12,489 | 23.1 |
| Alternative assets | 2,694 | 5.0 |
| Cash | 22,262 | 41.1 |
| Total (ex Telstra) | 54,115 | 100 |
| Telstra holding | 6,925 | - |
| Total Future Fund assets | 61,040 | - |

2. Nation-building Funds

From 1 January 2009 the Board of Guardians has also had responsibility for the investment of the assets of the Education Investment Fund (EIF), the Building Australia Fund (BAF) and the Health and Hospitals Fund (HHF).

At 30 June 2009 the value of the Education Investment Fund was A\$6,490 million, the Building Australia Fund stood at A\$9,950 million and the Health and Hospitals Fund stood at A\$4,829 million.

Investment mandates for the funds became effective on 29 July 2009 and set a benchmark return of the Australian three month bank bill swap rate +0.3% per annum calculated on a rolling 12 month basis. Investments are to minimise the probability of capital loss over a 12 month horizon.

In the period prior to the mandates being finalised, assets were invested primarily in Australian bank bills, consistent with the mandate for the former Higher Education Endowment Fund, generating annualised returns of 3.5% pa.

The Higher Education Endowment Fund was discontinued on 31 December 2008 and its assets of \$6.48 billion were transferred to the Education Investment Fund. Between receiving its first contribution in October 2007 and its discontinuation the HEEF generated an annualised return of 7.5%.

ENDS

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