



30 January 2009

## Portfolio Update at 31 December 2008

The Future Fund Board of Guardians today released its portfolio update for the quarter ending 31 December 2008.

The Future Fund's return for the quarter (ex Telstra) was minus 5.86% and for the first six months of the 2008/09 financial year it was minus 7.56%. For the 2008 calendar year the return was minus 8.49%.

Since the effective start of the Future Fund's investment program on 1 July 2007 the annualised return (ex Telstra) was minus 4.13%.

Reflecting the Future Fund's long term investment mandate the Board will continue to focus on assessing performance over rolling five year periods.

The Future Fund's holding of two billion Telstra shares, which were released from escrow on 20 November 2008, generated returns of minus 8.49% for the quarter and minus 5.54% for the first six months of the financial year.

The asset allocation of the Future Fund at 31 December 2008 was as follows:

Asset class	\$m	Percentage of Fund (ex Telstra)
<b>Australian equities</b>	4,482	8.6
<b>Global equities</b>		
Developed markets	8,458	16.3
Developing markets	1,450	2.8
<b>Private equity</b>	954	1.8
<b>Property</b>	681	1.3
<b>Infrastructure</b>	1,009	1.9
<b>Debt securities</b>	8,979	17.3
<b>Alternative assets</b>	1,926	3.7
<b>Cash</b>	24,032	46.2
<b>Total (ex Telstra)</b>	51,970	100
<b>Telstra holding</b>	7,653	-
<b>Total Future Fund assets</b>	59,623	-

Mr David Murray AO, Chair of the Future Fund Board of Guardians, said performance should be considered in light of the market environment and noted the Future Fund had been relatively less impacted by this than most institutional investors.

"The 2008/09 financial year continues to produce unprecedented volatility in credit and equity markets. Equity market declines in October 2008 were the most severe in two decades with levels of volatility not seen for almost 80 years. There was simultaneous dislocation in global credit markets with spreads widening despite significant government intervention.

"At the same time, this environment provides opportunities for a long term investor such as the Future Fund to selectively acquire assets at attractive prices.

"During the quarter we reduced our cash holding from 56% to 46% while materially increasing exposures to debt markets to take advantage of higher returns. We have also made modest increases in the private equity and infrastructure sectors as other investors restructure their portfolios and quality assets become available.

"The Board will continue to focus on taking up opportunities arising from the current market dislocation to position the Future Fund for long term success," he said.

### **Higher Education Endowment Fund/Education Investment Fund**

The Higher Education Endowment Fund (HEEF) was established in September 2007 and has been invested in line with the interim investment mandate which restricts investments to securities with negligible chance of capital loss.

The HEEF was valued at \$6.48 billion at 31 December 2008 and generated a return for the quarter of 1.86% and of 3.66% for the financial year to date. Since its inception the HEEF has achieved an annualised return of 7.52%.

The Nation-building Funds Act 2008 came into effect on 1 January 2009. As a result the HEEF has been discontinued and its assets transferred to the Education Investment Fund (EIF).

Under the same legislation the Board of Guardians has also taken responsibility for investing the assets of the Building Australia Fund which received an initial transfer of \$2.47 billion from the Communications Fund. The legislation also created the Health and Hospitals Fund (HHF).

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