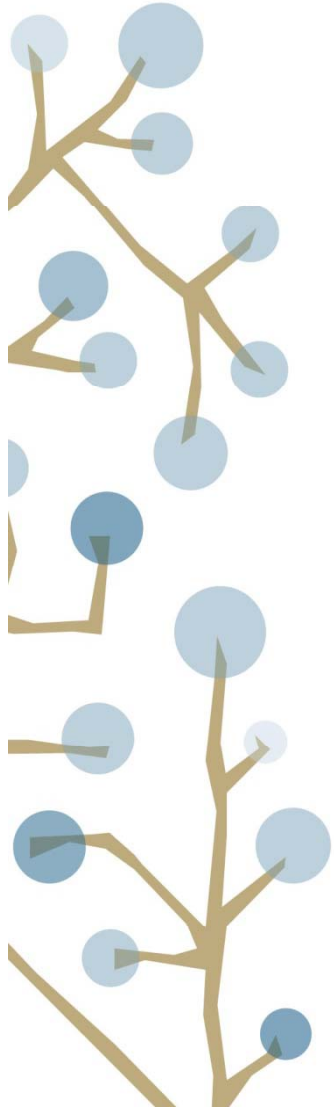


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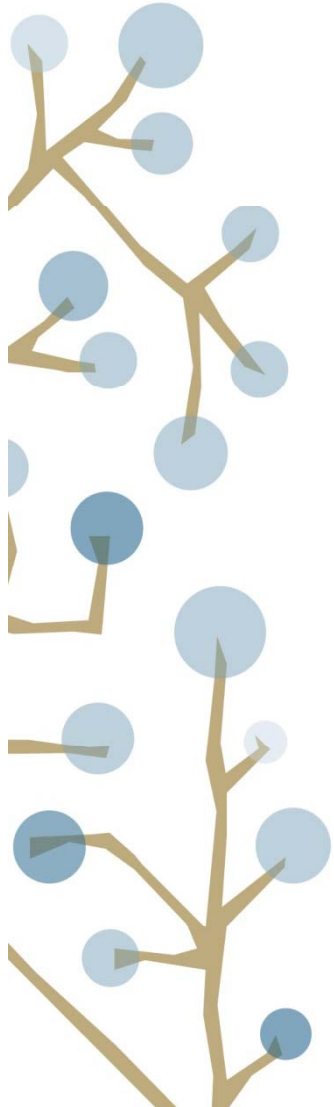
# Future Fund

Briefing

25 October 2012

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## **Agenda**



### **Introduction**

Mark Burgess  
Managing Director

### **Investment Approach and Process**

David Neal  
Chief Investment Officer

### **Infrastructure**

Nadine Lennie  
Director, Infrastructure & Timberlands

### **Listed Equities**

Elspeth Lumsden  
Head of Equities

### **Portfolio Update and Investment Environment**

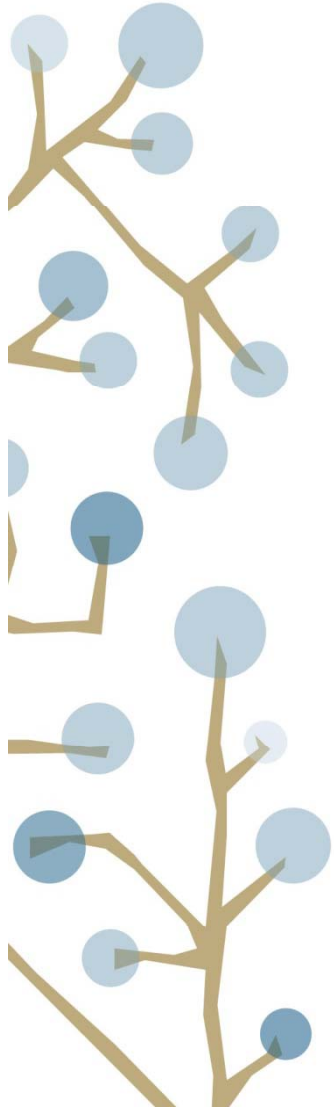
David Neal  
Chief Investment Officer

### **Other areas of interest and conclusion**

Mark Burgess  
Managing Director

### **Q&A**

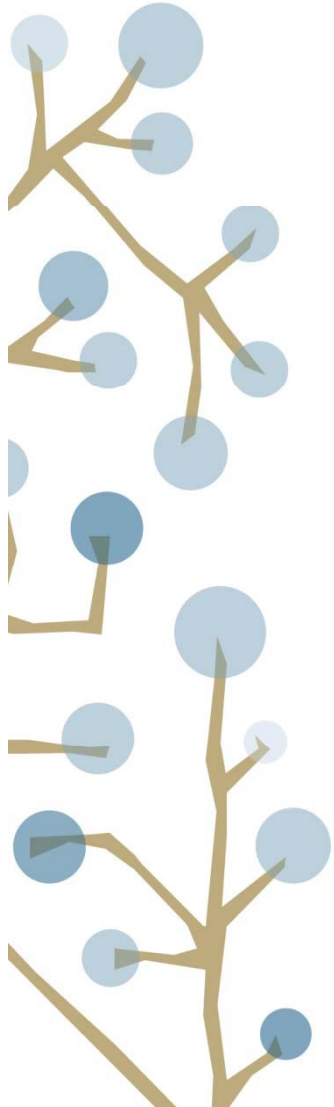
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## Overview

- The Fund is in excellent shape
  - Navigated the GFC and its continued impacts
  - Grown to \$80.5 billion on \$60.5 billion of contributions
- High quality, motivated team
- A global perspective and strong relationships with peer investors including Sovereign Wealth Funds
- Strong commitment to building on this position
- We look forward to the opportunity of keeping our stakeholders informed as to the Fund's strategies and progress

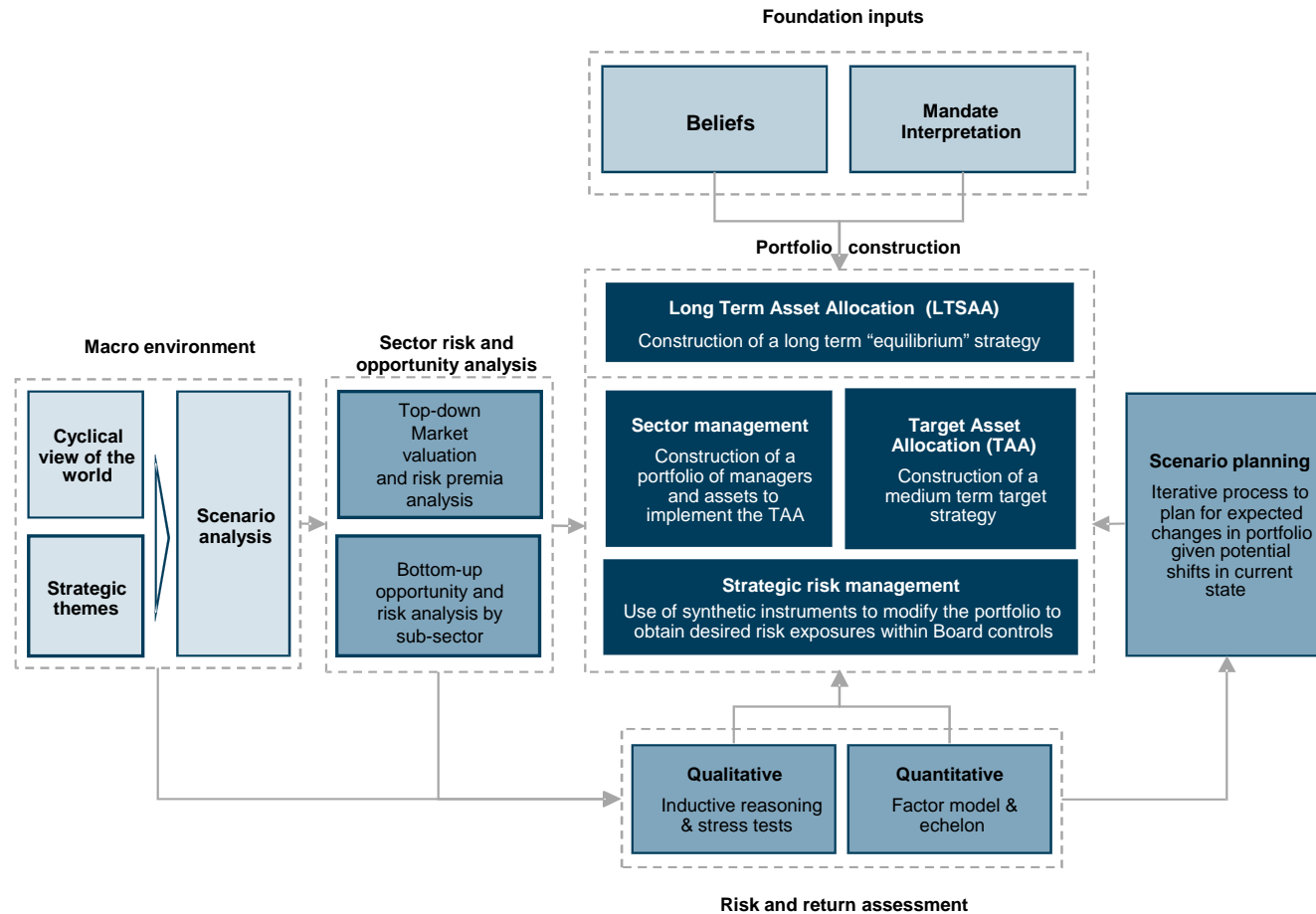
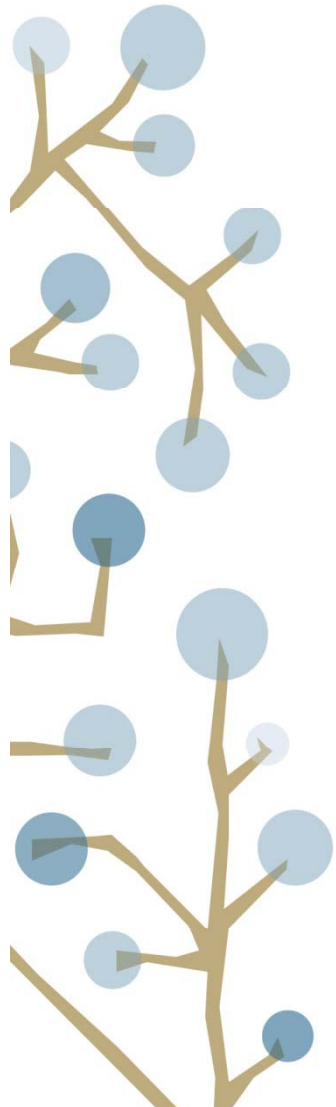
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## Core Investment Principles

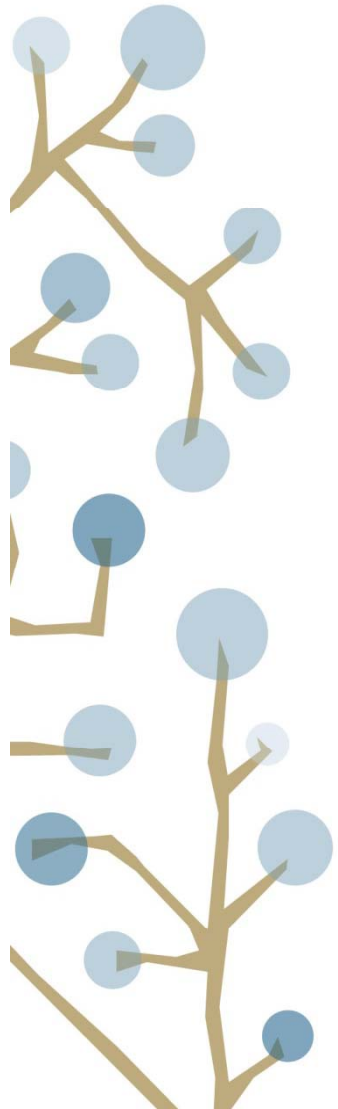
- Our portfolio management is focused on the specific objectives of the Fund:
  - Maximise return, subject to acceptable but not excessive risk;
  - Investment Mandate benchmarks the Fund against at least CPI +4.5 - 5.5% per annum; and
  - Assessed over the long term, which we define as 10 years.
- We construct a diversified portfolio that is, as far as possible, robust to an uncertain future
- We believe prospective returns and risks change through time, and therefore manage the portfolio dynamically
- We act as a single team, running an integrated process, managing a single, total portfolio
- We seek a relatively small number of relatively large relationships
- We manage for a net of costs return

# The Investment Strategy Process

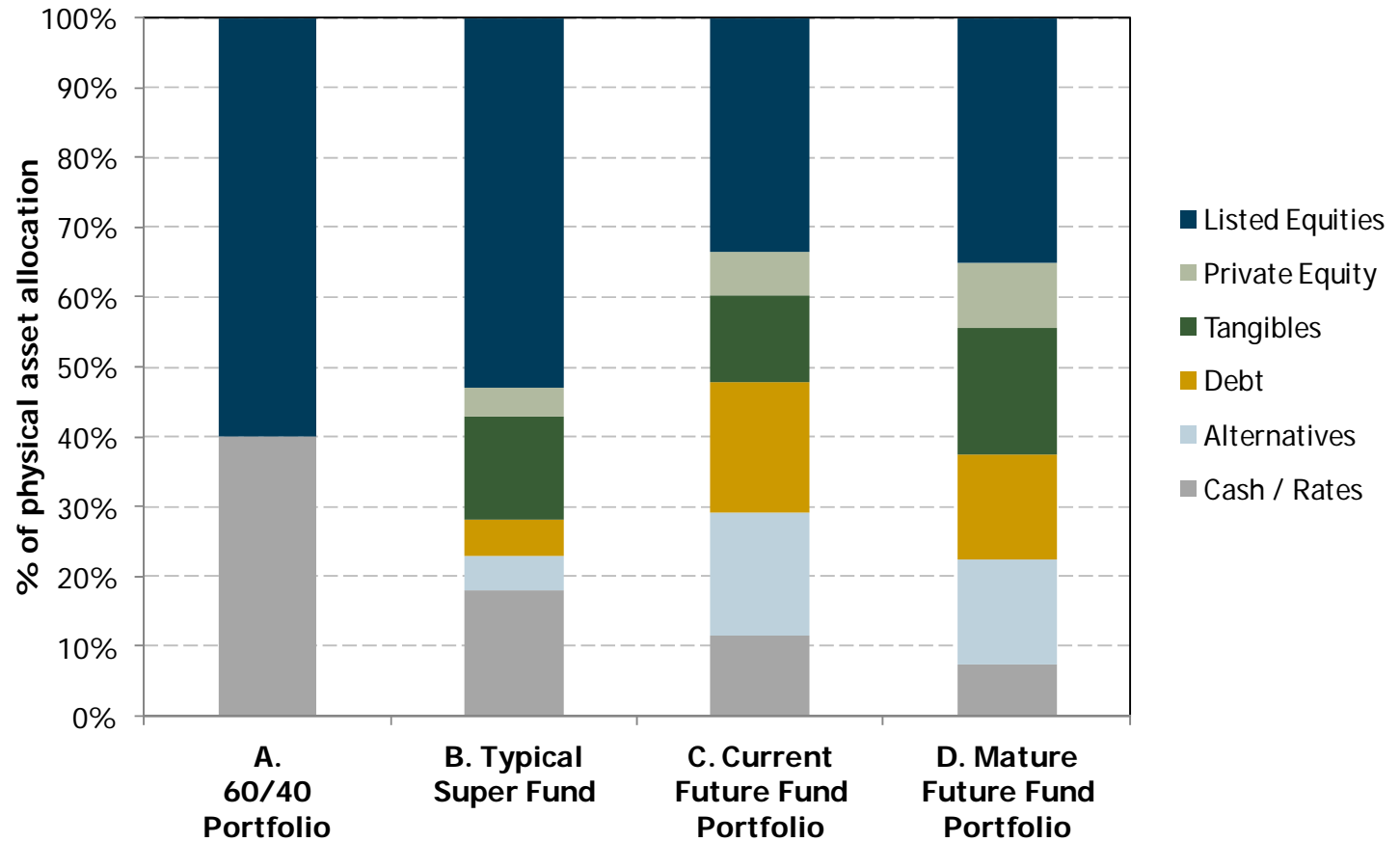


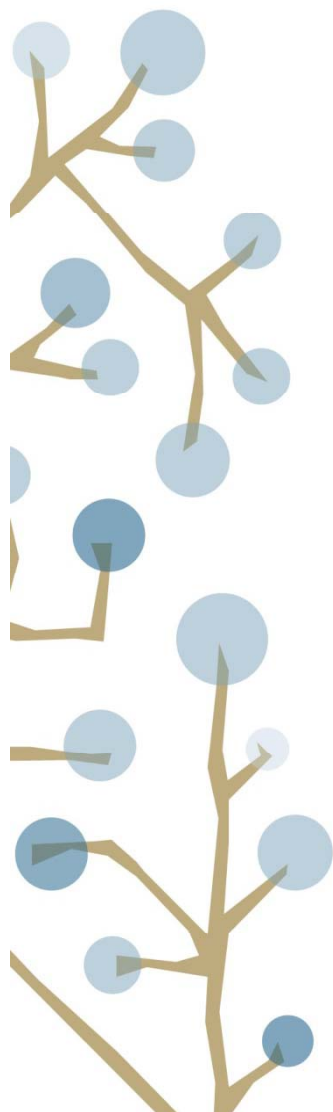
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## Asset allocation



### Physical asset allocation





## Infrastructure and Timberlands

### Our Investment Case

- Long term inflation linked cashflows
- Typical categorisation but limited preferences – economic, regulated, contracted, market
- Lifecycle and geography are also important considerations
- Timberland is a separate asset class

### Our Investment Approach

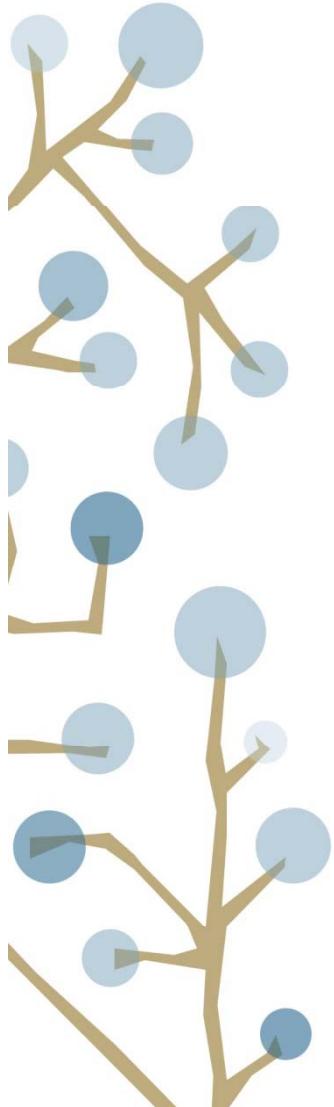
- Hybrid approach
- Tailored to meet the Fund's objectives

### Key Value Adds

- Choosing investment focus, approach and strategy
- Understand and manage exposures
- Maintain skilled internal team

### Where are we at?

- Total exposure \$4.7 billion (30 September 2012)
- 7 Infrastructure managers & 1 Timberland manager
- Australia circa 40% - Australia presents a strong fit with the mandate
- Good pipeline of opportunities but competition is strong



## Listed Equities

### Approach

- Our Listed Equities portfolio is approx \$27 billion and is invested with 13 external managers
- Our opportunity set includes:
  - Australia, developed, emerging and frontier markets; and
  - broad range of external managers from start-up boutiques through to large global firms.
- Long-term orientation and ability to disregard benchmark constraints generates high long-term risk-adjusted returns
- Diversified by geography, industry and themes
- We implement this strategy through deep and insightful manager research and mandate design
- There is a role for active management - investment decisions over short-time horizons are more efficiently implemented via the use of unconstrained skilled managers who can dive deeply into the markets
- We focus on a relatively small number of high conviction managers
- We believe that we can identify longer-term themes and bias the portfolio towards these

### Long-term theme examples

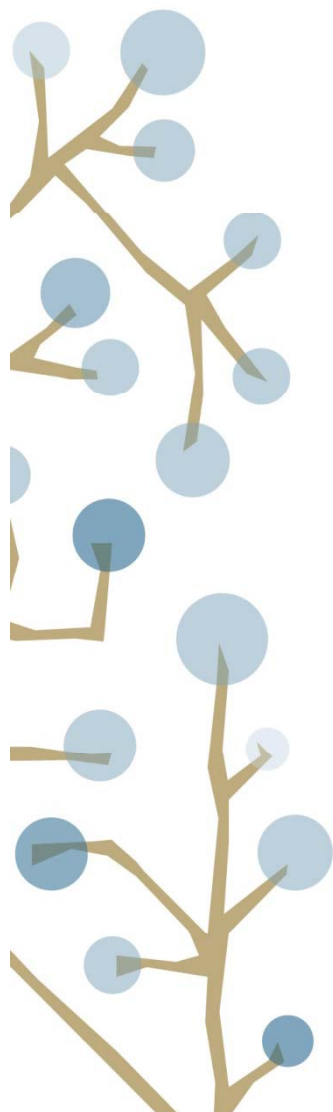
- Emerging Wealth
- Quality



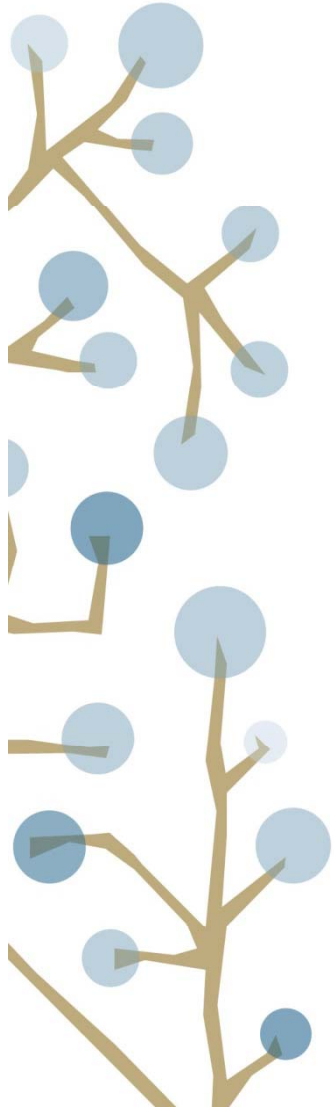
## Portfolio at 30 September 2012

- Quarterly return to 30 September 2012 3.9%
- 3 years 7.8%pa
- 5 years 4.8%pa
- Since 5 May 2006 5.2% pa

Asset class	At 30 September 2011		At 30 September 2012	
	A\$ million	Percentage of Fund	A\$ million	Percentage of Fund
<b>Australian equities</b>	7,769	10.6	8,551	10.7
<b>Global equities</b>				
Developed markets	11,772	16.1	14,133	17.7
Emerging markets	3,501	4.8	4,088	5.1
<b>Private equity</b>	3,653	5.0	5,053	6.3
<b>Property</b>	4,611	6.3	5,151	6.4
<b>Infrastructure &amp; Timberland</b>	4,127	5.6	4,747	5.9
<b>Debt securities</b>	14,023	19.2	14,932	18.7
<b>Alternative assets</b>	15,805	21.6	14,196	17.7
<b>Cash</b>	7,921	10.8	9,126	11.4
<b>Total</b>	<b>73,182</b>	<b>100</b>	<b>79,979</b>	<b>100</b>

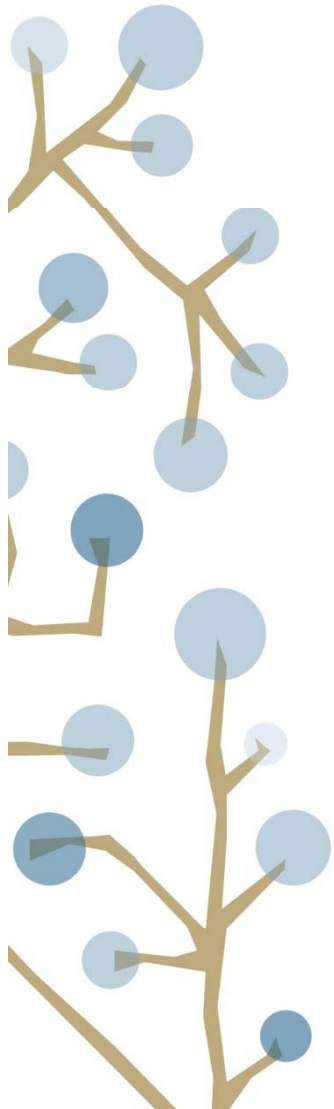


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## Outlook

- Broad strategic context is defined by:
  - Powerful disinflationary deleveraging forces across many developed economies;
  - Large scale unconventional policy actions to counteract these forces; and
  - Secular growth story intact for many emerging markets, albeit not without risks.
- Markets are pricing in a slower growth environment
- Expected returns are reasonable
- Distribution of returns is wider than usual



## Other areas of interest

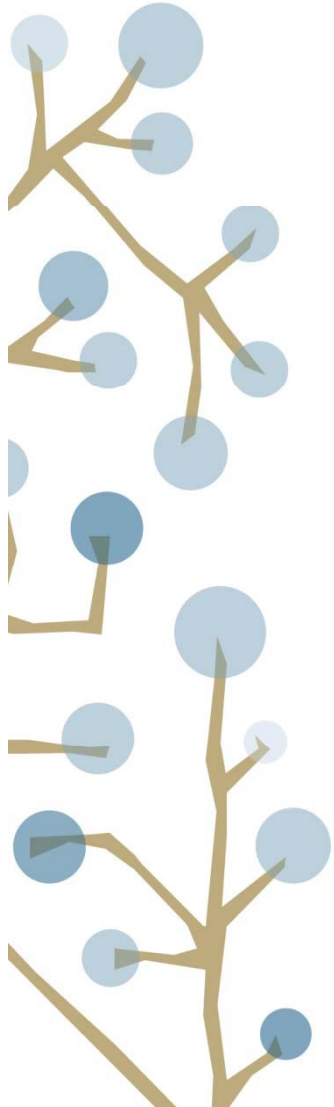
### Environmental Social and Governance risk management

- Clearly defined framework and focus
- Board has set up a Governance committee – amongst its tasks is oversight and support to the Board's approach to ESG matters
- Work being undertaken:
  - Board has asked the Governance Committee to review tobacco
  - will consider costs and implications of exclusions as well as Board's ability, given its responsibilities and obligations, to act in this area.

### Annual report

- Providing more detail on:
  - the portfolio and investment process
  - details on board governance structure
  - greater detail on costs of managing the Fund
  - implementation of our ESG policies
- Expected to be released the week of October 29th

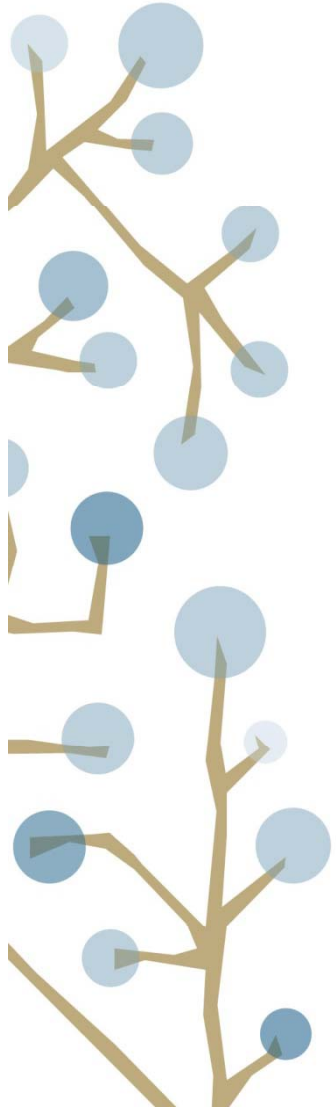
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## **Conclusion**

- Sustain the rigorous and robust processes and approach to investing
- Respond to and manage through a still challenging environment
- We have outlined examples of our portfolio and current positioning
- The Fund has a talented team of investment professionals
- Ongoing commitment to engagement and communication

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# Future Fund

Briefing