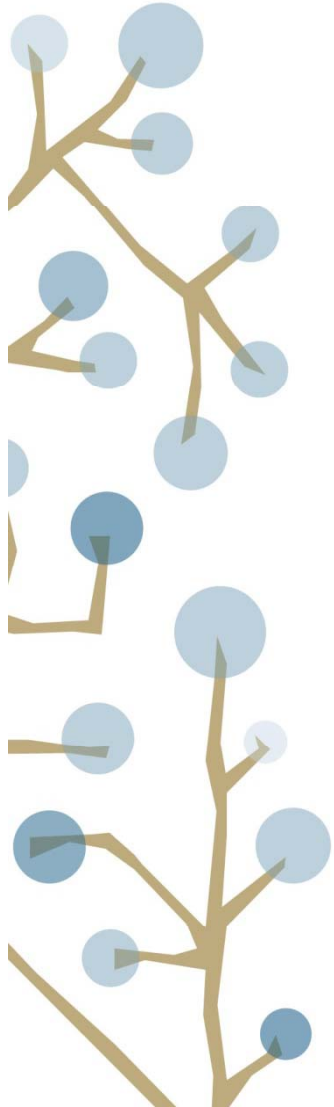


futurefund



The Future Fund

Australia's Sovereign Wealth Fund

22 August 2013

Purpose

Future Fund

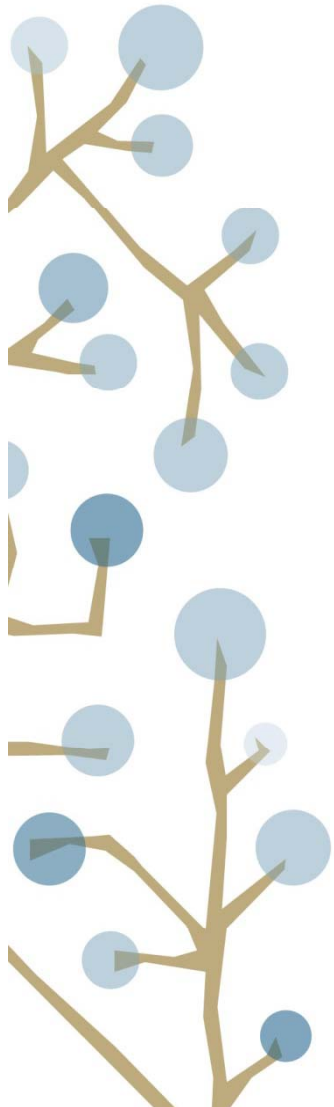
- Established in 2006 to accumulate sufficient financial assets to offset the Australian Government's unfunded superannuation liability from 2020.
- As at 31 March 2013, the Future Fund held assets around **A\$85.17 billion**.

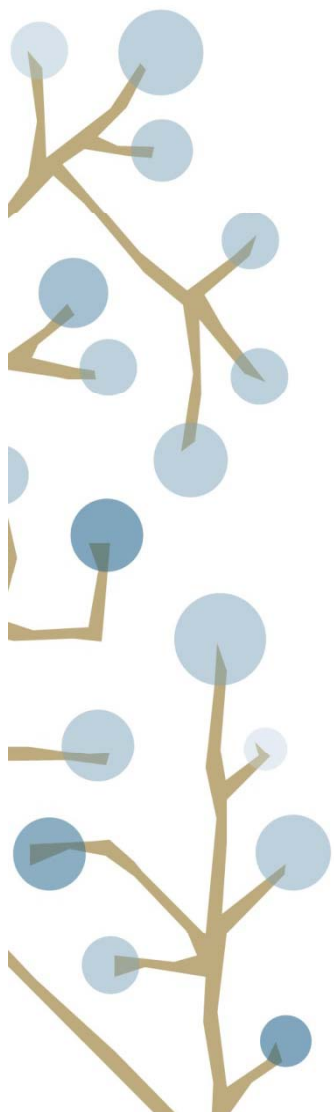
Nation-building Funds

- Three new Funds were established in 2008:
 - Building Australia Fund
 - Education Investment Fund
 - Health and Hospitals Fund
- As at 31 March 2013, total assets of the three funds was **A\$12.28 billion**.

Disability Australia Fund

- To be managed from mid 2014





Mandates and funding

Future Fund

An average return of at least the **Consumer Price Index (CPI) + 4.5% to 5.5% pa** over the long term with acceptable but not excessive risk.

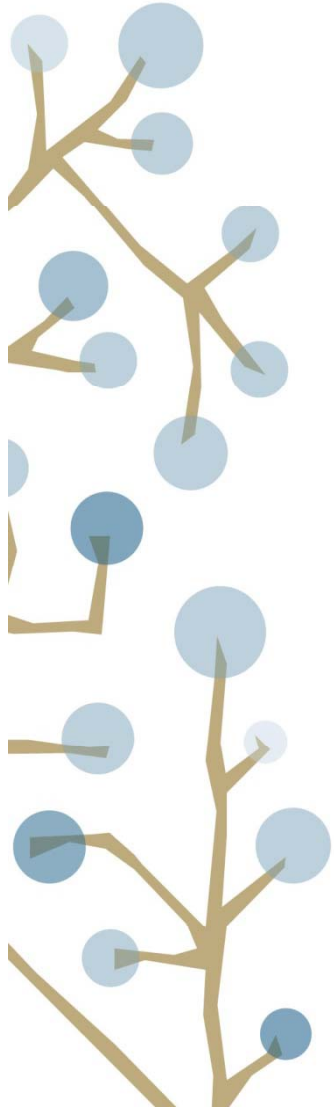
The Future Fund has achieved a return of 5.7% pa since its establishment.

Nation-building Funds

Australian 3 month **bank bill swap rate + 0.3% pa over rolling 12 month periods**, while minimising the possibility of capital losses over a 12 month horizon.

The Nation-building Funds have achieved their target returns.

- Both the Future Fund and Nation-building Funds have been funded with contributions from budget surpluses.
- The Future Fund has also received the proceeds of, and remaining shares from, the privatisation of the telecommunications company, Telstra.
- No more funding is currently expected for the Future Fund.



Governance arrangements

Independence and accountability

- Clear legislative framework for role and responsibilities
- No withdrawals until 2020
- Board consulted on the investment mandate
- Annual reporting to Parliament and regular Senate hearings

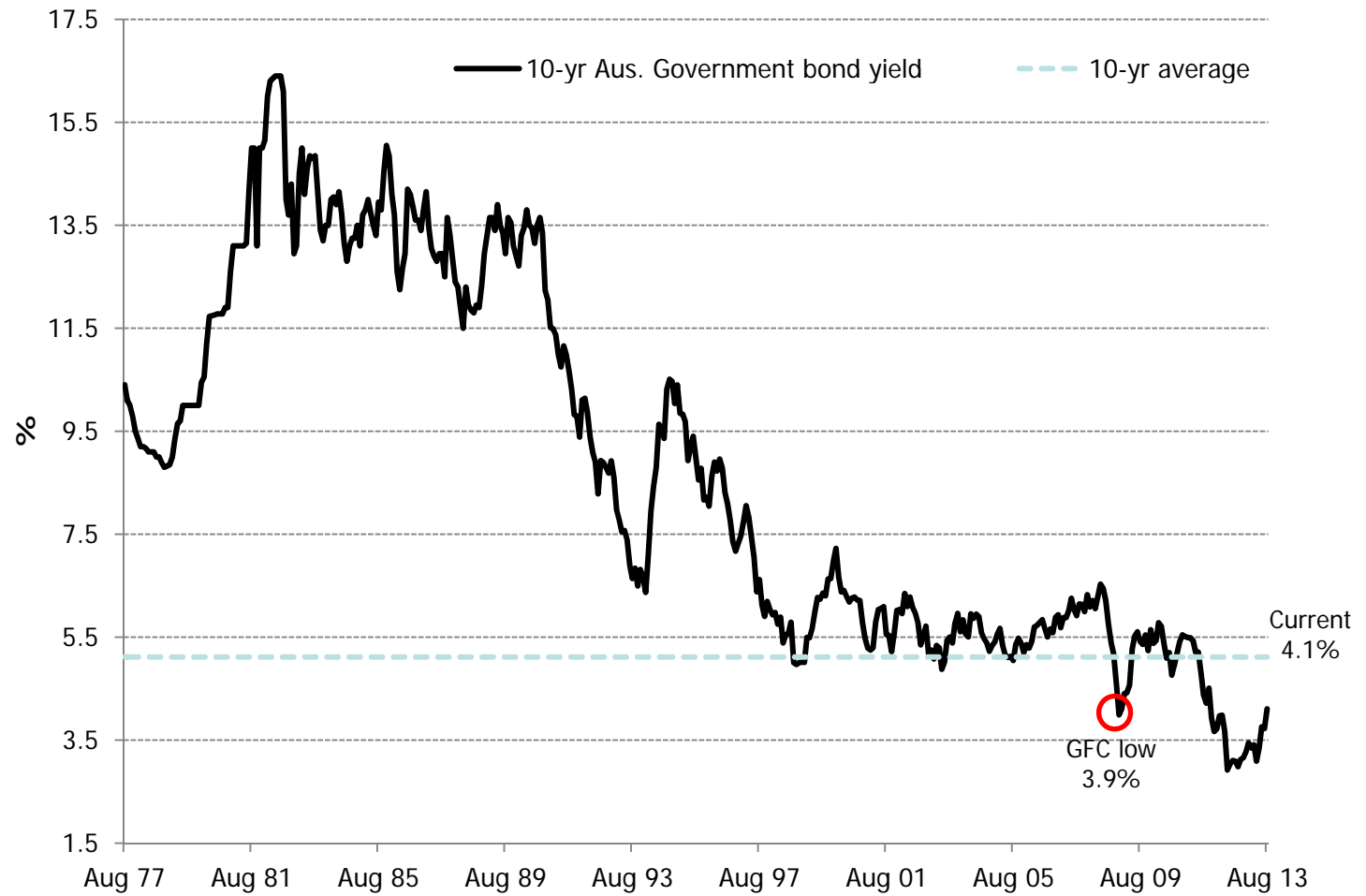
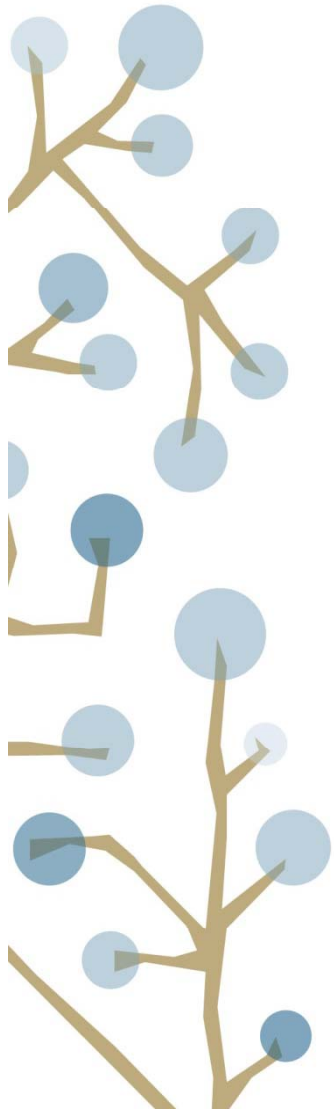
Future Fund Board of Guardians

- Seven part-time members drawn from outside Government
- Appointed by the nominated Ministers
- Experienced in investing or corporate governance
- Responsibilities and duties established by legislation

Future Fund Management Agency

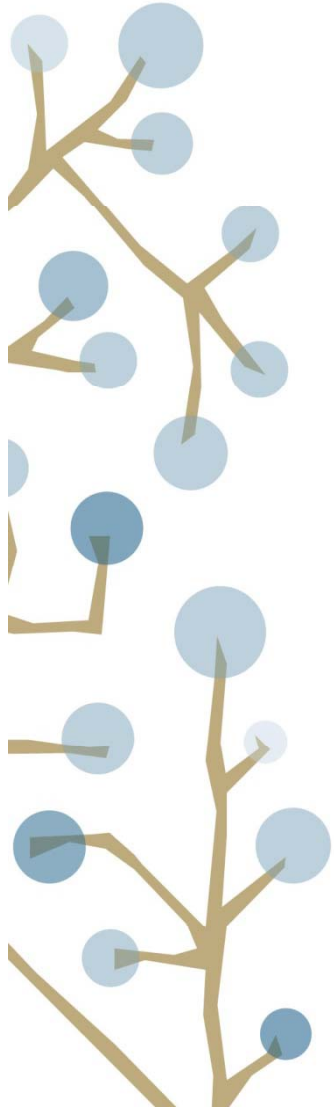
- Investment professionals - 44 in investment team, 90 in total
- Advise and support the Board
- Management of external investment managers
- All Melbourne based - investing globally

A major trend – where to next?

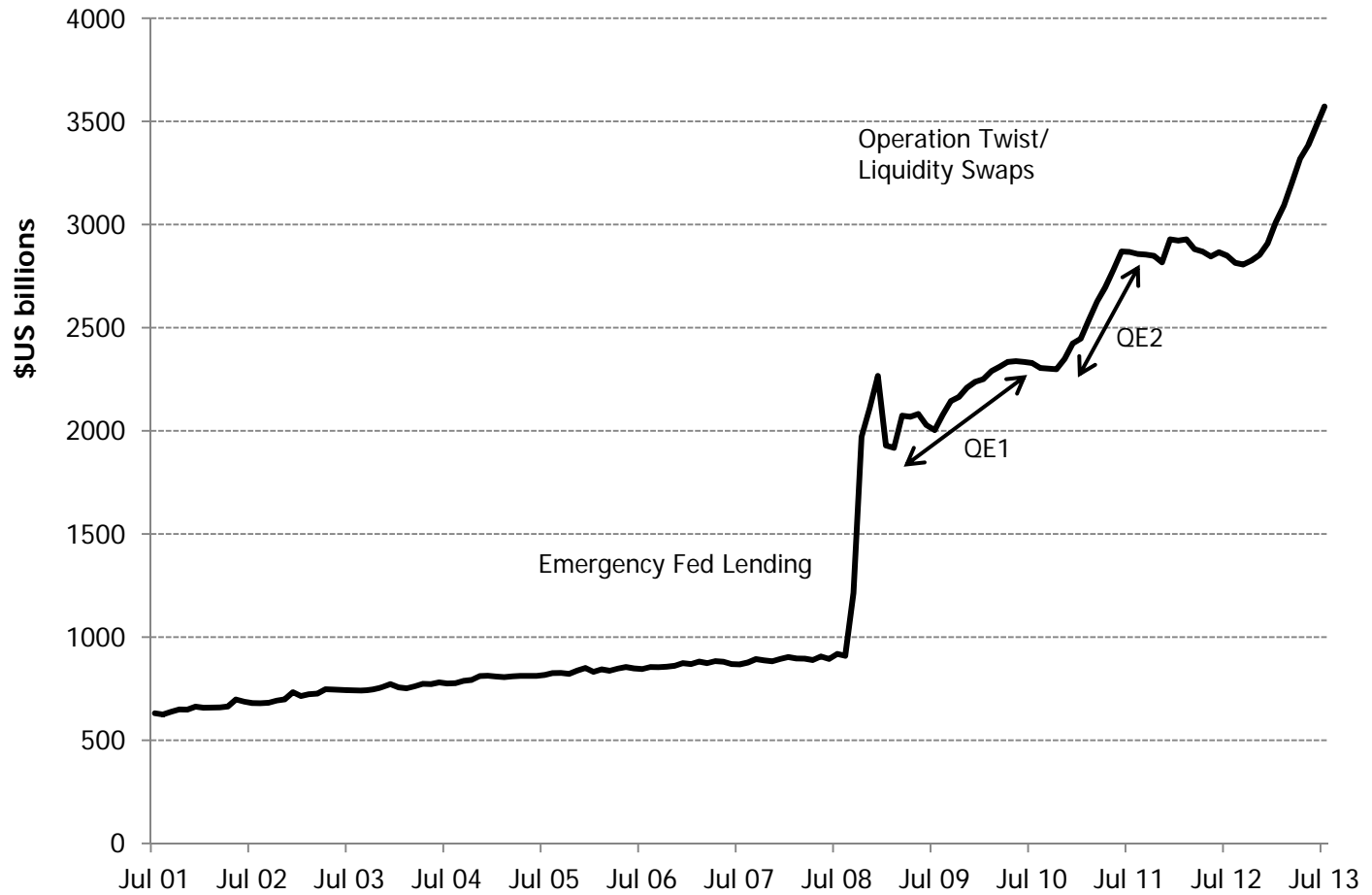


Source: Bloomberg

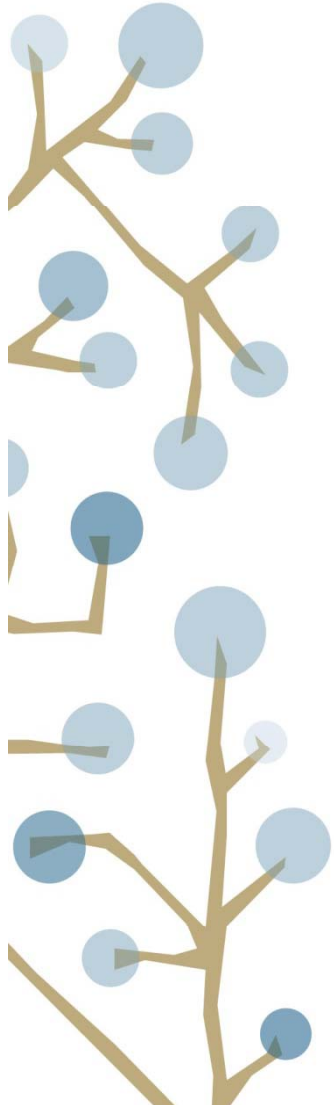
US Fed Balance sheet



The Federal Reserve's Balance Sheet



Source: Bloomberg



Some global observations – major themes

Search for yield

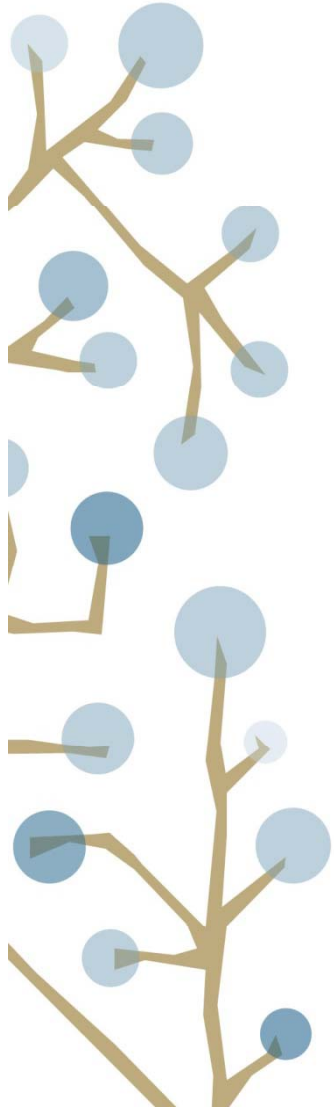
- Yield decline moved from government, to corporate and risk assets
- Results in a “one-time” increase in valuation
- Powerful influence on long-dated assets
 - Infrastructure
 - Equities
 - Property

Issues to consider from the decline in yield

- Strong performance may be a “one-time” benefit
- Needs future factors to drive capital values - growth
- Are assets becoming overvalued?
- Yield investors need to be careful

Determine your risk profile now

- Decide portfolio risk now
- Balance of risk and return



Other global themes – cross currents

Outlook for China and emerging market

- China in transition – moving to consumption driven economy
- Larger economy to manage

Increased global regulation

- Dodd Frank and EMIR regulatory change
- Reverse of long trend of deregulation post GFC

Fiscal position remains challenged

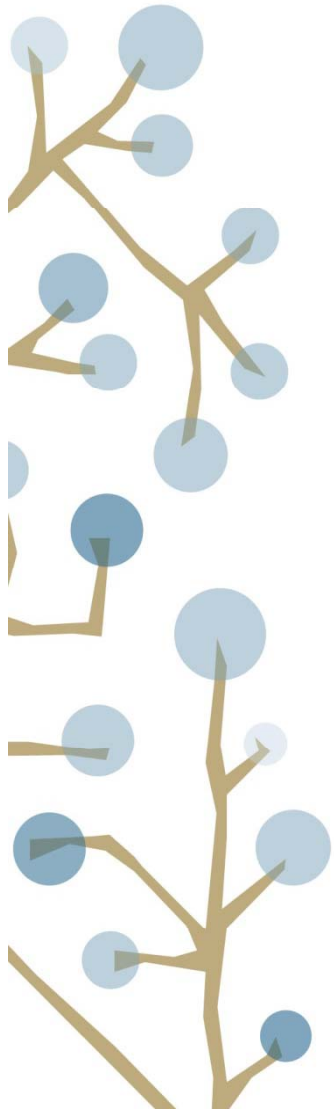
- Developed market requires fiscal change
- Some signs of improvement

Europe remains in disequilibrium – but some improvement

- Peripheral Europe under pressure but improving

Demographic are important

- Older populations in Japan, Europe and others
- Young populations in Middle East and some Emerging



Other global themes – cross currents (2)

Middle Class under pressure?

- Global competition in some areas
- Technology and other changes

Growth outlook is improving

- Growth generally improving
- But appears to be moderate going forward
- Support valuations if interest rates stay low
- Inflationary pressures are modest

When will monetary authorities take away the stimulus?

- US trying to prepare the market
- We believe authorities want to support growth

Future Fund investment process – some comments

Maximise returns but with “acceptable but not excessive risk”

- Must be a very good risk manager
- It is OK to get an investment wrong – but you must understand the risks

Have clear investment beliefs

We have thought about our beliefs carefully. Some examples:

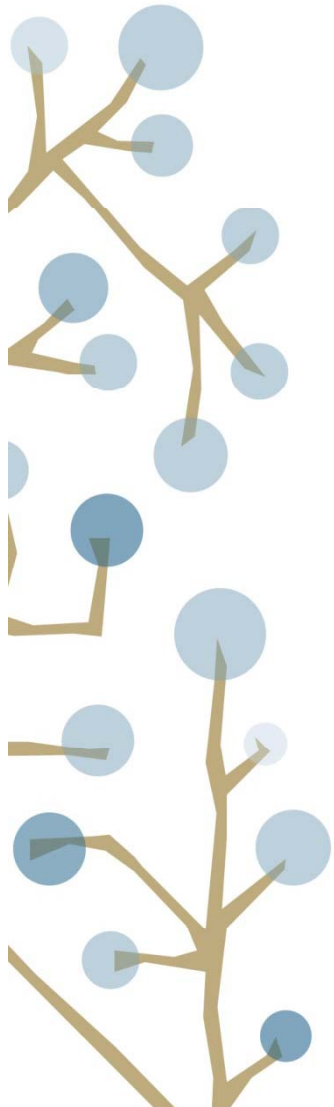
- Diversification
- Risks and returns relationships can change over time
- Long-term adds value

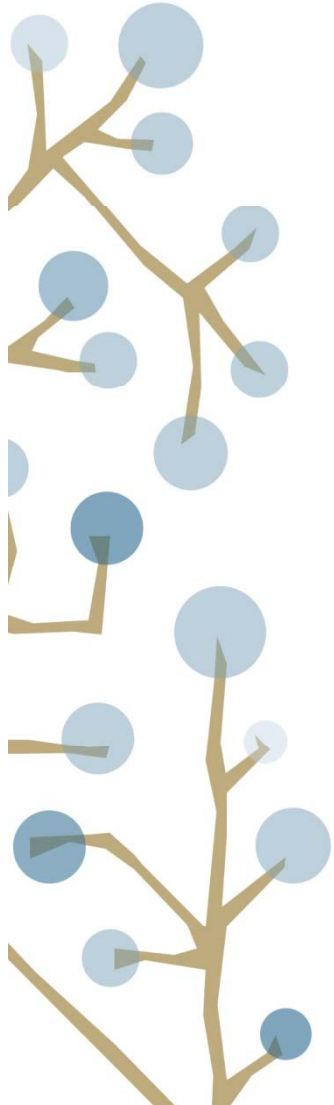
Set scenarios – test the portfolio

- Try to gain value throughout the cycle
- Construct the portfolio to be good in those environments

Be consistent in your investment approach over the cycle

- But be open to question your views
- Be innovative and inquiring





Approach to the structure is important

Good governance adds value

- Must be clearly defined structure
- Future Fund has very strong governance

People are critical

- Highly professional team - “one team, one portfolio”
- Right cultural fit
- We use external managers but our team adds significant value

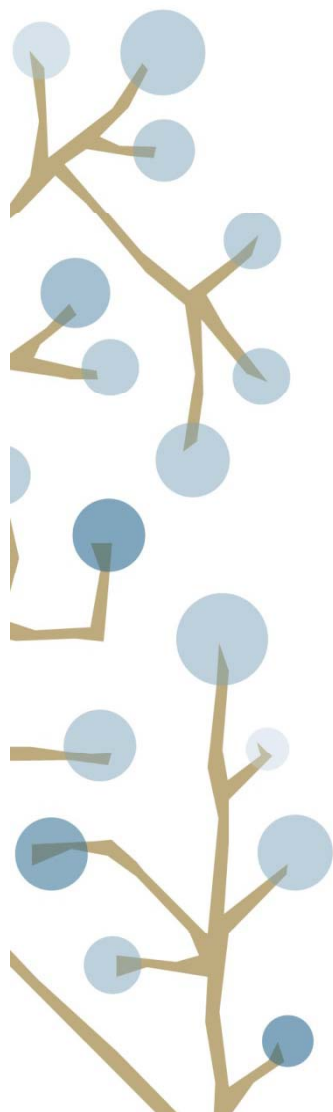
Our portfolio will look and behave differently

- 40% invested in equities
- Large infrastructure, private equity, property, alternatives exposure.
- Capturing returns while protecting assets
- Will perform differently as markets become “speculative”

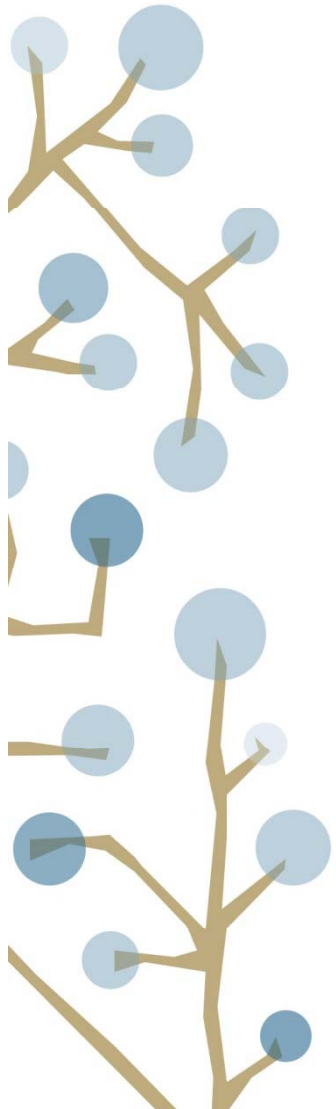
Relationships are important

- We work with global and local partners in long term investments
- Our stakeholders are critical

Future Fund's portfolio at 31 March 2013



Asset class	A\$ million	% of Fund
Australian equities	9,890	11.6
Global equities		
Developed markets	15,452	18.1
Developing markets	4,810	5.6
Private equity	5,764	6.8
Property	5,473	6.4
Infrastructure & Timberland	5,547	6.4
Debt securities	14,174	16.6
Alternative assets	13,060	15.3
Cash	10,996	12.9
Total Future Fund assets	85,166	100



Physical asset allocation

