

## **Statement by David Neal, Managing Director of the Future Fund, to the Senate Finance and Public Administration Committee**

Supplementary Budget Estimates, 20 November 2014, Parliament House, Canberra

I would like to take a few moments to update the Committee on a number of aspects of the Future Fund's operations.

I took up my position as Managing Director at the start of August and I am privileged to have the opportunity to contribute to the organisation in my new role.

The organisation and the portfolios for which we are responsible are performing well.

In October we released our portfolio update to the end of September 2014 and confirmed that the Future Fund returned 14.3% for 2013/14 adding \$12.7 billion to the value of portfolio.

With further growth in the first quarter of this financial year, the value of the Future Fund stood at \$104.5 billion at the end of September and has since grown to over \$105 billion.

Since May 2006 the Fund has produced a return of 7.3% per annum and is now meeting the benchmark return set in the Investment Mandate. Initial contributions received by the Fund were valued at \$60.5 billion and the Fund has added \$44 billion as a result of its investment returns.

While we are pleased with the Fund's performance, we continue to recognise that the return objective is a challenging one, and that to achieve it requires material investment risk to be taken.

We also recognise the importance of protecting the Commonwealth's capital and we work hard to achieve the required returns without exposing the Fund to undue potential for capital loss. We do this by constructing a global, diversified portfolio consistent with our mandate and global best-practice.

Earlier this month there was interest in the Future Fund's taxation arrangements. I think it is important to put a number of points on record:

- Under its legislation the Future Fund is not liable to pay income tax in Australia. It cannot minimise its Australian tax liability as it has no Australian tax liability.
- As a sovereign wealth fund the Future Fund is typically entitled to Sovereign Immunity when it invests overseas. In the vast bulk of its investments offshore, the Future Fund's Sovereign Immunity is recognised, just as Australia recognises the reciprocal rights to Sovereign Immunity when other sovereigns invest in Australia.
- The Future Fund invests through external investment managers and alongside other global institutional investors. This makes the use of subsidiaries and various jurisdictions necessary. The arrangements the Fund uses are conservative and transparent to all relevant tax authorities.

There has also been some interest in the matter of investing in companies with exposure to fossil fuels. Again, I make a couple of points:

- We are mandated to seek to maximise return with acceptable risk and we have constructed a diversified global portfolio accordingly.
- Our policy is that the Fund is able to invest in anything that is legal, or that doesn't contravene conventions and treaties that Australia has signed. The exception is tobacco which the Board considers to have its own unique characteristics that justify exclusion.
- Companies that produce fossil fuels are legal and the Board does not exclude them.

I reiterate to the Committee that the Fund is performing well and is well-positioned for the future.