



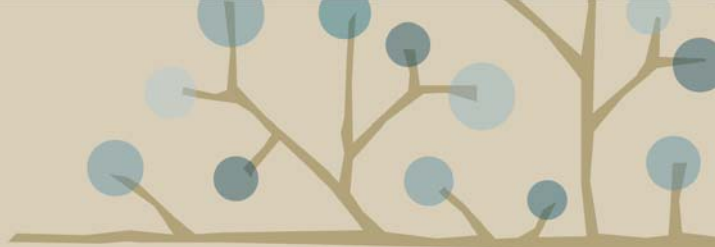
**Australian Government**

**Future Fund**

# Future Fund Statement Of Investment Policies

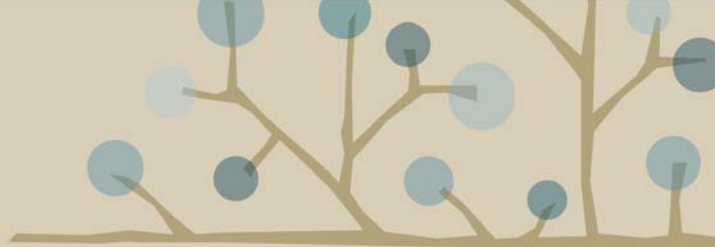
July 2007





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## 1. INTRODUCTION

### 1.1 Purpose

The Australian Government has stated that the Future Fund will be invested with the aim of accumulating financial assets sufficient to offset the Government's unfunded superannuation liabilities by 2020.

In line with this objective this document is intended to establish the framework set by the Future Fund Board of Guardians for the governance and management of the Fund by providing a statement of the policies that will be adhered to in investing Fund assets.

### 1.2 Legislative Requirements

**Section 15** of the Future Fund Act 2006 summarises the objective of the Board acquiring and investing financial assets as being to enhance the ability of the Commonwealth to discharge unfunded superannuation liabilities. The Board, under **Section 16**, may invest any amount standing to the credit of the Fund in any financial assets in the name of the Board. All income earned from these investments is to be credited to the Fund account.

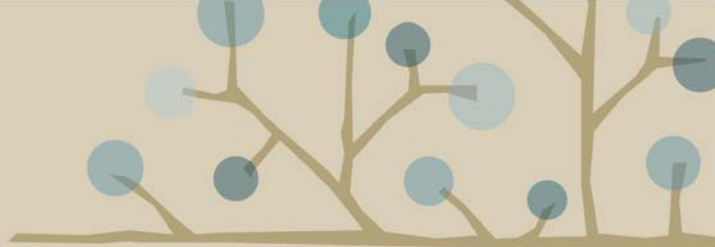
**Section 18** notes that the responsible Ministers may give the Board written directions about the performance of its investment functions and must give at least one such direction. In giving such directions the responsible Ministers must have regard to

- (a) maximising the return on the Fund over the long term consistent with international best practice for institutional investment; and
- (b) such other matters as the responsible Ministers may consider relevant.

**Section 24** of the Act requires the Board to formulate written policies to be complied with by it in relation to the following matters:

- a) the investment strategy for the Fund
- b) benchmarks and standards for assessing the performance of the Fund
- c) risk management of the Fund
- d) a matter relating to international best practice for institutional investment; and
- e) a matter specified in the regulations.

A copy of these policies must be published on the internet as soon as practicable. This document addresses the requirements as part of a broader statement about the operations of the Fund.



### 1.3 Investment Mandate

The first Investment Mandate Directions were issued by the responsible Ministers on 3 May 2006. These have not been superseded and form the basis of the investment mandate the Board is required to meet. These directions are summarised below:

*a) Benchmark return*

- The Board is to adopt an average return of at least the Consumer Price Index (CPI) plus 4.5% to 5.5% p.a. over the long term as the benchmark return on the Fund;
- During the transition period, as the Board develops a long term strategic asset allocation, a return lower than this benchmark is expected; and
- In targeting the benchmark return, the Board must determine an acceptable, but not excessive, level of risk for the Fund measured in terms such as the probability of losses in a particular year.

*b) Listed companies*

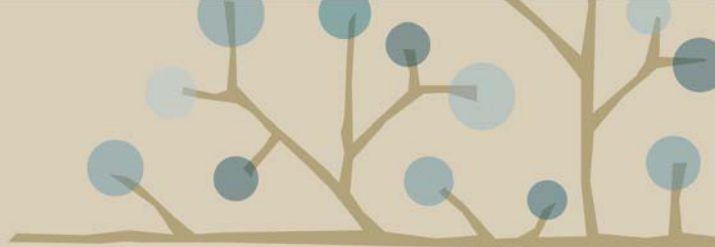
- The Board must establish a limit for holdings on a listed company in order to prevent a breach of the statutory limits imposed by sections 21 and 22 of the Act (i.e. not triggering a takeover under the Corporations Act 2001 and not holding a stake of more than 20% in a foreign listed company); and
- The Board must not acquire a direct holding of voting shares in Telstra Corporation Limited except as a result of a transfer of financial assets or a gift of financial assets by the responsible Ministers.

*c) Impacts from investment strategy*

- The Board must act in a way that:
  - minimises the potential to effect any abnormal change in volatility or the efficient operation of Australian financial markets; and
  - is unlikely to cause any diminution of the Australian Government's reputation in Australian and international financial markets.

*d) Corporate governance*

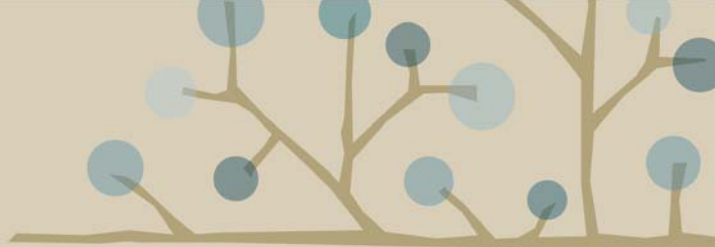
- The Board must have regard to international best practice for institutional investment in determining its approach to corporate governance principles, including in relation to its voting policy.



## 1.4 Review

This document is effective immediately on adoption by the Board and supersedes all previous versions.

It is recognised that it will be subject to regular review and amendment as the detail of the Fund's strategy is implemented. While the document will be formally reviewed at least once a year, in the early period of the Fund's development it will be updated more frequently. As policies are developed by the Board, they will be added. A history of the evolution of this document can be found in section 8.



## 2. INVESTMENT STRATEGY

### 2.1 Introduction

A common characteristic of successful investment organisations is that they are able to clearly define their investment objectives and articulate the principles that they will follow in seeking to achieve these. The following investment philosophy has been developed by the Board in considering the initial stages of the investment programme. It is recognised that this is not complete and it will be expanded as new issues are addressed and positions confirmed.

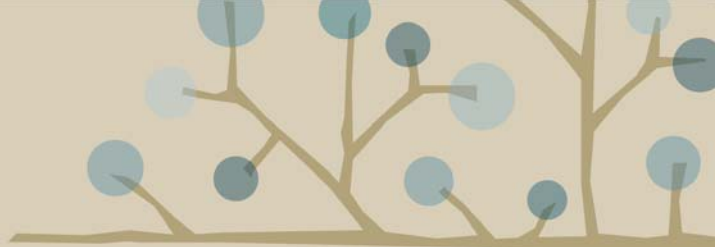
### 2.2 Investment Philosophy

#### ***2.2.1 We believe it is important to be very clear about our return objectives, tolerance for risk and the timeframes over which we will measure results.***

- a) We are investing for the long term. Until 2020, withdrawals may not be made from the Fund unless its value exceeds the Target Asset Level for the Fund. After 2020, average annual earnings are expected to offset a large part of annual withdrawals for many years. Accordingly a very long term focus is appropriate.
- b) Our objective is to maximise the return on the Fund and to generate at least 5% per annum above the inflation rate over rolling 10 year periods. Returns over a single year are not a particular focus for us and assessments about the probability of delivering on the long term objective are best made over at least rolling 5 year periods.
- c) While we will seek to benchmark the quality of our operations against high quality organisations around the world with similar objectives, the uniqueness of our mandate means we do not have any specific focus on comparing annual returns with other institutions.
- d) While the performance of the Fund after inflation is paramount, we will also be conscious of the performance against the official cash rate (reflecting the focus on excess return for risk) and against Australian Government 10 year bonds (reflecting the opportunity cost to Government of funding the portfolio whilst maintaining a debt market).

#### ***2.2.2 We believe that diversification reduces risk and we will take advantage of a wide range of market premia to improve the efficiency of the portfolio.***

- a) Combining a wide variety of lowly correlated assets to reduce volatility in returns is a key focus of our organisation and is one of the most important contributors to meeting the return objectives of the Fund.



- b) In particular, and cognisant of the implementation challenges, we will develop the necessary skills to be successful investors in private markets because we believe their inclusion will lower the overall risk that needs to be taken to generate the expected return.
- c) Different types of risks can be unbundled to make the portfolio more efficient (e.g. currency exposure from international assets and alpha from the underlying market exposure) and we will endeavour to measure the impact of each risk separately.

***2.2.3 We believe that while, in general, the average return to active management in public markets is zero before costs, there is value in pursuing additional returns from this source.***

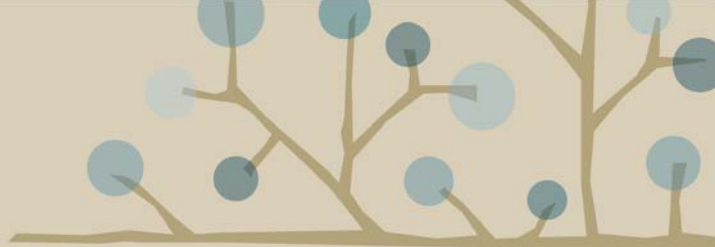
- a) While considerable skill is needed to consistently deliver excess returns (after costs) from active management, we believe we will be able to build this over time. Where we do not believe we can identify the required skills to capture excess returns in a particular market, we will not feel pressured to take on this risk.
- b) While close attention needs to be paid to both the explicit costs (manager fees) and hidden costs (transaction fees) of active management, we will focus on the expected after cost benefits. Simply operating the Fund at a very low cost is not an objective in itself.

## **2.3 Asset classes**

2.3.1 Investments can generally be divided into broad asset classes whose performance characteristics differ from other asset classes and within which securities share common characteristics. Broad diversification among asset classes is the cornerstone of modern portfolio management. The differing risk characteristics of various asset classes mean that a portfolio can be constructed so that the aggregate level of risk is less than the simple average of the risks of each asset class.

2.3.2 The Board has identified the following asset classes, excluding cash, for investment at this stage. This is not a comprehensive list of the sectors to which the Fund will build exposure but is expected to be the universe for the initial stage of the Fund's development.

- (a) global equities (ex Australia) comprising allocations to large/mid capitalisation, small capitalisation and emerging markets equities. These are defined as equity securities and securities convertible into equity securities of companies that are listed, or are shortly to be listed, on any recognised stock exchange.
- (b) Australian equities defined as equity securities and securities convertible into equity securities of companies listed, or shortly to be listed, on the Australian Stock Exchange. Voting shares in Telstra Corporation (other than shares transferred into the Fund under clause 6 of Schedule 1 of the Act in February 2007) are not permitted to be held.



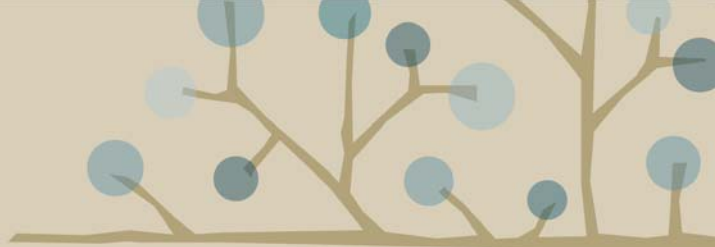
- (c) global fixed interest including sovereign debt (debt instruments denominated in foreign currencies that are issued or guaranteed by foreign governments or government agencies that are satisfactory to the Board) and non-sovereign debt (debt instruments denominated in foreign currencies that are issued or guaranteed by non-government agencies that have debt ratings, as rated by a recognised international rating agency, satisfactory to the Board).
- (d) Australian fixed interest comprising sovereign debt (debt instruments issued or guaranteed by the Australian Commonwealth Government or government of a state of the Commonwealth of Australia) or corporate debt (debt instruments in Australian dollars that are issued or guaranteed by non-government agencies that have debt ratings, as rated by a recognised international rating agency, satisfactory to the Board).
- (e) property comprising Australian and international unlisted assets and listed property securities. This is defined as land and premises built on land held in conjunction with other investors in pooled vehicles, which may be listed on an approved stock exchange or owned privately.
- (f) private market assets which have less liquidity than, and/or are lowly correlated with, listed securities. These include Australian and international private equity, infrastructure, timber and other commodities.
- (g) commodities futures comprising a broad basket of futures prices for frequently traded commodities such as metals, crude oil or grain, that trade on an exchange. Exposure is usually achieved through futures contracts or other derivative instruments.

The Fund may be invested in other asset classes or in specific sub-categories of the asset classes listed above in the future.

## **2.4 Asset Allocation**

The Board has determined an initial target asset allocation that, in its view and on the basis of professional advice received, best meets its statutory obligation to maximise return to the Fund by taking appropriate but not excessive risk.

Recognising the potential impact that the Fund's initial investment activity might have on Australian financial markets, and the direction under the Investment Mandate to minimise the potential for any abnormal change in the volatility or efficient operation of these markets, the Board has resolved not to publicly communicate the nature of this target asset allocation nor the timeframe over which it is being built. In addition, the Board has settled on a strategy to manage the foreign currency exposure which comes with the purchase of international assets. The level of hedging back to Australian dollars of this exposure is also not presently being made public.



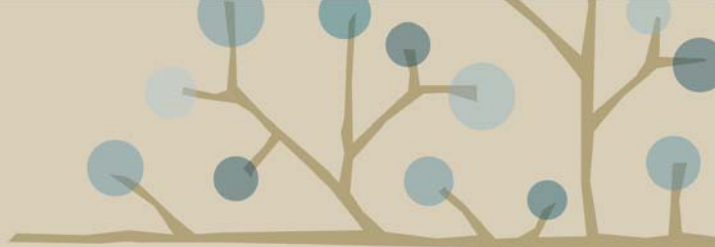
Once the transitional investment arrangements are materially progressed, and the likelihood of causing any change in efficient operation of Australian financial markets has passed, the Board's broad strategic asset allocation will be released.

## **2.5 Telstra shareholding**

2.5.1 Following the Telstra 3 share offer and the transfer to the Fund of the Australian Government's remaining shares, the Future Fund received approximately 2.1 billion shares which is equivalent to around 17% of the issued capital. The Board is restricted from reducing this holding (subject to some limited exceptions detailed in the Ministerial Direction of 28 February 2007) until November 2008.

2.5.2 The Board's intention is to deal with this holding in a manner that:

- is consistent with the escrow directions and the investment mandate given to the Board by the responsible Ministers;
- gives consideration, if appropriate, to the rights attaching to the shares;
- takes into account the Board's view of Telstra's performance and prospects; and
- reflects the market and other considerations prevailing from time to time.



### **3. PERFORMANCE BENCHMARKS**

#### **3.1 Introduction**

Benchmarks are a tool against which to measure the effectiveness of investment strategy either at a whole of Fund level, at an asset class level or at a manager level. The general principle of benchmarks at an asset class level is that they should be replicable – that is, it should be possible to create a portfolio of securities which mirrors (or at least very closely resembles) the universe of securities which comprise the sector. This benchmark should provide an effective way of measuring the skill with which managers within that class have been combined to add value.

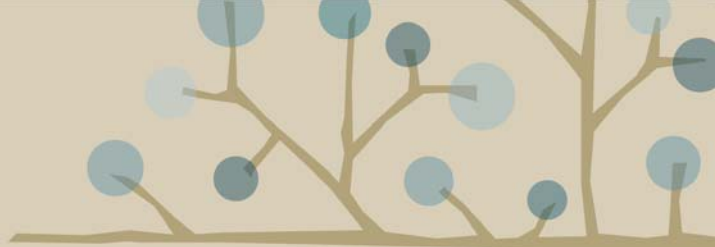
At the manager level, benchmarks provide an effective way of measuring the skill with which the manager selects securities within the portfolio being managed. As a general rule, manager benchmarks should as closely as possible reflect the universe of securities (appropriately adjusted for style biases) that the manager selects securities from. It must be noted, however, that if the 'long-only' or single sector constraints on a manager are relaxed, it can be more appropriate to measure performance against an absolute return benchmark rather than the underlying exposure. It is expected that both types of benchmarks will be used in the Fund to measure the success of active management of the portfolio.

#### **3.2 Fund Performance Benchmark**

The benchmark for the performance of the Fund as a whole is set down in the Investment Mandate Directions dated 3 May 2006. These require the adoption of an average return of at least the Consumer Price Index (CPI) plus 4.5% to 5.5% per annum over the long term as the benchmark return on the Fund. In targeting this return the Board is required to determine an acceptable but not excessive level of risk for the Fund.

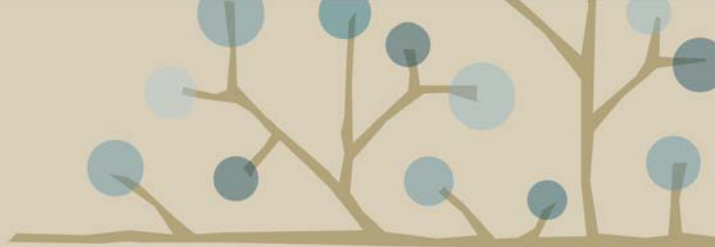
The Board has interpreted the directions to mean that in maximising the return it should target an average real return of at least 5% per annum (being the mid point of the range). This will be measured over rolling 10 year periods reflecting the investment horizon of the Fund. Specifically, the investment return over a single year is not a particular focus and the Board believes that assessments about the probability of delivering on the long term objective are best made over at least rolling 5 year periods.

Under section 30 of the Future Fund Act, Australian income tax is not payable by the Fund.



The Investment Mandate Directions of 3 May 2006 envisage a period for the portfolio to be substantially transitioned from cash to market linked assets before assessment against the benchmark commences. Recognising the lower level of risk in the portfolio (given the high cash component) than will be normal over the long term, the return is expected to be commensurately lower. The Board has suggested that the period until the commencement of the 2008/9 financial year (ie until 30 June 2008) be regarded as the 'initial transition period' for the purposes of the mandate. It is important to stress that this should not be interpreted as the period over which the portfolio will be built. This period is not being disclosed at this stage.

In reporting performance against the benchmark the Board intends to clearly distinguish between the performance of the Telstra portfolio and the performance of the broader portfolio.



## 4. RISK MANAGEMENT

### 4.1 Introduction

The investment mandate requires the Board, in investing the Fund, to have regard to maximising return over the long term and taking appropriate but not excessive levels of risk. In general the investment strategy adopted by the Fund, and in particular the mix of growth versus income assets, will have a dominant influence on the returns generated. Investment strategy is primarily influenced by the investment objectives of the Fund and the time horizon over which these are to be achieved.

The Board's objective is to maximise return to the Fund as a whole within agreed risk parameters and to deliver an average return of at least CPI plus 5% per annum measured over rolling 10 year periods.

In accepting the investment objective set by the responsible Ministers for the Fund, the Board acknowledges that this means that a significant proportion of the Fund will need to be held in assets carrying market risk. This means there will be considerable volatility of returns over shorter periods. The Board's policy is that the mix of assets within the Fund should be as efficient as possible (that is, should offer the highest level of return for an acceptable level of risk).

### 4.2 Investment Risk

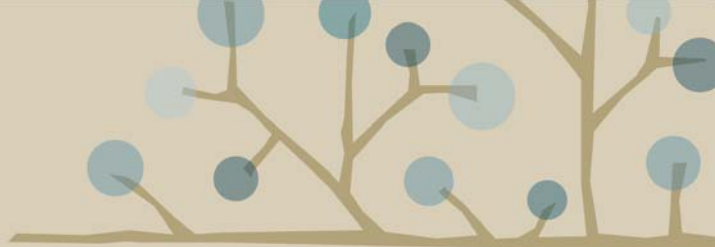
#### 4.2.1 Sources of Investment Risk

In seeking to maximise returns the Board is mindful of the inherent risks. Those risks are considered because they offer a reasonable expectation of compensation in the form of returns above the inflation rate ("excess returns") over the time horizon of the Fund. Risks accepted in order to pursue the investment objective fall into five categories:

*a) Market Risk*

The Fund holds exposure to a wide range of assets which the Board expects will produce returns divergent from, and superior to, the **risk-free rate** over the long term. Principal exposures include:

- broad equity market risk, both globally and in Australia;
- currency exposure – this includes risks of both the Australian dollar and the foreign currencies in which a portion of the Fund's assets are held;
- default and credit migration risk within the fixed income assets;



- non-uniform performance within broad asset markets (e.g. divergence in returns by sector, geographic region, growth vs. value styles, and large vs. small stocks); and
- return uncertainties within the property and private market asset investments.

*b) Manager Risk*

The requirements on the Fund's external managers to deliver superior returns also entail some risks. In particular, appointed managers may exceed or fall short of the objectives set for them by the Board. Market returns (beta) and manager performance (alpha) should be largely independent (i.e. performance of a manager relative to the broader market should not be impacted by the performance of that market itself).

*c) Credit Risk*

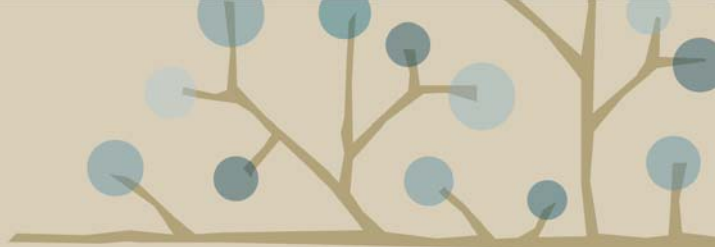
Credit risk (or counterparty risk) is the risk of default by the counterparty to a particular transaction. Credit risk is managed by requiring managers of fixed interest investments to:

- ensure the average credit quality within the manager's portfolio is within agreed guidelines;
- that exposure to different tiers of credit (including unrated debt) are within agreed guidelines;
- the maximum permitted exposure to any one issuer is within agreed guidelines; and
- the long-term debt of all entities in which the manager invests is either rated by an approved recognised rating agency or, if it is not-rated, is constrained to the maximum permitted exposure to such debt.

*d) Liquidity Risk*

Liquidity risk is the risk that a security cannot be sold when required or the price achieved is significantly different from the quoted price. Because of the long-term nature of the Fund, this is not a particular focus at this time. Should a requirement for liquidity be introduced ahead of the current schedule, this will be prioritised. Liquidity risk is generally managed by:

- requiring managers to invest primarily in securities traded on recognised exchanges with specified maximums for unlisted securities;
- requiring managers, within the terms of their individual contracts, to hold diversified portfolios; and
- limiting the credit rating of all fixed interest investments to minimum levels.



#### e) *Currency Risk*

Currency risk is the risk that the foreign currency denominated assets will lose value due to the effect of an unexpected and adverse exchange rate movement. Currency risk is managed by:

- establishing a foreign currency hedging policy for the portfolio;
- specifying the bounds within which each manager may take on currency exposures relative to their benchmark; and
- engaging one or more currency execution agents to transact the Fund's foreign exchange transactions, including both spot and forward transactions, at the most favourable rate.

The instruments managers may use, and the credit worthiness of the counterparties, are detailed in the investment management agreements with respective managers. Any forward contracts entered into must be with entities that have an appropriate credit rating as determined by an international credit rating agency for counterparty risk and appropriate contractual arrangements must be in place between the currency manager and the counterparty.

#### 4.2.2 Managing Investment Risk

These risks will be managed by:

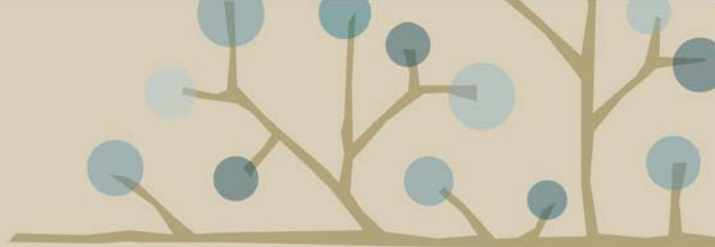
- (a) adopting an appropriate risk profile that is commensurate with the return objective and time horizon of the Fund. That risk profile is determined after careful analysis of the prospective risk and return characteristics of each asset class in which the Fund might invest;
- (b) avoiding concentration of risk by ensuring there is adequate diversification between and within asset classes;
- (c) careful selection and monitoring of managers to ensure there is sufficient confidence that each manager warrants the allocation of active risk to them;
- (d) monitoring the composition of the portfolios of active managers to ensure that there are no unintended biases away from the intended investment strategy; and
- (d) careful measurement and management of both market and active manager risk.

### 4.3 Operational Risk

#### 4.3.1 Sources of Operational Risk

While the main focus of the Board is the most efficient combination of asset classes to optimise the return for market risk, operational risk also needs to be managed. Operational risk is the risk of financial loss due to mismanagement, error, fraud or unauthorised use of techniques and/ or financial products.

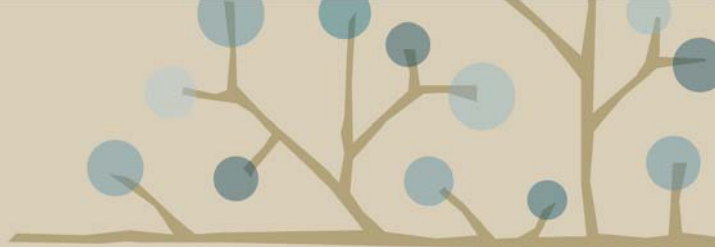
The Board acknowledges that the quality of its operational risk management procedures must be of best-practice standard. It is committed to achieving this and will continue to evolve and enhance its policies over time.



#### 4.3.2 Managing Operational Risk

Operational risk is managed by:

- (a) engaging an independent global custodian to separate the investing function (undertaken by the investment managers) from the transaction settlement, recording and reporting of investment activities (undertaken by the global custodian);
- (b) requiring investment managers and the custodian to:
  - i. provide the Board with third party covenants or assurances against these events;
  - ii. have in place insurance arrangements to cover claims in those events; and
  - iii. have in place, and regularly confirm the existence and efficiency of, internal policies and controls to address those risks;
- (c) establishing a system of compliance reporting by investment managers and the custodian to the Board;
- (d) establishing an Audit Committee of the Board, with responsibility for recognising and controlling operational risk; and
- (e) establishing an effective business continuity plan in conjunction with the custodian.



## 5. BUSINESS MODEL

### 5.1 Introduction

This section describes how the Board has structured the operation of the Fund and which activities will be managed internally rather than be outsourced to external managers and advisors. It also sets out the broad criteria the Board considers when choosing external investment managers and advisors.

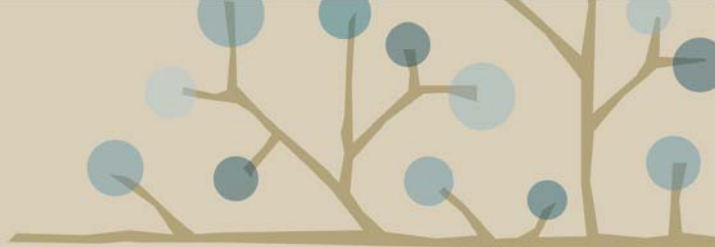
The Board is charged with overall governance responsibilities for the investment of the Fund. The Board's core focus is the development of an investment strategy which takes full advantage of the Fund's characteristics and executing this through partnerships with high-quality and closely aligned organisations.

The starting position is that the Board will not seek to duplicate services which are efficiently provided through the competitive marketplace. This means the Board and management will concentrate on building competence in differentiating between potential providers, carefully selecting partners, and closely monitoring their provision of services to ensure the Board's objectives are met.

Roles will be undertaken internally where the Board forms the view external suppliers cannot meet the organisation's specific needs. The quality and cost of an outsourced service are the benchmarks against which these opportunities to build internal capacity will be judged.

The Board has determined that an appropriately resourced management team within the Future Fund Management Agency is essential to ensure the Fund is managed according to best-practice standards. Management's role includes the following:

- provision of policy advice to the Board, in conjunction with external advisors;
- making recommendations to the Board on the appointment of external investment managers;
- monitoring and reporting the performance of the investment portfolio;
- monitoring the ongoing suitability of appointed investment managers;
- managing the relationship with the Fund's custodian and other specialist service providers in our outsourced back office;
- managing the financial reporting of the Fund
- providing a risk management and compliance framework for the Fund including legal risk; and
- managing communication with stakeholders and external audiences.



## 5.2 Board Committees

The Board has appointed an Audit Committee to oversee the establishment of the compliance and audit functions, reviewing key financial statements and the evaluation of the adequacy and effectiveness of the risk management plan.

## 5.3 External Investment Managers

The Act provides that, in the normal course of business, the Board must not invest fund assets unless it does so through an investment manager engaged by the Board. Selection of these managers may take into account the following general criteria, as well as specific criteria relevant to each appointment:

- (a) the extent to which the manager demonstrates a sustainable competitive advantage over their competitors in their specialist area;
- (b) the fit between the manager's style and investment process and the investment objectives of the Fund;
- (d) the strategies employed by the manager to control operational and financial risk in their organisation; and
- (e) the expected fees.

Before a recommendation to the Board to appoint a manager is made, the management of the Fund (in conjunction with advisors as appropriate) will undertake a thorough and objective review of the potential managers for the relevant mandate and present a report setting out the relevant characteristics of the manager and the reasons why their appointment is favoured.

In determining the allocation of capital to a manager, the relevant issues will be:

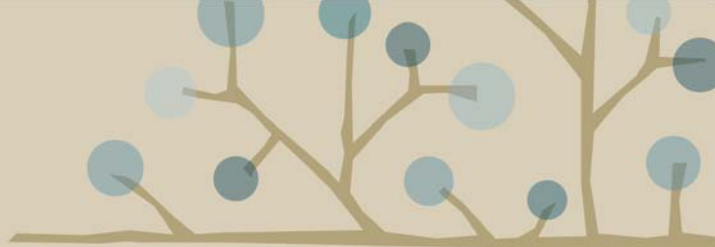
- (a) the proportion of the Fund allocated to the specific asset class for which the manager is appointed considered in conjunction with the proportion of active risk to be allocated to that asset class;
- (b) the desired level of active management risk to be allocated to the manager; and
- (c) the capacity of the manager to take on additional assets.

Managers will be appointed under an investment management agreement prepared in conjunction with the Fund's legal advisors and reviewed by the General Counsel. The schedules to the agreement will clearly specify the guidelines for the mandate as well as the reporting requirements on the manager.

## 5.4 External Advisors

The Board may appoint advisors in a number of areas including:

- (a) investment policy, including asset allocation, manager research, specialist asset classes;
- (b) legal, including advice on the statutory obligations of the Fund and assistance with contract negotiations with external parties;

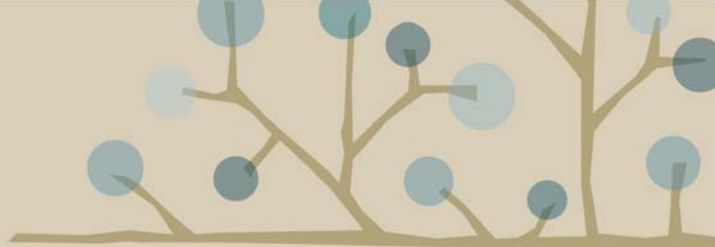


- (c) tax, including ensuring the tax obligations of the Guardians and the Fund are met and advising on the tax implications of particular investment structures (especially offshore); and
- (d) audit, including advice on ensuring that the management controls in place within the Guardians and around the Fund are of sufficient standard.

Selection of advisors for these roles will take into account, among other criteria specific to the role:

- (a) demonstrated commitment to best-practice portfolio management;
- (b) the skills and experience the advisor brings to the role;
- (c) the substance and viability of the advisor; and
- (d) the costs that can be expected to be incurred.

The Board recognises, however, that in selecting advisors it needs to balance the benefits of a wide market search against the need to develop and implement strategy without alerting other market participants to its plans. Particular emphasis will be placed on objectively selecting advisors whose business models and approach are highly aligned with the Board's interests and who are willing to assist the Fund to develop internal competency in the relevant specialist area.



## **6. DERIVATIVES**

### **6.1 Introduction**

Derivatives are financial instruments whose value and marketability are derived from, or linked to, the value of an underlying security, commodity or index that represents either direct ownership of an asset or the direct obligation of an issuer, otherwise known as the physical instrument. Derivatives include a wide assortment of instruments and include futures, swaps, forwards, warrants and all forms of options.

Section 25 of the Act permits the Board to acquire a derivative for the purpose of:

- a) protecting the value of an investment of the Fund (other than a derivative);
- b) protecting the return on an investment of the Fund (other than a derivative);
- c) achieving indirect exposure to financial assets (other than derivatives); and
- d) achieving transactional efficiency,

but prohibits the use of derivatives for speculation or leverage.

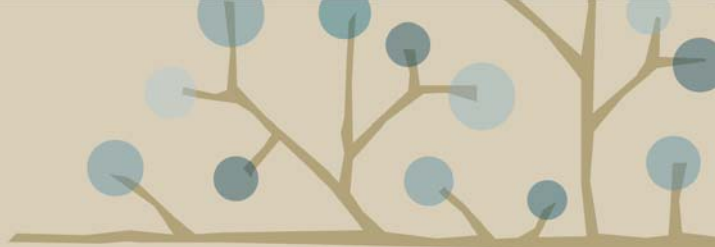
### **6.2 Policy**

The use of derivatives is subordinate to the investment strategy and must be consistent with the objectives of the investment strategy. Their permitted use may include the following:

- (a) to manage risk or hedge against movements in interest rates, values or prices in relation to permitted investments and movements in foreign currency exposures held within the Fund;
- (b) to achieve or reduce exposure to assets, all or part of any asset class and foreign currency; and
- (c) to achieve transactional efficiency or reduce the transactional cost of achieving required exposures.

Derivatives will not be used for investment activity where derivative exposure combined with physical exposure results in a net exposure for that asset class or the portfolio as a whole which is inconsistent with the investment strategy. All derivatives must be in the form of a derivative over the same asset class as the physical instrument.

External managers may be permitted to use derivatives in pursuit of excess returns or to provide market exposure provided such use is consistent with the investment guidelines given to the manager as long as the Board is satisfied the manager has the necessary risk controls in place to ensure their prudent use. This will be specified in the agreement with each appointed manager.



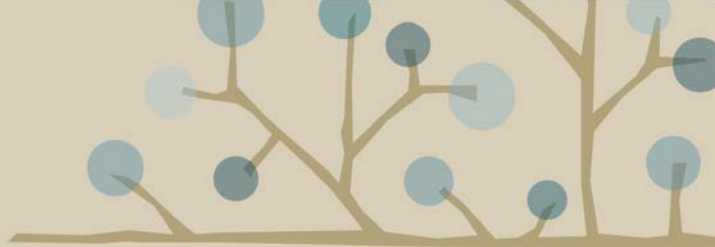
The value of derivative positions measured on an effective exposure basis must not result in portfolio liabilities exceeding portfolio assets. The effective duration of any derivative positions will be taken into account when determining compliance with the duration limits of fixed interest portfolios. The effective exposure of any derivative positions will be taken into account when determining compliance with portfolio exposure limits.

### **6.3 Controls**

Derivative contracts held will be valued using a mark-to-market methodology, unless otherwise specifically approved. Revaluations will be undertaken on a regular basis.

Appropriate contractual arrangements (for example, an ISDA master agreement) must be in place between the investment manager (or, as the case may be, the Board) and the counterparty in a form satisfactory to the Board.

Each investment manager is required to have in place appropriate risk management policies and procedures, in a form satisfactory to the Board. Each manager is required to provide the Board with a copy of its current policies relating to derivatives usage and to manage its derivative exposures in accordance with those policies.



## **7. VOTING POLICY**

### **7.1 Introduction**

The Board recognises that a significant component of the value of equity securities lies in their voting rights and that the exercise of those rights is an important aspect of the Fund's ability to create value in the management of the equity portfolio component of its investment portfolio.

The Board will exercise its shareholder rights as a prudent investor seeking to maximise investment returns over the long term, while minimising risk of loss. Voting at meetings and discussions with companies will be undertaken responsibly consistent with international best practice for institutional investment. While seeking to protect and enhance the investment value of the Fund's assets, the Board recognises the strong link between good corporate governance and investment value.

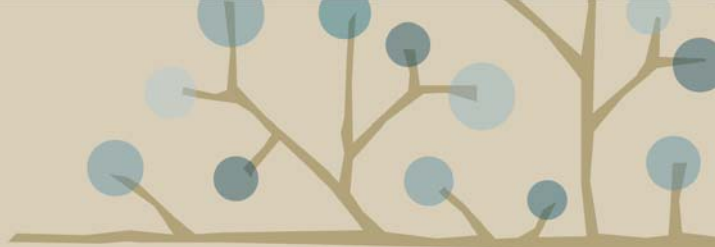
The development of a comprehensive policy on how the Board will manage its voting rights in relation to its broader portfolio, both in Australia and internationally, will be undertaken during 2007.

In the interim, the policy is that the exercise of voting rights will be delegated to the Fund's appointed investment managers. The Board may withdraw this delegation at any time and may, in specific circumstances, direct the custodian on how a vote should be exercised irrespective of the manager's position.

The proxy voting policies of investment managers will be reviewed as part of the due diligence process and managers will not be appointed unless their proxy voting policies have been assessed as appropriate by the Fund.

This section of the document will be updated when the voting policy has been finalised.

The Board will manage its voting rights in relation to Telstra shares in line with the approach detailed in section 2.5.



## 8. VERSION CONTROL

This is the first version of this Statement of Investment Policies. All subsequent versions, and the main changes made, will be recorded here.

<b>Version Number</b>	<b>Date Approved by Board</b>	<b>Brief Description of Amendments</b>
1	12 July 2007	Initial document