

FSC DELOITTE LEADERSHIP LUNCH

THE FUTURE FUND AND THE IMPACTS OF THE GLOBAL ECONOMY

INTRODUCTION

I AM VERY PLEASED TO BE WITH YOU TODAY AND MOST GRATEFUL TO THE FINANCIAL SERVICES COUNCIL FOR OFFERING ME THE OPPORTUNITY TO TALK WITH YOU ABOUT THE FUTURE FUND AND ITS POSITIONING IN TODAY'S ENVIRONMENT.

IT IS SIX YEARS SINCE THE FUTURE FUND MADE ITS FIRST INVESTMENT IN EQUITY MARKETS. IT HAD ASSETS OF \$52 BILLION IN THOSE DAYS. TODAY, THE FUTURE FUND IS INVESTED IN A DIVERSE RANGE OF ASSET CLASSES AND HAS GROWN TO OVER \$85 BILLION. THIS WAS ACHIEVED WITH FURTHER GOVERNMENT

CONTRIBUTIONS TOTALLING \$11 BILLION IN THE 2007-08 FINANCIAL YEAR AND A RETURN OF 5.6% PER ANNUM ON CAPITAL INVESTED OVER THE SIX YEAR PERIOD.

IT IS TIMELY TO PROVIDE A REMINDER OF THE FUND'S PURPOSE AND CHARACTERISTICS AND DISCUSS HOW AND WHY THE FUND HAS GROWN IN THE WAY IT HAS. I WOULD THEN LIKE TO TURN TO SOME OF THE THEMES THAT I THINK ARE CENTRAL TO HOW THE FUND OPERATES TODAY AND IN THE YEARS AHEAD AND WHICH I BELIEVE ALSO HAVE RELEVANCE TO THE INVESTMENT SECTOR AND TO BUSINESS MORE GENERALLY.

ABOUT THE FUTURE FUND

LET ME START WITH THE FUTURE FUND'S PURPOSE. IT IS TO HELP MAKE PROVISION FOR THE COMMONWEALTH'S UNFUNDED PUBLIC SECTOR

SUPERANNUATION LIABILITIES. ITS CREATION REFLECTED THE NEED TO MAKE PROVISION FOR THESE LIABILITIES IN LIGHT OF AN AGEING POPULATION THAT IS LIKELY TO PUT SIGNIFICANT PRESSURE ON THE COMMONWEALTH'S FINANCES.

IN SETTING UP THE FUND, THE GOVERNMENT ESTABLISHED A BOARD OF GUARDIANS WITH RESPONSIBILITY FOR INVESTING THE FUND AND A SEPARATE MANAGEMENT TEAM (KNOWN AS THE AGENCY) TO ADVISE AND SUPPORT THE BOARD AND TO IMPLEMENT THE INVESTMENT STRATEGY.

THE LEGISLATION ESTABLISHED THAT THE FUND WOULD OPERATE AT ARMS' LENGTH FROM GOVERNMENT AND THAT THERE WOULD BE NO WITHDRAWALS FROM THE FUND UNTIL 2020, UNLESS THE FUND'S BALANCE MATCHED THE COMMONWEALTH'S SUPERANNUATION LIABILITIES IN

ANY ONE YEAR BEFORE THEN. IT ALSO PRESCRIBED A FORMULA FOR THE AMOUNT THAT CAN BE WITHDRAWN THEREAFTER WHICH IS EFFECTIVELY AN AMOUNT LIMITED TO THE EXPECTED GOVERNMENT CONTRIBUTION TO BENEFIT PAYMENTS FOR THAT YEAR.

(I SHOULD MENTION AT THIS POINT THAT THE GOVERNMENT IS NOT OBLIGED TO WITHDRAW ALL OR ANY OF THE AMOUNT PERMITTED TO BE TAKEN FROM THE FUND AND WHETHER IT DOES OR NOT ON PRESENT VALUATIONS THE FUND WILL CONTINUE FOR MANY YEARS AFTER 2020.)

INVESTMENTS BY THE FUND ARE REQUIRED TO BE MADE THROUGH EXTERNAL MANAGERS AND IT WAS PRESCRIBED IT MUST CARRY OUT ITS ACTIVITIES WITH REGARD TO INTERNATIONAL BEST PRACTICE FOR INSTITUTIONAL INVESTMENT.

THE GOVERNMENT HAS THE RIGHT TO PROCLAIM MANDATES FOR THE BOARD AND THE CURRENT AND ORIGINAL MANDATE SET A TARGET BENCHMARK RETURN FOR THE FUND OF CPI +4.5 TO 5.5% PER ANNUM OVER THE LONG TERM WITH INSTRUCTIONS THAT THE FUND TAKE ACCEPTABLE, BUT NOT EXCESSIVE RISK.

CHARACTERISTICS AND IMPLICATIONS

A NUMBER OF IMPORTANT POINTS FLOW FROM THE BARE BONES DESCRIBED ABOVE.

THE FUTURE FUND'S RETURN TARGET IS A CHALLENGING ONE AND SO WE ARE REQUIRED TO BUILD A PORTFOLIO OF SOMEWHAT RISKY ASSETS IF WE ARE TO ACHIEVE OUR MANDATED RETURNS.

IT IS WORTH NOTING THAT TO MANY THE RETURN OBJECTIVE INHERENT IN THE MANDATE SEEMED A

GOOD DEAL EASIER WHEN IT WAS SET IN 2006 (WHEN THE CASH RATE WAS AROUND 6% AND HEADING TOWARDS 7% AND INFLATION WAS AROUND 3.5%) THAN IT APPEARS TODAY. NEVERTHELESS, WE REMAIN FOCUSED ON ACHIEVING IT AND INDEED OVER THE LAST THREE YEARS THE FUND HAS RETURNED 8.1%PA - WELL ABOVE THE REQUIRED LONG-TERM BENCHMARK.

AT THE SAME TIME, OUR RISK TOLERANCE IS FOR ACCEPTABLE BUT NOT EXCESSIVE RISK WHICH MEANS THAT, FOR REASONS OF BOTH RISK AND RETURN, DIVERSIFICATION - ACROSS ASSET CLASSES, GEOGRAPHIES AND ECONOMIC FACTORS – IS A CENTRAL TENET OF OUR INVESTMENT APPROACH.

I WILL RETURN TO HOW WE THINK ABOUT RISK AND RETURN IN A LITTLE MORE DETAIL LATER.

WE ARE CONSCIOUS THAT OUR TARGET IS BASED AGAINST AUSTRALIAN INFLATION AND THE GOVERNMENTS OBLIGATIONS FOR WHICH THE FUND WAS ESTABLISHED ARE IN AUSTRALIAN DOLLARS SO INVESTMENTS THAT OFFER RETURNS THAT ARE RELATED TO AUSTRALIAN INFLATION AND ARE IN AUSTRALIAN DOLLARS SUCH AS AUSTRALIAN INFRASTRUCTURE, CAN BE PARTICULARLY ATTRACTIVE.

MANY OF YOU WILL BE AWARE THAT EARLIER THIS YEAR THE FUND ADDED SIGNIFICANTLY TO ITS AUSTRALIAN INFRASTRUCTURE PORTFOLIO BY INCREASING ITS STAKE IN MELBOURNE AND LAUNCESTON AIRPORTS AND ACQUIRING NEARLY 30% OF PERTH AIRPORT. THE TRANSACTION SAW US DEPLOY NEARLY \$1 BILLION AND WE LOOK FORWARD TO CONTINUING TO CONTRIBUTE TO THE DEVELOPMENT AND GROWTH OF THOSE ASSETS.

OF COURSE, WHILE AUSTRALIA CAN BE PARTICULARLY ATTRACTIVE TO US, WE MUST ALSO LOOK TO THE ATTRACTIVE OPPORTUNITIES OFFSHORE. THIS REQUIRES US TO THINK HARD ABOUT OUR CURRENCY EXPOSURES. AT THE FUND WE HAVE THE VIEW THAT WE SHOULD OPERATE A HEDGING PROGRAM. THROUGH HEDGING THE 70% OFFSHORE EXPOSURE WE HAVE IN OUR PORTFOLIO CONSTITUTES AN EXPOSURE TO FOREIGN CURRENCIES OF AROUND 27% OF OUR TOTAL PORTFOLIO.

VERY IMPORTANTLY, OUR FOCUS IS LONG TERM. WE THINK ABOUT THE LONG TERM RETURN OBJECTIVE IN TERMS OF ROLLING 10 YEAR PERIODS RATHER THAN MONTHLY, QUARTERLY OR EVEN ANNUAL PERIODS.

WHILE WE DO, OF COURSE, REVIEW AND ADJUST THE PORTFOLIO TO REFLECT CHANGING CONDITIONS, OUR LONG TERM PERSPECTIVE DRIVES OUR STRATEGY AND

INFORMS THE KINDS OF RELATIONSHIPS WE FORM WITH OUR INVESTMENT MANAGERS AND HOW WE HIRE, ORGANISE AND REMUNERATE OUR OWN STAFF.

THESE CHARACTERISTICS OF THE FUND ARE CENTRALLY IMPORTANT TO HOW WE APPROACH OUR TASK.

I WOULD ALSO LIKE TO MAKE A FEW OBSERVATIONS ABOUT THE FUND'S PARTICULAR POSITION AS A MANAGER OF PUBLIC MONEY ON BEHALF OF THE COMMONWEALTH AND, ULTIMATELY, ALL AUSTRALIANS.

THE FUTURE FUND'S PURPOSE IS TO SEEK TO MAXIMISE RETURNS WITH ACCEPTABLE LEVELS OF RISK. WE HAVE A VERY CLEAR FINANCIAL RETURN OBJECTIVE. BUT IN PURSUING THIS OBJECTIVE WE BELIEVE THAT WE MUST ACT ETHICALLY. THIS IS, I BELIEVE, A CORE FACET OF WHAT IT IS TO BE IN BUSINESS. AT THE FUTURE FUND

WE DO THIS BY PUTTING IN PLACE A WELL THOUGHT THROUGH INVESTMENT STRATEGY AND A ROBUST FRAMEWORK TO GUIDE OUR DECISION MAKING.

THROUGH THIS STRATEGY AND OUR EXTERNAL MANAGERS WE SEEK TO IDENTIFY AND ASSESS ALL OF THE MATERIAL RISKS AND OPPORTUNITIES OF INVESTMENTS AND TO BE ACTIVE OWNERS WHO ENGAGE WITH COMPANIES AND CONTRIBUTE TOWARDS GOOD GOVERNANCE AND EFFICIENT AND WELL-FUNCTIONING MARKETS.

NATURALLY THERE ARE A RANGE OF VIEWS ABOUT WHAT KINDS OF INVESTMENTS MIGHT BE GOOD AND THE KINDS THAT MIGHT BE BAD, WHETHER THAT RELATES TO A SET OF BELIEFS ABOUT THE INVESTMENTS, VIEWS OF THEIR FINANCIAL CHARACTERISTICS OR OFTEN THEIR BENEFITS OR DETRIMENTS TO AUSTRALIA AND ITS PEOPLE.

OUR RESPONSE IS THAT CONSISTENT WITH PURSUING OUR FINANCIAL OBJECTIVE, WE ALSO PUT IN PLACE ARRANGEMENTS THAT ALLOW US TO THOUGHTFULLY CONSIDER HOW BEST TO DEAL WITH THESE MATTERS.

OUR DECISION TO WITHDRAW FROM INVESTMENT IN CIGARETTE MANUFACTURERS WAS TAKEN AFTER MUCH INTERNAL DISCUSSION AND RESEARCH. IT STANDS AS AN INDICATION THAT WHERE SATISFIED AFTER OUR OWN RESEARCH AND DEBATE THAT WE SHOULD WITHDRAW FROM AN INDUSTRY WE WILL. HOWEVER WE WILL NOT JUST FOLLOW FADS, LOBBY GROUPS OR THOSE WITH VESTED INTERESTS. WE WILL ACT ON OUR OWN VIEWS BASED ON OUR RESEARCH AND UNDERSTANDING OF THE ISSUE.

GOVERNANCE

IN FACT, WHETHER ONE IS DEALING WITH THIS PARTICULAR ISSUE OF WHAT IS OR IS NOT APPROPRIATE TO INVEST IN OR ADDRESSING THE QUESTIONS OF LOCAL VERSUS OFFSHORE INVESTMENT, CURRENCY MANAGEMENT, THE ECONOMIC AND INVESTMENT ENVIRONMENT AND LONG-TERM VERSUS SHORT-TERM PERFORMANCE, I FIRMLY BELIEVE THAT HAVING THE RIGHT PEOPLE AND RESOURCES IN PLACE TOGETHER WITH THE RIGHT GOVERNANCE ARRANGEMENTS IS CRITICAL.

THE FUTURE FUND IS FORTUNATE TO HAVE A HIGH-QUALITY AND WELL-ESTABLISHED MANAGEMENT TEAM IN PLACE. THE TEAM BRINGS EXTENSIVE EXPERIENCE FROM A RANGE OF BACKGROUNDS INCLUDING HANDS-ON INVESTMENT MANAGEMENT, ECONOMIC AND FINANCIAL MODELLING AND ASSET CONSULTING. IT IS

ALSO A TEAM THAT IS ABLE TO BRING INTO THE ORGANISATION INSIGHTS AND LEADING THINKING FROM ACROSS OUR ROSTER OF INVESTMENT MANAGERS.

ON THE GOVERNANCE FRONT, ONE OF MY FIRST INITIATIVES AS CHAIR WAS TO AGREE WITH THE BOARD THAT WE ESTABLISH A NUMBER OF ADDITIONAL BOARD COMMITTEES TO SUPPLEMENT THOSE ALREADY IN EXISTENCE. ALONGSIDE THE AUDIT COMMITTEE, WE NOW OPERATE A RISK COMMITTEE, GOVERNANCE COMMITTEE, CONFLICTS COMMITTEE AND A REMUNERATION COMMITTEE.

I FIRMLY BELIEVE THAT THE USE OF BOARD COMMITTEES IS VALUABLE. THEY PROVIDE A MECHANISM TO ALLOW BOARD MEMBERS TO GIVE INPUT AND HAVE THEIR VIEWS SOUGHT.

THEY CAN ASSIST IN DEVELOPING THE EXPERIENCE OF BOARD MEMBERS AS A CHAIRMAN. COMMITTEES PROVIDE A VERY EFFICIENT MECHANISM TO ALLOW BOARD MEETINGS TO RISE ABOVE BOX TICKING AND ALLOW THEM TO LOOK AT STRATEGY AND TO HAVE TIME FOR ADEQUATE DISCUSSION OF THE MATTERS OF THE DAY.

IMPORTANTLY, BOARD COMMITTEES MEAN THAT MANAGEMENT HAS A CLEAR ROUTE FOR DECISION MAKING AND THEY PROVIDE BOTH FOCUS AND FLEXIBILITY FOR THE ORGANISATION AS A WHOLE.

I SHOULD MENTION THAT THE EXISTENCE OF A RISK COMMITTEE HAS ALLOWED US AT BOARD LEVEL TO INCREASE THE FOCUS ON POLICIES AFFECTING RISK.

GLOBAL ECONOMIC ENVIRONMENT

HAVING MADE THESE POINTS ABOUT THE PURPOSE, CHARACTERISTICS AND GOVERNANCE OF THE FUND, LET ME NOW TURN TO THE CURRENT ENVIRONMENT AND HOW THE FUTURE FUND OPERATES WITHIN IT.

PERHAPS THE MOST CRITICAL FACTOR FOR THE FUND IS HOW WE STRIKE THE RIGHT BALANCE BETWEEN RISK AND RETURN AND THIS IS PARTICULARLY SALIENT GIVEN OUR RETURN TARGET (CPI+4.5 TO 5.5% PER ANNUM) IS MUCH HIGHER THAN THE CURRENT RISK FREE RATE OF RETURN WHICH IS AROUND 1% ABOVE CPI.

OUR LONG-TERM RETURN TARGET IS CLEARLY A CHALLENGING ONE. ACHIEVING IT REQUIRES MATERIAL INVESTMENT RISK TO BE TAKEN. NEVERTHELESS, WE ALSO RECOGNISE, AS DOES OUR MANDATE, 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 THROUGH THE CONSTRUCTION OF A HIGHLY DIVERSIFIED PORTFOLIO AND WE MAINTAIN A FLEXIBLE AND DYNAMIC APPROACH TO TAKING RISK, TO TAKE ACCOUNT OF CHANGING CONDITIONS AND OPPORTUNITIES. WE WILL TAKE HIGHER LEVELS OF RISK WHEN STRONG REWARD IS AVAILABLE AND WE WILL REDUCE OUR RISK PROFILE WHERE WE BELIEVE RISK IS NOT APPROPRIATELY REWARDED.

IMPORTANTLY, WE ARE FOCUSED ON PURSUING OUR SPECIFIC OBJECTIVES OVER THE LONG TERM AND WHILE WE SEEK TO USE THE ACTIVITIES OF OTHER INVESTORS TO INFORM OUR THINKING, WE REMAIN

FOCUSED ON ACHIEVING OUR OWN OBJECTIVES OVER THE LONG TERM.

IN THIS REGARD WE BENEFIT GREATLY FROM THE CLUSTERING OF INVESTMENT EXPERTISE HERE IN AUSTRALIA AND WE ARE VERY PLEASED TO BE ABLE TO LEARN FROM AND CONTRIBUTE TO THE DEBATE ON INVESTMENT ISSUES IN THE INDUSTRY. OUR OFFICE IS COMPARATIVELY SMALL BUT HAS THE GREAT BENEFIT OF ALLOWING COLLABORATION BETWEEN SECTORS AND ARGUMENT AND DISCUSSION FROM DIFFERENT VANTAGE POINTS. WE BELIEVE IN THIS AND ARE NOT LIKELY NO MATTER HOW BIG WE GROW TO ALLOW SILOS TO PREVAIL.

ONE OF THE IMPLICATIONS OF OUR APPROACH IS THAT THE FUND'S PORTFOLIO AND ITS PERFORMANCE WILL LIKELY DIFFER FROM OTHER INVESTORS, PERHAPS MARKEDLY SO.

THE DIFFERENT APPROACHES TO ASSET ALLOCATION MEANS THAT AT TIMES WE WILL PERFORM LESS STRONGLY THAN OTHERS, AND THAT AT OTHER TIMES RETURNS WILL STAND UP WELL WHEN OTHERS MAY STRUGGLE. BUT WE DO BELIEVE THAT OUR APPROACH IS CAPABLE OF MAXIMISING LONG-TERM RETURNS ABOVE OUR TARGET BENCHMARK.

THIS EMPHASIS ON THE LONG TERM IS, I BELIEVE, FUNDAMENTALLY IMPORTANT. AUSTRALIA SUFFERS IN ALL ITS SECTORS FROM A SHORT TERM PERSPECTIVE. THE FUTURE FUND, THE FINANCIAL SERVICES SECTOR AND INDEED, BUSINESS MORE BROADLY, MUST FIND A WAY TO KEEP THE FOCUS AWAY FROM AN UNHEALTHY FOCUS ON MONTHLY OR QUARTERLY NUMBERS. COMPETING ON THE SHORT-TERM CAN BE DETRIMENTAL TO LONG-TERM RESULTS AND FOR MANY OF US – AND FOR OUR INVESTORS – IT IS THE LONG-TERM THAT IS IMPORTANT.

WE NEED URGENTLY TO EDUCATE INVESTORS AND THE PUBLIC GENERALLY TO THE NEED TO GENUINELY INVEST IN AND RATE BUSINESSES AND PROJECTS OVER THE LONG TERM. I BELIEVE THAT SO MANY IN ASIA HAVE AN ADVANTAGE OVER US IN THAT THEY THINK, PLAN AND DELIVER OVER MUCH MORE EXTENDED PERIODS AND THIS IS A STRENGTH.

ALONGSIDE OUR LONG-TERM PERSPECTIVE, AS WE THINK ABOUT OUR INVESTMENT PROGRAM WE CONSIDER SIX GLOBAL THEMES THAT WE BELIEVE TO BE OF PARTICULAR SIGNIFICANCE:

- DEBT AND DELEVERAGING,
- THE INTERACTION OF POLICY AND POLITICS,
- DEMOGRAPHICS IN DEVELOPED AND EMERGING MARKETS,

- GLOBALISATION,
- RESOURCE SCARCITY, AND
- INFLATION.

MANY OF YOU WILL ALSO BE FOCUSED ON THESE OR SIMILAR ISSUES. THESE THEMES FEATURE HEAVILY IN OUR RESEARCH AND THINKING BOTH ABOUT OUR OVERARCHING STRATEGY AND THE SPECIFIC OPPORTUNITIES IN EACH ASSET CLASS.

WE RECOGNISE WE ARE NOT THE ORACLE ON ALL OF THESE ISSUES. WE ALSO REALISE THAT BEING BASED IN AUSTRALIA WITH ACTIVITIES OVERSEAS BEING SO IMPORTANT TO THESE ISSUES TO SAY NOTHING OF THE PREVIOUSLY MENTIONED FACT THAT AROUND 70% OF OUR PORTFOLIO IS OVERSEAS WE NEED TO SEEK ADVICE FROM AND LISTEN TO EXPERTS LOCATED ALL OVER THE GLOBE.

THIS CAN OFTEN BE HUMBLING BUT RECOGNISES OUR COMPARATIVELY SMALL SIZE AND COMPARATIVE REMOTENESS AS A COUNTRY.

MANAGEMENT SEEKS TO COMBINE PERSPECTIVES ON THESE BROADER THEMES WITH MORE DETAILED INSIGHTS FROM OUR SECTOR TEAMS AND TO CONSIDER A RANGE OF SCENARIOS THAT MAY PLAY OUT. I SHOULD NOTE THAT IN DOING SO THEY ARE NOT TRYING TO PREDICT WHAT WILL ACTUALLY HAPPEN AND TO MAKE AN INVESTMENT ACCORDINGLY. INSTEAD, THE FOCUS IS ON CONSIDERING THE RANGE OF POTENTIAL OUTCOMES AND TO POSITION THE FUND AS BEST WE CAN WITHIN OUR LONG-TERM RISK AND RETURN PARAMETERS.

AS EXAMPLES:

THERE IS NO DOUBT THAT GLOBALLY THE SCOPE AND THE SCALE OF GOVERNMENT, REGULATORY AND MONETARY POLICY ACTION THAT HAS BEEN UNDERTAKEN HAS BEEN ENORMOUS. THE ABILITY TO WORK THROUGH HOW THAT MAY PLAY OUT AND THE MANNER AND TIMING IN WHICH THAT POLICY ACTION IS ADJUSTED TOWARDS MORE NORMAL SETTINGS IS AN ISSUE THAT COMMANDS A GREAT DEAL OF ATTENTION.

WE HAVE A UNIQUE ADVANTAGE AS ASIA IS CLOSE TO US. IT IS MY OWN VIEW THAT INVESTORS, BUSINESS AND INDEED AUSTRALIA AS A WHOLE, NEED TO CONTINUE TO FIND WAYS TO BETTER ENGAGE ASIA. ASIA INCLUDES EMERGING MARKETS WHERE WEALTH AND RETURNS CAN BE FOUND BUT NOT NECESSARILY AND CERTAINLY NOT SAFELY UNLESS WE UNDERSTAND THE PEOPLE, THEIR RULES AND CULTURE. WE NEED TO

EDUCATE OURSELVES, BUILD BONDS AND CULTURAL TIES, BREAK DOWN BARRIERS OF DISTRUST AND FEELINGS OF DISDAIN - AND ABOVE ALL BE WILLING TO EMBRACE OUR NEIGHBOURS.

THIS ALIGNS WITH THE BROADER FUTURE FUND PERSPECTIVE THAT THE THEMES OF DEMOGRAPHY, GLOBALISATION AND RESOURCE SCARCITY - ALL OF WHICH ARE HIGHLY RELEVANT IN THE ASIAN CONTEXT - ARE IMPORTANT DRIVERS IN THE GLOBAL ECONOMIC ENVIRONMENT AND WILL HAVE FAR REACHING EFFECTS FOR ECONOMIES, MARKETS AND INVESTORS.

WITHIN THE FUTURE FUND, BUILDING OUR UNDERSTANDING OF ASIA, AND EMERGING MARKETS MORE BROADLY, AND THE DIVERSITY OF OPPORTUNITIES AND RISKS IS SOMETHING TO WHICH WE DEDICATE SIGNIFICANT TIME AND EFFORT.

ON THE QUESTION OF GLOBALISATION WE ARE CONSCIOUS OF WEIGHING UP THE ENORMOUS LEAPS IN TECHNOLOGY WHICH HAVE MADE THE WORLD SMALL, AND THE OFTEN ENTRENCHED COMFORT OF CONSUMERS OF DOING THINGS THEIR WAY AND CONSISTENT WITH THEIR CULTURE, PRIDE AND HISTORY.

OUR ABILITY TO ENGAGE WITH THESE KINDS OF THEMATICS AND TO BRING THE COLLECTIVE INSIGHTS OF OUR EXTERNAL INVESTMENT MANAGERS, PARTNERS, STAFF AND BOARD TOGETHER WILL BE A VERY SIGNIFICANT INFLUENCE ON HOW WE PERFORM AGAINST OUR LONG-TERM OBJECTIVE.

I SHOULD NOTE THAT LEST ANY OF YOU SHOULD THINK THAT OUR APPROACH IS OVERLY ACADEMIC – WE ARE ACUTELY AWARE OF ENSURING A BUSINESS LIKE AND PRAGMATIC RESOLUTION TO THE ISSUES INVOLVED

BUT BASED ON THE BEST UNDERSTANDING WE CAN MAKE OF THEM.

OUR PHILOSOPHIES AND CONSIDERATION OF THE ABOVE ISSUES HAVE LED US TO A PORTFOLIO ALLOCATION IN WHICH ABOUT 90% IS IN DIVERSE NON-CASH ASSET CLASSES AND 10% APPROXIMATELY IN CASH. WE HAVE ANNOUNCED THAT WE WILL BE INCREASING OUR EXPOSURE TO INFRASTRUCTURE, PROPERTY AND PRIVATE EQUITY, THIS UNDERLINES OUR LONG TERM VIEW OF THE WORLD.

WE HAVE INCREASED SLIGHTLY OUR EQUITIES EXPOSURE TO 40% WITH AN ACKNOWLEDGEMENT THAT EMERGING ECONOMIES IN THE LONG TERM SHOULD PROVIDE GOOD OPPORTUNITIES FOR GROWTH.

CONSISTENT WITH OUR BELIEF IN DIVERSIFICATION OF OUR PORTFOLIO WE HAVE MAINTAINED A 17% INTEREST

IN ALTERNATIVES, SEEKING TO USE THE BEST THINKING AROUND THE WORLD IN A VARIETY OF LOCATIONS TO MAXIMISE RETURN WITH A LEVEL OF SAFETY SO FAR AS RISK IS CONCERNED.

AS I SAID EARLIER WE REVIEW THE PORTFOLIO RATIOS REGULARLY BUT BELIEVE IN SETTING A COURSE WITH ALTERATIONS AS APPROPRIATE RATHER THEN ASSUMING CHANGE IS NEEDED CONTINUALLY.

CLOSE

I STARTED MY TALK BY REFERRING TO THE PROGRESS THAT THE FUND HAS MADE IN THE SIX YEARS SINCE THE INVESTMENT PROGRAM BEGAN.

THE PURPOSE AND STRUCTURE OF THE FUND HAVE ESTABLISHED A VERY SOUND FRAMEWORK FOR ITS OPERATIONS AND A SKILLED MANAGEMENT TEAM HAS

BEEN PUT IN PLACE. THE PORTFOLIO HAS PERFORMED WELL IN AN OFTEN DIFFICULT ENVIRONMENT.

THE GLOBAL ECONOMY HAS BEEN THROUGH ENORMOUS CHANGE IN RECENT YEARS AND THOSE CHANGES AND THEIR EFFECTS CONTINUE TO INFLUENCE ECONOMIES AND MARKETS VERY SIGNIFICANTLY.

IN THIS CONTEXT, IT IS MY VIEW THE FUTURE FUND MUST CONTINUE ITS FOCUS ON UNDERSTANDING AND MODERATING THE RISKS WHICH ARE INVOLVED IN PURSUING OUR OBJECTIVE AND, PERHAPS MOST IMPORTANTLY OF ALL, CONTINUE TO STAY TRUE TO ITS LONG-TERM PERSPECTIVE.