

Annual Report

futurefund

Australia's Sovereign Wealth Fund

2010
2011



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Letter of transmittal



27 September 2011

Senator the Hon. Penny Wong
Minister for Finance and Deregulation
Parliament House
Canberra ACT 2600

Dear Minister

I have pleasure in presenting to you, as the Minister with nominated responsibility for the Future Fund, Building Australia Fund, Education Investment Fund and Health and Hospitals Fund, the Annual Report of the Future Fund Board of Guardians and the Future Fund Management Agency for the year ending 30 June 2011 for presentation to Parliament.

The report has been prepared in accordance with section 81 of the *Future Fund Act 2006* (the Act). Subsection 81(3) of the Act requires you to cause a copy of the report to be tabled in each House of Parliament within 15 sitting days of that House after receiving the report.

Subsection 81(4) of the Act requires you, as soon as practicable after receiving the report to give a copy to the Communications Minister, the Education Minister, the Energy Minister, the Health Minister, the Infrastructure Minister, the Research Minister and the Water Minister.

The report has also been prepared in accordance with the Requirements for Annual reports for Departments, Executive Agencies and FMA Act bodies for 2010-11 as approved by the Joint Committee of Public Accounts and Audit under sub-section 63(2) and 70(2) of the *Public Service Act 1999*.

As Chief Executive Officer of the Future Fund Management Agency (Agency) I certify that I am satisfied that:

- the Agency has prepared a fraud risk assessment and fraud control plan;
- the Agency has in place appropriate fraud prevention, detection, investigation, reporting and data collection procedures and processes that meet the specific needs of the Agency; and
- we have taken all reasonable measures to minimise the incidence of fraud and to investigate and recover the proceeds of fraud against the Agency.

A handwritten signature in blue ink, appearing to read "David Murray".

David Murray AO

Chair
Future Fund Board of Guardians

About the Funds

The Future Fund Board of Guardians (the Board) supported by the Future Fund Management Agency (the Agency), has responsibility for investing the assets of the Future Fund and three Nation-building Funds – the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund.

These Funds meet the definition of a Sovereign Wealth Fund as adopted by the International Forum of Sovereign Wealth Funds (IFSWF), of which the Board of Guardians is a member.

The IFSWF defines Sovereign Wealth Funds as: special purpose investment funds or arrangements, owned by the general government. Created by the general government for macroeconomic purposes, Sovereign Wealth Funds hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets.*

Our mission

We are a funds management business focused on delivering high, risk-adjusted returns over the long term on contributions to special purpose public funds.

Operating independently from the Government, we will tailor the management of each Fund to its unique mandate while delivering efficiency through common infrastructure.

Future Fund

The Future Fund is a financial asset fund established by the *Future Fund Act 2006*, its purpose is to meet unfunded superannuation liabilities that will become payable during a period when an ageing population is likely to place significant pressure on Commonwealth finances.

Withdrawals from the Future Fund to pay superannuation benefits may only occur once the superannuation liability is fully offset or from 1 July 2020, whichever is the earlier.

In addition, expenses associated with the investment and administration of the Future Fund may be drawn from the Future Fund throughout its existence.

The Investment Mandate for the Future Fund is to achieve an average annual return of at least the Consumer Price Index (CPI) plus 4.5% to 5.5% per annum over the long term with an acceptable but not excessive level of risk.

Nation-building Funds

The Nation-building Funds (the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund) are financial asset funds established on 1 January 2009 under the *Nation-building Funds Act 2008*.

The Nation-building Funds were created to provide financing resources to meet the Australian Government's commitment to Australia's future through investment in critical areas of infrastructure such as transport, communications, energy, water, education, research and health.

The Board of Guardians is responsible for growing the assets of the Nation-building Funds in line with Investment Mandates from the responsible Ministers, but has no role in determining or advising on payments from the Funds.

Payments from the Nation-building Funds are determined by Government. The *Nation-building Funds Act 2008* provides that relevant Portfolio Ministers must not make a recommendation in relation to a payment from the respective Fund for an identified project unless the advisory board for that Fund has advised the Minister that the project satisfies the relevant criteria.

The Appropriations Bills provide Parliament with a mechanism by which it may review the maximum amounts that can be paid from the Nation-building Funds each year.

Investment Mandates for the three Nation-building Funds were issued to the Board on 14 July 2009 and set a benchmark return of the Australian three month bank bill swap rate +0.3% per annum calculated on a rolling 12 month basis while minimising the probability of capital losses over a 12 month horizon.

* See the Santiago Principles available at: www.ifswf.org

Future Fund

Asset allocation 30 June 2011

	Category & Asset Class	A\$m	Percentage of Fund (ex Telstra)
<div><div></div><div></div><div></div><div></div><div></div></div>	Equities		41.4
	Australian equities	8,278	11.1
	Developed markets	15,795	21.2
	Emerging markets	3,792	5.1
	Private equity	2,970	4.0
<div><div></div><div></div></div>	Tangibles		12.0
	Property	5,043	6.8
	Infrastructure & Timberland	3,894	5.2
<div><div></div></div>	Debt		19.4
	Debt securities	14,412	19.4
<div><div></div></div>	Alternatives		18.4
	Alternative assets	13,693	18.4
<div><div></div></div>	Cash		8.8
	Cash	6,576	8.8
	Total (ex Telstra)	74,454	100.0
	Telstra holding	939	
	Total Future Fund assets	75,393	



Data does not sum due to rounding

Asset allocation 30 June 2010

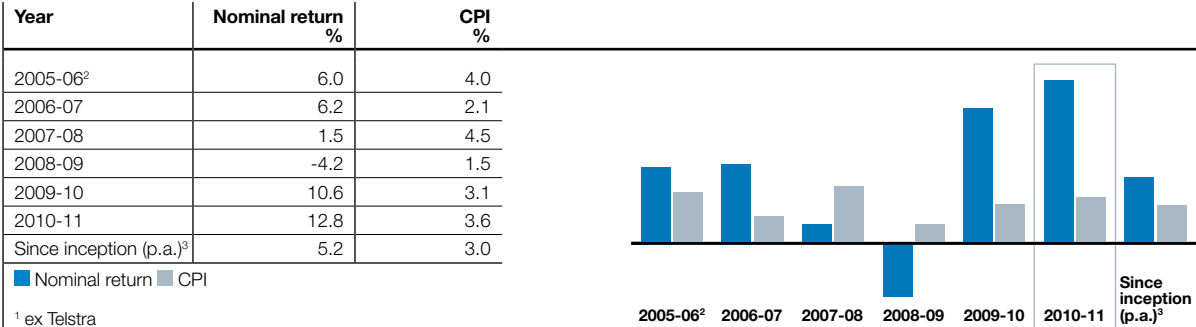
	Category & Asset Class	A\$m	Percentage of Fund (ex Telstra)
<div><div></div><div></div><div></div><div></div><div></div></div>	Equities		39.7
	Australian equities	7,465	11.8
	Developed markets	13,778	21.8
	Emerging markets	1,986	3.1
	Private equity	1,895	3.0
<div><div></div><div></div></div>	Tangibles		9.5
	Property	3,125	5.0
	Infrastructure & Timberland	2,865	4.5
<div><div></div></div>	Debt		21.9
	Debt securities	13,822	21.9
<div><div></div></div>	Alternatives		15.6
	Alternative assets	9,871	15.6
<div><div></div></div>	Cash		13.1
	Cash	8,266	13.1
	Total (ex Telstra)	63,074	100.0
	Telstra holding	4,272	
	Total Future Fund assets	67,346	



Data does not sum due to rounding



Nominal return¹ and CPI



¹ ex Telstra
² Represents annualised return for the period from initial contribution on 5 May to 30 June 2006 only.
³ 5 May 2006

Operating result

	\$m
Total income/loss	8,640.1
Total expenditure	485.0
Other comprehensive income	(130.3)
Total comprehensive income	8,024.8

Nation-building Funds

Nation-building Fund performance 2010/11



Report from the Chair

During the 2010/11 year the total assets of the Future Fund rose from \$67.3 billion to \$75.4 billion. No new cash or financial asset contributions were received from Government during the financial year.

The total comprehensive income for the Future Fund was \$8.02 billion. The Future Fund (ex Telstra) returned 12.8% for the year while the Telstra holding generated a return of 2.9%.



The Board of Guardians is also responsible for the investment of the assets of the three Nation-building Funds (the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund).

The assets of the Nation-building Funds have been invested in accordance with their investment mandates and each has generated a return of 5.6% over the 12 months to 30 June 2011, exceeding the benchmark return of 5.3%.

As a result the Building Australia Fund was valued at \$8.2 billion, the Education Investment Fund stood at \$4.9 billion and the Health and Hospitals Fund stood at \$4.35 billion at the end of the financial year.

Long-term performance

The relevant legislation and the investment mandate clearly articulate the long-term focus of the Future Fund. In particular, the mandate requires the Board to target a benchmark return of CPI +4.5 to 5.5% per annum over the long term with acceptable but not excessive levels of risk.

The portfolio (ex Telstra) has returned 5.2% per annum since its establishment in May 2006, during a period of exceptional market uncertainty.

While performance to date is below the long-term target, it demonstrates the quality of investment returns that the portfolio is capable of generating. During periods when many investors have suffered significant losses the Fund has been less affected. As markets have recovered the portfolio has generated positive returns.

While the ability to meet the mandate is clearly influenced by market returns and inflation, the Board's investment strategy and dynamic approach to strategic asset allocation means that it is likely to meet the mandate over the long term with an acceptable level of risk.

Developments

During the year the Board continued to reduce its holding in Telstra in line with its long stated strategy to rebalance the portfolio. This strategy was completed after the end of the financial year in August 2011. Pursuing this rebalancing strategy since the Telstra holding was released from escrow in November 2008 has enabled the Board to reduce the concentrated exposure it had to a single stock and to reallocate the capital in accordance with its broader investment strategy.

The rebalancing strategy was delivered efficiently and without untoward impact on the market and is discussed in more detail in the Investment Report.

The Board will no longer report the performance of its Telstra holding separately from the rest of the portfolio and will transfer management of the holding to external investment managers in line with its usual arrangements.

Governance

The governance arrangements under which the Board and Agency operate are clearly articulated through the *Future Fund Act 2006*. These arrangements, covered in more detail elsewhere in this report, continue to provide a robust framework for the accountability and independence of the Board in the investment of the Future Fund and Nation-building Funds.

Staff of the Agency are employed under the *Public Service Act 1999* (Public Service Act). While these arrangements are suitable for departments providing policy advice or service delivery they are less helpful given the Agency's market orientation and focus on supporting the Board in investing in financial markets. Work continued towards establishing a suitable alternative employment framework that will further improve the alignment of the Agency to the Board's mandated objective while maintaining appropriate accountability.

Following its own review of governance practices and arrangements in 2009/10, the Board continued to enhance its approach to governance and to ensure that its time and resources were most effectively applied to the pursuit of the Investment Mandate.

The Board adopted a governance statement to ensure the Board's system of governance is continually refined and operates to improve the value of the investment process and supporting arrangements. Flowing from this the Board also enhanced its meeting calendar and meeting agendas to further sharpen its focus on critical issues.

The Board also developed a Board education and market engagement program. This was an important initiative to further enhance the Board's knowledge, insight and international perspective. As part of this in June 2011, the Board undertook a focused series of discussions with investment managers and advisers in New York. The Board has also initiated a program of engagement with peer institutional investors, investment managers and advisers.

The Future Fund continued its close involvement with the International Forum of Sovereign Wealth Funds (IFSFW) participating in the Beijing meeting of the Forum in May 2011. The Board continues to endorse and implement the Generally Accepted Principles and Practices for Sovereign Wealth Funds (Santiago Principles) and an updated review of the Board's implementation of the Santiago Principles is published in this report.

Board

In April 2011, the appointments of four members of the Board of Guardians expired. Mr Trevor Rowe AO and Mr Jeffrey Browne left the Board on the expiry of their terms of office and the responsible Ministers appointed Ms Carol Austin and Mr Stephen Fitzgerald to the Board each for five years. My term of office and that of Dr John Mulcahy were also due to expire in April, and the responsible Ministers reappointed Dr Mulcahy for four years and me for one year.

The Board now benefits from a more balanced spread of tenures among its members which will provide for an appropriate combination of continuity and renewal on the Board in the years ahead.

Staff

The Board believes that the quality and alignment of the management team is critical to its ability to fulfil its mission and recognises the quality of the team that has been built.

Ensuring that staff remain aligned to the Board's objectives and that suitable succession arrangements are in place to sustain performance over the long term is an important area of focus for the Board. This entails structuring appropriate development opportunities, continuing the recruitment of high calibre individuals where needed and the application of appropriate remuneration arrangements. In guiding remuneration the Board has regard to median remuneration levels for like work within the Australian financial services sector and draws on independent, reputable, well-established remuneration benchmarking services.

Outlook

As noted previously, the portfolio that has been constructed thus far has demonstrated a combination of resilience during market stress and the ability to generate positive returns during periods of recovery.

This is particularly important given the uncertainty in financial markets that can be expected to endure as the global economy continues to undergo significant structural adjustments over many years to come. This will result in below trend growth in many developed market economies, while emerging market economies may offer healthier growth prospects, albeit not without their own risks.

Importantly, the Board remains focused on its long-term mandate of generating returns over rolling 10 year periods without excessive levels of risk and will continue its steady approach to the management of the portfolio. In particular the Board will continue to resist the risk of becoming overly preoccupied with short-term volatility in markets.



In relation to the Nation-building Funds, the Board expects to be able to continue to meet or exceed the benchmark return while providing adequate liquidity to meet the expected withdrawals from these Funds.

Acknowledgements

During the year Paul Costello resigned as General Manager having led the establishment phase of the organisation for which the Board was most grateful. After a detailed and extensive search, Mark Burgess was appointed General Manager and commenced in July 2011. In the interim period, David Neal served as Acting General Manager, while maintaining his important responsibilities as Chief Investment Officer, and on behalf of the Board I thank David for his dedication and leadership.

I also thank the staff of the Agency for their continued efforts to provide effective support and assistance to the Board.

Two of the original members of the Board of Guardians left the Board during the year. Jeffrey Browne's deep experience in legal matters and of international financial markets was vital to the Fund given its unique statutory framework and investment mandate. Trevor Rowe brought broad experience in investment banking and as a director of both public and private sector organisations. On behalf of the Board I thank them for their important contributions.

The Board also welcomed Carol Austin and Stephen Fitzgerald as new members of the Board of Guardians who bring valuable new insights and perspectives.

I thank my colleagues on the Board of Guardians for the way in which they have diligently applied their investment and governance expertise to the management of the Future Fund and Nation-building Funds.

An important feature of our governance arrangements is the independence of the investment decisions of the Board of Guardians from Government. The Treasurer and the Minister for Finance and Deregulation have continued to respect this framework, as did their predecessors, while providing suitable support and encouragement. On behalf of the Board I thank them and the officers of their Departments.

David Murray AO
Chair, Future Fund Board of Guardians

Report from the General Manager

Since joining the organisation in July 2011 I have had the enjoyable task of getting to know the team and the portfolio. While I had some awareness of the people and the investment program prior to starting with the Fund, my positive impressions have been reinforced.

The Future Fund investment portfolio is both sophisticated and carefully constructed and has demonstrated resilience through weak markets as well as good performance during more positive market conditions. The quality and effectiveness of the portfolio is testament to the work put in both on the investment side and through the supporting operational areas.



What has particularly struck me, however, is the quality of the people who have supported the Board in putting the portfolio in place. I have been impressed by the skills and capabilities of individuals, but even more so by the ‘one team’ approach that ensures that activity across the various areas is sharply focused on the organisation’s objectives.

Now that the organisation has moved from its initial build phase and entered a new period in its development, my task is to provide the leadership and support to help the organisation and its people to continue to perform at the highest possible level.

Developments

During the year work continued on the development of the portfolio consistent with the investment strategy. At 30 June 2011, the assets of the Future Fund were invested across a broad range of geographies and asset classes and had grown to \$75.4 billion.

The Agency continued to invest the assets of the Nation-building Funds in accordance with the applicable Investment Mandates and again exceeded the benchmark return target.

Details of the investment strategy and the development of the portfolio are provided in some detail in the Investment Report.

In line with this activity, staffing numbers grew modestly over the year rising from 71 to 79 people. As anticipated, the focus of recruitment activity has primarily been on adding depth to the investment team to support senior staff and on adding to the organisation’s important finance, operations, legal and IT areas to ensure that appropriate support continues to be provided to support the program of investments.

A critical element in the Agency’s ability to support the Board in achieving its mandate is to continue to attract, retain and develop talented professionals in what remains a competitive market environment for staff. As outlined elsewhere in this report, priority areas for the human resources team reflect the Agency’s focus on supporting staff with high quality leadership, clearly articulated and managed performance objectives and attractive development opportunities.

The Agency continued to refine and optimise its operations and technology infrastructure, through the deployment of new data management capabilities and the implementation of enhanced market data and reporting tools. During the year a new document management platform was introduced to enhance the management of information and improve the leverage of knowledge across the organisation.

As part of its approach to continually improving risk management arrangements, the Agency also upgraded its operational risk and compliance system to further enhance risk monitoring and reporting.

Looking ahead

Much has been achieved in the Agency's short history. The Future Fund portfolio has been transformed from a position of being entirely held in cash into a sophisticated and effective investment program. Appropriate infrastructure and support systems have been put in place to achieve and sustain the portfolio. Skilled and effective staff have been brought together to make all of this happen.

The challenging global economic outlook means that investors must expect to face new challenges, shocks and opportunities in the years ahead. A critical focus for the Agency is ensuring that the investment program and the operational infrastructure that is already in place is further enhanced and developed to meet these events. This will include reviewing, testing and enhancing the assumptions, systems and processes that have served the organisation so well.

On behalf of the executive team I would like to thank the staff of the Agency for their commitment and dedication through the year. I would also personally like to thank the staff for their support and assistance as I have begun to get to know the organisation and for their willingness to share their perspectives and ideas for sustaining the success of the organisation.

I would also like to acknowledge the support and guidance that the Board has provided both to me as I have taken up this role and to the organisation as a whole.



Mark Burgess
General Manager

Our values

Integrity – applying high ethical and professional standards

We require this from our people and expect it from our partners. Our actions should be able to withstand the test of hindsight.

Excellence – achieving the highest standards in everything we do

We must strive for excellence as individuals and have high expectations of each other. Where we see these standards slipping we must take steps to get things back on track.

Innovation – always looking for ways to do things better

We expect our people to be searching for fresh ways of addressing perennial challenges and will support this by recognising that we can learn from our mistakes as well as our successes.

Teamwork – working cooperatively to achieve our common goal

We must encourage open discussion to improve our decision-making and ensure we treat each other with fairness and respect through this process.

Partnership – treating others equitably for mutual benefit

We recognise the value of enduring relationships with external providers and will work towards building highly productive, commercially rigorous partnerships.

Investment beliefs of the Future Fund Board of Guardians

Mission beliefs

The Board believes:

- (i) that the single measure embodying the goal of the Future Fund and Nation-building Funds is achieving the mandated returns over rolling 10 year and 12 month periods respectively. For the Future Fund, while the amount of risk taken cannot be captured in one figure, it is best assessed by reference to downside outcomes over rolling three year and 10 year periods;
- (ii) that peer group risk should not be used to shape strategy. The Future Fund Investment Mandate provides an unusually long-term investment horizon and this presents a competitive opportunity to add value;
- (iii) that while quantitative measurement of risk is important, so is building qualitative views of risk through understanding the environment and its potential impact on the portfolio. In addition, operational, counterparty and reputational risk need assessment and management;
- (iv) that the amount of risk taken should be conditioned by what strategy is most likely to meet the investment goals given current conditions.

Governance beliefs

The Board believes:

- (i) that high quality governance of the investment process is critical to success. The likelihood of meeting investment goals is directly related to the time, expertise and organisational effectiveness applied to decisions by the Board and management. Within this, the clear identification and separation of the Board's and management's responsibilities is particularly important;
- (ii) that it should ultimately be responsible for all investment decisions. This leads to decisions being tiered with the Board retaining control over top tier decisions, passing over responsibility below this tier to management subject to the Board's oversight;
- (iii) that its role is to act as a principal, acting in complete alignment with the Fund's mission. It has a critical role in managing agency issues, including those of management, and influence over compensation levels and incentives are critical to achieving success in this regard;
- (iv) that there is value in ensuring adequate time, diversity of view and specialist advice are applied to its deliberations.

Investment strategy beliefs

The Board believes:

- (i) that its focus should be on the effective management of beta (market related risk) because it is a stronger driver of long-term returns than alpha (skills related risk);
- (ii) that markets can be inefficient and skilful managers can add value after fees (albeit that the degree of inefficiency varies across markets and over time) and that this return is, in general, lowly correlated with market returns;
- (iii) that a flexible approach to asset allocation exposures is appropriate;
- (iv) that a higher expected return per unit risk (investment efficiency) can be obtained from a broadly diversified allocation across asset classes. In addition, the long time horizon supports a tolerance for illiquid assets;
- (v) that while the quantification of returns, risks and correlations are necessary inputs in the design and review of investment strategy, the difficulty and limitation of these assumptions means qualitative considerations are also important.

We are a funds management business focused on delivering high, risk-adjusted returns over the long term on contributions to special purpose public funds. Operating independently from Government, we will tailor the management of each fund to its unique mandate whilst delivering efficiency through common infrastructure.

*Future Fund Board of Guardians
mission statement*

Future Fund

Background

The Future Fund was established in early 2006, under statute, to make provision for the unfunded superannuation liabilities of employees of the Commonwealth that will become payable during a period when an ageing population is likely to place significant pressure on the Commonwealth's finances.

Contributions totalling \$40.4 billion in cash were made to the Fund in the period from May 2006 to June 2007 with a further \$10.9 billion being contributed by June 2008. This brought the total cash contributions to the Fund to \$51.3 billion. No further cash contributions have been made since the commencement of the 2008/09 financial year.

In addition, 2,105 million shares in Telstra (ASX:TLS) were transferred to the Fund in February 2007 and a further 57 million shares during 2007 and 2008. The total value of these shares on their respective transfer dates was \$9.209 billion. All transferred shares were subject to a restriction that they could not be traded until 20 November 2008, subject to certain limited exceptions including disposal through a Dividend Reinvestment Plan (DRP) initiated by Telstra. 126 million shares were disposed of via this mechanism during the lock-up period. The Board's approach to the disposal of Telstra shares since the expiry of the lock-up period is discussed in detail later in this report.

Under the *Future Fund Act 2006* withdrawals may not be made from the Fund (apart from meeting operating costs) until at least 1 July 2020 unless the value of the Fund exceeds the target asset level (TAL). This is the amount that is expected to offset the present value of projected unfunded superannuation liabilities. The office of the Australian Government Actuary, in its 2010 report, specified the TAL for the years to 2013-2014. The assets of the Future Fund at year end were below the TAL and, at this stage, no withdrawal before 2020 is expected.

The Future Fund Board of Guardians is required under the Act to seek to maximise the return earned on the Fund over the long term, consistent with international best practice for institutional investment and subject to its obligations under the Act and any Directions given by the responsible Ministers.

These Directions serve to articulate the Government's expectations for how the Fund will be invested and managed by the Board. Investment Mandate Directions were first issued to the Future Fund Board of Guardians by the Responsible Ministers – the Treasurer and Minister for Finance and Administration (now Minister for Finance and Deregulation) – in May 2006 and remain in place. These set out the following obligations on the Board:

- (i) an objective of achieving an investment return averaging at least the Australian Consumer Price Index (CPI) plus 4.5% to 5.5% per annum over the long term (the benchmark return). The Directions note that during the initial transition period, as the Board develops a long-term strategic asset allocation, a return lower than this benchmark return is expected;
- (ii) in targeting this 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;
- (iii) a limit for holdings on any listed company in order to prevent triggering the takeover provisions of the *Corporations Act 2001*;
- (iv) a restriction on acquiring a direct equity holding of voting shares in Telstra Corporation Limited except as a result of a transfer of financial assets by the responsible Ministers;
- (v) a requirement to act in a way that minimises the potential to effect any abnormal change in the volatility or 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; and
- (vi) a requirement to have regard to international best practice for institutional investment in determining its approach to corporate governance principles, including in relation to its voting policy.

Interpreting the mandate

The Board has interpreted the requirement to achieve a return of at least CPI +4.5% per annum over the long term as meaning over rolling 10 year periods.

While performance is reported and discussed at a high level each quarter, and in more detail each year, outcomes over these short periods of time are not appropriate indicators of the likelihood of achieving the outcomes set out in the investment mandate over the long term. During the first 10 years of investing, returns over rolling five year periods should provide a better indication of the organisation's likely performance against the mandate.

As noted above, in aiming to achieve the targeted return over the long term, the Board is required to take "an acceptable but not excessive" level of risk. A number of potential indicators of risk in this context can be considered. Importantly the Board explicitly rejects the concept of peer risk (the risk of underperforming other institutional investors over the short term) as being inconsistent with the mission and mandate of the Future Fund.

The Board also determines that as it is not charged with ensuring that the Fund fully offset the pension liabilities of the Commonwealth, it should not frame its investment strategy around the risk of these obligations increasing relative to the asset base.

Rather, it determines that the key risk that needs to be managed is the risk of significant capital loss over the medium term as this would negatively impact the ability to generate satisfactory real rates of return over the long term.

Accordingly, the Board has decided that taking "an acceptable but not excessive" level of risk in aiming to achieve the required investment return means, on a regular basis, reviewing the structure of the portfolio to balance the expected return based on market conditions against the tail risk (the worst 5% of potential outcomes) of a very poor return over the next three years. This recognises that such an outcome could result in real capital loss over the medium term.

Based on these considerations the Board adopted an initial long-term strategic asset allocation for the Fund as detailed in the 2007/08 annual report and updated in the 2009/10 year following a comprehensive review of the investment strategy as reported in the 2009/10 annual report.

Portfolio design

A principle enshrined very early in the development of the investment program of the Future Fund was the value of maintaining a high degree of flexibility in order to capture opportunities presented by dislocated markets. It was recognised that many institutional programs struggle to take advantage of these because their strategic portfolios are very tightly defined. For this reason, both the Long Term Strategic Asset Allocation (LTSAA) and the shorter-term Target Asset Allocation of the Future Fund are described in broad categories (see table below).

This provides the organisation with a governance framework which allows the broad return and risk characteristics to be monitored and controlled whilst simultaneously providing the opportunity for agile navigation of emerging opportunities within the categories.

Within these broad categories (with the exception of cash) a fine-grained investment strategy is developed. This results in a number of exposures, each with their own characteristics, being created at a sub-category level. Collectively these enable an insightful analysis of the total risk and return complexion of the investment program and the extent to which there is an appropriate exposure to key factors (e.g. illiquidity, real and nominal interest rate risk, equity risk, credit risk).

Broad investment categories

Category	Definition	Sectors covered
Listed equities	Exposure to corporate enterprise gained through public markets	Australian equities, global developed market equities, global emerging market equities
Private equity	Exposure to corporate enterprise gained through private ownership	Venture capital, growth equity, buy-out, distressed debt for control
Debt	Exposure to the credit component of interest bearing securities	Primarily non-government fixed interest securities extending to mortgages, high yield credit and corporate loans
Tangible assets	Exposure to investments where the return comes primarily from the income return on a physical asset	Real estate, infrastructure, utilities, timber and agricultural assets gained through public or private markets
Alternative assets	Exposure to assets not covered in the categories above	Skill based absolute return strategies and other risk premia providing diversity of return streams
Cash	Exposure to domestic, very short duration fixed interest investment with tightly managed credit risk	Australian bank bills and deposits
Portfolio overlays	Synthetic management of exposure to various investment risks	Developed market currency, emerging market currency, domestic and global interest rates and portfolio protection strategies

The LTSAA

The LTSAA is a notional portfolio which represents the level of exposure to each of the broad categories which might, on average, be held over the long term. It should be regarded as an equilibrium exposure to the investment categories rather than a weighting which is specifically targeted. The actual holding at any point in time will reflect the fact that the range of opportunities available is constantly shifting given that markets are seldom at fair value.

The LTSAA is set out in the table below. This is unchanged over the year.

Category	LTSAA
Equity	40%
Listed equity	32.5%
Private equity	7.5%
Debt	15%
Tangible assets	25%
Alternative assets	15%
Cash	5%
Total capital allocation	100%
plus	
Nominal interest rate overlay	0%
Developed markets foreign currency	10%
Emerging markets foreign currency	10%

While the Board does not place an inappropriate reliance on quantitative modelling tools in determining the construction of the portfolio, the LTSAA is expected to produce a real return of approximately 7% per annum over the long term with a very high expectation of avoiding capital loss over any three year period. In the opinion of the Board, this type of portfolio appropriately balances the obligations to maximise returns and exceed the benchmark set out in the Investment Directions with the requirement to take appropriate but not excessive risk.

The Target Asset Allocation

While the LTSAA provides a broad framework for the portfolio which might, on average, be held over time, a combination of assets which reflects a judgement about the economic and market environment, and hence the expected prospective reward for taking on risk in different asset sectors, is set from time to time. We refer to this as the Target Asset Allocation.

This portfolio is constructed with a medium term view. In addition to accounting for the Board's views on the investment environment, the Target Asset Allocation also reflects the practical challenges of changing the level of exposures to certain sectors, in particular tangible assets, private equity and absolute return strategies.

The Target Asset Allocation for 30 June 2012 is set out on page 17.

Target Asset Allocation

Category	Target Allocation at 30 June 2012	Actual Portfolio at 30 June 2011
Equity	39%	41.4%
Listed equity	32.5%	37.4%
Private equity	6.5%	4.0%
Tangible Assets	15.0%	12.0%
Debt	16.0%	19.4%
Alternatives	20%	18.4%
Cash	10%	8.8%
Total capital allocation plus	100%	100%
Nominal interest rate overlay	0%	0%
Developed markets foreign currency	12.5%	12.7%
Emerging markets foreign currency	12.5%	12.3%

The above Target Asset Allocation, and the positioning of the current portfolio, reflects a core central case view of longer-term structural economic weakness translating into a sustained period of only modest, below trend growth in a number of the major developed countries. These structural weaknesses relate to a need, in these countries, for a significant amount of debt reduction and deleveraging over the coming years. The Board believes that the long-term secular growth path of many of the emerging economies remains intact, albeit not without their own risks. As a central case the Board assumes trend growth in these economies.

Outside of this central case view the Board recognises the potential for these structural headwinds to overwhelm the ability of government policies to respond sufficiently, particularly in the face of high and potentially sticky unemployment and adverse demographic pressures. Along with lingering geo-political instability these issues bring material attendant risks for portfolio returns and volatility.

This leads the Board to hold a cautious and selective perspective on broad market risk. Elevated cash levels are held as a funding source for opportunities that we anticipate an uncertain future may present, and a defensive bias is embedded within the listed equities portfolio.

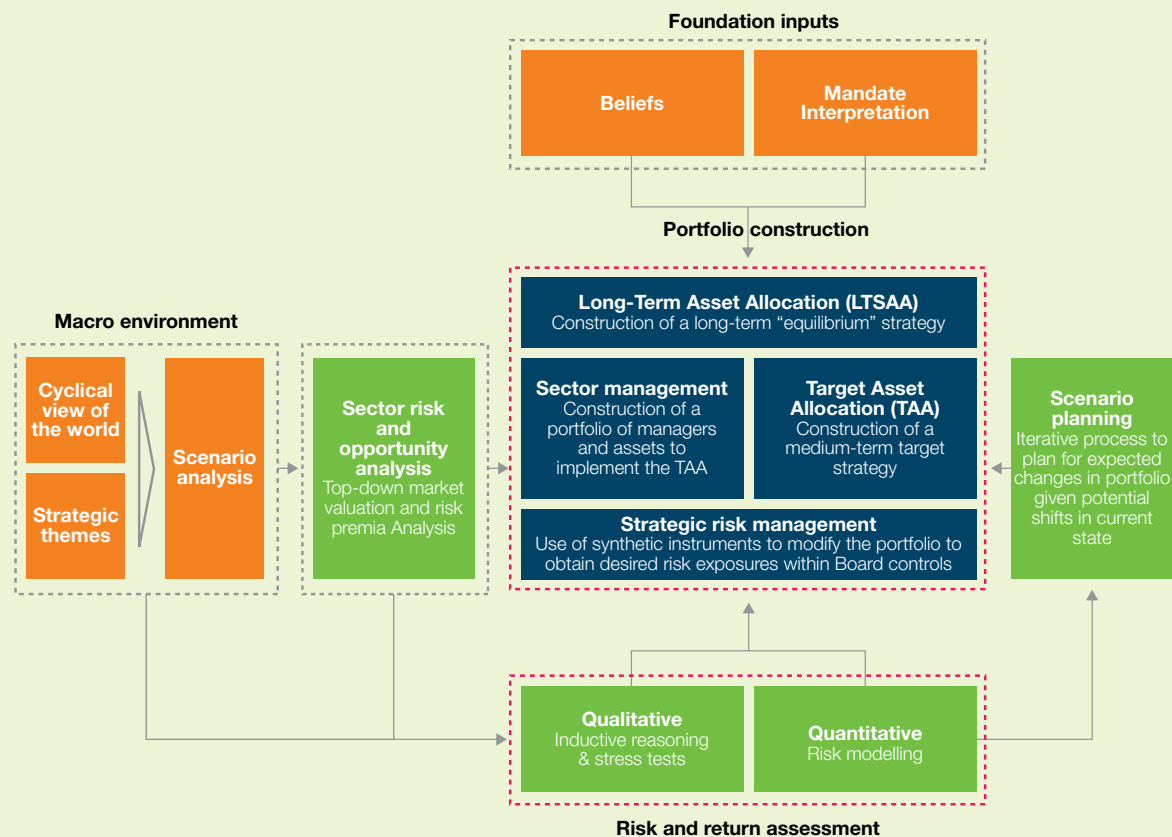
This does not, however, detract from the Board's view that there remain attractive opportunities available for suitably skilled managers to exploit in a number of sectors. Many of these are in the less mainstream parts of the marketplace within debt and alternatives, where niche strategies continue to benefit from specialist skills and/or less capital availability.

The Board also intends to maintain its strategy of a steady, opportunistic build of the tangible assets portfolio, aiming to accumulate our longer horizon assets patiently and opportunistically over the next few years. Bought well, the diversification benefits surrounding these exposures remain attractive in a low-growth environment, with a bias towards buying quality assets whose cash flows should remain strong in such a macro environment.

With respect to currency, the Board notes that there are long-term secular drivers that provide support to AUD strength. Set against this, however, are the risks to the Fund's liquidity position of extensively hedging the foreign currency exposures back into AUD. Balancing these two considerations resulted in a modest increase during the year in the foreign currency exposures from 10% to 12.5% for both developed market and emerging market currencies.

Strategic Process

We have developed a structured and comprehensive methodology for forming our investment strategy which aims at blending qualitative and quantitative inputs from the bottom up and the top down. The diagram below illustrates the interdependency of the multi-faceted approach we employ to portfolio construction.



The strategic process is designed to:

- enable the creation of robust portfolio solutions that deal practically with the realities of the investment and economic landscape;
- understand the available opportunity set for investment (capital markets research);
- help avoid large mistakes in portfolio design that may cause large-scale failure to achieve our mandate; and
- provide material that will assist the design of an asset allocation process that will maximise long-run accumulation of wealth, subject to appropriate risk constraints.

Key elements of the strategic process include:

- 1 **Foundation inputs.** Our foundation inputs include our fundamental beliefs or investment philosophies as well as our mandate interpretation. We review the basic objectives of the Fund and interpret what the implications are for investing and our resultant attitudes towards various types of investment risk.
- 2 **Scenario analysis and planning:** Scenarios form an important component of the strategic risk assessment and management process. Scenario analysis starts with the development of a central case, which is our best estimation for the global macro environment over the next three years. We then develop scenarios around this central case,

each with different growth and inflation outcomes. We also supplement this analysis by examining possible future shocks. These shocks help model non-linear outcomes that cut across scenarios. We refresh economic scenarios and analytics to:

- a. *Test and enhance the robustness of the portfolio.* By helping us understand how different assets and risk factors will fare under a range of conditions, we are able to design a strategy that is as robust as possible to the uncertain future direction of economies and markets.
- b. *Create a better environment for portfolio planning and strategic decisions.* Framing uncertainties in a more explicit way helps improve the understanding of potential risks facing investors. In addition, the scenarios have facilitated a much higher quality conversation around portfolio planning.
- c. *Increase preparedness and agility.* We are able to consider, ahead of time, contingency plans and preferred activities should we move into each scenario. This assists the Fund's ability to be more nimble in response to changes in the macro environment.
- d. *Improve awareness of change.* By setting out the interplay between drivers and critical uncertainties, as well as a robust set of sign-posts, it provides a frame of reference for recognising significant changes ahead.

- 3 **Macro Environment.** We combine both strategic themes that we expect to be important investment issues within the next 10 years (but which the market does not yet have a central focus on or have not been fully priced in), and a shorter-term cyclical view of the world. When considering portfolio design, we also aim to blend our top-down assessment with detailed bottom-up perspectives on investment risks and opportunities across asset and sub-asset class strategies.
- 4 **Risk and Return Assessment.** We have developed a portfolio risk model which seeks to integrate macro analytics and asset class knowledge to: i) provide a more centralised and thorough information set and ii) enable greater clarity on portfolio risk and return drivers. The portfolio risk model is only one part of the strategic process and is not a portfolio optimisation tool.

Sector Reviews

This section discusses the approach that has been adopted in building out each of the sectors that make up the portfolio.

Listed Equities

The listed equities portfolio is designed to help meet and exceed the Fund's overall investment objective and we seek to identify the areas that offer the best risk/return in this context. The listed equities portfolio is predominantly invested through a select range of high conviction active managers, supplemented by an element of cost effective passive management.

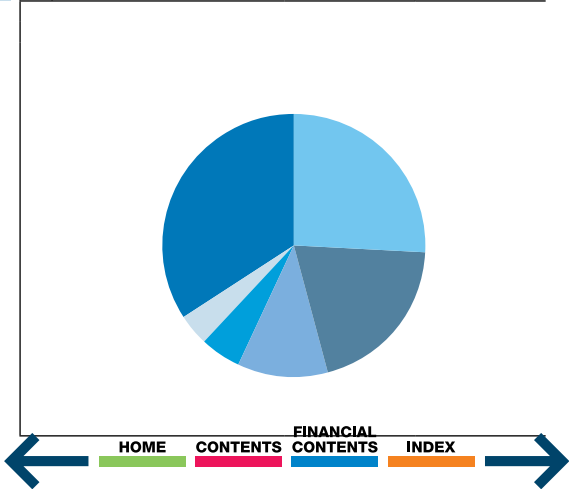
We maintained our Australian equity bias at around 30% of the listed equities portfolio throughout the year. Over a longer horizon Australian equities provide a reasonable hedge for Australian inflation and do not require us to hedge the currency exposure. Australian equities, in particular the resources sector, also offer exposure to secular growth in emerging markets.

Within the remainder of the portfolio, we favour a barbell approach with a relatively defensively positioned developed equity portfolio at one end of the barbell, balanced by growth exposure through emerging wealth opportunities at the other end of the barbell.

The defensive portion has two components both of which are expected to perform better than the broad market in times of uncertainty and falling markets. Firstly, we have a significant exposure to high quality companies. We define these as companies that are

Listed Equity: Region Exposure at 30 June 2011

	%
Australia	34
North America	26
Rest of World	20
Europe (ex United Kingdom)	11
United Kingdom	5
Japan	4



typically highly cash generative, have strong balance sheets and high and stable earnings. Our expectation is that companies with these attributes should survive and thrive in uncertain times thus providing the portfolio with some degree of downside protection in volatile and low growth environments. These businesses may also have a high degree of pricing power which provides some limited protection in inflationary environments. Given these characteristics and the deleveraging headwinds in the developed world, we decided to increase the tilt towards high quality companies during the year.

Secondly, we have increased the defensiveness of the portfolio with the introduction of long/short strategies within the listed equities portfolio over the year. This was the most significant change we made to the listed equities portfolio and was achieved via a customised fund of funds vehicle. The long/short equities exposure has allowed us to increase the active management of the portfolio without increasing the equity market risk. We also believe that long/short equities managers that can benefit from uncertainty in risk assets through managing their equity exposure while also adding alpha in such environments provide diversification to the overall portfolio.

We continue to believe that on a medium to long-term view, we should increase our exposure to emerging markets to benefit from the secular development of many of these countries. On an opportunistic basis from January 2011 we have increased our exposure to such companies through both active strategies and fundamental indexation. In doing so, we have generally

been less concerned about a company's country of listing and instead focused on investing in companies that currently benefit, or are expected to benefit, from growth in emerging markets irrespective of sector and domicile.

Private Equity

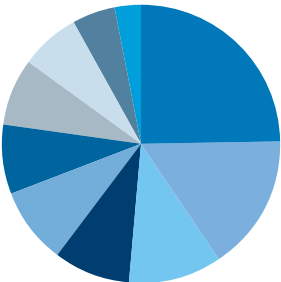
As with prior years, we continue to take a highly selective and opportunistic approach to building our private equity program. Over the year we added five new managers to the program, with total commitments of \$1.1 billion and made further allocations to existing managers of \$1.0 billion. In total, as at 30 June 2011, we had \$7.9 billion of committed capital with 18 managers.

In total, our managers called \$1.4 billion of capital during the year, a third of which went into our secondaries strategies and 20% for distressed opportunities. The remainder of the capital called was evenly split between buyout, growth equity and venture capital opportunities. We also received \$250m in distributions during the year as our managers started to sell some of our early secondaries and distressed opportunities investments. As of 30 June 2011, approximately 32% of our invested capital was in distressed opportunities, 25% in secondaries, 23% in buyout related opportunities and 19% in venture capital and growth equity investments.

Our distressed opportunities managers have been active in buying companies in financial difficulties and working to transform these companies through financial restructurings and/or operational turnarounds.

Listed Equity: Sector Exposure at 30 June 2011

	%
Financials	24
Materials	16
Energy	11
Cons. Staples	9
Industrials	9
Information Technology	8
Cons. Discretionary	8
Healthcare	7
Telecommunication	5
Utilities	3



Private equity: Strategy exposure at 30 June 2011

	%
Distressed opportunities	32
Secondaries	25
Buyout	23
Venture capital and growth	19

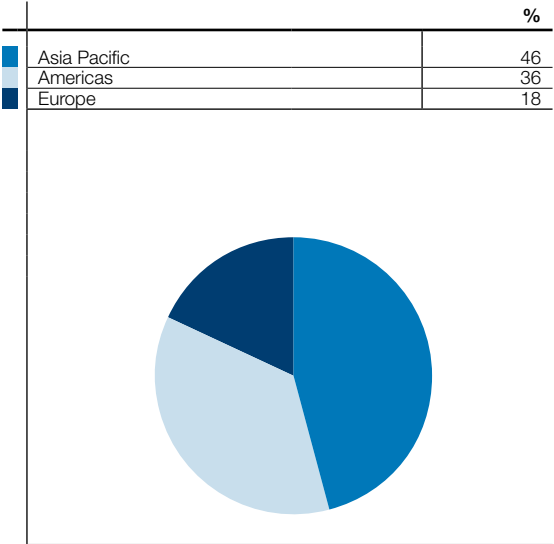


This opportunity persisted into the current year, particularly in Europe, leading us to commit a further \$500 million to pursuing opportunities in this area. For now, we are comfortable with our exposure in this space and the amount of uninvested capital we have to deploy in the event that the current uncertain economic climate is protracted or another economic downturn occurs.

We remain attracted to finding pockets of idiosyncratic growth on either a sector or geographic basis and this continues to be the top theme that we are pursuing. We believe that some sectors of the global economy will continue to grow regardless of the prevailing macroeconomic conditions and that businesses within these sectors will need capital to fund that growth, particularly in circumstances where other sources of finance are scarce. In the last year, two of the new manager appointments and over \$900 million of the capital commitments, were for opportunities in this area.

The remaining three new manager appointments were all in the small to mid-market buyout space, accounting for over \$600m of the capital commitments during the year. We found the smaller end of the buyout market to be attractive as it has been less affected by the global financial crisis than the larger end of the buyout market. It is also less affected by the swings in credit markets and the overhang of uninvested capital that is impacting pricing and competition at the larger end of the market. We continue to be selective in adding highly disciplined managers with (among other things) experience in generating strong returns in volatile economic environments.

Property: Region Exposure at 30 June 2011



Tangible Assets

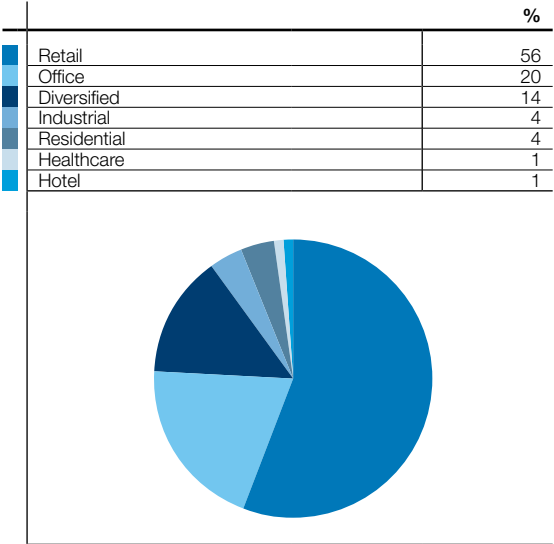
The Fund’s tangible assets allocation is intended to provide long-term, consistent income streams which, for the most part, are expected over time to increase at least in line with inflation. Our exposures in this area currently come from property, infrastructure and timberlands. We are flexible in the different ways of accessing these markets and consider both the listed and unlisted markets. We are prepared to invest via pooled funds, co-investments, separate accounts and individual investments, depending on the merits of each in the particular circumstances.

Property

We continue to build out our property portfolio by investing through listed mandates, unlisted funds, small syndicates of like-minded investors and joint ventures. Our preference is for structures where the investors maintain influence over key issues, such as investment strategy, capital management and exit. We focus on establishing flexible manager relationships that allow us to determine the style of opportunities and the level of risk that is introduced into our portfolio. We also seek a high degree of alignment with our managers, whether it be through the terms of their appointment, fee structures or material coinvestment.

We have added seven new positions this year; including an Australian REIT mandate, investments in joint ventures and funds providing exposures to the Australian and US office retail and residential sectors.

Property: Sector Exposure at 30 June 2011





In building out our property portfolio, we have focused on sourcing opportunities with one or more of the following attributes:

- (i) located in markets which provide value, where rental or capital values have scope for recovery over the medium term.
- (ii) properties with identifiable drivers of real growth.
- (iii) assumption of risk, where the risk is being rewarded by improved return.
- (iv) situations where property is held in poorly capitalised or unstable corporate structures which benefit from the introduction of patient capital.
- (v) valuation arbitrages between listed and direct markets.

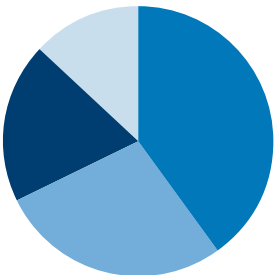
The portfolio is well diversified across countries and the property sectors.

Valuations continue to improve in most markets and this is increasing transaction activity (from a very low base) decreasing prospective returns. We need to continue to be very selective in sourcing opportunities that reflect appropriate value and to remain disciplined in pricing opportunities having regard to risk.

While our environment is becoming more competitive, we continue to be presented with a diverse pipeline of opportunities that meet the above criteria.

Infrastructure: Region exposure at 30 June 2011

	%
Australia	40
UK	28
Europe	19
North America	13



Infrastructure

Our approach to infrastructure investments is designed to leverage the skill of our internal team with the expertise of expert fund managers. To this end we have utilised a variety of different approaches to obtain our exposure.

We invest in pooled funds with managers that we believe can access attractive opportunities. We have favoured funds which we expect to provide co-investment opportunities so that we can better tailor our portfolio exposure to fit our strategy and reduce the fees paid.

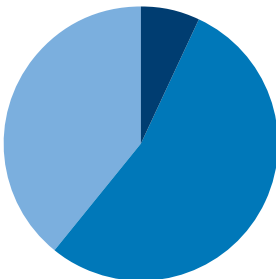
Alongside funds that invest in high quality core infrastructure assets, we have also made an allocation to more opportunistic infrastructure. This is a strategy where skilled managers add value to infrastructure businesses requiring recapitalisation, business turnaround or through an active growth strategy.

We also seek to acquire direct exposures to quality assets, both domestically and offshore. To this effect we acquired a 17.2% interest in Gatwick Airport during the year. This sits alongside our existing investment in Asia Pacific Airports Corporation (the owner of Melbourne and Launceston airports).

The listed infrastructure market provides another avenue to gain exposure to attractive infrastructure assets. Given the Fund's long-term investment horizon, we can look through short-term equity market volatility to the more stable cashflows generated by the underlying assets. We increased funding to listed infrastructure during the year gaining exposure to a portfolio of both global and Australian stocks.

Infrastructure: Category exposure at 30 June 2011

	%
Economic	54
Regulated	39
Contracted	7



Looking forward, the demand for quality infrastructure assets is increasing with many large global pension and sovereign funds building their investment capacity in the asset class. Our approach is to continue to carefully build our exposure on a selective basis.

Timberland

We maintained interest in increasing our exposure to timberland assets during the year, bidding unsuccessfully on a number of opportunities in Australia and New Zealand. Our approach remains highly price disciplined. We maintained our exposure to US Timberland via our mandate with The Campbell Group.

Debt

Global Credit markets have exhibited remarkable volatility since early 2008, when the first few investments in the Debt portfolio were made. The credit spread widening pressure seen in the first half of 2008 was magnified to a frightening level in the second half of 2008 as the global financial system almost collapsed. From the depths of despair in early 2009, and with tremendous support from a wide range of monetary and fiscal initiatives, global credit markets then staged a recovery which defied even the most optimistic predictions.

The Debt program has been managed very actively throughout this volatile environment, focusing initially on very high grade opportunities which offered compelling reward for risk in an extremely uncertain environment, and then dramatically building the allocations to lower grade corporate credit, US mortgage securities and structured credit in the post-Lehman environment as credit markets represented compelling value.

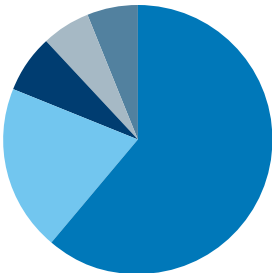
The broad rally in risk markets from early 2009 to mid-2011 resulted in a meaningful compression of risk premia in many credit sectors. As a result of this, we took the opportunity to reduce the overall size of the Debt portfolio, with a particular focus on reducing exposure to the more liquid sectors of the credit markets which have rallied most aggressively. This reduction in credit risk has proved timely given the recent deterioration in credit and equity markets.

A key feature from the inception of the Debt program has been a focus on managers with strong individual credit selection skills and in providing these managers with sufficient scope to orient their respective portfolios towards areas where they see most value. This has created an ‘in-built’ dynamism to the Debt portfolio where incremental shifts towards sectors which offer attractive returns occur within individual manager mandates. This has been supplemented with a number of very targeted mandates to take advantage of specific market opportunities. Within the volatile environment we have experienced, this approach has paid significant dividends, and leaves us well positioned for the future.

In 2010/2011 we continued to build exposure to a range of niche credit opportunities. They share a common trait in that they are all lending strategies which focus on areas of the credit markets which have seen reduced participation from the banking sector post the financial crisis and include property debt, infrastructure debt and middle market corporate debt. Funding for these, as well as for a newly established dedicated emerging markets debt mandate, has come from a reduction in the exposure to liquid investment grade and high yield corporate credit holdings which has led to a significant crystallisation of market gains.

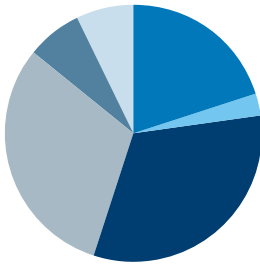
Debt: Region exposure at 30 June 2011

	%
North America	62
Australia	20
Europe (ex UK)	7
United Kingdom	6
Rest of the World	6



Debt: Sector exposure at 30 June 2011

	%
Investment Grade: Financial	20
Investment Grade: Non-Financial	3
Sub-Investment Grade Corporate	32
Securitised	31
Emerging Markets Debt	7
Private Debt	7



Alternatives

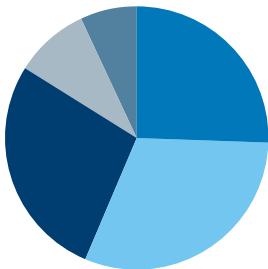
The build-out of the Alternatives program continued over the past fiscal year as it grew in size from \$9.8 billion to \$13.7 billion. As with the prior year, the principal theme was the addition of diversity to the program from the initial concentration within distressed credit in the midst of the financial crisis. In doing this, we both added incrementally to existing strategies as well as introducing new focus areas.

Within existing strategies, additional appointments were made with two multi-strategy managers offering complementary stylistic and geographic biases to our existing manager panel. We continue to value such managers for their ability to allocate efficiently among disparate opportunity sets. Within the macro-directional portfolio we made a number of additional appointments which meaningfully diversified this program, and this included our first systematic managers. Macro-directional managers are a core focus for the Alternatives program due to the beneficial diversity we believe such managers provide at the wider Fund level.

In relation to new areas, we concentrated on two different and diversifying strategies during the year, with allocations to volatility and commodity focused managers with active management approaches. We estimate that the volatility program will bring important diversification benefits to the portfolio while also offering our organisation an additional input to our portfolio risk management thinking. Within the active commodity program, we have partnered with organisations that can manage exposure to the sector as risk-efficiently as possible with limited levels of commodity market beta exposure.

Alternatives: Strategy exposure at 30 June 2011

	%
Multi-Strategy/Relative Value	26
Macro Directional	31
Distressed & Event Driven	28
Fundamental Long/Short	9
Commodity-Oriented	7



We continue to operate a hybrid model within the Alternatives program which is focused on direct allocations to managers and is supplemented by exposures gained through our fund of hedge fund partners. These partnerships are designed from an investment standpoint to provide diversified access to specific opportunity sets or to enhance either the timeliness or size of exposures within the Alternatives program. In addition, they provide an important operational extension to our internal staff from a research and due diligence perspective as well as insights relating to risk and portfolio management.

We continue to be attracted to the various strategies within the Alternatives category. We view these strategies as an attractive way of taking risk which offer diversifying outcomes from the major market risks already embedded at the total Fund level. As a result, this part of the Fund will continue to be a particular area of emphasis going forward as we further develop existing programs and add new managers and strategies within the broader Alternatives portfolio.

Currency

In managing currency risk, we consider offshore investments on a fully hedged basis and then separately evaluate to what extent we wish to hold an exposure to foreign currencies. We therefore explicitly manage the size and nature of the foreign currency exposure rather than allowing them to be shaped by the underlying investment.

We hold foreign currency exposure for a variety of reasons including to enhance portfolio diversification, to access defensive currencies that provide returns in times of market stress and to protect purchasing power when the Australian dollar weakens.

At the end of the year we held an exposure to foreign developed market currencies equivalent to 12.7% of the total portfolio. We also held a 12.3% exposure to emerging market currencies which not only provides further diversification for the portfolio but also offers a source of additional return from the exposure to fast-growing economies.

Where an offshore asset is fully hedged into Australian dollars, a gain or loss on the currency hedging is expected to be fully offset (other than interest rate differentials) by the currency gain or loss in holding the underlying asset (as the currency is hedged). It should therefore be noted that the currency gains (or losses) indicated in the accounts, should be carefully interpreted as the underlying asset is likely to also reflect the offsetting loss (or gain) when the asset is hedged.

Protection strategies

From time to time we also make use of option strategies to adjust the portfolio risk settings. As at 30 June 2011 we had an option portfolio that reduced the listed equities exposure by 1.2% and the foreign currency exposure by 1.1%.

Telstra

Following the third stage of the privatisation program of Telstra Corporation Limited, the Government transferred 2.1 billion shares in the company to the Future Fund (16.4% of Telstra) and imposed a two year escrow on them. On 20 November 2008, these shares emerged from this escrow allowing them to be traded. From the time of the transfer it was recognised that a holding of this size carried too great an exposure to a single security. Accordingly, the Board set the objective of undertaking a best endeavours sell-down of this holding over the medium term to a level consistent with the broader investment strategy and with a view to optimising the long-term value of the total Fund.

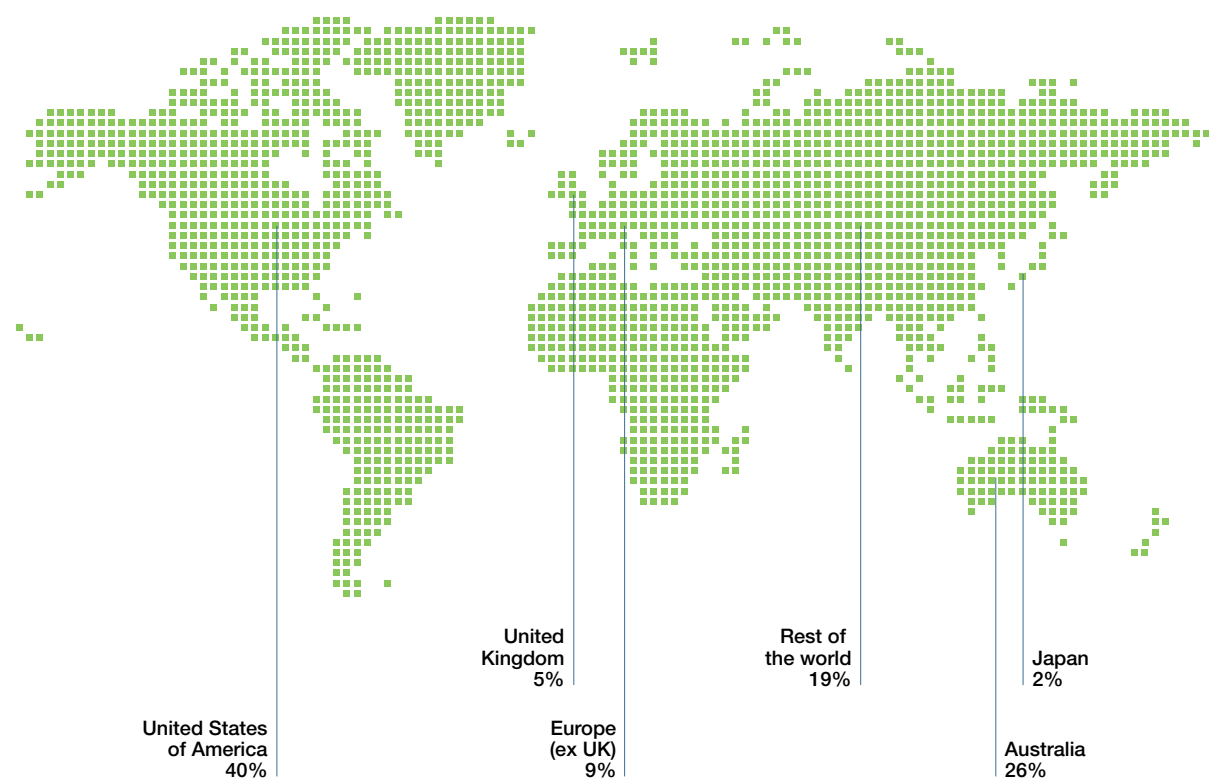
In 2007 and 2008 the Board disposed of 126 million shares by providing shares to Telstra’s Dividend Reinvestment Plan, as permitted under the Ministerial Directions to the Board. In August 2009 the Board sold 684.4 million shares through a block trade at a modest discount to the prevailing market price and placed the shares in a trading lock-up for six months.

From September 2010 the Board continued the rebalancing of the portfolio by selling Telstra shares on market. In doing so the Board ensured that the selling was conducted smoothly and in an orderly manner to avoid untoward market impact. As a result of this sustained activity the Board’s holding in Telstra fell below 5% on 23 March 2011 and the Board ceased to be a substantial shareholder in the company.

At 30 June 2011 the Board held 365 million shares in Telstra (2.9% of the company). The Board subsequently announced on 15 August 2011 that it had completed its strategy for rebalancing the portfolio and reduced its holding in Telstra to 100 million shares (0.8% of the company). The Board also confirmed that it would cease reporting its holding in Telstra separately and would report the performance of the Telstra holding as part of the overall Future Fund portfolio with effect from 1 July 2011.

Having received shares worth \$9.21 billion from the Government, the rebalancing program has resulted in \$9.37 billion being integrated into the broader portfolio.

Future Fund investments by geography at 30 June 2011 (excluding Telstra holding)



Performance

The return on the Future Fund portfolio (ex Telstra) over the year was 12.8%. Since the first contribution to the Future Fund in May 2006 the return has averaged 5.2% p.a. (ex Telstra). Over the same period, CPI has averaged 3% p.a.

The investment program effectively commenced at the beginning of the 2007/08 financial year once the operating infrastructure for the Fund (back and middle office) was built. On 1 July 2007, the portfolio consisted of 91% cash and a 9% passive allocation to listed equity markets (split equally between Australia and the rest of the world) which had recently been built. Over the four year period from 1 July 2007 to 30 June 2011, the return (after all operating costs) has averaged 5% p.a.

While modest in absolute terms, and still below the benchmark return stated in the Investment Mandate, given the turbulent financial markets since the investment program commenced, the Board believes this to be a respectable outcome and remains confident that the portfolio is positioned appropriately for its long-term mandate.

Benchmarking performance

The focus of the Board and the management team remains at all times on achieving absolute returns in line with those set by Government in the mandate. This is an important cultural feature of the organisation discussed elsewhere in this report. It means that any investment opportunity must be considered in the context of its contribution to the total portfolio return rather than in the context of the relevant sector.

Nevertheless the skill of the management team in implementing the Board's strategy, by producing a return in excess of the policy portfolio implied by the Target Asset Allocation, is measured and rewarded. A series of benchmarks which approximate the characteristics of each category of the Target Asset Allocation has been developed, as set out in the following below.

During the financial year to 30 June 2011, the actual portfolio outperformed this policy portfolio by 2.3%. Over the last three years the actual portfolio outperformed the policy portfolio by 2.4% p.a.

Category/sector	Policy benchmark representative index
Equities	
Australian equities	ASX 200 (ex A-REITS) Accumulation Index
Global developed markets equities (ex Australia)	MSCI World ex-Australia (currency hedged)
Global developing markets	MSCI Emerging Markets (currency hedged)
Private equity	Cambridge Associates Private Equity Universe
Tangible Assets	CPI +5% p.a.
Debt	50% Barclays Capital Global Aggregate [ex Sovereign] Index (duration and currency hedged) and 50% Barclays High Yield Index (duration and currency hedged)
Alternatives	UBS Bank Bill Index plus 3% p.a.
Cash	UBS Bank Bill Index
Foreign Currency	
Developed markets currency	MSCI ex Australia weightings
Developing markets currency	JP Morgan ELMI+ Index
Interest Rate Duration	An exposure (equally weighted between Australia and international) to 10 year zero coupon sovereign bonds

Operating Costs

The Future Fund portfolio (ex Telstra) management costs for 2010/11 were \$444 million compared with \$266 million in 2009/10 reflecting the continual development and performance of the portfolio. This includes investment manager fees, core custody and portfolio administration charges as well as the costs of the Board and Agency.

These costs, as a proportion of the assets under management, make up the Indirect Cost Ratio – a common way of expressing and comparing investment management costs in Australia.

The Indirect Cost Ratio for 2010/11 (ex Telstra) was 0.637% (0.436% in 2009/10). More detail on these costs is provided on page 44.

A significant component in the overall costs of the organisation are the fees payable to external investment managers. A general principle guiding the Board's approach is that each investment should be evaluated on an expected return basis (net of fees and costs). In this context, minimising fees is not a goal in its own right. However, managing costs is an important component in the net expected return and it therefore receives considerable attention.

In negotiating fee arrangements, focus is applied to securing arrangements that offer value for money for skill and resources applied, that are competitive relative to other managers in the sector and that provide for strong alignment between the manager and the Board. The Board also focuses on the potential value, to the Future Fund and the external manager, of a strategic relationship, the benefits of scale and the impact of fees and costs behind the headline fee.

Fee arrangements are tested against the Board's assessment of existing market practice and, where applicable, against best practice principles provided by organisations such as the International Limited Partners Association (ILPA).

Structures negotiated with managers have been designed to strike a suitable balance between base and performance fees, ensure that the period over which performance payments are crystallised is appropriate and utilise techniques such as high water marks and clawback provisions to further enhance alignment.

Fee arrangements with managers are monitored and reviewed regularly to ensure fees remain appropriate against these criteria on an ongoing basis. A number of fee arrangements were renegotiated to the favour of the Fund during the year.

Nation-building Funds

Background

The Nation-building Funds (Building Australia Fund, Education Investment Fund and Health and Hospitals Fund) were established by the *Nation-building Funds Act 2008* to provide financing resources to meet the Australian Government's commitment to Australia's future through investment in critical areas of infrastructure such as transport, communications, energy, water, education, research and health.

The Funds came into existence on 1 January 2009. Between January and June 2009 the Government contributed \$10,935 million into the Building Australia Fund including \$2,468 million from the Communications Fund and \$966 million from the Telstra Sale Special Account with the balance from the 2007/08 budget surplus. Since inception a total of \$3,729 million has been withdrawn from the Building Australia Fund including \$2,054 million during the 2010/11 year.

On 1 January 2009, the Education Investment Fund was credited with \$6,484 million from the Higher Education Endowment Fund (HEEF) and the HEEF was discontinued. Since inception a total of \$2,261 million has been withdrawn from the Education Investment Fund including \$906 million during the 2010/11 year. The Health and Hospitals Fund received contributions totalling \$5,000 million from the 2007/08 budget surplus between 20 February and 12 June 2009. Since inception a total of \$1,144 million has been withdrawn from the Health and Hospitals Fund including \$688 million during the 2010/11 year.

Contributions to the Nation-building Funds are made at the discretion of the Government. Arrangements for withdrawals from the Funds are detailed in the *Nation-building Funds Act 2008* and provide that relevant Portfolio Ministers must not make a payment from the respective Fund for an identified project unless the advisory Board for the Fund has advised the Minister that the project satisfies the relevant criteria.

Withdrawals may also be made to cover the administration and investment costs associated with investing the assets of each Fund. The Appropriations Bills provide Parliament with a mechanism by which it may review the maximum amounts that can be paid from the Nation-building Funds each year.

Investment mandate and performance

The Board of Guardians is responsible for growing the assets of the Nation-building Funds in line with the Investment Mandates from the responsible Ministers, but has no role in determining or advising on payments from the Funds. The Board is required to seek to maximise returns on each Fund consistent with international best practice for institutional investment and to take all reasonable steps to ensure there is sufficient money in the Funds to cover authorised payments.

Investment Mandates for each of the Nation-building Funds were issued by the responsible Ministers on 14 July 2009 and set a target benchmark return of the Australian three month bank bill swap rate +0.3% per annum calculated on a rolling 12 month basis (net of fees). The Board is required to invest in such a way as to minimise the probability of capital losses over a 12 month horizon.

The Nation-building Fund Investment Mandates also require the Board to act in a way that minimises the potential to effect any abnormal change in the volatility or 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.

Consistent with its obligations the Board has invested the assets of each of the Nation-building Funds in combinations of short and medium-term debt

instruments that reflect the specific withdrawal and liquidity expectations of each Fund. The Board's Statement of Investment Policies in relation to the Nation-building Funds is available on its website.

The benchmark return for each Fund in the 2010/11 year was 5.3% (Australian bank bill swap rate + 0.3%). Each of the three Nation-building Funds generated a return of 5.6% for the 2010/11 year.

The management costs of the Nation-building Funds are met from the assets of the Fund and were \$10.1 million for the Building Australia Fund, \$6.5 million for the Education Investment Fund and \$5.7 million for the Health and Hospitals Fund. These costs include investment manager fees, core custody and portfolio administration charges as well as the costs of the Board and Agency. These costs, as a proportion of assets under management, make up the Indirect Cost Ratio.

The Indirect Cost Ratio for 2010/11 for the Building Australia Fund was 0.114%, for the Education Investment Fund it was 0.123% and for the Health and Hospitals Fund it was 0.121%. Further detail is provided on page 44.

At 30 June 2011 the value of the Building Australia Fund stood at \$8,200 million, the Education Investment Fund was valued at \$4,904 million and the Health and Hospitals Fund stood at \$4,350 million.

Investment Managers appointed by the Future Fund Board of Guardians at 30 June 2010

Asset class	Manager	
Australian equities	JCP Investment Partners Perennial Growth Management	Macquarie Investment Management
Global equities	Altrinsic Global Advisors Lazard Asset Management Pacific Co. Schroder Investment Management Australia State Street Global Advisors	Blackstone Alternative Asset Management Massachusetts Financial Services Southeastern Asset Management
Emerging market equities	Arrowstreet Capital Trilogy Global Advisors	State Street Global Advisors
Private equity	Adams Street Partners Apax Partners Bessemer Venture Partners CDH Investments HarbourVest Partners Horsley Bridge Partners Nordic Capital Quadrant Private Equity Southern Cross Management	Advent International Corporation Berkshire Partners Charterhouse Capital Partners Greenspring Associates Hellman & Friedman Insight Venture Partners Oaktree Capital Management RCP Advisors TowerBrook Capital
Property	Brookfield Asset Management CorVal Partners Henderson Global Investors Lend Lease Investment Management PEET Limited	Colonial First State Global Asset Management Garrison Investment Group LP CBRE Clarion Real Estate Securities MGPA TIAA-CREF
Infrastructure & Timberlands	AMP Capital Investors Global Infrastructure Partners RARE UBS Global Asset Management	Citi Infrastructure Partners Highstar Capital The Campbell Group
Debt securities	Ares Management Haymarket Financial Macquarie Investment Management PIMCO Australia Sankaty Advisors Vianova Asset Management	Goldman Sachs Asset Management M&G Investment Management Limited Oak Hill Advisors Quadrant Real Estate Advisors Stone Harbor Investment Partners Westbourne Credit Management Limited
Alternatives	Arrowgrass Capital Partners BlackRock Alternative Advisors Blenheim Capital Management Brevan Howard Asset Management Canyon Capital Advisors Ionic Capital Management Louis Dreyfus Investment Group Oaktree Capital Management Pacific Alliance Investment Management Limited Vermillion Asset Management	Astenbeck Capital Management Blackstone Alternative Asset Management BlueCrest Capital Management LLP Bridgewater Associates Centerbridge Partners L.P King Street Capital Makena Capital Management Och-Ziff Management Sankaty Advisors Winton Capital Management
Overlay strategies	Ashmore Investment Management Limited Insight Investment Management (Global) PIMCO Australia	BlackRock Investment Managers Macquarie Investment Management
Cash	Colonial First State Global Asset Management	Macquarie Investment Management

Governance

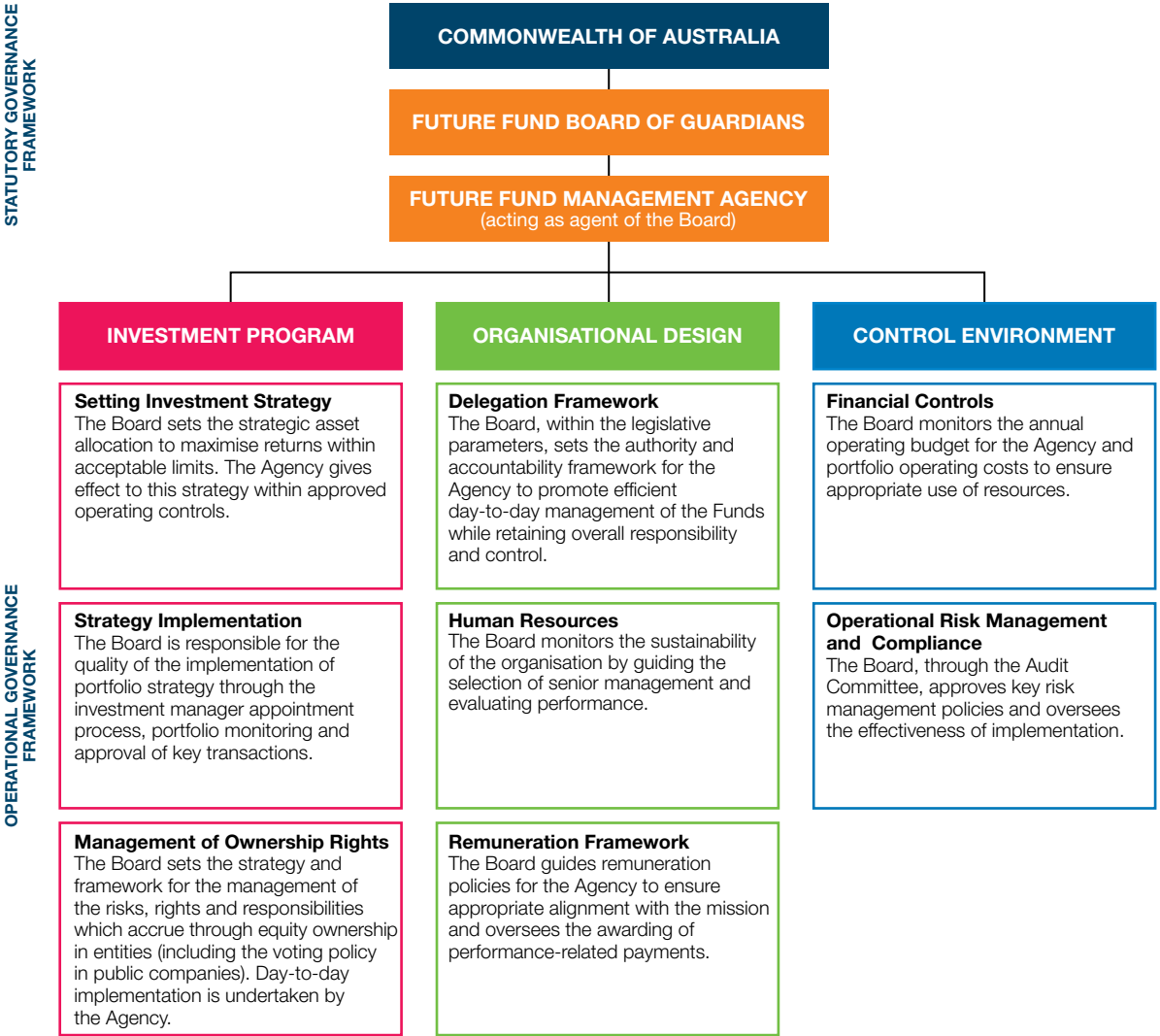
The Board of Guardians defines corporate governance as relating to how an entity is structured, operated and controlled to optimally achieve its objective and it believes that a positive relationship exists between good governance and the creation of investment value. The Board's view of corporate governance applies both to its own operations and to how it manages the ownership rights and responsibilities that accrue to the Board's investments on behalf of the Commonwealth.

The purpose and funding and withdrawal arrangements for the Future Fund and Nation-building Funds are established in legislation together with the clear delineation of the relationships and responsibilities of the

Commonwealth, as asset owner, and the Board of Guardians and Agency, as asset manager. These arrangements together represent the statutory governance framework for the Funds.

These statutory arrangements are supplemented by operational governance arrangements that reflect the obligation placed on the Board, through the legislation and the Investment Mandates, to seek to maximise returns on the Funds consistent with international best practice for institutional investment and to have regard to international best practice in its approach to corporate governance, including in relation to voting policy. The following pages detail the statutory and operational governance arrangements in some detail.

Corporate governance framework



Statutory Framework

The statutory governance arrangements for the Future Fund and Nation-building Funds are set out primarily in the *Future Fund Act 2006* and the *Nation-building Funds Act 2008*.

This core legislation sets out the roles and responsibilities of the Government and of the Board and the Agency, while the *Financial Management and Accountability Act 1997*, together with other Commonwealth guidelines, procedures and orders, establishes arrangements for delegations and authorities, spending and the budget accounting treatment of costs, liabilities, income and expenses.

In particular the legislation provides the Government, through the responsible Ministers, with oversight of the Funds subject to the arrangements that establish the independence of the Board. The Government's role includes the appointment of Board members and the establishment of Investment Mandates for each of the Funds.

The legal framework retains beneficial ownership of the assets of each Fund in the Commonwealth. It also clearly states the purpose of each Fund and makes clear that contributions to the Funds are discretionary.

Withdrawals from the Future Fund may only occur once the superannuation liability is fully offset or from 1 July 2020, whichever is earlier, although investment and administration expenses may be drawn from the Future Fund throughout its existence. Withdrawals from the Nation-building Funds are determined by Government, subject to the advice of the relevant advisory board and oversight of the maximum spending from the Funds by Parliament through the Appropriation Bills.

The Board of Guardians, meanwhile, is responsible for investing the assets of the funds in accordance with the legislation. To assist it in this role, the Board receives recommendations and advice from the Agency which is also responsible for implementing investment decisions.

The board believes that a positive relationship exists between good governance and the creation of investment value.

In undertaking this task, the Board operates independently from Government. This independence is emphasised in a number of ways, including:

- the expenses of the Funds are met from the assets of the Funds themselves rather than from appropriations through Parliament;
- the Board must be consulted on draft investment directions which must be consistent with the requirements of the legislation, and any submissions the Board makes on a draft direction must be tabled in Parliament. The investment mandates for each of the Funds clearly define the risk and return requirements and timeframe for investment activity and the legislation imposes very few limitations on asset allocation, selection of markets and portfolio design on the Board;
- Board members must be drawn from outside government and must meet the requirements of having substantial expertise and professional credibility in investing or managing financial assets or in corporate governance.

In addition, the Board is not involved in advising on macroeconomic management or policy formation and implementation and so is focused solely on the pursuit of its investment objectives in a commercial manner.

At the same time the legislation provides accountability arrangements, including the tabling in Parliament of an annual report and audited financial statements. The Board has also decided to publish public quarterly portfolio updates to provide details of the investment activity and performance of the funds.

Consistent with the recommendations of the Review of Corporate Governance of Statutory Authorities and Office Holders by Mr John Uhrig (the Uhrig Report), Statements of Expectations and Statements of Intent have been exchanged between the Minister for Finance and Deregulation and the Board and the Agency. These documents further delineate the responsibilities and communication arrangements between the parties and are available on the Future Fund's website.

The Agency appeared before hearings of the Senate Committee on Finance and Public Administration in October 2010 and February and May 2011. These public hearings are based upon the Outcome and Output structure detailed in the Portfolio Budget Statements.

The outcome for the Agency is to "make provision for the Commonwealth's unfunded superannuation liabilities and payments for the creation and development of infrastructure, by managing the operational activities of the Future Fund and Nation-building Funds, in line with the Government's investment mandates".

This breaks down into two programs: management of the investment of the Future Fund and management of the investment of the Building Australia Fund, Education Investment Fund and Health and Hospitals Fund.

The Agency resource statement and resourcing for outcome table are included on page 124.

During the financial year the Board and Agency received eight requests under the *Freedom of Information Act 1982*. Details of the arrangements for seeking access to information are provided on page 123.

In line with amendments to the *Freedom of Information Act 1982* (the *FoI Act*), an Information Publication Scheme Plan was developed and implemented during the year and this included revisions to the material available through the organisation's website.

Board of Guardians

There are seven members of the Board of Guardians each appointed by the Treasurer and the Minister for Finance and Deregulation for terms of up to five years. The Board is accountable to the government for the safekeeping and performance of the assets of the Funds.

In April 2011, the tenures of Mr Rowe and Mr Browne as members of the Board of Guardians expired and in their places the responsible Ministers appointed Ms Carol Austin and Mr Stephen Fitzgerald to the Board of Guardians each for five years.

Mr Murray's and Dr Mulcahy's tenures also expired in April 2011. Mr Murray was reappointed as Chair of the Board of Guardians for one year and Dr Mulcahy was reappointed as a member of the Board of Guardians for four years.

To assist it in its task the Board has established an Audit Committee to oversee the compliance and audit functions, monitor control frameworks, review key financial statements, track legislative compliance and evaluate the efficiency and effectiveness of the risk management plan. All members of the Board are members of the Audit Committee with the exception of Mr Murray who is excluded as is customary due to his role as Chair and statutory Chief Executive of the Agency. Ms Doyle served as Chair of the Audit Committee.

During the year the Board's Market Transaction Committee, chaired by Mr Watson, monitored, advised and directed the Agency on behalf of the Board in relation to selected transactions. Other members of the committee were Ms Doyle, Dr Mulcahy, Mr Browne.



Mr David Murray AO, Chair

Mr Murray was first appointed on 3 April 2006 for a period of five years and reappointed with effect from 3 April 2011 for one year.

Mr Murray spent 39 years at the Commonwealth Bank of Australia (CBA), and was Chief Executive Officer from 1992 until his retirement in 2005. Mr Murray has substantial experience in the finance and banking sector and considerable knowledge of financial markets.

Mr Murray has strong corporate governance credentials, having guided CBA through a number of major changes, including its privatisation. In 2003, Mr Murray was awarded the Centenary Medal for his contributions to banking and corporate governance. He was appointed an Officer of the Order of Australia in 2007 for services to the finance sector, education and the community and is the inaugural Chair of the International Forum of Sovereign Wealth Funds.



Board of Guardians (left to right)
 Brian Watson, Peter Costello, David Murray, Carol Austin, Susan Doyle,
 Stephen Fitzgerald, John Mulcahy

Ms Carol Austin

Ms Austin was appointed on 3 April 2011 for a period of five years.

Ms Austin is Investment Services Director for Contango Asset Management and a member of the Boards of HSBC Bank Australia and the Tasmanian Public Finance Corporation. She has held senior positions with Rothschild Australia Asset Management, Commonwealth Funds Management, BHP and the Reserve Bank of Australia.

Hon Peter Costello AC

Mr Costello was appointed on 18 December 2009 and his appointment expires on 2 April 2014.

Mr Costello served as a member of the House of Representatives from 1990 to 2009 and was Treasurer of the Commonwealth of Australia from March 1996 to December 2007. He served as Chair of the APEC Finance Ministers in 2007 and Chair of the G20 in 2006.

He was a committee member of the International Monetary Fund, a Governor of the World Bank and the Asian Development Bank for approximately 10 years. He currently serves on an Independent Advisory Board to the World Bank and is a Managing Director and Board member of BKK Partners. Prior to entering Parliament, Mr Costello was a practising barrister. He was appointed a Companion of the Order of Australia in 2011 for eminent service to the Parliament of Australia through the development of landmark economic policy reforms.

Ms Susan Doyle

Ms Doyle was first appointed on 3 April 2006 and was reappointed for a period of four years from 3 April 2009.

Ms Doyle is Chair of the Board's Audit Committee.

Ms Doyle has had an extensive executive career in the funds management industry, particularly in the equities and fixed interest sectors, working with Commonwealth

Funds Management, Suncorp Metway and Insurance Australia Group. Ms Doyle was Chair of the Australian Reward Investment Alliance (ARIA) until July 2009.

Mr Stephen Fitzgerald

Mr Fitzgerald was appointed on 3 April 2011 for a period of five years.

Mr Fitzgerald is Chairman of Goldman Sachs Australia and New Zealand and formerly Co-Chief Executive of Goldman Sachs & Partners Australia. He has had a long career with Goldman Sachs including senior roles in London, Tokyo and Hong Kong and has substantial experience in asset management in Australia and internationally.

Dr John Mulcahy

Dr Mulcahy was first appointed on 3 April 2006 for a period of five years and reappointed with effect from 3 April 2011 for four years.

Dr Mulcahy has broad corporate experience and expertise in financial services. He was Chief Executive Officer and Managing Director of Suncorp and has held a number of senior roles in the Commonwealth Bank including Group Executive, Investment and Insurance Services. He previously held the positions of Chief Executive of Lend Lease Property Investment Services and Chief Executive of Civil and Civic.

Mr Brian Watson

Mr Watson was first appointed on 3 April 2006 and was reappointed for a period of three years from 3 April 2009.

Mr Watson has extensive experience in finance and investment management. Mr Watson spent 16 years with JP Morgan & Co. in a number of senior roles, including Global Head of Equity Capital Markets and Global Head of Private Equity, both based in New York, and Chairman of JP Morgan Australia.

Mr Watson has held various positions on Australian Government Boards including Chairman of the Pooled Development Funds Registration Board and Deputy Chairman of Innovation Australia. He was Chairman of the Government's Venture Capital Review conducted in 2005.

Mr Jeffrey Browne

Mr Browne was appointed on 3 April 2006 for a period of five years. His tenure expired in April 2011.

Mr Browne was a Partner (New York) and Managing Partner of Australian Offices (Melbourne and Sydney) in the legal firm Sullivan & Cromwell and has extensive experience in capital market transactions. Mr Browne has also acted for the Commonwealth and state governments, mainly in relation to international bond offerings and privatisations.

Mr Trevor C Rowe AO

Mr Rowe was appointed on 3 April 2006 for a period of five years. His tenure expired in April 2011.

Mr Rowe is Chairman of Rothschild Australia Limited, Chairman of UGL Limited and Chairman of BrisConnections. He was a Director of Australian Securities and Exchange Limited (ASX) from 2003 to 2010. He served as Chancellor of Bond University from 2002 to 2009, Chairman of QIC from 2001 to 2009 and was a member of the Takeovers Panel from 2000 to 2003. He has been a member of the Foreign Affairs Council since 2000. Mr Rowe was awarded the Centenary Medal in 2003 for distinguished service to the finance industry and was appointed a Member of the Order of Australia in 2004 and an Officer of the Order of Australia in 2011 for distinguished service to the finance sector, to higher education and the community.

Board and Board Committee Attendance

	Board meetings		Audit Committee		Market Transaction Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
David Murray AO	11	10	0	3*	0	0
Carol Austin	2	2	1	1	0	0
Jeffrey Browne	9	9	4	4	3	3
Hon Peter Costello AC	11	11	5	5	0	0
Susan Doyle	11	10	5	5	4	4
Stephen Fitzgerald	2	2	1	1	0	0
Dr John Mulcahy	11	11	5	5	4	4
Trevor Rowe AO	9	9	4	4	0	0
Brian Watson	11	11	5	5	4	4

*Mr Murray attended at the invitation of the Committee.

Future Fund Management Agency

The Board is supported and advised by the Future Fund Management Agency in the development and implementation of investment strategies. The Chair of the Board of Guardians is also the Chief Executive of the Agency, although in practice operational management has been delegated to the General Manager of the Agency in accordance with the arrangements of the *Financial Management and Accountability Act 1997*.

Operational leadership for the Agency is provided by the General Manager, Chief Investment Officer, Head of Operations, Head of Finance and Director, Human Resources who together make up the Executive Management Committee of the Agency.

In December 2010, following the resignation of Mr Paul Costello as General Manager and pending the recruitment of a new General Manager, Mr David Neal was appointed Acting General Manager in addition to his role as Chief Investment Officer. Mr Mark Burgess was announced as the new General Manager in March 2011 and he took up his role at the start of July 2011.

Mr Mark Burgess, General Manager (effective July 2011)

Mr Burgess was previously Chief Executive Officer of ASX-listed company Treasury Group. Prior to this he was Vice Chairman and CEO, Europe and Middle East at Credit Suisse Asset Management in London. Earlier in his career Mr Burgess was Global Head/CIO of Equities at American Express Asset Management International in London and Head of Global Asset Management at Colonial First State Investments in Melbourne and London.

Mr David Neal, Acting General Manager and Chief Investment Officer

Mr Neal joined the Future Fund from Watson Wyatt Australia where he was Head of Investment Consulting.

David started his career with Watson Wyatt in the United Kingdom and led the establishment of the firm's investment consulting business in Australia.

Mr Gordon McKellar, Head of Operations and IT

Mr McKellar has over 20 years' experience in asset servicing including roles in Edinburgh, New York and Sydney. Most recently he was Head of Operations at BNP Paribas Securities Services. He has also held operational and client management roles with Deutsche Bank and Bankers Trust Company.

Mr Paul Mann, Head of Finance

Mr Mann is a CFA Charterholder and a Chartered Accountant with an extensive audit background in financial services gained at PricewaterhouseCoopers in Australia and the United Kingdom. He also has five years' experience in the provision of fund accounting and tax reporting services to investment clients gained at National Custodian Services in Melbourne.

Ms Liz McPherson, Director, Human Resources

Ms McPherson is an experienced human resources professional having worked with Suncorp, AAMI, Wesfarmers and CSL in Australia. She also brings extensive and broad experience in Hong Kong, South Africa and New Zealand. Her qualifications include a Masters in Business Leadership and postgraduate studies in change management.

Mr Paul Costello, General Manager (until December 2010)

Mr Costello took up his role as General Manager in November 2006. Previously he was the inaugural Chief Executive Officer of the New Zealand Superannuation Fund. Prior to that he was the Chief Executive Officer of the Superannuation Trust of Australia.

Operational governance

While the overarching governance arrangements are defined by legislation, the Board believes that effective governance of its own operations is essential to the successful pursuit of its objectives. In particular, the Board is focused on the prudent management of risk and considers risk in three broad categories: Investment risk, Strategic risk and Operational risk.

Investment risk includes the risk that the Board-approved investment strategy fails to achieve the mandated objectives. This comprises not only the development of an appropriate strategy but also the design and execution of robust processes to select and monitor managers and investment opportunities through which to implement the strategy.

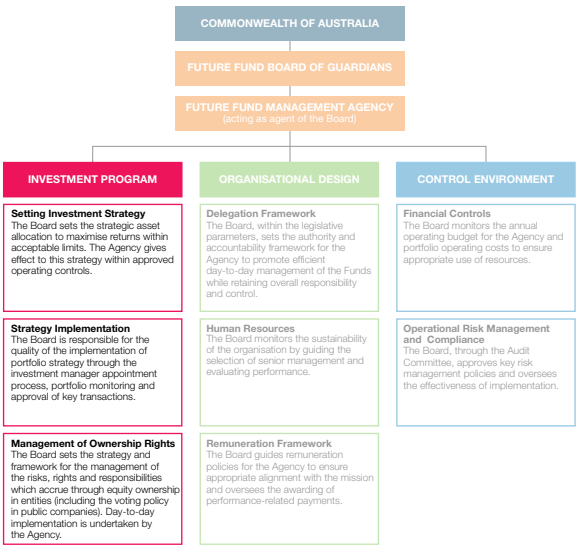
Strategic risk is the risk that the business and governance models and organisational culture are not fit to deliver the Board-approved investment strategy. The selection of people with the appropriate skills and the ability to successfully motivate and retain these people is a focus of the Agency and the Board.

Operational risk is the risk that processes, controls and systems are poorly designed, not fit for purpose or are not operating as intended to protect the organisation against financial, legal or reputational harm.

These categories of risk shape the governance structure adopted by the Board and are incorporated into the way the organisation structures and controls its activity.

As set out in the diagram on page 30 the Board structures its approach to governance through three pillars: the investment program, organisational design and the control environment. Each of these is addressed in turn.

Investment program



Setting the investment strategy

The Board’s approach to investment strategy is discussed in detail in the Investment Report starting on page 12.

Implementing the investment strategy

The Board oversees the quality of the implementation of the investment strategy by the Agency.

The governing legislation requires the use of external investment managers and this is consistent with the Board’s preference to operate a modestly sized organisation with internal resources concentrated on the key issue of determining the most efficient allocation of risk across investment markets. This is complemented by a focus on selecting the most appropriate investment partners and closely monitoring their provision of services as well as tightly managing operational risks.

In implementing its investment strategy the Board invests through various jurisdictions and investment vehicles for a variety of commercial, legal and tax reasons. Properly structuring its investments can be essential to maintaining the Board’s rights and entitlements including the benefit of sovereign immunity for tax purposes in certain jurisdictions. Failure to manage these matters can have a material impact on performance and would be inconsistent with the mandated objective to maximise returns whilst not causing any diminution of the Australian Government’s reputation in financial markets.

The Board will only invest through arrangements and structures that are commonplace and well tested by other public investment institutions and funds in terms of compliance with applicable laws and regulations.

The Board does not invest in schemes that contravene the OECD’s key principles of transparency and information exchange for tax purposes. It only invests through jurisdictions that are regarded by the OECD as having substantially implemented the internationally agreed tax transparency standard. Central to this focus is operational, legal, financial and taxation due diligence which is undertaken both as part of the investment decision process and through the ongoing monitoring of mandate compliance and investment performance.

The manager selection process is detailed in the Board’s Statement of Investment Policies and includes an assessment of specific criteria relating to demonstrated competitive advantage, the fit between the manager’s style and process and the Fund’s objectives, the strategies employed by the manager to control operational and financial risk, and the expected fees.

In allocating capital to a manager, relevant issues include the proportion of the Fund allocated to the asset class for which the manager is appointed, the proportion of active risk to be allocated to the manager and the capacity of the manager to take on additional assets.

To assist in this aspect of the program, the Board and Agency draw on external advisers. These include specialists in areas such as front and back office investment manager research, commercial due diligence of investment opportunities and the management of legal and tax risks.

The Board has also established monitoring practices to ensure that the portfolio is managed within predetermined limits set by the Board. These limits relate to the actual and target allocations to sectors and the exposure to individual managers as well as manager and portfolio performance. A monthly mandate compliance report is also provided to the Board.

The Agency undertakes regular reviews of external managers appointed by the Board with a focus on ensuring that they continue to satisfy the criteria for their appointment.

Management of ownership rights

The exercise of the ownership rights is an important opportunity to encourage good corporate governance in investee companies. This reflects the Board’s view that good governance, (i.e. how an organisation is structured, operated and controlled and how they manage environmental, social and regulatory responsibilities) protects and creates investment value.

Since September 2009 voting rights in publicly listed Australian companies have been managed directly by the Fund and exercised by the Agency on behalf of the Board. In exercising these voting rights the Agency applies the Board’s voting principles, as outlined in its Statement of Investment Policies while also drawing on the insight of relevant investment managers and research providers.



In view of the size of its shareholding in Telstra, in the 2010/11 financial year the Board managed the ownership rights attached to this holding directly.

The way in which the Board exercised the voting rights attached to its holdings in publicly listed Australian companies (including Telstra) in financial year 2010/11 is summarised below.

Where appropriate the Agency has engaged with investee entities both directly and through its investment managers to better understand potential material risks and opportunities related to environmental, social and governance issues.

Responsibility for the exercise of voting rights in the global public equity portfolio continues to be delegated to the Future Fund’s external investment managers, subject to close oversight by the organisation and regular reviews of the managers’ ownership policies and practices. In all cases the right to override managers and determine voting decisions directly is retained.

The voting rights exercised by our asset managers in the global public equity holdings are monitored at both the whole portfolio and manager-by-manager levels. In 2010/11 the Future Fund’s managers were eligible to exercise proxy votes in respect of 36,346 resolutions at 3,355 shareholder meetings. Those votes were exercised in 98% of cases at the resolution level and 98% of cases at the ballot (meeting) level. In the cases where the Future Fund’s votes were not exercised generally the manager judged that it was not in the Fund’s best interests to vote given structural impediments to shareholder voting, such as share blocking and onerous power-of-attorney requirements or that the Fund was ineligible to vote.

Each asset manager has the discretion to vote with or against the recommendation of the board of directors of the company for each resolution on the ballot.

In aggregate the Fund’s managers voted against company boards’ recommendations in approximately 7% of resolutions voted.

In relation to private markets investments, ownership rights generally accrue in two forms: formal voting rights — shareholdings in companies and unitholdings in pooled vehicles; and rights to participate on the advisory boards of pooled vehicles.

Where shareholder voting rights accrued to pooled vehicles from the underlying investments, the managers of those vehicles analysed and exercised the voting rights on behalf of the Fund. Shareholder votes resulting from direct holdings in assets and unitholder votes from the Future Fund’s interests in pooled vehicles were managed directly by the organisation’s Private Markets team.

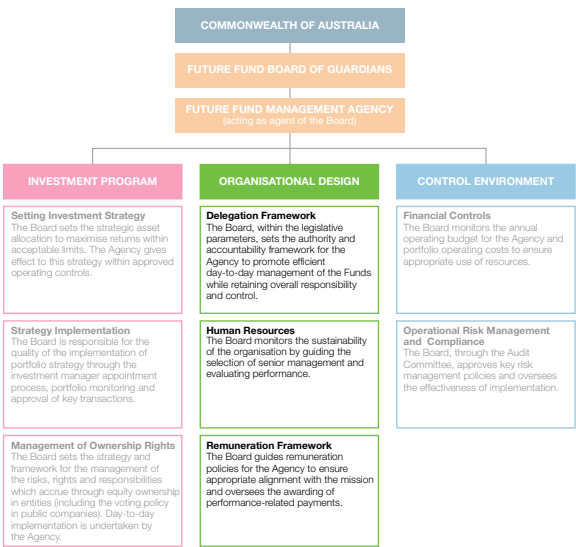
Many of the private markets pooled vehicles in which the Future Fund invests have advisory boards. The Fund has an appointment right in many of those cases and this right was exercised in all cases in 2010/11. The Fund has also exercised the right to appoint directors to the Boards of a number of the unlisted entities in which it invests, including in the case of APAC and Gatwick Airport.

In addition to the exercise of ownership rights, the Future Fund seeks to advance best practice in long-term institutional investment, improve system integrity and build new markets through collaboration with other long-term asset owners.

Exercise of Australian Voting Rights

Resolution type	No. of resolutions	WITH company board	ABSTAIN	AGAINST company board
Approve remuneration plan grant	161	68%	–	32%
Approve remuneration report	198	80%	–	20%
Amend/approve remuneration plan	55	80%	–	20%
Elect director	561	93%	–	7%
Other resolutions	348	95%	–	5%
Total	1,323	88%	–	12%
	(246 ballots)			
Not voted	6 (3 ballots)			
Total eligible	1,329			
	(249 ballots)			

Organisational Design



Delegation framework

While the Board is responsible for investing the assets of the Funds, the Agency provides support and advice and undertakes implementation of investment decisions including the appointment of external investment managers under delegation from the Board. The arrangements delineating the roles of the Board and Agency are outlined in the legislation and detailed in a Board–Agency authorisation protocol. This serves to provide clear lines of decision-making and accountability to promote efficient day-to-day management of the funds while retaining ultimate responsibility and control with the Board.

Human resource management

The Board supports the sustainability of the organisation and the development of an appropriately skilled and professional management team in the Agency through a focus on performance management and succession planning.

This year the Agency undertook a human resources needs analysis to assess the current state and to identify areas to be further developed. Priority areas identified for 2010/11 included performance management, core behaviours, remuneration plan, leadership behaviours and development, and succession planning.

Significant improvement has been made to the performance management process. This includes the introduction of core behaviours based on the Future Fund’s Values; the introduction of a five point rating scale for performance against KPIs and a four point scale against core behaviours and development and delivery of training for people managers along with suitable tools and materials.

The Board approved remuneration strategy and policy has been confirmed and the process for remuneration reviews refined. Details on the approach to remuneration and outcomes for 2010/11 are included on pages 40 and 41.

Work was also undertaken to develop a framework of expected leadership behaviours and an ongoing program of leadership development in people management skills was begun.

Alongside this work staff continued to have access to a training and development budget which can be accessed in line with the organisation’s professional development guidelines. A program of internally delivered training and development workshops and seminars was also delivered.

2011/12 will see the further development of an overall human resources strategy which will determine priorities for the next 3-5 years. The development of the strategy will, in part, be informed by the results of an employee engagement survey conducted in August 2011.



The organisation has continued to grow in line with its operating needs and the preference to keep the focus of the investment team on the efficiency of the total portfolio.

Staff numbers grew from 71 at the end of June 2010 to 79 at the end of June 2011 with a roughly even split between staff in the investment team and those in support functions (operations, IT, finance, compliance, legal and corporate services).

Details of the current staffing composition of the Agency are provided in the table below.

The organisation is committed to providing a safe working environment for its staff, contractors and others. A number of staff received ergonomic assessments of their desks which are available to all staff and first aid training was provided to selected staff.

There were no accidents, dangerous occurrences or investigations reportable under section 74 of the *Occupational Health and Safety Act 1991*. The organisation has taken steps to establish a Health & Safety Committee to further enhance its OH&S framework.

Staffing details

FFMA Classification	Full-time		Part-time		Male		Female	
	09-10	10-11	09-10	10-11	09-10	10-11	09-10	10-11
FFMA 1	–	–	–	–	–	–	–	–
FFMA 2	2	2	1	–	–	–	3	2
FFMA 3	19	23	–	–	6	6	13	17
FFMA 4	41	49	4	2	30	32	15	19
FFMA 5	3	3	–	–	3	3	–	–
FFMA 6	1	–	–	–	1	–	–	–
Total	66	77	5	2	40	41	31	38

All staff are based in Melbourne aside from one full-time FFMA Band 3 based in Sydney.
21 staff are employed under Australian Workplace Agreements, 58 staff are employed under Common Law Agreements.

Remuneration arrangements

The Board's position is that remuneration for Agency employees should be set at a level which allows for the attraction and retention of appropriately skilled and experienced employees in a marketplace where there is a high level of demand for the skills of Agency employees. In setting and reviewing remuneration levels, the Board has regard to median remuneration levels for like work within the Australian financial services sector. To the extent that, in any year, total remuneration levels deviate materially from this median, this is expected to be due to variable salary payments that are linked directly to the achievement of superior Fund performance.

To support the implementation of this policy, the Board uses independent, reputable and well established remuneration benchmarking services. The Board currently participates in the Financial Institutions Research Group survey (FIRG) for this purpose.

A review of remuneration for Agency staff was undertaken in June with adjustments being made to take into account promotions during the year, increases in responsibility and accountability for some individuals and market movement for specific jobs as well as for the Australian financial services industry overall. The outcomes from this review was considered by the Board Committee for Agency Appointments, Remuneration and Development and approved by the Board at its August meeting.

Performance-related pay framework

All permanent employees are eligible to earn a performance-related payment in addition to their fixed remuneration. Performance-related payments are designed to align staff to the organisation's objectives and to reflect superior performance rather than delivery of expected outcomes.

Any payment under this framework is based on a combination of the investment performance of the Future Fund over rolling three year periods (the Investment Plan) and the individual performance of the employee over the year taking into account the responsibilities of their role (the Annual Plan). The mix between these two factors varies according to the role.

In 2010/11, the General Manager and Chief Investment Officer had a 60% weighting to the Investment Plan with 40% weighted to the Annual Plan. Investment staff had an equal weighting between the Investment Plan and Annual Plan and all other staff had a 25% weighting to the Investment Plan and 75% exposure to the Annual Plan.

Investment Plan

The Investment Plan recognises outperformance against both real return and relative return hurdles. Exposure is equally weighted between the two. For any payment to be triggered under the real return component, the rolling three year return must be at least CPI +4.5% p.a. (the benchmark return set by Government and the most important success indicator for the organisation). At this level, 50% of the real return component is payable. This rises in a linear way to 100% of this component being paid if returns over rolling three year periods are CPI +7.0% p.a. or more. While there is discretion to make a payment for performance between CPI +4.0% and CPI +4.49%, no payment can be made for performance below this level.



For any payment to be triggered under the relative return component, the Future Fund must, over rolling three year periods, outperform the 'policy portfolio' (a combination of weighted market benchmarks set by the Board to reflect its investment strategy. These are set out in the Investment Report). This component of the Investment Plan is designed to capture value added by the management team through adjustments to portfolio exposures (within Board-approved control bands) and through the investment manager and asset selection program. A linear scale applies with the maximum payment triggered where the excess return over the policy portfolio averages 150 basis points (or more) p.a. over a rolling three year period.

Annual Plan

The Annual Plan captures the performance of each individual in their role in the context of the Board's view of the organisation's overall performance. Individual performance is assessed taking into account both performance against KPIs and behaviour against the Values. Performance over the year must be outstanding in every respect for an employee to receive their maximum entitlement under this plan.

To further align employee remuneration with the long-term performance of the Future Fund, employees are able to defer receipt of part or all of any performance-related payment to which they are eligible. These deferred payments remain tied to the Future Fund portfolio for a minimum of two years and are adjusted negatively or positively to reflect the earnings.

Board fees

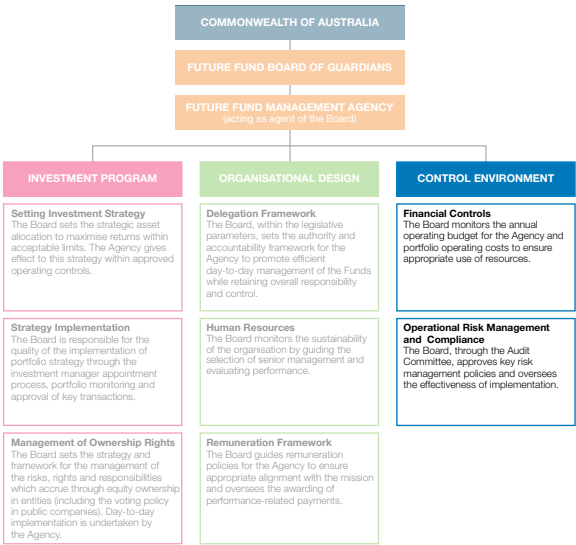
Fees payable to Board members are determined by the Remuneration Tribunal. The Tribunal's Determination 2010/11, effective from 1 August 2010, set the annual fee payable to the Chair at \$182,530 and to all other members as \$91,280. The official travel entitlement for Board members was set at tier 1. Board members are not eligible for performance-related payments.

Performance pay summary

FFMA Classification	Employees who received payments	Aggregated performance pay (\$)	Minimum performance pay (\$)	Maximum performance pay (\$)	Average payment (\$)
FFMA Band 1, 2 & 3	25	171,790	2,408	18,691	6,872
FFMA Band 4, 5 & 6	55	5,228,738	1,370	395,473	95,068
Total	80	5,400,528			67,507

The payments above include pro-rata performance pay for staff that were not employed for the full 12 month cycle but were eligible for payment. Additional disclosures relating to the remuneration of senior executives are set out in the financial statements.

Control Environment



Financial controls

All costs for investment activity and the operations of the Board and Agency are met from the assets of the Funds, rather than from appropriations through Parliament. The Board monitors the annual operating budget for the Agency to ensure the appropriate use of resources consistent with the organisation's objectives. A monthly report of Agency operating costs against this budget is provided to the Board.

The Board also monitors portfolio operating costs in addition to direct Agency and Board operating expenses.

The purchase of goods and services by the Agency is consistent with the Commonwealth Procurement Guidelines and is based on the principles of value for money, open and effective competition, ethics and fair dealing, accountability and reporting, national competitiveness and industry development, and support for other Australian Government policies. These principles have been incorporated into the appropriate internal policies and internal audit conducts probity reviews to help ensure compliance.

The Agency publishes certain mandatory information on its procurement activity on its website and additional information on expenditure on contracts and consultancies is available on the Austender website at www.tenders.gov.au. The organisation did not undertake any campaign advertising during the year and incurred no reportable recruitment advertising costs.

During 2010/11 17 new consultancy contracts were entered into by the Agency involving total actual expenditure of \$156,895. In addition, six existing ongoing consultancy contracts were active during the 2010/11 year, involving total actual expenditure of \$552,502.

The *Environment Protection and Biodiversity Conservation Act 1999* requires the Agency to report on how its activities accord with ecologically sustainable development and on its environmental performance. The organisation is a small tenant in a large multi-tenancy office building without separate metering of water or electricity. Building management continues to improve energy and water management systems throughout the building and the organisation operates a paper and waste recycling program. Video conference facilities are available and used wherever possible to prevent unnecessary travel.

The purchase of investment management, investment advisory, master custody and safekeeping services for the purpose of managing and investing the assets of the public asset funds are excluded from the mandatory provisions of the Commonwealth Procurement Guidelines.

Operating costs

The legislation requires the Board and Agency to report on various aspects of the costs incurred in investing the assets of the Future Fund and the Nation-building Funds and these are reported as follows.

Disclosure of costs as required under section 81 of the *Future Fund Act 2006**

Future Fund

Purpose	Amount debited 2008/09	Amount debited 2009/10	Amount debited 2010/11
Contracts with investment managers	\$55,727,014	\$244,766,537	\$237,920,018
Board remuneration and allowances	\$743,311	\$757,417	\$791,202
Agency remuneration and employment costs	\$12,424,311	\$16,189,583	\$19,882,245
Consultants to the Board and Agency	\$11,457,160	\$11,760,416	\$13,002,821
Agency operations	\$8,209,483	\$12,986,047	\$7,978,663

Building Australia Fund

Purpose	Amount debited 2008/09	Amount debited 2009/10	Amount debited 2010/11
Contracts with investment managers	\$382,011	\$6,421,224	\$10,849,783
Board remuneration and allowances	–	–	–
Agency remuneration and employment costs	–	–	–
Consultants to the Board and Agency	–	–	–
Agency operations	\$3,500	\$10,028	\$549,471

Education Investment Fund

Purpose	Amount debited 2008/09	Amount debited 2009/10	Amount debited 2010/11
Contracts with investment managers	\$785,242	\$4,317,170	\$6,922,666
Board remuneration and allowances	–	–	–
Agency remuneration and employment costs	–	–	–
Consultants to the Board and Agency	–	–	–
Agency operations	\$3,500	\$10,028	\$549,434

Health and Hospitals Fund

Purpose	Amount debited 2008/09	Amount debited 2009/10	Amount debited 2010/11
Contracts with investment managers	\$45,895	\$3,466,798	\$5,930,927
Board remuneration and allowances	–	–	–
Agency remuneration and employment costs	–	–	–
Consultants to the Board and Agency	–	–	–
Agency operations	\$3,500	\$10,028	\$526,179

* Note that these costs are reported on a cash basis whereas the costs in the table on page 44 include accruals.



The Board has deemed it appropriate to use as its benchmark measurement for costs the disclosure measures prescribed for financial products as laid out in Schedule 10 of the related Regulations to the *Corporations Act 2001*. These prescribed disclosures have been further clarified by ASIC through its Information Releases.

The Board has not presented a relative benchmark measure but has reported its costs, as defined below, to enable readers of the Annual Report to make their own comparisons to other financial institutions. The Board also reports comparisons to the previous year, where applicable.

The costs reported are the total costs for the year, rather than only the items reported in the table, and are extracted from the respective Financial Statements.

As the funds do not incur costs associated with, nor charge fees to, members there is no disclosure of fees and costs charged directly to members as required under the Regulations. The Board has deemed it appropriate to report costs under the following categories as defined by Schedule 10 of the Regulations.

- Management costs: these costs include custody fees (exclusive of settlement costs), amounts paid to external fund managers (including performance fees) and any other investment-related expenses and reimbursements, inclusive of amounts incurred in administering the fund. This also includes all internal operating costs including remuneration of Board and staff.
- Transactional and operational costs: these costs include brokerage, stamp duties and custody costs charged for transaction settlement.
- Indirect cost ratio: the ratio of the fund's management costs to the fund's average net assets.

Cost disclosures

	2010/11			2009/10	2008/09
	Management costs	Transactional and operational costs	Indirect cost ratio	Indirect cost ratio	Indirect cost ratio
Future Fund (including Telstra holding)	\$446,218,000	\$38,802,000	0.618%	0.410%	0.179%
Future Fund (excluding Telstra holding)	\$443,653,000	\$38,802,000	0.637%	0.436%	0.203%
Building Australia Fund	\$10,072,997	\$396,383	0.114%	0.082%	0.028%
Education Investment Fund	\$6,520,395	\$258,137	0.123%	0.090%	0.028%
Health and Hospitals Fund	\$5,652,507	\$197,336	0.121%	0.095%	0.031%

Operational Risk Management and Compliance

The Board’s Audit Committee oversees the compliance and audit functions, monitors risk and control frameworks, reviews key financial statements, tracks legislative compliance and evaluates the efficiency and effectiveness of the risk management framework. The Audit Committee has identified the key risks to the successful delivery of the Board’s mission and, in conjunction with the Agency, monitors the effectiveness of controls designed to manage each key risk.

The Audit Committee has approved the fraud risk assessment and fraud control plan prepared by the Agency. Fraud control initiatives are embedded into the Agency internal control framework, the effectiveness of which is assessed on a quarterly basis. Central to the organisation’s approach to fraud prevention and control is the maintenance of a highly ethical culture and workshops were held during the year to support this. Fraud risks identified include, but are not limited to: deliberate leaking of sensitive information; incorrect or falsified payment instructions; and theft or misuse of Commonwealth assets.

There were no actual or suspected fraud incidents during 2010/11.

All members of the Board are members of the Audit Committee, with the exception of Mr Murray, who is excluded as is customary due to his role as Chair and statutory Chief Executive of the Agency.

PricewaterhouseCoopers provides internal audit services reporting to the Audit Committee and has full access to staff and information when conducting its reviews. The Australian National Audit Office undertakes the external audit of the organisation engaging a professional accounting firm to assist in this process.

The Agency also operates an Operational Risk and Compliance Committee to assist the Audit Committee in the effective management of operational and compliance risks. The Agency’s Operational Risk and Compliance Committee meets on a monthly basis and its responsibilities include: maintenance of the risk and control register, monitoring investment mandate and portfolio compliance, incident reporting and oversight of key operational outsourcing arrangements. The Agency’s risk and control register documents the key risks and controls that mitigate the likelihood and consequence of an adverse event occurring. On a quarterly basis, the effectiveness of these key controls is assessed, with results reported to the Operational Risk and Compliance Committee and Audit Committee.

Also on a quarterly basis, an assessment of compliance with the *Financial Management and Accountability Act 1997* is undertaken. On an annual basis, all Agency staff are required to certify compliance with core Agency operational policies which underpin the risk management framework.

Consolidated Financial Statements

For the financial year ended 30 June 2011

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These consolidated financial statements consist of the Future Fund Management Agency, the Board of Guardians and its subsidiaries



INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance and Deregulation

I have audited the accompanying consolidated financial statements of the Future Fund Management Agency and Board of Guardians (the 'Future Fund') for the year ended 30 June 2011, which comprise: Statement by the Chair of the Board of Guardians and Head of Finance; Consolidated Statement of Comprehensive Income; Consolidated Statement of Financial Position; Consolidated Statement of Cash Flows; Consolidated Statement of Changes in Equity; Consolidated Schedule of Commitments; and Notes to and forming part of the Consolidated Financial Statements, including a Summary of Significant Accounting Policies.

The consolidated entity comprises the Future Fund and the entities it controlled at the year's end.

Chair of the Board of Guardians' Responsibility for the Financial Statements

The Chair of the Board of Guardians is responsible for the preparation of financial statements that give a true and fair view in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards, and for such internal control as Chair of the Board of Guardians determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I have conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. These auditing standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the Future Fund's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

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Future Funds' internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Future Fund, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the requirements of the Australian accounting profession.

Auditor's Opinion

In my opinion, the consolidated financial statements of the Future Fund:

- (a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards; and
- (b) give a true and fair view of the matters required by the Finance Minister's Orders including the Future Fund's consolidated financial position as at 30 June 2011 and its consolidated financial performance and cash flows for the year then ended.

Australian National Audit Office



Ian McPhee
Auditor-General

Canberra

27 September 2011

Statement by the Chair of the Board of Guardians and the Chief Executive Officer and Head of Finance of the Future Fund Management Agency

In our opinion, the attached consolidated financial statements of the Future Fund Management Agency and the Board of Guardians (together the 'Fund') for the year ended 30 June 2011 are based on properly maintained records and give a true and fair view of the financial position and the financial performance of the Fund, in accordance with the matters required by the Finance Minister's Orders, made under the *Financial Management and Accountability Act 1997*, as amended, and are in compliance with Australian Accounting Standards.

In preparing the financial statements, the Fund has applied the exemption provided by the Minister for Finance and Deregulation allowing the Fund to present a financial report in a format consistent with that used in the funds management industry in place of the prescribed format as outlined in Annexure A to Schedule 1 of the Finance Minister's Orders. The effect of this exemption is that the Fund will present its financial report as a single entity.



D Murray

Chair of the Board of Guardians and Chief Executive Officer
27 September 2011



P Mann

Head of Finance
27 September 2011

Consolidated statement of comprehensive income

for the financial year ended 30 June 2011

	Notes	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
INCOME			
Dividends & imputation credits	4	1,757,776	1,266,538
Distributions	4	169,009	121,011
Interest income from financial assets not held at fair value through profit or loss	3	70,592	71,274
Net gain on financial instruments held at fair value through profit or loss	4	427,306	4,085,339
Net foreign currency gains	4	6,173,537	1,102,460
Other income	5	41,899	8,868
TOTAL INCOME/(LOSS)		8,640,119	6,655,490
EXPENSES			
Investment management fees and advisory fees		153,790	109,429
Investment manager performance fees		218,937	112,379
Custodian's fees		8,575	7,051
Brokerage, duties and other statutory charges		37,087	69,362
Other investment portfolio expenses		16,813	8,944
Agency employees' remuneration	6	21,080	18,096
Other expenses	6,7	28,738	14,628
TOTAL EXPENSES		485,020	339,889
OPERATING RESULT/(LOSS) FOR THE YEAR		8,155,099	6,315,601
Other comprehensive income			
Foreign currency translation differences for foreign operations		(130,341)	4,873
TOTAL COMPREHENSIVE INCOME/(LOSS)		8,024,758	6,320,474

The above statement should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

as at 30 June 2011

	Notes	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
ASSETS			
Financial assets			
Cash and cash equivalents	16	3,995,152	2,849,148
Receivables	9	1,151,674	1,063,119
Investments	8	72,120,188	66,466,272
Other financial assets		8,608	2,129
Total financial assets		77,275,622	70,380,668
Non-financial assets			
Investment property at fair value	10	155,923	158,339
Trees in a plantation forest	10	69,133	85,618
Plant and equipment	10	1,931	2,531
Intangibles	10	9,522	11,221
Total non-financial assets		236,509	257,709
TOTAL ASSETS		77,512,131	70,638,377
LIABILITIES			
Financial liabilities			
Investments	8	433,088	2,109,628
Payables	12	1,763,075	1,238,379
Other provisions	13	1,079	1,439
Total financial liabilities		2,197,242	3,349,446
Non-financial liabilities			
Employee provisions	13	8,095	6,895
Total non-financial liabilities		8,095	6,895
TOTAL LIABILITIES		2,205,337	3,356,341
NET ASSETS		75,306,794	67,282,036
EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT			
Contributions by Government	14	60,536,831	60,536,831
Accumulated results		14,769,963	6,745,205
TOTAL EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT		75,306,794	67,282,036

The above statement should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

for the financial year ended 30 June 2011

	Notes	Year ended 30 June 2011 \$'000	Year ended 30 June 2010 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from sale of financial instruments held at fair value through profit or loss		60,548,376	86,043,518
Purchase of financial instruments held at fair value through profit or loss		(65,473,129)	(89,318,410)
Interest received		72,356	68,037
Dividends received		1,366,448	971,079
Distributions received		170,145	110,007
Franking credit refunds received		236,078	268,678
Realised foreign exchange gains		4,558,249	3,200,798
GST refund received		7,519	10,170
Other income received		37,385	6,042
Investment manager and advisory fees paid		(127,483)	(88,346)
Investment manager performance fees paid		(57,551)	(19,865)
Custodian's fees paid		(8,472)	(7,277)
Transaction fees paid		(43,686)	(67,920)
Other expenses paid		(71,203)	(48,506)
Net cash provided by operating activities	16	1,215,032	1,128,005
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investments		–	3,200
Purchase of investment property		–	(156,054)
Purchase of trees in a plantation forest		–	(81,470)
Purchase of lease rights		–	(10,514)
Purchase of plant and equipment and software		(1,072)	(2,187)
Net cash used in investing activities		(1,072)	(247,025)
CASH FLOWS FROM FINANCING ACTIVITIES			
Amounts contributed by Government		–	–
Net cash received from financing activities		–	–
Net increase/(decrease) in cash held		1,213,960	880,980
Cash at the beginning of the reporting period		2,849,148	1,869,674
Effects of exchange rate changes on the balance of cash held in foreign currencies		(67,956)	98,494
Cash at the end of the reporting period	16	3,995,152	2,849,148

The above statement should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

Item	Year ended 30 June 2011			Year ended 30 June 2010		
	Accumulated results	Contributed equity	Total equity	Accumulated results	Contributed equity	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance	6,745,205	60,536,831	67,282,036	424,731	60,536,831	60,961,562
Net operating result	8,155,099	–	8,155,099	6,315,601	–	6,315,601
Other comprehensive income	(130,341)	–	(130,341)	4,873	–	4,873
Total comprehensive income	8,024,758	–	8,024,758	6,320,474	–	6,320,474
Contributions made by Government	–	–	–	–	–	–
Closing balance	14,769,963	60,536,831	75,306,794	6,745,205	60,536,831	67,282,036

The above statement should be read in conjunction with the accompanying notes.

Consolidated schedule of commitments

as at 30 June 2011

	Notes	30 June 2011 \$'000	30 June 2010 \$'000
BY TYPE			
CAPITAL COMMITMENTS			
Infrastructure, plant and equipment		–	–
Collective investment vehicles	8	8,309,453	8,029,237
Corporate Credit (bank loans)	8	38,322	35,758
Total capital commitments		8,347,775	8,064,995
OTHER COMMITMENTS			
Operating leases ^(a)		6,315	1,888
Other commitments ^(b)		3,730	3,532
Total other commitments		10,045	5,420
BY MATURITY			
CAPITAL COMMITMENTS			
One year or less		8,347,775	8,064,995
From one to five years		–	–
Over five years		–	–
Total capital commitments by maturity		8,347,775	8,064,995
OTHER COMMITMENTS			
Operating lease commitments			
One year or less		1,354	1,298
From one to five years		4,961	590
Over five years		–	–
Total operating lease commitments by maturity		6,315	1,888
Other commitments			
One year or less		1,922	3,086
From one to five years		1,808	446
Over five years		–	–
Total other commitments by maturity		3,730	3,532

Note: Commitments are GST inclusive.

(a) Operating lease commitments relate to rental commitments for the lease of property and for office equipment. Lease terms have between 1 and 4 years remaining with options to extend for periods up to a further 5 years. The Fund has no option to purchase any leased items at the conclusion of the lease term.

(b) Other commitments relate to contractual obligations for the provision of internal audit services, payroll services and Board and Agency consultancies.

The above schedule should be read in conjunction with the accompanying notes.

Notes to and forming part of the consolidated financial statements for the financial year ended 30 June 2011

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Note 1: Objectives of the Future Fund and the responsibilities of the Agency and the Board

The *Future Fund Act 2006* (as amended) ('the Act') commenced on 3 April 2006 and established the Future Fund Special Account ('the Fund Account'), the Future Fund Board of Guardians ('the Board') and the Future Fund Management Agency ('the Agency'), collectively referred to as the Future Fund ('the Fund'). The object of the Act is to strengthen the Commonwealth's long-term financial position by providing for unfunded public sector superannuation liabilities.

The Future Fund will make provision for unfunded superannuation liabilities that will become payable during a period when an ageing population is likely to place significant pressure on the Commonwealth's finances. The legislation quarantines the Fund, the balance of the Fund Account and Fund investments, for the ultimate purpose of paying unfunded superannuation liabilities and expenses associated with the investments of the Fund and the administration of both the Board of Guardians and the Future Fund Management Agency.

Future Fund Management Agency (the Agency)

The Agency is a statutory agency for the purposes of the *Public Service Act 1999* (the Public Service Act) and is prescribed for the purposes of the *Financial Management and Accountability Act 1997* (the FMA Act). The Agency is responsible for implementing the investment decisions made by the Future Fund Board of Guardians (the Board).

The Agency is responsible for the operational activities associated with the investment of funds in the Fund Account. This includes the provision of advice to the Board on the investment of the portfolio and managing the Board's contracts with investment managers, advisers and other service providers.

The Agency also supports the Board of Guardians in the investment of the assets of the Building Australia Fund, the Health and Hospitals Fund and the Education Investment Fund (together the 'Nation-building Funds').

Future Fund Board of Guardians (the Board)

The Board is a body corporate with perpetual succession and is a separate legal identity to the Commonwealth.

In line with subsection 18(1) of the enabling legislation, the Government issued the Board with the first Investment Mandate for the Future Fund, effective 22 May 2006. The objective of these directions is to give guidance to the Board in relation to its investment strategy for the Future Fund.

The roles and responsibilities of the Board are set out in the enabling legislation. The Board is collectively responsible for the investment decisions of the Fund and for the safekeeping and performance of the assets of the Fund. As such, the Board's primary role is to provide strategic direction to the investment activities of the Fund including the development and implementation of an investment strategy that adheres to the Investment Mandate.

The Board is also responsible for the investment of the assets of the Nation-building Funds as set out in the *Nation-building Funds Act 2008*. The assets and financial results of the Nation-building Funds do not form part of these financial statements.

Future Fund Investment Mandate Directions 2006

The objective of these directions is to give guidance to the Board in relation to its investment strategy for the Future Fund. The Future Fund Board of Guardians is required under section 18 of the Act to seek to maximise the return earned on the Fund over the long term, consistent with international best practice for institutional investment and subject to its obligations under the Act and any directions given by the responsible Ministers under subsection 18(1) or subclause 8(1) of Schedule 1 of the Act. Investments by the Future Fund will be confined to financial assets, (see also Note 2.4).

Note 2: Summary of significant accounting policies

2.1 Basis of preparation of the consolidated financial statements

These consolidated financial statements comprise the Future Fund Management Agency and the Future Fund Board of Guardians, collectively referred to as the Future Fund (the 'Fund'), in accordance with Section 80 of the *Future Fund Act 2006 (as amended)*.

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997*, and are general purpose financial statements prepared on a going concern basis.

The financial statements have been prepared in accordance with:

- Finance Minister's Orders (FMOs) (being the *Financial Management and Accountability Orders (Financial Statements for reporting periods ended on or after 1 July 2010)*);
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

In preparing the consolidated financial statements, the Fund has applied the exemption provided by the Minister for Finance and Deregulation allowing the Fund to present a financial report in a format consistent with that used in the funds management industry in place of the prescribed format as outlined in Annexure A to Schedule 1 of the Finance Minister's Orders. The effect of this exemption is that the Fund will present its financial report as a single entity.

These consolidated financial statements have been prepared on an accrual basis and are in accordance with the historic cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through the profit or loss account, the adoption of the fair value model in accounting for investment property and the revaluation of employee entitlements. Cost is based on the fair values of the consideration given in exchange for assets.

The consolidated statement of financial position is presented on a liquidity basis as is common practice within the investment industry. Assets and liabilities are presented in decreasing order of liquidity and with no distinction between current and non-current. All balances are expected to be recovered or settled within 12 months except for investments in financial assets held for a longer term in accordance with the investment mandate.

Unless alternative treatment is specifically required by an accounting standard, assets and liabilities are recognised in the statement of financial position when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured.

Liabilities and assets which are unrecognised in the statement of financial position are reported as appropriate in the schedule of commitments or as contingencies in Note 17 to the financial statements.

Unless alternative treatment is specifically required by an accounting standard, revenues and expenses are recognised in the statement of comprehensive income when and only when the flow, consumption, gain or loss of economic benefits has occurred and can be reliably measured.

Significant Accounting Judgements and Estimates

As a result of developments in global markets over recent periods, generally known as the global financial crisis, liquidity in some investment markets has decreased. As a result, the volume of trading in a small proportion of investments held by the Fund has also decreased and may therefore be deemed to be investments in an inactive or unquoted market. The valuation of those investments is subject to a greater uncertainty and requires greater judgement. Further details surrounding the judgments and estimates used to value these investments are disclosed in Note 20F.

In relation to collective investment vehicles, significant judgement is required in making assumptions and estimates which are inputs to the fair value of such investments.

Note 2: Summary of significant accounting policies (continued)

2.2 Statement of compliance

The financial report complies with Australian Accounting Standards.

Adoption of new and revised accounting standards in the current reporting period

The Australian Accounting Standards Board (the ‘AASB’) has issued amendments to existing standards. These amendments are denoted by year and then number.

Australian Accounting Standards require the Future Fund to disclose Australian Accounting Standards that have not yet been applied, for standards that have been issued but are not yet effective. The Fund must also disclose new standards and interpretations affecting amounts reported in the current period and those standards adopted with no effect on the financial statements in the current period.

The table below illustrates standards and amendments that apply to the Future Fund in the current reporting period for the first time.

Title	Nature of change and impact on the financial statements
AASB 2009-5 <i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Process</i>	Various amendments to Australian Accounting standards arising from the International Accounting Standards Board’s annual improvement project. The adoption of these changes has not had a material impact on the consolidated financial statements of the Fund.
AASB 2010-3 <i>Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	Various amendments to Australian Accounting standards arising from the International Accounting Standards Board’s annual improvement project. The adoption of these changes has not had a material impact on the consolidated financial statements of the Fund.

The next table illustrates standards and amendments that apply to the Future Fund in the current reporting period for the first time but have no effect on the financial statements in the current period.

Title	Nature of change and impact on the financial statements
AASB 2010-1 <i>Limited Exemption from Comparative AASB 7 Disclosures for First-time Adopters</i>	This is not applicable to the Fund as it is not a first time adopter of AASB 7.

Standards and amendments that will become effective in future reporting periods

The table on the next page illustrates standards and amendments that will become effective for, and apply to, the Future Fund in future reporting periods. The nature of the impending change within the table has been out of necessity abbreviated and users should consult the full version available on the AASB’s website to identify the full impact of the change. The expected impact on the financial report of adoption of these standards is based on the Future Fund’s initial assessment at this date, but may change. The Future Fund intends to adopt all of the standards upon their application date. No accounting standard has been adopted earlier than the effective date in the current period.

Note 2: Summary of significant accounting policies (continued)

2.2 Statement of compliance (continued)

Title	Application date	Nature of impending change and impact expected on the financial report
AASB 2009-11 <i>Amendments to Australian Accounting Standards</i> arising from AASB9	Applies on a modified retrospective basis to annual periods beginning on or after 1 January 2013	<p>AASB 9 introduces new requirements for classifying and measuring financial assets, as follows:</p> <ul style="list-style-type: none"> • Debt instruments meeting both a 'business model' test and a 'cash flow characteristics' test are measured at amortised cost (the use of fair value is optional in some limited circumstances) • Investments in equity instruments can be designated as 'fair value through other comprehensive income' with only dividends being recognised in profit or loss • All other instruments (including all derivatives) are measured at fair value with changes recognised in the profit or loss • The concept of 'embedded derivatives' does not apply to financial assets within the scope of the Standard and the entire instrument must be classified and measured in accordance with the above guidelines. <p>AASB 9 and AASB 2009-11 will not have a material impact on future consolidated financial statements of the Fund.</p>
AASB 2010-7 <i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)</i>	Applies on a modified retrospective basis to annual periods beginning on or after 1 January 2013	<p>A revised version of AASB 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over of the existing derecognition requirements from AASB 139 <i>Financial Instruments: Recognition and Measurement</i>.</p> <p>The revised financial liability provisions maintain the existing amortised cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss – in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.</p> <p>AASB 2010-7 will not have a material impact on future consolidated financial statements of the Fund.</p>

Note 2: Summary of significant accounting policies (continued)

2.2 Statement of compliance (continued)

Title	Application date	Nature of impending change and impact expected on the financial report
AASB 1048 <i>Interpretation of Standards</i> (June 2010)	AASB 1048 applies to annual reporting periods ending on or after 30 June 2010 but contains specific application dates for each Interpretation	Updated version of this 'service standard' to provide a mandatory requirement to comply with Interpretations in the Australian context. This version removes references to versions of Interpretations that do not apply to any of the reporting periods to which the Standard mandatorily applies, adds Interpretation 19, and includes amended versions of Interpretations since March 2009, where applicable to any reporting period to which the Standard mandatorily applies.
AASB 1053 <i>Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements</i>	Applies to annual reporting periods beginning on or after 1 July 2013 but may be early adopted for annual reporting period beginning on or after 1 July 2009	<p>These Standards together implement 'stage 1' of the AASB's revised differential reporting regime.</p> <p>AASB 1053 establishes a differential financial reporting framework consisting of two tiers of reporting requirements for general purpose financial statements:</p> <ul style="list-style-type: none"> • Tier 1: Australian Accounting Standards • Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements ('RDR'). <p>AASB 2010-2 makes amendments to each Standard and Interpretation indicating the disclosures not required to be made by 'Tier 2' entities. In some cases, additional 'RDR' paragraphs are inserted requiring simplified disclosures.</p> <p>The following entities apply either Tier 2 (RDR) or Tier 1 ('full' Australian Accounting Standards) in preparing general purpose financial statements:</p> <ul style="list-style-type: none"> • For-profit private sector entities that do not have public accountability • All not-for-profit private sector entities • Public sector entities other than Federal, State, Territory and Local Governments. <p>Regulators may have the power to require the application of 'full' Australian Accounting Standards (Tier 1) by the entities they regulate.</p> <p>AASB 1053 will not have a material impact on future consolidated financial statements of the Fund.</p>

Note 2: Summary of significant accounting policies (continued)

2.2 Statement of compliance (continued)

Title	Application date	Nature of impending change and impact expected on the financial report
AASB 1054 <i>Australian Additional Disclosures</i> , AASB 2011-1 <i>Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project</i> and AASB 2011-2 <i>Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements</i>	AASB 1054 and AASB 2011-1 – Applies to annual reporting periods beginning on or after 1 July 2011 AASB 2011-2 – Applies to annual reporting periods beginning on or after 1 July 2013	These Standards are a consequence of Phase 1 of the joint Trans-Tasman Convergence project of the AASB and the Financial Reporting Standards Board (FRSB) of the New Zealand Institute of Chartered Accountants, harmonising Australian Accounting Standards and New Zealand equivalents to IFRSs (NZ IFRSs), with a focus on eliminating differences between the Standards in each jurisdiction relating to for-profit entities. AASB 1054, AASB 2011-1 and AASB 2011-2 will not have a material impact on future consolidated financial statements of the Fund.
AASB 2010-4 <i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	Applies to annual reporting periods beginning on or after 1 January 2011	Amends a number of pronouncements as a result of the IASB's 2008-2010 cycle of annual improvements. Key amendments include: <ul style="list-style-type: none"> Financial statement disclosures – clarification of content of statement of changes in equity (AASB 101), financial instrument disclosures (AASB 7) and significant events and transactions in interim reports (AASB 134) Interpretation 13 – fair value of award credits AASB 1 – accounting policy changes in year of adoption and amendments to deemed cost (revaluation basis, regulatory assets). AASB 2010-4 will not have a material impact on future consolidated financial statements of the Fund.
AASB 2010-5 <i>Amendments to Australian Accounting Standards</i>	Applies to annual reporting periods beginning on or after 1 January 2011	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.

Note 2: Summary of significant accounting policies (continued)

2.2 Statement of compliance (continued)

Title	Application date	Nature of impending change and impact expected on the financial report
AASB 2010-5 <i>Amendments to Australian Accounting Standards</i>	Applies to annual reporting periods beginning on or after 1 January 2011	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.
AASB 2010-6 <i>Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets</i>	Applies to annual periods beginning on or after 1 July 2011	Makes amendments to AASB 7 <i>Financial Instruments: Disclosures</i> resulting from the IASB's comprehensive review of off balance sheet activities. The amendments introduce additional disclosures, designed to allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitisations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. AASB 2010-6 will not have a material impact on future consolidated financial statements of the Fund.

2.3 Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Fund as at 30 June 2011 and the results of all subsidiaries for the year then ended.

Subsidiaries are entities over which the parent entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. Any effects of potential voting rights that are currently exercisable or convertible are considered when assessing whether the parent entity controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the parent. They are de-consolidated from the date that control ceases. The purchase method of accounting is used for the acquisition of subsidiaries by the parent entity in preparing consolidated financial statements for the Fund.

The Fund presently has no allocation to minority interests as all subsidiaries are 100% owned. The list of all subsidiaries as at 30 June 2011 is disclosed at Note 15.

Intercompany transactions, balances and unrealised gains on transactions between companies are eliminated. Accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Fund.

Associates

Associates are all entities over which the parent entity has significant influence but not control nor joint control. This is generally accompanied by a shareholding of between 20% and 50% of the voting rights. Associates are designated as investments and recorded at their fair value each balance date with changes directly credited to or charged to the statement of comprehensive income.

Note 2: Summary of significant accounting policies (continued)

2.4 Financial assets

All investments of the Fund are in financial assets for the purposes of the Government Finance Statistics system in Australia as is required under section 16 of the Act. Should the Fund acquire non-financial assets, section 32 of the Act requires the Board to realise such assets as soon as practicable.

The Fund's investment strategy has an allocation to Tangible Assets (including real estate, timber and infrastructure) which are non-financial assets. To access this economic exposure, the Fund invests through entities which invest in the non-financial assets. This approach is envisaged in the explanatory memorandum to the Future Fund Bill 2005.

Where the Fund holds a controlling interest in such a vehicle, it is treated as a subsidiary of the Fund and the underlying non-financial assets are consolidated onto the Fund's statement of financial position.

The non-financial assets in Note 10 include investments and intangible assets held by controlled vehicles.

Financial assets are recognised and de-recognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. Financial assets are initially measured at fair value, net of transaction costs that are directly attributable to acquisition or issue of the financial asset.

Further details on how the fair values of financial instruments are determined are disclosed in Note 20F.

Investments

All investments, including those in associates (refer 2.3 above) are designated as financial assets through profit and loss on acquisition. Subsequent to initial recognition, all investments held at fair value through profit and loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income each reporting date.

Investments in collective investment vehicles are recorded at fair value on the date which consideration is provided to the contractual counterparty under the terms of the relevant subscription agreement. Any associated due diligence costs in relation to these investments are expensed when incurred.

The following methods are adopted by the Fund in determining the fair value of investments;

- Listed securities, exchange traded futures and options and investments in listed managed investment schemes are recorded at the quoted bid price on relevant stock exchanges.
- Unlisted managed investment schemes and collective investment vehicles are re-measured by the Fund based on the estimated fair value of the net assets of each scheme or vehicle at the reporting date.

In determining the fair value of the net assets of unlisted managed investment schemes and collective investment vehicles, reference is made to the underlying unit price provided by the Manager (where available), associated Manager valuation reports and capital account statements and the most recent audited financial statements of each scheme.

Manager valuation reports are reviewed to ensure the underlying valuation principles are materially compliant with Australian Accounting Standards and applicable industry standards including International Private Equity and Venture Capital Valuation Guidelines as endorsed by the Australian Private Equity and Venture Capital Association Limited (AVCAL).

- Derivative instruments including forward foreign exchange contracts, swaps, swaptions, futures and options are recorded at their fair value on the date the contract is entered into and are subsequently re-measured to their fair values at each reporting date. The Fund does not designate any derivatives as hedges in a hedging relationship.

Note 2: Summary of significant accounting policies (continued)

2.4 Financial assets (continued)

- Asset backed securities, bank bills, negotiable certificates of deposit and corporate debt securities which are traded in active markets are valued at the quoted market bid price. Securities for which no active market is observable are valued at current market rates using broker sourced market quotations and/or independent pricing services as at the reporting date.
- Investments sold but not yet purchased represent transactions in which the Fund sells a security it does not own and is obligated to deliver such security at a future date. The Fund is liable to pay dividends declared during the period the short sale is open. The short sale is recorded as an asset or liability being the difference between the proceeds received and the value of the open position.

Note 20F has further information surrounding the determination of fair values for investments.

2.5 Revenue

Dividends, franking credits and distribution income are recognised when the right to receive payment is established.

Interest revenue is recognised in the statement of comprehensive income for all financial instruments that are not held at fair value through profit or loss using the effective interest method as set out in *AASB 139 Financial Instruments: Recognition and Measurement*. Interest income on assets held at fair value through profit or loss is included in the net gains/(losses) on financial instruments in the statement of comprehensive income.

Receivables for goods and services, which have 30 day terms, are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collectability of the debt is no longer probable.

Rental income from operating leases is recognised on a straight-line basis over the terms of the relevant leases.

Timberlands income is the operating income arising from timberland investments (that is, other than the changes in the fair value of the underlying timberland assets). Timber sales are recognised upon delivery to the customer at which point the significant risks and rewards of ownership are transferred to the customer and the revenue can be reliably estimated. Timber expenses include harvesting, haulage, administrative expenses and the depletion of plantation forest trees.

2.6 Other income

Services and resources received free of charge

Services and resources received free of charge are recognised as revenue when, and only when, a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Other income

Other income is measured at the fair value of consideration received or receivable. Contributions of assets at no cost of acquisition are recognised as revenue at their fair value when the asset qualifies for recognition, unless received from another government agency as a consequence of a restructuring of administrative arrangements.

Note 2: Summary of significant accounting policies (continued)

2.7 Transactions with the Government as owner

2.7.1 Credits to the Fund Account

From time to time the responsible Ministers may determine that additional amounts are to be credited to the Fund Account. In addition, the responsible Ministers may transfer Commonwealth-owned financial assets to the account. These amounts are shown as Contributions by Government in Note 14.

2.7.2 Debits to the Fund Account

Amounts may be debited from the Fund Account in accordance with the purposes of the Fund Account as set out in the *Future Fund Act 2006* (as amended). The main purpose of the Fund Account is to discharge unfunded superannuation liabilities from whichever is the earlier of; (a) the time when the balance of the Fund is greater than or equal to the target asset level or (b) 1 July 2020.

2.8 Employee entitlements

Liabilities for services rendered by employees are recognised at the end of the financial year to the extent that they have not been settled. The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

2.8.1 Leave

The liability for employee entitlements includes provisions for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the Future Fund is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration, including the Agency's employer superannuation contribution rates.

The leave liabilities are calculated on the basis of employees' remuneration at the end of the financial year, adjusted for expected increases in remuneration effective from 1 July 2011. Liabilities for short-term employee benefits (i.e. wages and salaries, annual leave, performance payments, expected to be settled within 12 months from the reporting date) are measured at their nominal amounts.

All other employee benefits are measured at the present value of the estimated future cash flows to be made in respect of all employees at the end of the financial year. The Australian Government Actuary has recommended the application of the shorthand method, as prescribed by the FMOs, for determining the present value of the long serve leave liability.

2.8.2 Superannuation

Staff of the Future Fund are variously eligible to contribute to the Commonwealth Superannuation Scheme (Defined Benefit), Public Sector Superannuation Scheme (Defined Benefit) or the Public Sector Superannuation Scheme (Accumulation Plan). Staff may join any other employee nominated schemes.

For any staff who are members of CSS (Defined Benefit) or PSS (Defined Benefit), the Future Fund makes employer contributions to the Australian Government at rates determined by an actuary to be sufficient to meet the cost to the government of the superannuation entitlements of its employees. The liability for superannuation benefits payable to an employee upon termination is recognised in the financial statements of the Australian Government.

As CSS and PSS are multi-employer plans within the meaning of AASB 119, all contributions are recognised as expenses on the same basis as contributions made to defined contribution plans. A liability has been recognised at the end of the financial year for outstanding superannuation co-contributions payable in relation to the final fortnight of the financial year.

Note 2: Summary of significant accounting policies (continued)

2.8 Employee entitlements (continued)

2.8.3 Performance-related Payments

All permanently employed staff at the Fund at the reporting date are eligible to receive an entitlement to a performance-related payment as approved by the Board. Employees who receive an entitlement may elect to have the entitlement converted to cash and paid to them. Alternatively, they may defer part or all of the payment for an initial two year period and receive a commitment from the Fund to pay them a future amount which will be dependent on the performance of the Fund over this two year period.

A liability has been recognised at the end of the financial year for outstanding performance-related payments payable in relation to the financial year. For employees who have elected to receive part or all of the entitlement as cash, the cash component of the entitlement is recognised as a liability at its nominal value. For employees who have elected to defer part or all of their entitlement, the deferred portion of their entitlement is measured at the present value of the expected future entitlement at the conclusion of the initial two year deferral period. The Fund has assumed that the portfolio will return CPI + 4.5% (being the minimum mandated return) in making the estimate of the future value of the entitlement. This future value has then been discounted at an appropriate Australian government bond rate to arrive at the present value of the liability. Actual returns are used to determine the present value of the entitlement for participation years where actual results are available.

2.9 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all risks and benefits incidental to ownership of leased non-current assets. Under operating leases the lessor effectively retains substantially all such risks and benefits.

The Future Fund enters into operating leases only. Operating lease payments are charged to the statement of comprehensive income on a basis which is representative of the pattern of benefits derived from the leased assets.

2.10 Cash and cash equivalents

Cash means notes and coins held and any deposits held at call with a bank. Deposits held with a bank that are not at call are classified as investments. Cash is recognised at its nominal amount. Cash does not include any amounts held in escrow accounts or margin accounts where its use is restricted. These are treated as investments.

2.11 Financial Risk Management

Disclosures regarding the Future Fund's financial risks are presented in Note 20.

2.12 Trade Creditors

Trade creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of the Fund having been invoiced).

2.13 Acquisition of Non Financial Assets

Non financial assets, apart from investment properties, timberland investments and trees in a plantation forest (Note 11), are recorded at cost of acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Non financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition.

Note 2: Summary of significant accounting policies (continued)

2.14 Plant and equipment – non financial assets

2.14.1 Asset recognition threshold on acquisition

Purchases of plant and equipment are recognised initially at cost in the statement of financial position, except for purchases costing less than \$2,000, which are expensed at the time of acquisition. The asset recognition threshold is applied to each functional asset. That is, items or components that form an integral part of an asset are grouped as a single asset.

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located. This is particularly relevant to ‘makegood’ provisions in property leases taken up by the Future Fund where there exists an obligation to restore the property to its original condition. These costs are included in the value of the Future Fund’s leasehold improvements with a corresponding provision for the ‘makegood’ taken up.

2.14.2 Impairment of non-financial assets

All non-financial assets which are not held at fair value were assessed for impairment at 30 June 2011. Where indications of impairment exist, the asset’s recoverable amount is estimated and an impairment adjustment made if the asset’s recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset’s ability to generate future cash flows, and the asset would be replaced if the Future Fund was deprived of the asset, its value in use is taken to be its depreciated replacement cost.

2.14.3 Depreciation and amortisation

The depreciable value of plant and equipment assets is written off over the estimated useful lives of the assets to the Future Fund using the straight-line method of depreciation. Leasehold improvements are amortised on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation and amortisation rates (useful lives) and methods are reviewed at each balance date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. The depreciable value of infrastructure, plant and equipment assets is based on a zero residual value.

Depreciation and amortisation expenses have been determined by applying rates to new depreciable assets based on the following useful lives:

Class of depreciable asset	2010 & 2011
Leasehold improvements	5 years
Computers, plant and equipment	3-5 years
Office equipment	5 years
Furniture	5 years

The aggregate amount of depreciation and amortisation allocated for each class of asset during the reporting period is disclosed at Note 10.

Note 2: Summary of significant accounting policies (continued)

2.15 Intangibles

Lease rights are stated at cost and are an amortisable intangible asset. These are amortised on a straight-line basis over their expected useful life, net of their residual value. There has been no amortisation expense during the current period as the estimated residual value was equal to the carrying value.

Purchases of computer software licences for periods 12 months or greater are recognised at cost in the statement of financial position except for purchases costing less than \$10,000, which are expensed at the time of acquisition.

Software assets are amortised on a straight-line basis over their anticipated useful lives, being three to five years. Software assets are not subject to revaluation and consequently are carried at cost less accumulated amortisation and any accumulated impairments in the financial statements. All software assets are assessed for indications of impairment at each reporting date.

2.16 Taxation

The Future Fund is exempt from all forms of federal Australian taxation except for Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST).

Revenues, expenses, assets and liabilities are recognised net of GST, except:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- for receivables and payables (where GST is applicable).

Receipts and payments in the Statement of Cash Flows are recorded in gross terms (that is, at their GST inclusive amounts).

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Foreign taxes are payable on certain classes of income and capital gains. The majority of foreign taxes incurred by the Fund are withheld at source (income net of taxes is received by the Fund) under the withholding regimes of the relevant jurisdiction. These withholding taxes are generally a final tax and no further amounts are payable. To the extent the Fund is entitled to a lower withholding than that deducted at source, the Fund makes a claim to the respective foreign revenue authority for the difference and these amounts are recorded as receivables on the statement of financial position and in the statement of comprehensive income as revenue.

2.17 Foreign Currency

(i) Functional and presentation currency

Items included in the consolidated financial statements of the Fund are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Australian dollars, which is the Fund's functional and presentation currency.

(ii) Transactions and balances

All foreign currency transactions during the period are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency items at reporting date are translated at the exchange rate existing at reporting date. Exchange differences are recognised in the statement of comprehensive income in the period in which they arise. Translation differences on assets and liabilities carried at fair value are reported in the Statement of Comprehensive income on a net basis within net gains/(losses) on financial instruments held at fair value through profit and loss.

Note 2: Summary of significant accounting policies (continued)

2.17 Foreign Currency (continued)

(iii) Foreign subsidiaries

Assets and liabilities of foreign subsidiaries are translated into Australian dollars at the exchange rate at reporting date. Income and expense transactions are translated into Australian dollars at the exchange rate at the date of the transaction or the average exchange rate for the period if this is not obtainable. Net differences in exchange rates are recognised in other comprehensive income.

2.18 Derivative financial instruments

The Future Fund has entered into derivative contracts to manage its exposure to foreign exchange risk, interest rate risk, equity market risk and credit risk. The Future Fund also uses derivatives to gain indirect exposure to market risks. The use of derivative financial instruments by the Fund is governed by the *Future Fund Act 2006* (as amended). Accounting policy information regarding derivatives is presented in Note 2.4 and further disclosure regarding the use of derivatives by the Fund is presented in Note 20.

The Fund has not designated any derivatives as cash flow or fair value hedges. All derivatives are accounted for at fair value through profit and loss as set out in Note 2.4.

2.19 Investment property

Investment property is held to earn rentals and for capital appreciation, or for both, but not for sale or use in the ordinary course of business. Investment property is measured initially at its cost, including transaction costs, and subsequent to initial recognition is measured at fair value. Gains and losses arising from changes in the fair value of investment property are included in the statement of comprehensive income in the period in which they arise.

Fair value is considered to be the amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. Fair value of investment properties includes the cost of amortised lease incentives, amortised direct leasing costs and the impact of straight-lining of rental income in accordance with Australian Accounting Standards. Rental income is recorded as part of other operating income (Note 2.5) and property expenses are included as part of other portfolio expenses in the statement of comprehensive income.

2.20 Timberland investments and trees in a plantation forest

Trees in a plantation forest are considered biological assets and are stated at fair value less costs to sell, with changes recognised in the statement of comprehensive income.

Timberland investments are considered to be investment property as they are held for appreciation. Timberlands are initially recognised at cost upon acquisition comprising of the purchase price and any directly attributable transaction costs. Subsequent measurement is at fair value with changes recognised in the statement of comprehensive income as other income.

2.21 Rounding of Amounts

Amounts have been rounded to the nearest thousand dollars unless stated otherwise in accordance with the Finance Minister's Orders.

Note 3: Investment income

	2011 \$'000	2010 \$'000
Interest income	\$'000	\$'000
Term deposits	–	1,192
Cash at bank	70,592	70,082
Total interest income	70,592	71,274

Note 4: Other gains and losses

	2011 \$'000	2010 \$'000
Dividend income		
Dividend income – domestic equities and listed managed investment scheme distributions	923,344	656,777
Imputation credits refunded or refundable under Section 30 of the <i>Future Fund Act 2006</i>	348,327	253,737
Dividend income – international equities	486,105	356,024
Total dividend and imputation credit income	1,757,776	1,266,538
Distribution income		
Distributions – collective investment vehicles	169,009	121,011
Total distribution income	169,009	121,011
Net gain on financial instruments held at fair value through profit or loss		
Net gain on financial assets held at fair value through profit or loss	739,692	4,209,623
Net loss on financial liabilities held at fair value through profit or loss	(312,386)	(124,284)
Total net gain on financial instruments held at fair value through profit or loss*	427,306	4,085,339
Net gain arising on foreign currency[#]	6,173,537	1,102,460

* This total includes the foreign currency impact (loss) from translating financial assets and liabilities from their local currency amounts into Australian dollars. The rising Australian dollar has significantly influenced this item for the year ended 30 June 2011. Refer Note 2.17(ii).

[#] Net foreign currency gains of \$6,173,537,000 arise mainly as a result of the implementation of the Board's foreign currency hedging policy. This offsets the impact of translating financial assets and liabilities from their local currency amounts into Australian dollars on application of the accounting policy described in Note 2.17(ii).

Note 5: Other income

	2011 \$'000	2010 \$'000
Other income		
Fee income for services provided (Note 25B)	680	943
Rental income from investment property	11,228	2,548
Timberlands income	9,822	2,644
Change in fair value of non-financial assets	15,969	2,085
Other income	4,068	546
Resources received free of charge (ANAO)	132	102
Total other income	41,899	8,868

Note 6: Expenses

	2011 \$'000	2010 \$'000
Agency employees' remuneration		
Wages and salaries	19,558	16,597
Superannuation	1,125	1,030
Leave and other entitlements payable	397	469
Total Agency employees' remuneration	21,080	18,096
Board of Guardians' remuneration		
Wages and salaries	728	697
Superannuation	65	63
Total Board of Guardians' remuneration	793	760
Other expenses	10,892	8,461
Timberlands expenses	11,340	3,268
Investment property expenses	3,739	827
Total other expenses	25,971	12,556
Depreciation		
Depreciation of infrastructure, plant and equipment	985	787
Total depreciation	985	787
Amortisation		
Amortisation of intangibles – computer software	63	68
Total amortisation	63	68
Total depreciation and amortisation	1,048	855

Note 7: Remuneration of Auditors

Financial statement audit services provided to the Future Fund totalled \$132,000 (2010: \$102,000). These services were provided free of charge. The fair value of all audit services provided by the Australian National Audit Office (ANAO) was:

	2011	2010
	\$	\$
Auditing the financial statements – Future Fund and subsidiaries	214,300	166,600

No other services were provided by the ANAO.

Other audit fees provided by firms other than the ANAO were incurred by the consolidated group as follows:

	2011	2010
	\$	\$
Auditing the financial statements – subsidiary entities	712,050	289,404

Note 8: Investments

	2011 \$'000	2010 \$'000
Investment Summary		
Financial assets at fair value:		
Interest bearing securities	17,585,336	22,332,975
Listed equities and listed managed investment schemes	30,518,132	28,515,072
Collective investment vehicles	21,411,378	14,198,020
Derivatives	2,456,594	1,304,188
Restricted cash	146,185	116,017
Investments sold, not yet purchased	2,563	–
Total financial asset investments	72,120,188	66,466,272
Financial liabilities at fair value:		
Derivatives	(425,102)	(2,109,628)
Investments sold, not yet purchased	(7,986)	–
Total financial liability investments	(433,088)	(2,109,628)

The tables below provide more detailed information of the investments held at balance date.

	2011 \$'000	2010 \$'000
Interest bearing securities		
At fair value:		
Bank bills – domestic	242,996	124,492
Bank bills – international	123,455	41,079
Negotiable certificates of deposit – domestic	2,775,219	5,605,026
Corporate debt securities – domestic	2,605,551	5,263,481
Corporate debt securities – international	3,574,966	3,615,159
Mortgage backed securities – domestic	633,573	872,163
Mortgage backed securities – international	2,062,652	2,430,821
Asset backed securities – international	1,167,790	1,259,160
Corporate credit (bank loans) – domestic	132,554	29,031
Corporate credit (bank loans) – international*	2,923,571	2,515,589
Government debt securities – international	894,337	440,998
Other interest bearing securities – international	448,672	135,976
Total interest bearing securities	17,585,336	22,332,975

* The Fund has invested in bank loans which draw down over time. At 30 June 2011 the value of unfunded commitments to these investments totalled \$38.322 million (2010:\$35.758 million). This amount is included in the consolidated schedule of commitments.

Note 8: Investments (continued)

	2011 \$'000	2010 \$'000
Listed equities and listed managed investment schemes		
At fair value:		
Domestic listed equities and listed managed investment schemes	9,728,702	11,683,155
International listed equities and listed managed investment schemes	20,789,430	16,831,917
Total listed equities and listed managed investment schemes	30,518,132	28,515,072
Collective investment vehicles		
At fair value:		
Unlisted investments	20,685,524	13,582,898
Unlisted shares	725,854	615,122
Total collective investment vehicles	21,411,378	14,198,020
Derivatives		
At fair value: – financial assets		
Currency contracts	2,207,843	1,066,102
Interest rate swap agreements	8,306	11,949
Interest rate options and swaptions	344	341
Interest rate futures	2,102	96,271
Bond futures	311	–
Equity swaps	13,253	–
Equity options	53,441	64,557
Equity futures	16,230	43
Commodity futures	1,510	–
Credit default swaps	35,879	59,632
Currency swaps	83,068	5,293
Currency options	33,596	–
Currency futures	711	–
Total derivative financial assets	2,456,594	1,304,188

Note 8: Investments (continued)

	2011 \$'000	2010 \$'000
Derivatives		
At fair value: – financial assets		
Currency contracts	(270,788)	(1,827,832)
Interest rate swap agreements	(94,176)	(195,025)
Interest rate options and swaptions	(405)	(2,013)
Interest rate futures	(2,402)	(2,521)
Bond futures	(1,163)	–
Equity swaps	(7,855)	–
Equity options	(182)	–
Equity futures	(581)	(34,537)
Commodity futures	(5,368)	–
Credit default swaps	(36,430)	(32,028)
Currency swaps	(4,874)	(15,672)
Currency options	(16)	–
Currency futures	(862)	–
Total derivative financial liabilities	(425,102)	(2,109,628)
Total derivatives	2,031,492	(805,440)

Restrictions on investments

Cash provided and received as collateral

The Fund has entered into various derivative contracts which require the Fund to post or receive collateral with counterparties under certain circumstances based on minimum transfer limits. The Fund provides cash as collateral when legally required and the counterparties also post collateral when legally required. Any cash provided as collateral remains a financial asset of the Fund, however, any alternate use of this cash is restricted as it is held by the counterparty. Any cash received by the Fund from counterparties is not included in the net assets of the Fund. As at 30 June 2011, the Fund has \$59,900,000 cash which has been posted as collateral with counterparties, (2010: \$0) and has received \$1,555,508,000 in cash and \$8,952,007 in US Treasury Bills (2010: \$151,500,000 in cash).

Cash provided as margin on futures accounts

The Fund has posted cash with a futures broker to cover exchange traded futures positions as required under clearing house rules. As at 30 June 2011, the Fund had posted \$86,284,987 (2010: \$116,017,471) in futures margins to cover open positions. This cash also remains a financial asset of the Fund, however, any alternate use of this cash is also restricted.

Note 8: Investments (continued)

Collective investment vehicles

30 June 2011

As at 30 June 2011, the Fund and its subsidiaries had made commitments to a number of collective investment vehicles. Capital commitments (local currency), the net cost of the current investments (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2011 are shown in the table below.

Description of underlying strategy	Capital committed as at 30 June 2011 Local Currency	Outstanding commitment as at 30 June 2011 AUD equivalent \$'000	Capital called and paid as at 30 June 2011 AUD equivalent \$'000	Fair value as at 30 June 2011 AUD equivalent \$'000
Private equity venture capital	USD \$1,014,000,000	794,811	173,469	167,125
Private equity buyout	AUD \$150,000,000	148,050	1,950	167 ¹
Private equity buyout	EUR €842,934,719	465,429	835,344	693,007
Private equity buyout	USD \$2,259,011,132	1,396,655	754,252	850,267
Private equity distressed	EUR €675,000,000	569,389	346,670	355,249
Private equity distressed	USD \$360,000,000	227,192	126,929	137,731
Private equity other	USD \$1,450,000,000	1,029,863	364,013	317,618
Private debt	EUR €624,511,864	646,954	207,278	201,975
Global Property	AUD \$1,020,529,538	21,053	1,000,651	1,021,696
Global Property	EUR €180,000,000	82,836	187,033	155,703
Global Property	GBP £211,529,685	–	401,185	445,290
Global Property	USD \$452,296,251	201,382	251,895	274,753
Global Infrastructure	AUD \$808,349,834	–	808,350	881,725
Global Infrastructure	GBP £483,442,232	–	783,369	703,855
Global Infrastructure	USD \$1,000,000,000	309,104	840,547	648,662
Alternative strategies	EUR €450,000,000	–	607,123	604,449
Alternative strategies	USD \$7,605,177,500	580,020	7,466,420	7,499,743
Listed Equities	USD \$2,000,000,000	–	1,993,994	1,901,223
Private equity distressed – consolidated by parent	USD \$1,000,000,000	630,488	408,944	183,250*
Private debt – consolidated by parent	EUR €430,000,000	283,104	307,824	–*
Private debt – consolidated by parent	USD \$1,000,000,000	638,894	317,280	3,774*
Global Property income – consolidated by parent	AUD \$108,300,000	–	108,577	–*
Global Property income – consolidated by parent	USD \$566,666,667	18,957	546,654	–*
Global Infrastructure – consolidated by parent	AUD \$5,891,408	–	5,891	11,306*
Alternative strategies – consolidated by parent	USD \$5,740,000,000	265,272	5,875,436	4,352,810*
Timberland – consolidated by parent	USD \$125,000,000	–	137,988	–*
Total outstanding commitments		8,309,453		

* On consolidation of these entities, the investment in the collective vehicle is eliminated and the assets and liabilities of these vehicles are disclosed on the statement of financial position and in the notes. The information relating to the underlying commitments to these vehicles is presented in the above table for completeness.

¹ This entity has not yet undertaken any investment activity. Funds drawn have been used to meet start-up and administrative costs, including manager fees

Note 8: Investments (continued)

Collective investment vehicles (continued)

30 June 2010

As at 30 June 2010, the Fund and its subsidiaries had made commitments to a number of collective investment vehicles. Capital commitments (local currency), capital amounts called and paid (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2010 are shown in the table below.

Description of underlying strategy	Capital Committed as at 30 June 2010 Local Currency	Outstanding commitment as at 30 June 2010 AUD equivalent \$'000	Capital called and paid as at 30 June 2010 AUD equivalent \$'000	Fair value as at 30 June 2010 AUD equivalent \$'000
Private equity venture capital	USD \$1,764,000,000	1,842,947	244,459	228,333
Private equity buyout	EUR €655,000,000	704,531	282,674	236,067
Private equity buyout	USD \$400,000,000	473,569	-	-
Private equity distressed	EUR €300,000,000	195,775	287,414	305,408
Private equity distressed	USD \$360,000,000	318,401	120,870	118,048
Private equity secondaries	USD \$1,200,000,000	1,204,641	218,752	270,636
Private equity other	EUR €187,934,719	-	359,577	276,861
Private debt	EUR €330,000,000	478,562	-	-
Global Property	USD \$700,000,000	195,413	639,329	688,098
Global Property	EUR €180,000,000	156,423	122,916	80,549
Global Property	AUD \$390,387,500	-	390,387	390,387
Global Property	GBP £211,529,685	-	401,185	468,061
Global Infrastructure	GBP £327,976,232	-	649,938	593,906
Global Infrastructure	USD \$800,000,000	366,393	678,404	523,739
Alternative strategies	USD \$4,269,657,000	420,292	4,862,358	5,452,507
Private equity distressed – consolidated by parent	USD \$1,000,000,000	867,223	394,532	112,187
Private debt – consolidated by parent	USD \$500,000,000	574,202	16,677	-*
Global Property income – consolidated by parent	AUD \$108,300,00	-	108,300	-*
Global Infrastructure – consolidated by parent	AUD \$543,327,294	-	543,327	615,122*
Alternative strategies – consolidated by parent	USD \$3,740,000,000	230,865	4,001,029	3,838,111*
Timberland – consolidated by parent	USD \$125,000,000	-	137,988	-*
Total outstanding commitments		8,029,237		

* On consolidation of these entities, the investment in the collective vehicle is eliminated and the assets and liabilities of these vehicles are disclosed on the statement of financial position and in the notes. The information relating to the underlying commitments to these vehicles is presented in the above table for completeness.

Note 8: Investments (continued)

Collective investment vehicles (continued)

As noted in Note 20F, in determining the fair value of the net assets of unitised unlisted managed investment schemes and collective investment vehicles, reference is made to the underlying unit price provided by the Manager (where available), associated Manager valuation reports and the most recent audited financial statements of the scheme.

Manager valuation reports are reviewed to ensure the underlying valuation principles are materially compliant with Australian Accounting Standards and applicable industry standards including International Private Equity and Venture Capital Valuation Guidelines as endorsed by the Australian Private Equity and Venture Capital Association Limited (AVCAL).

Commitments made to collective investment vehicles as at 30 June 2011

As disclosed in the Schedule of Commitments and in the tables above, the Fund has committed to provide capital to various collective investment vehicles. The total of these commitments at balance date is \$8,309 million (2010: \$8,029 million). The Fund's commitment obligations, being capital calls, are set out in the various underlying subscription documents. Whilst the actual timing of the capital calls to be made by the managers of these vehicles is uncertain, as it is dependent on the managers sourcing suitable investment opportunities, the Fund has recorded the commitments as being current in accordance with the underlying legal documents (see the consolidated schedule of commitments). The Fund has appropriate liquidity planning in place to ensure a suitable allocation of resources will be available to cover these future commitments of capital.

Note 9: Receivables

	2011 \$'000	2010 \$'000
Receivables		
Imputation credits refundable	437,197	324,948
Interest receivable	5,673	7,439
Dividends & distributions receivable	143,101	112,960
Unsettled sales	564,729	617,658
Other receivables	974	114
Total Receivables	1,151,674	1,063,119

No amounts presented in the table above are considered to be past due or impaired.

Note 10: Non-financial assets

(See note 2.4)

	2011 \$'000	2010 \$'000
Investment property – at fair value (Note 11A)	109,046	108,002
Timberland investment property – at fair value (Note 11B)	46,877	50,337
<i>Total investment property</i>	155,923	158,339
Trees in a plantation forest (Note 11B)	69,133	85,618
<i>Total trees in a plantation forest</i>	69,133	85,618
Plant and equipment		
Computers, plant and equipment – at cost	5,102	4,781
Accumulated depreciation	(3,171)	(2,250)
<i>Total plant and equipment</i>	1,931	2,531
Intangibles		
Lease rights	8,687	11,010
<i>Total intangibles – lease rights</i>	8,687	11,010
Intangibles – software licences		
Computer software purchased – cost	1,063	386
Accumulated amortisation	(228)	(175)
<i>Total intangibles – software licences</i>	835	211
<i>Total intangibles</i>	9,522	11,221

Note 10: Non-financial assets (continued)

Analysis of Plant and equipment, and Intangibles – software licences	Year Ending 30 June 2011		
	Plant & equipment \$'000	Computer software \$'000	Total \$'000
Opening balance as at 1 July 2010			
Gross book value	4,781	386	5,167
Accumulated depreciation/amortisation	(2,250)	(175)	(2,425)
Net book value as 1 July 2010	2,531	211	2,742
<i>Additions:</i>			
by purchase	385	687	1,072
<i>Disposals:</i>			
Gross value of disposals	(64)	(10)	(74)
Accumulated depreciation/amortisation	64	10	74
<i>Depreciation/amortisation charge for the period</i>	(985)	(63)	(1,048)
Net book value as of 30 June 2011	1,931	835	2,766
Represented by:			
Gross book value	5,102	1,063	6,165
Accumulated depreciation/amortisation	(3,171)	(228)	(3,399)
	1,931	835	2,766

Analysis of Plant and equipment, and Intangibles – software licences	Year Ending 30 June 2010		
	Plant & equipment \$'000	Computer software \$'000	Total \$'000
Opening balance as at 1 July 2009			
Gross book value	2,748	252	3,000
Accumulated depreciation/amortisation	(1,463)	(107)	(1,570)
Net book value as 1 July 2009	1,285	145	1,430
<i>Additions:</i>			
by purchase	2,047	140	2,187
<i>Disposals:</i>			
Gross value of disposals	(42)	(16)	(58)
Accumulated depreciation/amortisation	28	10	38
<i>Depreciation/amortisation charge for the period</i>	(787)	(68)	(855)
Net book value as of 30 June 2010	2,531	211	2,742
Represented by:			
Gross book value	4,781	386	5,167
Accumulated depreciation/amortisation	(2,250)	(175)	(2,425)
	2,531	211	2,742

Note 11: Investment property and trees in a plantation forest

Note 11A: Investment property

	2011 \$'000	2010 \$'000
Fair value of investment property	109,046	108,002
	2011 \$'000	2010 \$'000
At fair value		
Balance at beginning of year	108,002	-
Acquisitions	-	107,898
Capital expenditure on investment properties	594	104
Straight-lining of rental income	662	63
Net movement in leasing fees capitalised and amortised	46	-
Fair value adjustments on investment properties	(258)	(63)
Balance at end of year	109,046	108,002

The fair value of the Fund's investment property at 30 June 2011 has been assessed on the basis of freehold title, subject to existing and proposed tenancies. Included in this amount are normal fixtures and fittings. Excluded from the amount of this valuation are items of furniture and furnishings and tenant's fixtures and fittings.

The property was valued by Savills (VIC) Pty Limited who are independent valuers on the 30th June 2011.

The property was valued for acquisition purposes as at 1 March 2010 at \$102.0 million by Savills (VIC) Pty Limited. The fair value as at 30 June 2010 was acquisition cost plus transaction costs of \$6 million.

Note 11: Investment property and trees in a plantation forest (continued)

Note 11B: Timberland investment property and trees in a plantation forest

	2011 \$'000	2010 \$'000
Fair value of trees in a plantation forest	69,133	85,618
Fair value of timberland investment property	46,877	50,337
	116,010	135,955

	Timberland investment property	Trees in a plantation forest
	2011 \$'000	2010 \$'000
Balance at beginning of year	50,337	-
Acquisitions	-	81,470
Capital expenditure	21	31
Depletion of plantation forest trees	-	(2,096)
Net foreign currency gain/(loss)	(11,208)	4,128
Fair value adjustments	7,727	2,085
Balance at end of year	46,877	85,618

The estimated fair value of the plantation forest trees and timberlands (collectively, timber investment) is based on either independent valuations prepared by independent real estate appraisers (members of the American Institute of Real Estate Appraisers), which have been prepared in accordance with Uniform Standards of Professional Appraisal Practice, or internal valuations prepared by the investment manager. Independent valuations are performed on each timber investment every three years. Manager valuations are performed annually.

Independent valuations (30 June 2011)

Independent valuations were obtained in valuing the timber investment as at 30 June 2011. The independent valuation firm was James W. Sewall Company.

Internal valuations (30 June 2010)

Internal valuations were used as of 30 June, 2010 as the investments were acquired in a market based arm's-length transaction during March 2010.

For timberland, the fair value estimate used in internal valuations is based on recent market prices at which similar properties were sold in at arm's-length transactions.

For plantation trees, internal valuations are developed based on an income approach using a discounted cash flow model. Future cash flows are developed using recently prepared forecasts and business plans to estimate the future economic benefit that the timber investment will generate. Key assumptions used in the discounted cash flow model include changes in future prices of wood products, the age of available timber to be harvested, long-term growth rates, the discount rate, and operational costs such as harvesting and forest management costs. A long-term growth rate is applied to revenue and cost generated by the sale of the timber using an estimate of expected inflation rate.

Note 11: Investment property and trees in a plantation forest (continued)

Note 11B: Timberland investment property and trees in a plantation forest (continued)

The determination of fair value of timber investment involves subjective assumptions and estimates that are subject to significant uncertainty.

Capital expenditure and depletion

Timber values are adjusted for capital additions made to the property subsequent to the latest fair value measurement date. All expenditures associated with initial site preparation and planting are capitalised at cost, which approximates fair value.

Generally, costs incurred subsequent to two years after planting, such as fertilisation, vegetation, insect control, and pre-commercial thinning, are considered to be maintenance and are expensed as incurred.

The Fund estimates its timber inventory using statistical information and data obtained from physical measurements, site maps, photo-types, and other information-gathering techniques. These estimates are updated annually and may result in adjustments of timber volumes, including timber growth rates and depletion rates.

Depletion is the cost of standing timber and is recorded as an expense as timber is harvested or sold. The depletion rate applied to the volume of timber sold is adjusted annually and is based on the relationship of incurred costs in the merchantable timber classification to estimated current merchantable volume. The estimated cost basis of timber harvested during the period was \$7,310,000 (2010: \$2,096,000 from March 23, 2010 (inception) through June 30, 2010) and this amount forms part of the timberlands expenses total as disclosed in Note 6.

Note 12: Payables

	2011 \$'000	2010 \$'000
Payables		
Unsettled purchases*	1,413,846	1,073,304
Other accrued expenses including management and performance fees payable	349,229	165,075
Total Payables	1,763,075	1,238,379

* Represents amounts owing under normal market settlement terms for the purchase of investment securities.

Note 13: Provisions

	2011	2010
	\$'000	\$'000
Employee provisions		
Annual leave	826	596
Long service leave	749	645
Other employee liabilities	6,520	5,654
Total Employee provisions	8,095	6,895
Other provisions		
Lease incentive	44	274
Prepaid income distributions	1,035	1,165
Total Other provisions	1,079	1,439

Note 14: Contributions by Government

	2011	2010
	\$'000	\$'000
Opening balance	60,536,831	60,536,831
Contribution from Government - cash	-	-
Closing balance	60,536,831	60,536,831

Contributions are made under Schedule 1 to the *Future Fund Act 2006* (as amended).

Note 15: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 2.3.

Name of entity	Country of incorporation/ domicile	Equity holding	
		2011 %	2010 %
Future Fund Investment Company No.1 Pty Ltd[^]	Australia	100	100
- Quadrant Private Equity No.3C	Australia	100	-
- Secondary Overflow Cayman Fund, L.P.*	Cayman Islands	100	100
Future Fund Investment Company No.2 Pty Ltd[^]	Australia	100	100
- Sankaty Middle Market Opportunities Fund (Offshore II), Ltd*	Cayman Islands	100	100
- Sankaty Middle Market Opportunities Fund (Offshore Master II), L.P.*	Cayman Islands	100	100
- Global Hedged Strategies Fund L.P. (Dissolved 1 July 2010)	Canada	-	100
- Global Hedged Strategies Fund Ltd.	Cayman Islands	100	-
- Archer Capital Offshore Fund II, Ltd.*	Cayman Islands	100	-
- Archer Capital Mini-Master II, L.P.*	Cayman Islands	100	-
- Dover Offshore Fund II, Ltd.*	Cayman Islands	100	-
- Dover Master Fund II, L.P.*	Cayman Islands	100	-
- Fairchild Offshore Fund II L.P.*	Cayman Islands	100	-
- Fairchild Offshore Master Fund II L.P.*	Cayman Islands	100	-
- Kitty Hawk Offshore Fund II Ltd.*	Cayman Islands	100	-
- Kitty Hawk Master Fund II Ltd.*	Cayman Islands	100	-
- Worden Fund, L.P.*	Cayman Islands	100	-
- Worden Master Fund L.P.*	Cayman Islands	100	-
- Worden Fund Corp*	United States	100	-
- Worden Investment Limited*	Ireland	100	-
- Palisades Real Estate II, Ltd. (B)*	Cayman Islands	100	-
- Palisades Real Estate II (Cayman), L.P.*	Cayman Islands	100	-
- Stratus Feeder L.P.*	Cayman Islands	100	-
- G Capital Fund II, Ltd*	Cayman Islands	100	-
- Horsley Bridge Strategic Fund, L.P.*	United States	100	100
- Stud Park Shopping Centre Trust	Australia	100	100
- Hayfin Opal Holdings Limited	Cayman Island	100	100
- Hayfin Opal Luxco 1 SARL	Luxembourg	100	100
- Hayfin Opal Luxco 2 SARL	Luxembourg	100	100
- Hayfin Opal Luxco 3 SARL	Luxembourg	100	100

[^]Audited by the Australian National Audit Office.

* See page 87.

Note 15: Subsidiaries (continued)

Name of entity	Country of incorporation/ domicile	Equity holding	
		2011 %	2010 %
Future Fund Investment Company No.3 Pty Ltd[^]	Australia	100	100
- Pacific Alliance-FF Feeder Fund L.P.	Cayman Islands	100	-
- Pacific Alliance-FF Asia Special Situations Fund L.P.	Cayman Islands	100	-
- Ares Credit Strategies Feeder Fund III L.P.	Cayman Islands	100	-
- Ares Credit Strategies Fund III, L.P.	Cayman Islands	100	-
- Ares CSF III Luxembourg SARL	Luxembourg	100	-
- Ares Private Debt Strategies Fund III, L.P.	United States	100	-
- Metropolitan Fund LP (Blackstone)	Cayman Islands	100	-
- Highstar Capital IV-A LP*	United States	100	-
- SWG Arlington IV-A FIV Sub, LLC*	United States	100	-
- SWG Griffith IV-A FIV Sub, LLC*	United States	100	-
- SWG IV-A Interco LLC*	United States	100	-
- Global Infrastructure Partners - Co-Invest IV L.P.*	Cayman Islands	100	-
- FF Tactical Trading Fund Ltd.	British Virgin Islands	100	-
- Newcastle Fund L.P.	Cayman Islands	100	-
- RCP FF Small Buyout Co-Investment Fund, L.P.*	United States	100	-
- CIP Unit Trust No. 2	Australia	100	-
- Garrison Real Estate Fund II A L.P.*	United States	100	-
Future Fund Investment Company No.4 Pty Ltd[^]	Australia	100	100
- ASP Offshore Company Limited – Global Opportunities Secondary Fund II-A*	Cayman Islands	100	100
- Adams Street Global Opportunities Secondary Fund II-A, L.P.*	United States	100	100
- ASP Offshore Company Limited – 2009 Non-US Emerging Markets Fund-A*	Cayman Islands	100	100
- Adams Street Partnership Fund – 2009 Non-US Emerging Markets Fund-A, LP*	United States	100	100
- Greenspring GE (Offshore) , L.P.*	Cayman Islands	100	100
- Greenspring Growth Equity, L.P.*	United States	100	100
- Greenspring GE II (Offshore), L.P.*	Cayman LP	100	-
- Greenspring Growth Equity II, L.P.*	United States	100	-
- Oaktree FF Investment Fund, L.P.*	Cayman Islands	100	100
- Oaktree FF Investment Fund Class E Holdings, L.P.*	Cayman Islands	100	-
Future Fund Investment Company No.5 Pty Ltd[^]	Australia	100	100
Future Fund Investment Trust No.1	Australia	100	100

[^]Audited by the Australian National Audit Office.

* See page 87.

Note 15: Subsidiaries (continued)

Name of entity	Country of incorporation/ domicile	Equity holding	
		2011 %	2010 %
Future Fund Investment Trust No.2	Jersey	100	100
- Future Fund Investment Trust No.3	Jersey	100	100
- Future Fund Bull Ring (LP) Limited	England	100	100
Brookfield Real Estate Partners F L.P.	United States	100	-
Brookfield Retail Holdings II LLC	United States	100	-
Madison Timber, Inc.	United States	100	100
Madison Timber REIT, Inc.	United States	100	100
- Timber LLC	United States	100	100
- LogCo	United States	100	-

^Audited by the Australian National Audit Office.

*The audited financial statements of these subsidiaries which were used to prepare the consolidated financial statements are for a reporting period which is different from that of the ultimate parent. These subsidiary entities have the purpose of being investment holding entities and their assets and liabilities consist of investments which are consistent in nature to those which the Fund makes directly. On consolidation, these investments are, like the Fund's direct assets, designated at fair value through profit and loss and accounted for on the same basis as if the Fund had invested directly and not via the subsidiary. The Fund is able to obtain the information it requires to undertake the consolidation, notwithstanding the different reporting dates.

The Fund seeks to maximise after tax returns and, where it is legitimate to use a structure which protects the claim to sovereign immunity, this path has been taken. This includes the use of subsidiary holding vehicles. Importantly, the Fund does not invest in schemes and arrangements that use secrecy laws to conceal assets and income that are subject to tax or which create or promote false or fraudulent tax deductions. All investment opportunities are diligently evaluated to ensure they generate an adequate pre-tax return to the Fund. The Fund would not invest in a structure which has the dominant purpose of generating tax benefits. Full transparency and information exchange for tax purposes and compliance with all relevant laws will be ensured and the Fund adopts the OECD principles of transparency and information exchange for tax purposes as the required standard of disclosure.

Note 16: Cash flow reconciliation

	2011 \$'000	2010 \$'000
(a) Reconciliation of operating result to net cash from operating activities:		
Operating result	8,024,758	6,320,474
Non cash items included in the statement of comprehensive income	-	584
Depletion of trees in a plantation forest	7,286	2,096
Increase in fair value of trees in a plantation forest	(8,242)	(2,085)
Increase in fair value of investment properties	(7,469)	-
Depreciation and amortisation	1,048	874
Purchase of investments	(65,473,129)	(89,318,410)
Proceeds from sale of investments	60,548,376	86,011,834
Net gains on revaluation of investments	(427,306)	(4,055,649)
Net (gain)/loss on foreign currency	(1,511,120)	2,094,480
Increase in accrued income	(117,684)	(43,937)
Increase in other assets	(6,478)	(117)
Increase in employee provisions	1,198	1,911
Increase in other payables	184,024	115,604
Increase /(decrease) in other provisions	(230)	346
Net cash from operating activities	1,215,032	1,128,005

(b) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash includes cash on hand and in banks net of any outstanding operating overdrafts. Cash at the end of the financial year is reconciled to the statement of financial position as follows:

	2011 \$'000	2010 \$'000
Cash and cash equivalents	3,995,152	2,849,148

Note 17: Contingent liabilities and assets

Contingencies

The Future Fund is not aware of any quantifiable or unquantifiable contingency as of the signing date that requires disclosure in the financial statements.

Remote contingencies

The Future Fund is not aware as at the signing date of any remote contingencies.

Note 18: Senior executive remuneration

Note 18A: Senior executive remuneration expense for the reporting period

	2011	2010
	\$	\$
Short-term employee benefits:		
Salary (including payment for leave taken)	4,606,481	3,634,450
Movement in annual leave provisions	67,194	39,520
Performance-related payments	2,664,695	1,938,158
Total short-term employee benefits	7,338,370	5,612,128
Post-employment benefits:		
Superannuation	281,816	244,993
Total post-employment benefits	281,816	244,993
Other long-term benefits:		
Movement in long service provisions	112,578	164,582
Total other long-term employee benefits	112,578	164,582
Total	7,732,764	6,021,703

Notes:

- 1. Note 18A was prepared on an accruals basis. As a result the performance-related payment expense disclosed above differs from the cash 'Bonus paid' in Note 18B. The "Bonus paid" relates to the performance payment for the previous financial year.
- 2. Note 18A excludes acting arrangements and part-year service where remuneration expensed for a senior executive was less than \$150,000 but includes remuneration paid to senior executives who resigned from the Fund and earned above \$150,000 for the period served prior to resignation.

Note 18: Senior executive remuneration (continued)

Note 18B: Average annual remuneration packages and bonus paid for substantive senior executives as at the end of the reporting period

	30 June 2011			30 June 2010			
	No. of Senior Executives	Total fixed and variable elements ¹	Bonus Paid ²	No. of Senior Executives	Base Salary	Total fixed and variable elements ¹	Bonus Paid ²
		\$	\$		\$	\$	\$
Total remuneration							
\$180,000 to \$209,999	1	198,978	-	1	189,877	189,877	-
\$270,000 to \$299,999	-	-	-	1	272,243	272,243	54,370
\$300,000 to \$329,999	1	325,208	192,385	2	302,494	302,494	137,262
\$330,000 to \$359,999	1	350,224	83,777	-	-	-	-
\$360,000 to \$389,999	1	380,244	222,332	-	-	-	-
\$390,000 to \$419,999	3	395,266	215,810	1	403,323	403,323	290,270
\$420,000 to \$449,999	2	430,276	122,417	1	423,494	423,494	160,353
\$450,000 to \$479,999	1	450,289	277,889	1	453,738	453,738	264,072
\$480,000 to \$509,999	-	-	-	2	503,728	503,728	133,325
\$510,000 to \$539,999	1	527,838	348,050	1	524,326	524,326	184,837
Total	11			10			

Notes:

1. This table reports substantive senior executives who were employed by the entity at the end of the reporting period (30 June). The total fixed and variable elements were based on the employment agreement of each individual and include base salary and superannuation employer contributions. Each row represents an average annualised figure (based on headcount) for the individuals in that remuneration package band. In addition employees are entitled to four weeks' annual leave each financial year.
2. This represents average actual bonuses paid during the reporting period in that remuneration package band. The 'Bonus Paid' was excluded from the 'Total' calculation (for the purpose of determining remuneration package bands). The 'Bonus Paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year. Executives also have the option of deferring performance payments to future years (see Note 2.8.3) therefore amounts paid may represent more than one individual year's entitlement.

Note 18C: Other executive remuneration

During the reporting period, there were 30 employees (2010: 25 employees) whose salary plus performance bonus were \$150,000 or more. This was calculated by reference to the gross payments line of each individual's payment summary. These employees did not have a role as a senior executive and were therefore not disclosed as senior executives in Note 18A and Note 18B.

Note 19: Average staffing level

	2011	2010
The average staffing level for the Agency during the period was:	75	65

Note 20: Financial instruments and financial risk management

Note 20A: Risk management framework

The Board of Guardians is collectively responsible for the investment decisions of the Fund and is accountable to the Government for the performance of the Fund. The Board’s primary role is to set the strategic direction of the investment activities of the Future Fund consistent with its approved Investment Mandate. This is accomplished through setting the return targets, risk appetite and risk tolerance levels to manage investment risk. The Agency has the task and responsibility of providing considered research and accurate information and reporting to the Board to assist it in undertaking this role. The Agency monitors daily and reports to the Board monthly, compliance with the Board approved investment guidelines and with the Board approved strategic asset allocation.

Note 20B: Financial risk management objectives

The Investment Mandate set by the Government requires the Board to maximise returns above a benchmark rate whilst taking acceptable but not excessive risk. The Board sets, and reviews as deemed necessary, an asset allocation designed to achieve this outcome. It encapsulates a level of risk that is expected to deliver the key return objectives while limiting the downside risk. Particular attention is paid to the worst 5% of possible outcomes under portfolio modelling over a three year period (the “Conditional Value at Risk” or “CVaR” of the Fund) to ensure that medium-term risk in the portfolio is deemed acceptable whilst pursuing long-term returns.

The portfolio construction process involves considering a range of factors and ensuring that there is adequate diversity so that a negative outcome in any one area does not unduly impact the overall Fund return. The factors considered include the outlook for: global economic growth; inflation; global real interest rates; changes in risk premia attached to various asset classes; movements in the value of currencies held; and changes in liquidity and credit conditions.

Note 20C: Market risk

Market risk is the risk of loss arising from movements in the prices of various assets flowing from changes in interest rates, exchange rates, equity prices and other prices and derivatives contracts tied to these asset prices.

Note 20: Financial instruments and financial risk management (continued)

Note 20C (i): Interest rate risk

Interest rate exposure tables

The Future Fund's exposure to interest rates as at 30 June 2011 is set out below.

Financial asset	Note	Floating Interest Rate 2011 \$'000	Fixed Interest Rate 2011 \$'000	Non-interest Bearing 2011 \$'000	Total 2011 \$'000
Cash and cash equivalents		3,995,152	-	-	3,995,152
Bank bills		-	366,451	-	366,451
Negotiable certificates of deposit		-	2,775,219	-	2,775,219
Corporate debt securities		3,044,105	3,136,412	-	6,180,517
Mortgage backed securities		2,435,960	260,265	-	2,696,225
Asset backed securities		1,063,928	103,862	-	1,167,790
Corporate credit (bank loans)		2,884,175	171,950	-	3,056,125
Government debt securities		79,127	815,210	-	894,337
Other interest bearing securities		426,694	21,978	-	448,672
Other financial assets		-	-	55,695,134	55,695,134
Total financial assets		13,929,141	7,651,347	55,695,134	77,275,622
Interest rate swaps (notional amount) – pay		(360,829)	(1,491,454)		(1,852,283)
Interest rate swaps (notional amount) – receive		1,491,454	360,829		1,852,283
Equity swaps (notional amount) – pay		(193,109)	-		(193,109)
Equity swaps (notional amount) – receive		192,891	-		192,891
Currency swaps (notional amount) – pay		(3,964,875)	-		(3,964,875)
Currency swaps (notional amount) – receive		4,000,000	-		4,000,000

As at the reporting date the Future Fund's debt portfolio had an effective interest rate duration of 0.88 (2010: 2.36).

Note 20: Financial instruments and financial risk management (continued)

Note 20C (i): Interest rate risk (continued)

The Future Fund's exposure to interest rates as at 30 June 2010 is set out below.

Financial asset	Note	Floating Interest Rate 2010 \$'000	Fixed Interest Rate 2010 \$'000	Non-interest Bearing 2010 \$'000	Total 2010 \$'000
Cash and cash equivalents		2,849,148	-	-	2,849,148
Bank bills		-	165,571	-	165,571
Negotiable certificates of deposit		-	5,605,026	-	5,605,026
Corporate debt securities		5,873,751	3,004,889	-	8,878,640
Mortgage backed securities		2,779,718	523,266	-	3,302,984
Asset backed securities		1,204,087	55,073	-	1,259,160
Corporate credit (bank loans)		1,895,560	649,060	-	2,544,620
Government debt securities		34,061	406,937	-	440,998
Other interest bearing securities		123,653	12,323	-	135,976
Other financial assets		-	-	45,198,545	45,198,545
Total financial assets		14,759,978	10,422,145	45,198,545	70,380,668
Interest rate swaps (notional amount) – pay		(450,901)	(2,321,436)		(2,772,337)
Interest rate swaps (notional amount) – receive		2,321,436	450,901		2,772,337
Currency swaps (notional amount) – pay		(1,513,236)	-		(1,513,236)
Currency swaps (notional amount) – receive		1,500,000	-		1,500,000

As at the reporting date the Future Fund's debt portfolio had an effective interest rate duration of 2.36 (2009: 0.73).

Note 20: Financial instruments and financial risk management (continued)

Note 20C(i): Interest rate risk (continued)

Interest rate sensitivity analysis

The following table demonstrates the impact on the operating result of the consolidated entity for a 175 basis point (2010: 150 basis point) change in bond yields with all other variables held constant. It is assumed that the basis point change occurs as at the reporting date (30 June 2011 and 30 June 2010) and there are concurrent movements in interest rates and parallel shifts in the yield curves. A 175 basis point (2010: 150 basis point) movement would result in the following impact on the debt portfolios (including interest rate derivatives) contribution to the Fund’s consolidated operating result. The impact on the operating result includes the increase/(decrease) in interest income on floating rate securities from the basis point change.

	30 June 2011 Impact on operating result \$'000
+ 175 basis points	(66,560)
- 175 basis points	170,764

	30 June 2010 Impact on operating result \$'000
+ 150 basis points	(534,097)
- 150 basis points	642,482

Note 20: Financial instruments and financial risk management (continued)

Note 20C (i): Interest rate risk (continued)

Interest rate derivative contracts

The Fund had open positions in exchange traded interest rate futures contracts, interest rate swap agreements and interest rate option agreements as at 30 June 2011. The *Future Fund Act 2006* (as amended) governs the use of financial derivatives.

Interest rate derivatives are used by the Fund's investment managers to manage the exposure to interest rates and to ensure it remains within approved limits. The Fund's counterparties for interest rate swaps and options include major banking firms and their affiliates. The Fund diversifies its exposure by utilising multiple counterparties, by considering each counterparty's credit rating, and by executing such contracts pursuant to master netting agreements. All transactions are undertaken using ISDAs. The Fund's interest rate futures contracts are cash margined daily with the relevant futures clearing exchange. The notional value of the open positions and their fair value are set out below:

	Notional Value 2011 \$'000	Fair Market Value 2011 \$'000	Notional Value 2010 \$'000	Fair Market Value 2010 \$'000
Buy domestic interest rate futures contracts	16,651	(50)	4,014,911	80,242
Sell domestic interest rate futures contracts	(331,560)	(169)	-	-
Buy international interest rate futures contracts	231,783	826	1,246,187	16,016
Sell international interest rate futures contracts	(338,319)	(907)	(218,233)	(2,508)
Buy international bond futures contracts	740,705	(852)	-	-
Receiver (fixed) interest rate swap agreements	360,829	3,324	450,901	11,949
Payer (fixed) interest rate swap agreements	(1,491,454)	(89,104)	(2,321,436)	(195,025)
Interest rate options - call swaptions	(9,700)	(24)	(73,700)	(1,372)
Interest rate options - put swaptions	(68,900)	12	(96,900)	(180)
Interest rate options	(12,800)	(49)	(9,100)	(120)
Total	(902,765)	(86,993)	2,992,630	(90,998)

Note 20: Financial instruments and financial risk management (continued)

Note 20C(ii): Foreign currency risk management

The Fund undertakes certain transactions denominated in foreign currencies and accordingly, is exposed to the effects of exchange rate fluctuations. The Board sets a target exposure to foreign currency risk and this is managed utilising forward foreign exchange contracts.

Foreign exchange contracts are used by the Fund's investment managers to manage the exposure to foreign exchange and to ensure it remains within Board approved limits. The Fund's counterparties for foreign exchange contracts include major banking firms and their affiliates. The Fund diversifies its exposure by utilising multiple counterparties, by considering each counterparty's credit rating, and by executing such contracts pursuant to master netting agreements. All transactions (other than spot trades) are undertaken using ISDAs.

The Fund's exposure in Australian equivalents to foreign currency risk at the reporting date was as follows:

30 June 2011	USD \$'000	EUR \$'000	GBP \$'000	JPY \$'000	Other ¹ \$'000	Total \$'000
Cash & cash equivalents	2,497,848	266,431	118,538	13,046	56,060	2,951,923
Listed equities and listed managed investment schemes	9,914,474	2,603,715	1,513,484	1,281,213	5,463,979	20,776,865
Interest bearing securities	9,379,888	895,552	687,948	3,859	524,609	11,491,856
Collective investment vehicles	16,324,230	2,011,839	1,149,967	-	10,113	19,496,149
Other investments	116,118	16,521	2,823	1,887	5,698	143,047
Receivables	420,581	54,776	20,745	7,188	37,161	540,451
Payables	(1,066,912)	(273,512)	(49,819)	(4,427)	(89,843)	(1,484,513)
Total physical exposure	37,586,227	5,575,322	3,443,686	1,302,766	6,007,777	53,915,778
Forward exchange contracts						
- buy foreign currency	5,503,120	642,111	454,328	2,342,431	9,613,047	18,555,037
- sell foreign currency	(39,234,784)	(6,494,834)	(2,165,090)	(580,606)	(5,133,516)	(53,608,830)
Currency options	547,343	-	-	212,795	-	760,138
Total derivative exposure	(33,184,321)	(5,852,723)	(1,710,762)	1,974,620	4,479,531	(34,293,655)
Total net exposure	4,401,906	(277,401)	1,732,924	3,277,386	10,487,308	19,622,123

¹ Other includes AUD equivalent exposures to other currencies which are immaterial on an individual basis.

Note 20: Financial instruments and financial risk management (continued)

Note 20C(ii): Foreign currency risk management (continued)

The Fund's exposure in Australian equivalents to foreign currency risk at 30 June 2010 was as follows:

30 June 2010	USD \$'000	EUR \$'000	GBP \$'000	JPY \$'000	Other ¹ \$'000	Total \$'000
Cash & cash equivalents	1,552,289	229,964	79,323	30,909	27,061	1,919,546
Listed equities and listed managed investment schemes	8,047,474	1,978,541	1,410,242	1,311,731	4,083,930	16,831,918
Interest bearing securities	9,567,385	913,811	306,868	-	62,927	10,850,991
Collective investment vehicles	11,231,661	898,885	1,061,967	-	-	13,192,513
Other investments	27,997	11,826	939	-	3,280	44,042
Receivables	544,116	24,759	21,488	15,457	25,142	630,962
Payables	(747,992)	(20,957)	(5,927)	(5,200)	(41,640)	(821,716)
Total physical exposure	30,222,930	4,036,829	2,874,900	1,352,897	4,160,700	42,648,256
Forward exchange contracts						
- buy foreign currency	4,218,881	747,419	169,614	2,024,115	2,868,484	10,028,513
- sell foreign currency	(32,778,061)	(5,105,973)	(1,902,724)	(1,242,467)	(2,576,255)	(43,605,480)
Total derivative exposure	(28,559,180)	(4,358,554)	(1,733,110)	781,648	292,229	(33,576,967)
Total net exposure	1,663,750	(321,725)	1,141,790	2,134,545	4,452,929	9,071,289

¹ Other includes AUD equivalent exposures to other currencies which are immaterial on an individual basis.

Note 20: Financial instruments and financial risk management (continued)

Note 20C(ii): Foreign currency risk management (continued)

Foreign currency sensitivity analysis

The following table demonstrates the impact on the consolidated entity's operating result of a 15% (2010: 14%) movement of the value of the Australian dollar relative to the basket of actual net exposures as at 30 June 2011, with all other variables held constant. It is assumed that the relevant change occurs as at the reporting date and the results presented are shown after taking into account the implementation of the Board's foreign currency exposure policy (that is, the sensitivity is calculated on the net exposure presented in the tables on the two previous pages).

	30 June 2011 Impact on operating result \$'000
+ 15% movement	3,423,208
- 15% movement	(3,065,371)
	30 June 2010 Impact on operating result \$'000
+ 14% movement	1,579,290
- 14% movement	(1,579,290)

Note 20: Financial instruments and financial risk management (continued)

Note 20C(iii): Equity price risk

Public markets equity price risk

The Future Fund is exposed to equity price risks arising from public market equity investments. The equity price risk is the risk that the value of our equity portfolio will decrease as a result of changes in the levels of equity indices and the price of individual stocks. The Future Fund holds all of its equities at fair value through profit or loss.

The Fund's exposure to public market equity price risk at the reporting date was as follows:

	30 June 2011	30 June 2010
	\$'000	\$'000
Domestic listed equities and listed managed investment schemes	9,728,702	11,683,155
International listed equities and listed managed investment schemes	20,789,430	16,831,917
Total equity price risk exposure	30,518,132	28,515,072

Equity derivative contracts

The Fund had open positions in exchange traded equity futures contracts and equity option contracts as at 30 June 2011. The *Future Fund Act 2006* (as amended) governs the use of financial derivatives. Exchange traded equity futures, swaps and options are used to manage market exposures to equity price risk and to ensure that asset allocations remain within approved limits. Over the counter equity options are used to buy protection against a fall in equity markets. The Fund's counterparties for equity options and swaps include major banking firms and their affiliates. The Fund diversifies its exposure by utilising multiple counterparties, by considering each counterparty's credit rating, and by executing such contracts pursuant to master netting agreements. All transactions are undertaken using ISDAs. The Fund's equity futures contracts are cash margined daily with the relevant futures clearing exchange. The notional value of the open contracts and their fair value are set out below:

	Notional Value 2011 \$'000	Fair Market Value 2011 \$'000	Notional Value 2010 \$'000	Fair Market Value 2010
Buy domestic equity futures contracts	215,557	3,208	457,313	(27,483)
Buy international equity futures contracts	468,499	12,900	577,364	(7,011)
Sell international equity futures contracts	(14,787)	(459)	-	-
Equity swap agreements	193,109	(7,855)	-	-
Equity swap agreements	(192,891)	13,253	-	-
Exchange traded international equity options	778	132	673	761
Over the counter international equity options	(3,520,604)	53,127	(3,301,191)	63,796
Total	(2,850,339)	74,306	(2,265,841)	30,063

Note 20: Financial instruments and financial risk management (continued)

Note 20C(iii): Equity price risk (continued)

Equity price sensitivity analysis

The analysis below demonstrates the impact on the consolidated entity's operating result of the following movements:

- +/- 20% on Australian equities
- +/- 15% on International equities

The sensitivity analysis has been performed to assess the direct risk of holding equity instruments and associated derivatives. The analysis is undertaken on the base currency values of the underlying exposures. Currency risk sensitivity is considered separately in the currency sensitivity table presented above. The percentage change for each sub-class noted in the table below is measured with reference to each underlying security's forward looking beta, which is a measure of how the underlying security price would change relative to an absolute increase or decrease in the market portfolio which has a beta of 1.

	30 June 2011 Impact on operating result \$'000	30 June 2010 Impact on operating result \$'000
20% increase in Australian equities	2,676,110	2,450,028
15% increase in International equities	4,567,870	3,578,783
Total	7,243,980	6,028,811
20% decrease in Australian equities	(2,676,110)	(2,450,022)
15% decrease in International equities	(4,314,708)	(2,655,251)
Total	(6,990,818)	(5,105,273)

Note 20C(iv): Other price risk (derivatives)

The Fund had open positions in exchange traded commodity futures contracts at 30 June 2011. The *Future Fund Act 2006* (as amended) governs the use of financial derivatives. Commodity and index futures are used to gain indirect market exposure. The futures contracts are cash margined daily with the relevant futures clearing exchange. The notional value of the open contracts and their fair value are set out below:

	Notional Value 2011 \$'000	Fair Market Value 2011 \$'000	Notional Value 2010 \$'000	Fair Market Value 2010 \$'000
Buy international commodity futures contracts	138,201	(2,935)	-	-
Sell international commodity futures contracts	(49,041)	(923)	-	-
Total	89,160	(3,858)	-	-

Note 20: Financial instruments and financial risk management (continued)

Note 20C(v): Other price risk (collective investment vehicles)

The Future Fund is exposed to other price risks arising from its investments in collective investment vehicles. The Fund mitigates this risk through diversification of its investments.

As noted in Note 20F, in the absence of active markets for a particular investment, judgement is required in determining fair value which introduces an increased element of uncertainty in the determination of that fair value. Collective investment vehicle pricing requires this judgement to be exercised in determining appropriate market reference transactions, pricing or earnings multiples, cash flow estimates and market discount rates.

Similarly, when estimating the potential sensitivity of the inputs into the fair values, there is judgement required as to how to determine what a reasonable change in underlying inputs might be in the next financial period. The Fund has adopted the use of proxy information to assist in determining these sensitivities and these are detailed below.

Private real estate proxy

The Fund has created a proxy index of publicly traded real estate investment trusts (REITs) that is appropriate for the geographical exposure of the portfolio.

Private equity proxy

The Fund has created a proxy after consideration of the investment strategy and geographical exposure of each private equity investment. For example, a venture capital strategy is proxied using micro cap equities in the appropriate geography.

Infrastructure proxy

The Fund utilises an appropriate index of publicly traded infrastructure companies as a proxy.

Alternative strategy funds

An appropriate market index of public traded assets or similar alternative strategy funds is used as a proxy.

Other price risk sensitivity analysis

The sensitivity analysis for other price risk using the proxies noted above is incorporated within the equity risk sensitivity analysis and interest rate sensitivity analysis presented earlier in Notes 20C(i) and 20C(iii).

Note 20: Financial instruments and financial risk management (continued)

Note 20D: Liquidity risk management

Liquidity risk is the risk that the Future Fund will not be able to meet its obligations as they fall due. The primary obligation of the Future Fund, being the payment of the Commonwealth Government's employee superannuation obligations, is not expected to be required to be met until the earlier of the balance of the Fund being greater than or equal to the target asset level or 1 July 2020.

Nonetheless, in the interim period, the Future Fund has sufficient funds available to meet operating expenses and other liabilities.

The following tables summarise the maturity profile of the Fund's financial liabilities, net and gross settled derivative financial liability instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The tables have been drawn up based on the contractual undiscounted cash flows.

As at 30 June 2011:

	Less than 3 months \$'000	3 months to 1 year \$'000	1 to 5 Years \$'000	> 5 Years \$'000	Total contractual cashflows \$'000	Carrying amount (assets)/ liabilities \$'000
2011						
Non-derivatives						
Unsettled purchases	1,413,846	-	-	-	1,413,846	1,413,846
Other payables	349,229	-	-	-	349,229	349,229
Total non-derivatives	1,763,075	-	-	-	1,763,075	1,763,075
Derivatives						
Net settled (interest rate swaps, credit default swaps, interest rate options)	4,255	14,211	114,749	16,225	149,440	149,440
Gross settled (forward foreign exchange contracts, cross currency swaps)						
- (inflow)	(8,579,842)	(612,721)	(4,562,834)	(3,413)	(13,758,810)	(13,758,810)
- outflow	8,772,814	624,655	4,633,569	3,434	14,034,472	14,034,472
Total derivatives	197,227	26,145	185,484	16,246	425,102	425,102

The Fund may be required to provide cash as collateral to counterparties under legal agreements when derivatives are in a net liability position. Refer to Note 8 for details on cash provided as collateral.

Note 20: Financial instruments and financial risk management (continued)

Note 20D: Liquidity risk management (continued)

As at 30 June 2010:

	Less than 3 months \$'000	3 months to 1 year \$'000	1 to 5 Years \$'000	> 5 Years \$'000	Total contractual cashflows \$'000	Carrying amount (assets)/ liabilities \$'000
2010						
Non-derivatives						
Unsettled purchases	1,073,304	-	-	-	1,073,304	1,073,304
Other payables	165,075	-	-	-	165,075	165,075
Total non-derivatives	1,238,379	-	-	-	1,238,379	1,238,379
Derivatives						
Net settled (interest rate swaps, credit default swaps, interest rate options)	38,340	1,432	167,253	59,099	266,124	266,124
Gross settled (forward foreign exchange contracts, cross currency swaps)						
- (inflow)	(12,464,870)	(20,381,019)	(502,098)	(249,911)	(33,597,898)	(33,597,898)
- outflow	12,955,429	21,718,292	510,929	256,752	35,441,402	35,441,402
Total derivatives	528,899	1,338,705	176,084	65,940	2,109,628	2,109,628

Note 20: Financial instruments and financial risk management (continued)

Note 20E: Credit risk

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitments in full and on time, or from losses arising from the change in value of a traded financial instrument as a result of changes in credit risk on that instrument.

The Board sets limits on the credit ratings of debt investments. These limits are reflected in the underlying investment mandates and are monitored by the Agency with compliance reported to the Board.

The Future Fund's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the statement of financial position.

The Fund had, at 30 June 2011, an exposure of 7.5% (2010: greater than 10%) of its net assets to interest bearing securities issued by domestic banks. Exposures to individual counterparties are separately identified in the table below.

Domestic interest bearing securities issued by:	\$'000
Commonwealth Bank of Australia	1,001,342
Westpac Banking Corporation	1,790,758
National Australia Bank Limited	1,320,180
Australia and New Zealand Banking Group Limited	1,302,595
Other domestic banks (2 banks* – refer credit exposure analysis below)	181,588
Non-bank issued	27,303
Total	5,623,766

*Includes domestic subsidiaries of foreign banks.

The exposures presented above reconcile to Note 8 of the financial statements as follows:

Domestic interest bearing securities issued by:	\$'000
Bank bills - domestic	242,996
Negotiable certificates of deposit - domestic	2,775,219
Corporate debt securities - domestic	2,605,551
Total	5,623,766



Note 20: Financial instruments and financial risk management (continued)

Note 20E: Credit risk (continued)

Exposures as at 30 June 2010:

Domestic interest bearing securities issued by:	\$'000
Commonwealth Bank of Australia	3,185,919
Westpac Banking Corporation	2,954,593
National Australia Bank Limited	2,284,360
Australia and New Zealand Banking Group Limited	2,030,977
Other domestic banks (2 banks* – refer credit exposure analysis below)	534,726
Non-bank issued	2,424
Total	10,992,999

*Includes domestic subsidiaries of foreign banks.

The exposures presented above reconcile to Note 8 of the financial statements as follows:

Domestic interest bearing securities issued by:	\$'000
Bank bills - domestic	124,492
Negotiable certificates of deposit - domestic	5,605,026
Corporate debt securities - domestic	5,263,481
Total	10,992,999

Exposures are measured at the fair value of the underlying securities which is equivalent to their carrying value in the statement of financial position. Any associated income which is outstanding has been included within the numbers presented. None of these accrued income amounts are past due.

Note 20: Financial instruments and financial risk management (continued)

Note 20E: Credit risk (continued)

Credit risk derivatives

The Fund's managers utilise credit default swaps to gain exposure to, and to hedge, credit risk. The Fund's counterparties for credit default swaps include major banking firms and their affiliates. The Fund diversifies its exposure by utilising multiple counterparties, by considering each counterparty's credit rating, and by executing such contracts pursuant to master netting agreements. All transactions are undertaken using ISDAs approved by the Fund. Managers are required to fully cash back all sold credit protection positions. Outstanding positions are marked to market and collateralisation of out of the money positions is required.

The notional value of the open credit default swap positions and their fair value are set out below:

	Notional Value	Fair Market Value	Notional Value	Fair Market Value
	2011	2011	2010	2010
	\$'000	\$'000	\$'000	\$'000
Buy Credit Protection	1,379,892	6,601	1,479,892	40,878
Sell Credit Protection	488,655	(7,152)	301,727	(13,274)
Total		(551)		27,604

Note 20: Financial instruments and financial risk management (continued)

Note 20E: Credit risk (continued)

Credit exposure by credit rating

The following table provides information regarding the credit risk exposures of the debt instruments held by the Future Fund according to the credit ratings of the underlying debt instruments.

	2011 \$'000	2010 \$'000
<i>Long-term rated securities</i>		
AAA	1,464,131	2,378,844
AA	7,352,005	8,829,987
A	1,089,898	1,181,611
BBB	794,312	1,040,855
Below Investment grade#	7,110,435	5,490,245
<i>Short-term rated securities</i>		
A-1+/P-1	3,049,471	5,729,517
<i>Other</i>		
US Government Guaranteed	720,236	531,064
Total debt securities and cash held	21,580,488	25,182,123
Other non-debt financial assets	55,695,134	45,198,545
Total financial assets	77,275,622	70,380,668

#The Fund has a number of mandates with managers specialising in managing distressed debt and corporate loans portfolios.

Credit risk associated with receivables is considered minimal. The main receivables balance is in relation to franking credits which are claimable from the Australian Taxation Office (ATO) annually in July each year.

There are no overdue contractual receipts due from counterparties as at 30 June 2011 (30 June 2010: nil).

Note 20: Financial instruments and financial risk management (continued)

Note 20F: Fair values of financial assets and liabilities

The carrying amounts of the Fund's assets and liabilities at the end of each reporting period approximate their fair values.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

(i) Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in Note 2. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

As a result of events in global markets in the past year and comparative period, liquidity in some investment markets decreased significantly. As a result, the volume of trading in some of the investments held by the Fund decreased significantly, and accordingly the valuation of those investments is subject to a greater uncertainty and requires greater judgement.

(ii) Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques employed by the managers the Board has engaged or by the Fund directly. These include the use of recent transactions to the extent these are available and are not distressed transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides an estimate of prices that could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on best estimates and the discount rate used is a market rate at the balance date applicable for an instrument with similar terms and conditions.

Note 20: Financial instruments and financial risk management (continued)

Note 20F: Fair values of financial assets and liabilities (continued)

For other pricing models, inputs are based on market data at balance date. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the balance date taking into account current market conditions (for example, volatility and appropriate yield curves). The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying industry standard option pricing models.

Note 20G: Fair value hierarchy

The Fund has adopted the amendments to AASB 7, effective 1 July 2009. This requires the fund to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The following table provides an analysis of financial instruments held at 30 June 2011 that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- > Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- > Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- > Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities and exchange traded derivatives.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include both investment grade and non investment grade interest bearing securities and over the counter derivatives.

The Fund must appoint investment managers to invest the assets of the Fund under the Act. A significant proportion of these investments are made via pooled investment vehicles which in turn invest in a variety of underlying investments. Such pooled investments are classified as level 3 investments in these financial statements. The diverse nature of the investments they make on the Fund's behalf means it is not possible to provide additional information in these financial statements regarding how inputs into the valuation of level 3 investments might change nor the resultant impact on the statement of comprehensive income that such changes to valuation inputs might trigger.

As noted in Note 20C (v) the Fund has used proxy investment exposures to provide sensitivity information surrounding the possible impact on the income of the Fund should equity or interest rate markets move up or down by a specified amount.

Note 20: Financial Instruments and Financial Risk Management (continued)

Note 20G: Fair value hierarchy (continued)

As at 30 June 2011:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss:				
Interest bearing securities	404,215	15,119,811	2,061,310	17,585,336
Listed equities and listed managed investment schemes	30,070,038	126,186	321,908	30,518,132
Collective investment vehicles	-	-	21,411,378	21,411,378
Derivatives	21,178	2,435,416	-	2,456,594
Restricted cash	146,185	-	-	146,185
Investments sold, not yet purchased	2,563	-	-	2,563
Total	30,644,179	17,681,413	23,794,596	72,120,188
Financial liabilities at fair value:				
Derivatives	10,391	414,704	7	425,102
Investments sold, not yet purchased	7,986	-	-	7,986
Total	18,377	414,704	7	433,088

The following table presents the transfers between levels for the year ended 30 June 2011:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Transfers between levels 1 and 3	55,481	-	(55,481)
Transfers between levels 2 and 3	-	96,815	(96,815)

Note 20: Financial Instruments and Financial Risk Management (continued)

Note 20G: Fair value hierarchy (continued)

The following table presents the movement in level 3 instruments for the year ended 30 June 2011 by class of financial instrument.

	Interest bearing securities \$'000	Listed equities and listed managed investment schemes \$'000	Collective investment vehicles \$'000	Derivatives \$'000	Total \$'000
Financial assets at fair value through profit or loss:					
Opening balance	1,600,620	235,210	14,198,020	2,978	16,036,828
Purchases	1,281,454	191,883	8,364,338	-	9,837,675
Sales	(638,083)	(28,370)	-	(1,477)	(667,930)
Transfers into level 3	92,214	7,439	-	-	99,653
Gains and losses recognised in the statement of comprehensive income	(82,424)	(21,334)	(1,150,980)	(169)	(1,254,907)
Transfers out of level 3	(192,471)	(62,920)	-	(1,332)	(256,723)
Closing balance	2,061,310	321,908	21,411,378	-	23,794,596
Financial liabilities at fair value through profit or loss:					
Opening balance	-	-	-	(5,537)	(5,537)
Purchases	-	-	-	188	188
Sales	-	-	-	(6)	(6)
Transfers into level 3	-	-	-	-	-
Gains and losses recognised in the statement of comprehensive income	-	-	-	574	574
Transfers out of level 3	-	-	-	4,774	4,774
Closing balance	-	-	-	(7)	(7)

Note 20: Financial Instruments and Financial Risk Management (continued)

Note 20G: Fair value hierarchy (continued)

The disclosure for collective investment vehicles presented in the above tables shows all investments classified as level 3. The financial statements received from the managers provide additional information in relation to the underlying investments and on a look through basis the disclosure is as follows:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Collective investment vehicles	3,354,718	6,604,002	11,452,658	21,411,378

As at 30 June 2010:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss:				
Interest bearing securities	4,375	20,727,980	1,600,620	22,332,975
Listed equities and listed managed investment schemes	28,228,963	50,899	235,210	28,515,072
Collective investment vehicles	-	-	14,198,020	14,198,020
Derivatives	761	1,300,449	2,978	1,304,188
Restricted cash	116,017	-	-	116,017
Total	28,350,116	22,079,328	16,036,828	66,466,272
Financial liabilities at fair value:				
Derivatives	-	2,104,091	5,537	2,109,628
Total	-	2,104,091	5,537	2,109,628

The following table presents the transfers between levels for the year ended 30 June 2010:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Transfers between levels 1 and 2	85,408	(85,408)	-
Transfers between levels 2 and 3	-	604,139	(604,139)

Note 20: Financial Instruments and Financial Risk Management (continued)

Note 20G: Fair value hierarchy (continued)

The following table presents the movement in level 3 instruments for the year ended 30 June 2010 by class of financial instrument.

	Interest bearing securities \$'000	Listed equities and listed managed investment schemes \$'000	Collective investment vehicles \$'000	Derivatives \$'000	Total \$'000
Financial assets at fair value through profit or loss:					
Opening balance	2,069,214	276,275	4,690,163	-	7,035,652
Purchases	580,687	122,941	8,355,831	1,976	9,061,435
Sales	(662,897)	(33,413)	-	-	(696,310)
Transfers into level 3	97,363	7,792	-	-	105,155
Gains and losses recognised in the statement of comprehensive income	54,719	31,779	1,152,026	1,002	1,239,526
Transfers out of level 3	(538,466)	(170,164)	-	-	(708,630)
Closing balance	1,600,620	235,210	14,198,020	2,978	16,036,828
Financial liabilities at fair value through profit or loss:					
Opening balance	-	-	-	88	88
Purchases	-	-	-	250,000	250,000
Sales	-	-	-	(249,600)	(249,600)
Transfers into level 3	-	-	-	-	-
Gains and losses recognised in the statement of comprehensive income	-	-	-	(5,361)	(5,361)
Transfers out of level 3	-	-	-	(664)	(664)
Closing balance	-	-	-	(5,537)	(5,537)

Note 20: Financial Instruments and Financial Risk Management (continued)

Note 20G: Fair value hierarchy (continued)

The disclosure for collective investment vehicles presented in the above tables shows all investments classified as level 3. The financial statements received from the managers provide additional information in relation to the underlying investments and on a look through basis the disclosure is as follows:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Collective investment vehicles	1,120,185	4,382,676	8,695,159	14,198,020

Note 21: Events occurring after reporting date

There have been no significant events occurring after reporting date that would materially affect these financial statements.

Note 22: Parent Entity

The following table sets out information relating to the parent entity which comprises Future Fund Management Agency and the Board of Guardians:

	30 June 2011 \$'000	30 June 2010 \$'000
Total assets	77,063,360	70,321,734
Total liabilities	1,756,566	3,039,698
Total equity and amount attributable to the Government	75,306,794	67,282,036
Profit/(loss)	8,024,758	6,320,474
Total comprehensive income	8,024,758	6,320,474

The parent entity has committed to funding the subsidiary commitments as detailed in Note 8 for both the current and comparative years.

Note 23: Compensation and debt relief disclosures

No 'Act of Grace' payments were made during the reporting period (2010: nil).

No waivers of amounts owing to the Government were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997* during the reporting period (2010: nil).

No payments were made under the 'Defective Administration Scheme' during the reporting period (2010: nil).

No payments were made under section 73 of the *Public Service Act 1999* during the reporting period (2010: nil).

No payments were made under ex-gratia programs during the reporting period (2010: nil).

Note 24: Special Accounts

Note 24A: Special Accounts: Future Fund Special Account

Legal Authority — *Future Fund Act 2006* (as amended), section 12.

Purpose — establishment and ongoing operation of the Future Fund.

Disclosures below are on a cash basis and consolidate departmental and administered items.

	Period from 1 July 2010 to 30 June 2011 \$'000	Period from 1 July 2009 to 30 June 2010 \$'000
Future Fund Special Account		
Balance carried from previous period	-	-
Bank interest amounts credited	-	-
Appropriations for reporting period	-	-
Other Receipts:		
GST credits	7,519	10,170
Amounts transferred from investment account ^(a)	268,952	278,477
Amounts credited to the special account	-	-
Total Credits	276,471	288,647
Available for payments	276,471	288,647
Payments made:		
Investments debited from the Special Account (FFA s17)	-	-
Payments made		
- Remuneration of Board of Guardians and Agency staff	20,673	16,947
- Suppliers	24,880	31,559
- Investment expenses	229,846	237,954
- Purchase of capital equipment and software	1,072	2,187
Total Debits	276,471	288,647
Balance carried forward to next year ^(b)	-	-

(a) The operations of the Future Fund are funded via the investment revenue generated.

(b) Excluding investments balances, see Note 24C.

Note 24: Special Accounts (continued)

Note 24B: Special accounts: Other Trust Moneys - Future Fund Management Agency Special Account

The Other Trust Moneys – Future Fund Management Agency Special Account is a Special Public Money account established for the purpose:

- a) Of disbursing amounts temporarily held on trust or otherwise for the benefit of a person other than the Commonwealth; and
- b) to repay amounts where an Act or other law requires or permits the repayment of an amount received.

The Special Account was established under s20 of the *Financial Management and Accountability Act 1997*. The Special Account was closed on 19 October 2010 under a determination signed by the Minister for Finance and Deregulation.

Note 24C: Special Accounts: Investment of Public Money

Disclosures below are on a cash basis.

	Period from 1 July 2010 to 30 June 2011	Period from 1 July 2009 to 30 June 2010
Future Fund Special Account: Investment of Public Money under section 17 of the <i>Future Fund Act 2006</i> (as amended)	\$'000	\$'000
Opening balance	70,809,704	65,839,783
Investments made on transfer of funds from the Special Account	-	-
Realised investments reinvested	59,957,598	86,788,002
Interest earned reinvested	1,840,717	1,138,855
Dividends received reinvested	1,550,226	1,081,086
Franking credits received reinvested	298,951	323,224
Foreign currency realised reinvested	4,646,551	3,200,798
Other income reinvested	-	6,042
Amounts transferred to operations ^(a)	(268,952)	(278,477)
Investments realised	(62,109,110)	(87,289,609)
Closing Balance	76,725,685	70,809,704

(a) The operations of the Future Fund are funded via the investment revenue generated.

Note 25: Reporting of outcomes

Note 25A: Net cost of outcome delivery

Outcome 1: Make provision for the Commonwealth's unfunded superannuation liabilities and payments for the creation and development of infrastructure, by managing the operational activities of the Future Fund and Nation-building Funds, in line with the Government's investment mandates.

	Outcome 1 2011 \$'000	Outcome 1 2010 \$'000
<i>Expenses</i>		
Investment related expenses	450,281	307,387
Depreciation and amortisation	1,048	855
Agency and Board remuneration expenses	21,873	18,856
Other expenses	11,818	12,791
Total expenses	485,020	339,889
<i>Costs recovered from provision of goods and services to the non-government sector</i>		
<i>Income</i>		
Interest	70,592	71,274
Dividends, distributions and imputation credits	1,926,785	1,387,549
Realised and unrealised investment gains and losses	6,600,843	5,187,799
Other income	41,899	8,868
Total income	8,640,119	6,655,490
Net cost (contribution) of outcome	(8,155,099)	(6,315,601)

Note 25B: Net cost of outcome delivery – Programs

The Future Fund Management Agency ('the Agency') has two programs: the management of the investment of the Future Fund and the management of the investment of the Building Australia Fund, Education Investment Fund and Health and Hospitals Fund.

Program 1.1 Management of the investment of the Future Fund

The Agency supports the Board in investing to accumulate assets for the purpose of offsetting the unfunded superannuation liabilities of the Australian Government which will fall due on future generations. The net cost of this output delivery is presented above in Note 25A.

Program 1.2 Management of the investment of the Building Australia Fund, Education Investment Fund and Health and Hospitals Fund (the BAF, EIF and HHF)

Under the *Nation-building Funds Act 2008*, the role of the Agency was extended to include supporting the Board in the investment of the assets of the BAF, EIF and HHF (each a "Fund"). The Agency charges a monthly fee to each Fund to reimburse the Agency for shared costs paid by the Agency, as agreed with the Department of Finance and Deregulation. This is shown as other income in the income statement. Direct costs to the BAF, EIF and HHF, such as investment management and custody fees, were charged directly to each Fund's Special Account and are not reported as part of these financial statements.

Appendices

Future Fund Investment Mandate Directions

Part 1 – Preliminary

1. Name of Directions

These Directions are the Future Fund Investment Mandate Directions 2006.

2. Commencement

These Directions commence on 22 May 2006.

3. Definitions

In these Directions:

Act means the *Future Fund Act 2006*.

Fund means the Future Fund.

Board means the Future Fund Board of Guardians.

4. Objective of these Directions

The Future Fund will make provision for unfunded superannuation liabilities that will become payable during a period when an ageing population is likely to place significant pressure on the Commonwealth's finances.

The objective of these directions is to give guidance to the Board in relation to its investment strategy for the Future Fund. The Future Fund Board of Guardians is required under section 18 of the Act to seek to maximise the return earned on the Fund over the long term, consistent with international best practice for institutional investment and subject to its obligations under the Act and any directions given by the responsible Ministers under subsection 18(1) or subclause 8(1) of Schedule 1 of the Act.

These Directions are given under subsection 18(1) of the Act to articulate the Government's expectations for how the Fund will be invested and managed by the Board.

Investments by the Future Fund will be confined to financial assets.

Part 2 – Directions

5. Benchmark return

The Board is to adopt an average return of at least the Consumer Price Index (CPI) + 4.5 to + 5.5 per cent per annum over the long term as the benchmark return on the Fund.

During the initial transition period, as the Board develops a long-term strategic asset allocation, a return lower than the benchmark return is expected.

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.

6. Limits for holdings of listed companies

The Board must establish a limit for holdings on any listed company in order to prevent a breach of the statutory limits imposed by sections 21 and 22 of the Act.

7. Telstra Corporation

The Board must not acquire a direct equity holding of voting shares in Telstra Corporation Limited except as a result of a transfer of financial assets by the responsible Ministers under clause 6 of Schedule 1 of the Act or a gift of financial assets under clause 7 of Schedule 1 of the Act.

8. Board must consider impacts from its investment strategy

In undertaking its investment activities, the Board must act in a way that:

- minimises the potential to effect any abnormal change in the volatility or 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.

9. 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.

Future Fund Ministerial Directions

– Telstra holding

1. Definitions

For the purposes of this direction:

ASX means the Australian Stock Exchange Limited;

Board means the Future Fund Board of Guardians;

Dispose of a Telstra Share means:

- (a) sell, transfer, create a trust over or interest (including any legal, beneficial or relevant interest (as defined in the *Corporations Act 2001*)) in, or alienate any right or power attached to, a Telstra Share or create, issue or sell a financial product convertible into, exchangeable for or representing the right to receive a Telstra Share; or
- (b) agree or undertake to do any of the foregoing, whether conditionally or unconditionally; or
- (c) do anything having the economic effect of any of the foregoing including entering into a derivative (as defined in the *Corporations Act 2001*) over Telstra Shares;

Telstra means Telstra Corporation Limited;

Telstra 3 Instalment Receipts means instalment receipts that:

- (a) relate to ordinary shares in Telstra; and
- (b) are issued in connection with the Telstra 3 Share Offer.

Telstra 3 Share Offer means the offer by the Commonwealth of ordinary shares in Telstra to retail and institutional investors, through an offer of instalment receipts relating to those shares (Telstra 3 Instalment Receipts) made in October and November 2006; and

Telstra Shares means ordinary shares in Telstra that are transferred to the Future Fund by the Commonwealth Government after the closure of the Telstra 3 Share Offer.

2. Ministerial Direction

2.1 Disposal of Telstra shares

Subject to paragraph 2.2 below, the Board must not Dispose of any Telstra Shares during the period from and including the date Telstra 3 Instalment Receipts are first listed on ASX to and including the date 2 years after that date (the “**Lock-up Period**”).

2.2 Exceptions

At any time during the Lock-up Period, the Board may Dispose of Telstra Shares:

- (a) only if requested by Telstra and agreed by the Board, as part of any Telstra initiated dividend reinvestment plan or share top-up plan; and
- (b) only if requested by Telstra and agreed by the Board, as part of any Telstra initiated capital management initiative, such as a buy-back or capital reduction (whether selective or based on equal access or of any other nature – for the avoidance of doubt, if any such initiative is based on equal access, Telstra will be taken to have requested the Board’s participation); and
- (c) to a single investor, provided that:
 - (A) the parcel of Telstra Shares to which the Disposal relates is greater than 3% of Telstra’s issued ordinary shares at the time of the Disposal; and
 - (B) the investor provides an enforceable undertaking on terms acceptable to the Board and the Commonwealth to be bound by similar lock-up provisions to those contained in this direction for at least the balance of the Lock-up Period (except that the undertaking will not contain an exception equivalent to this clause 2.2(c) but may contain an exception for a Disposal as a result of a bona fide exercise of security by financiers to the investor); and
 - (C) Telstra is advised prior to such Disposal; and
 - (D) the price per Telstra Share is no less than the Telstra 3 Share Offer institutional offer price; and
 - (E) the date of the disposal is at least six months following the initial listing of Telstra 3 Instalment Receipts on the ASX.

Building Australia Fund Investment Mandate Directions

Part 1 – Preliminary

1. Name of Directions

These Directions are the Building Australia Fund Investment Mandate Directions 2009.

2. Commencement

These Directions commence on the 15th day after they are given.

Note: Section 42 of the *Legislative Instruments Act 2003* (which deals with the disallowance of legislative instruments) does not apply to this instrument: see section 44 of that Act. Part 6 of that Act (which deals with the sunset of legislative instruments) does not apply to this instrument: see section 54 of that Act.

3. Definitions

In these Directions:

Act means the *Nation-building Funds Act 2008*.

Board means the Future Fund Board of Guardians.

Fund means the Building Australia Fund.

responsible Ministers has the same meaning as in the Act.

4. Object of these Directions

- (1) The Building Australia Fund is a financing source to enhance the Commonwealth's ability to make payments in relation to the creation or development of transport, communications, energy and water infrastructure, and eligible national broadband network matters.
- (2) The object of these Directions is to give guidance to the Board in relation to its investment strategy for the Fund. The Board is required by the Act to seek to maximise the return earned on the Fund, consistent with international best practice for institutional investment and subject to its obligations under the Act and any directions given by the responsible Ministers under the Act.
- (3) These Directions are given under subsection 35 (1) of the Act to articulate the Australian Government's expectations of how the Fund will be invested and managed by the Board.
- (4) The responsible Ministers may review these Directions, including the benchmark return, in consultation with the Board. The first review is expected to occur before 1 July 2010.

Part 2 – Directions

5. Benchmark return

- (1) The Board is to adopt a benchmark return on the Fund of the Australian three month bank bill swap rate + 0.3 per cent per annum, calculated on a rolling 12 month basis (net of fees).
- (2) In targeting this benchmark return, the Board should invest in such a way as to minimise the probability of capital losses over a 12 month horizon.

6. Board must consider impacts from its investment strategy

In undertaking its investment activities, the Board must act in a way that:

- (a) minimises the potential to effect any abnormal change in the volatility or efficient operation of Australian financial markets; and
- (b) is unlikely to cause any diminution of the Australian Government's reputation in Australian and international financial markets.

Note

1. All legislative instruments and compilations are registered on the Federal Register of Legislative Instruments kept under the *Legislative Instruments Act 2003*. See <http://www.frli.gov.au>.

Education Investment Fund Investment Mandate Directions

Part 1 – Preliminary

1. Name of Directions

These Directions are the Education Investment Fund Investment Mandate Directions 2009.

2. Commencement

These Directions commence on the 15th day after they are given.

Note: Section 42 of the *Legislative Instruments Act 2003* (which deals with the disallowance of legislative instruments) does not apply to this instrument: see section 44 of that Act. Part 6 of that Act (which deals with the sunset of legislative instruments) does not apply to this instrument: see section 54 of that Act.

3. Definitions

In these Directions:

Act means the *Nation-building Funds Act 2008*.

Board means the Future Fund Board of Guardians.

Fund means the Education Investment Fund.

responsible Ministers has the same meaning as in the Act.

4. Object of these Directions

- (1) The Education Investment Fund is a financing source to enhance the Commonwealth's ability to make payments in relation to the creation or development of higher education, research, vocational education and training and eligible education infrastructure, and to make transitional Higher Education Endowment Fund payments.
- (2) The object of these Directions is to give guidance to the Board in relation to its investment strategy for the Fund. The Board is required by the Act to seek to maximise the return earned on the Fund, consistent with international best practice for institutional investment and subject to its obligations under the Act and any directions given by the responsible Ministers under the Act.
- (3) These Directions are given under subsection 154 (1) of the Act to articulate the Australian Government's expectations of how the Fund will be invested and managed by the Board.
- (4) The responsible Ministers may review these Directions, including the benchmark return, in consultation with the Board. The first review is expected to occur before 1 July 2010.

Part 2 – Directions

5. Benchmark return

- (1) The Board is to adopt a benchmark return on the Fund of the Australian three month bank bill swap rate + 0.3 per cent per annum, calculated on a rolling 12 month basis (net of fees).
- (2) In targeting this benchmark return, the Board should invest in such a way as to minimise the probability of capital losses over a 12 month horizon.

6. Board must consider impacts from its investment strategy

In undertaking its investment activities, the Board must act in a way that:

- (a) minimises the potential to effect any abnormal change in the volatility or efficient operation of Australian financial markets; and
- (b) is unlikely to cause any diminution of the Australian Government's reputation in Australian and international financial markets.

Note

1. All legislative instruments and compilations are registered on the Federal Register of Legislative Instruments kept under the *Legislative Instruments Act 2003*. See <http://www.frli.gov.au>.

Health and Hospitals Fund Investment Mandate Directions

Part 1 – Preliminary

1. Name of Directions

These Directions are the Health and Hospitals Fund Investment Mandate Directions 2009.

2. Commencement

These Directions commence on the 15th day after they are given.

Note: Section 42 of the *Legislative Instruments Act 2003* (which deals with the disallowance of legislative instruments) does not apply to this instrument: see section 44 of that Act. Part 6 of that Act (which deals with the sunset of legislative instruments) does not apply to this instrument: see section 54 of that Act.

3. Definitions

In these Directions:

Act means the *Nation-building Funds Act 2008*.

Board means the Future Fund Board of Guardians.

Fund means the Health and Hospitals Fund.

responsible Ministers has the same meaning as in the Act.

4. Object of these Directions

- (1) The Health and Hospitals Fund is a financing source to enhance the Commonwealth's ability to make payments in relation to the creation or development of health infrastructure.
- (2) The object of these Directions is to give guidance to the Board in relation to its investment strategy for the Fund. The Board is required by the Act to seek to maximise the return earned on the Fund, consistent with international best practice for institutional investment and subject to its obligations under the Act and any directions given by the responsible Ministers under the Act.
- (3) These Directions are given under subsection 229 (1) of the Act to articulate the Australian Government's expectations of how the Fund will be invested and managed by the Board.
- (4) The responsible Ministers may review these Directions, including the benchmark return, in consultation with the Board. The first review is expected to occur before 1 July 2010.

Part 2 – Directions

5. Benchmark return

- (1) The Board is to adopt a benchmark return on the Fund of the Australian three month bank bill swap rate + 0.3 per cent per annum, calculated on a rolling 12 month basis (net of fees).
- (2) In targeting this benchmark return, the Board should invest in such a way as to minimise the probability of capital losses over a 12 month horizon.

6. Board must consider impacts from its investment strategy

In undertaking its investment activities, the Board must act in a way that:

- (a) minimises the potential to effect any abnormal change in the volatility or efficient operation of Australian financial markets; and
- (b) is unlikely to cause any diminution of the Australian Government's reputation in Australian and international financial markets.

Note

1. All legislative instruments and compilations are registered on the Federal Register of Legislative Instruments kept under the *Legislative Instruments Act 2003*. See <http://www.frli.gov.au>.

Freedom of information

This section addresses the requirements of Section 8 of the *Freedom of Information Act 1982* (Fol Act) for the period 1 July 2010 to 30 April 2011.

The Future Fund Board of Guardians (Board), supported by the Future Fund Management Agency (Agency), has responsibility for investment the assets of the Future Fund and three Nation-building Funds – the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund. Neither the Board nor Agency are involved in policy formulation or the administration of legislation.

The Minister for Finance and Deregulation holds certain delegated powers under the Constitution and the *Financial Management and Accountability Act 1997* (and associated regulations) that have been delegated to the Chief Executive of the Agency.

Documents maintained by the Board and Agency include working files dealing with the investment of the Future Fund and Nation-building Funds and documents relating to internal administration including personnel, financial and procedural matters.

The primary published document relating to the Board and Agency is the annual report. Copies of the relevant Investment Mandates and the investment policies adopted by the Board are available online together with other information on the operations, structure and staffing of the organisation.

Applicants seeking access to documents under the Fol Act should apply to:

FOI Coordinator
Future Fund
Locked Bag 20010
Melbourne VIC 3001

or via email to: foi@futurefund.gov.au

Further details on how to make an application under the Fol Act are available at www.futurefund.gov.au. Telephone enquiries about the arrangements can be directed to the Fol Coordinator on 03 8656 6400 during normal office hours.

From 1 May 2011 agencies subject to the Fol Act are required to publish information to the public as part of the Information Publication Scheme (IPS). This requirement is in Part II of the Fol Act and has replaced the former requirement to publish a section 8 statement in an annual report. An agency plan showing what information is published in accordance with the IPS requirements is accessible from the www.futurefund.gov.au

Outcome and output framework

The outcome for the Agency is: Make provision for the Commonwealth’s unfunded superannuation liabilities and payments for the creation and development of infrastructure, by managing the operational activities of the Future Fund and Nation-building Funds in line with the Government’s investment mandates.

This breaks down into two outputs: management of the Future Fund and management of the Nation-building Funds.

Agency resource statement

	Actual Available Appropriations for 2010/11 \$'000	Payments Made 2010/11 \$'000	Balance Remaining
Special Accounts			
Opening balance	-	-	-
Non-Appropriation receipts to Special Accounts	276,471	276,471	-
Total Resourcing and Payments	276,471	276,471	-

The Future Fund does not receive any annual appropriations. Its outputs are funded, through the *Future Fund Act 2006*, as payments from the Future Fund Special Account. The Board invests amounts standing to the credit of the Future Fund Special Account, and the outputs are funded from the redemption of investments.

The receipts identified in the above table are sourced from the Future Fund Special Account: Investment of Public Money.

Resources for outcome

	Budget 2010/11 \$'000	Actual Expenses 2010/11 \$'000	Variation \$'000
Program 1.1 Management of the investment of the Future Fund			
Advances from the Special Account	30,809	28,342	2,467
Total for Program 1.1	30,809	28,342	2,467
Program 1.2 Management of the investment of the Building Australia Fund, Education Investment Fund and Health and Hospitals Fund			
Advances from Special Account	720	680	40
Total for Program 1.2	720	680	40
Total for Outcome 1	31,529	29,022	2,507

Average staffing level (number) 75

Changes to disability reporting in annual reports

Since 1994, Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy. In 2007/08, reporting on the employer role was transferred to the Australian Public Service Commission's *State of the Service Report* and the *APS Statistical Bulletin*. These reports are available at www.apsc.gov.au. From 2010/11, departments and agencies are no longer required to report on these functions.

The Commonwealth Disability Strategy has been overtaken by a new National Disability Strategy which sets out a 10 year national policy framework for improving life for Australians with disability, their families and carers. A high level report to track progress for people with disability at a national level will be produced by the Standing Council on Community, Housing and Disability Services to the Council of Australian Governments and will be available at www.fahcsia.gov.au. The Social Inclusion Measurement and Reporting Strategy agreed by the Government in December 2009 will also include some reporting on disability matters in its regular *How Australia is Faring* report and, if appropriate, in strategic change indicators in agency Annual Reports. More detail on social inclusion matters can be found at www.socialinclusion.gov.au.

Implementation of the Santiago Principles

The Santiago Principles are a voluntary set of principles and practices developed by the International Working Group of Sovereign Wealth Funds during 2008. The Principles identify a framework of generally accepted principles and practices that properly reflect appropriate governance and accountability arrangements as well as the conduct of investment practices by Sovereign Wealth Funds (SWFs) on a prudent and sound basis.

The International Forum of Sovereign Wealth Funds (IFSWF) has subsequently been formed as a voluntary group of SWFs, which will meet, exchange views on

issues of common interest, and facilitate an understanding of the Santiago Principles and SWF activities. The Chair of the Future Fund, Mr David Murray AO, is also Honorary Chair of the IFSWF. This document focuses primarily on the implementation of the Santiago Principles in the context of the Future Fund. This reflects the fact that the Nation-building Funds draw on the legal, institutional and investment and risk management framework of the Future Fund and that their principle distinguishing characteristic is their shorter-term focus.

Principle	Implementation and reference material
<div>1</div> <div>The legal framework should be sound and support the SWF's effective operation and the achievement of its stated objectives:</div> <div><div>1.1</div><div>The legal framework should ensure the legal soundness of the SWF and its transactions</div></div> <div><div>1.2</div><div>The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.</div></div>	<div>The legal framework for the Board of Guardians and the Agency, together with arrangements for the governance and operation of the public asset funds for which the Board of Guardians is responsible, are detailed in the <i>Future Fund Act 2006</i> and <i>Nation-building Funds Act 2008</i>. The framework is designed specifically to establish the sound and effective operation of the Fund and achievement of its objectives.</div> <div>The legal basis and structure and the legal relationships between the Board, Agency and Government is detailed in the legislation which is publicly available.</div> <div>Additional detail and discussion of the basis and operation of the Board, Agency and the Funds themselves are available from the Board's annual report and website.</div> <div>www.futurefund.gov.au/about_the_future_fund/legislation</div> <div>www.futurefund.gov.au/investment/investment_mandate</div>
<div>2</div> <div>The SWF's policy purpose should be being clearly defined and publicly disclosed.</div>	<div>The Future Fund was established to meet unfunded superannuation liabilities that will become payable during a period when an ageing population is likely to place significant pressure on Commonwealth finances. The Nation-building Funds were established to provide financing resources to meet the Australian Government's commitment to Australia's future through investment in critical areas of infrastructure such as transport, communications, energy, water, education, research and health.</div> <div>Detail on the policy purpose for each of the Funds is provided in the relevant legislation, annual reports and the organisation's website.</div> <div>www.futurefund.gov.au/about_the_future_fund/legislation</div> <div>www.futurefund.gov.au/investment/investment_mandate</div> <div>www.futurefund.gov.au/annual_reports</div>

Principle	Implementation and reference material
<p>3 Where the SWF has significant direct domestic macroeconomic implications, those activities should be closely coordinated with domestic fiscal and monetary authorities so as to ensure consistency with the overall macroeconomic policies.</p>	<p>The Australian Government is responsible for determining the timing and extent of withdrawals from the Future Fund and Nation-building Funds, subject to legislative constraints. The Australian Government is not permitted to access the Future Fund until the earlier of 2020 or when the investments exceed the target asset level, at which time any withdrawals will assist the Australian Government's Budgetary position. Coordination with all relevant fiscal and monetary authorities will be undertaken at this time.</p> <p>In establishing the Nation-building Funds the Australian Government made a commitment that spending proposals would be delivered in line with prevailing macroeconomic conditions. Spending from the Nation-building Funds is undertaken consistent with the legislated process and as part of the usual Budget process within the limits of the legislated General Drawing Rights Limit. Coordination with all relevant fiscal and monetary authorities, and relevant departments, is undertaken as part of this process.</p> <p>The investment of the assets of the Funds is undertaken by the Board in accordance with the risk and return requirements of the Investment Mandates and has no macroeconomic implications.</p> <p>www.futurefund.gov.au/about_the_future_fund/legislation</p>
<p>4 There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's approach to funding, withdrawal and spending operations.</p> <p>4.1 The source of SWF funding should be publicly disclosed</p> <p>4.2 The general approach to withdrawals from the SWF and spending on behalf of the government should be disclosed.</p>	<p>The legislation publicly sets out the funding, withdrawal and spending arrangements and procedures for the Funds, including arrangements for Parliamentary oversight and public disclosure of funding, withdrawals and spending. The source of funding is publicly disclosed together with the approach to withdrawals and spending of monies.</p> <p>www.futurefund.gov.au/about_the_future_fund/legislation www.finance.gov.au/investment-funds/future-fund/transfers.html www.finance.gov.au/investment-funds/NBF/NBF_transfers.html</p>
<p>5 The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or otherwise as required, for inclusion where appropriate in macroeconomic data sets.</p>	<p>Statistical data is consolidated in national financial accounts, government financial statistics, the balance of payments and international investment position by the Australian Bureau of Statistics in accordance with its regular data collection and reporting arrangements. Data is also incorporated into the Government's budget statements.</p> <p>Audited annual financial statements are tabled in Parliament and quarterly updates on the portfolio are released publicly.</p> <p>www.abs.gov.au http://www.futurefund.gov.au/investment/portfolio_updates</p>

Principle	Implementation and reference material
6 The governance framework for the SWF should be sound and establish clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.	<p>The roles and responsibilities of the Government, as asset owner, and the Board (supported by the Agency), as asset manager are detailed in the legislation.</p> <p>Further detail is provided by the Investment Mandates and the Statement of Expectations and Statement of Intent exchanged between the Government and the Board and the Agency.</p> <p>Internal policies, procedures and protocols have been established to further delineate roles and responsibilities at the operational level.</p> <p>www.futurefund.gov.au/about_the_future_fund/legislation www.futurefund.gov.au/__data/assets/pdf_file/0016/3571/SoE_-_Final.pdf www.futurefund.gov.au/__data/assets/pdf_file/0017/3572/Sol_Final_300909.pdf</p>
7 The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.	<p>The objective for each Fund, the procedures for the appointment of the Board of Guardians by Government and arrangements for the exercise of oversight are detailed in the legislation.</p> <p>www.futurefund.gov.au/about_the_future_fund/legislation</p>
8 The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.	<p>The Board is bound by the legislation and Investment Mandates set by Government to pursue the investment objectives detailed in the legislation and to act in good faith. The legislation also provides the Board with the necessary powers to undertake its mandated activities and sets out the experience, expertise and credibility required of appointees to the Board.</p> <p>www.futurefund.gov.au/about_the_future_fund/legislation www.futurefund.gov.au/investment/investment_mandate</p>
9 The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.	<p>The Board is responsible for investing the assets of the Funds in accordance with the legislation and makes decisions independently of Government. The legislation establishes the Agency to provide support and advice to the Board and to assist in giving effect to the Board's decisions.</p> <p>Clear internal policies, procedures and protocols have been established to further delineate roles and responsibilities at the operational level.</p> <p>www.futurefund.gov.au/about_the_future_fund/legislation</p>
10 The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.	<p>Accountability arrangements, including the requirement for publication of an annual report and arrangements for the provision of reports and information to the responsible Minister, are detailed in the legislation.</p> <p>Further accountability is also provided through the operation of the <i>Financial Management and Accountability Act 1997</i> governing the establishment and operation of Special Accounts for each Fund.</p> <p>www.futurefund.gov.au/about_the_future_fund/legislation</p>

Principle	Implementation and reference material
11 An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognised internal or national accounting standards in a consistent manner.	<p>The annual report and financial statements are prepared in accordance with the Finance Minister's Orders (made under the <i>Financial Management and Accountability Act 1997</i>) and with the Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board (AASB).</p> <p>The legislation requires that the annual report and audited financial statements are presented to the responsible Minister as soon as practicable after the end of each financial year and tabled in Parliament within 15 sitting days of each House of Parliament.</p> <p>www.futurefund.gov.au/about_the_future_fund/legislation www.futurefund.gov.au/annual_reports</p>
12 The SWF's operations and financial statements should be audited annually in accordance with recognised international or national auditing standards in a consistent manner.	<p>Internal audit services are provided by an external firm reporting to the Board's Audit Committee. The Australian National Audit Office is responsible for an annual independent external audit conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards.</p> <p>www.futurefund.gov.au/about_the_future_fund/legislation www.anao.gov.au</p>
13 Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management and staff.	<p>The duties and obligations of members of the Board of Guardians are detailed in the legislation together with arrangements for the management of conflicts of interest. The legislation also includes details of the civil and criminal penalties applying for breach of specific duties and obligations. Persons are eligible for appointment to the Board only if the responsible Ministers are satisfied the person has substantial experience or expertise and professional credibility and significant standing in investing in financial assets, managing investments in financial assets or corporate governance.</p> <p>Staff of the Agency are employed under the <i>Public Service Act 1999</i> and are bound by the Australian Public Service Values and Code of Conduct. Details of these obligations are included in internal policies and training activities.</p> <p>www.futurefund.gov.au/about_the_future_fund/legislation http://www.apsc.gov.au/values/conductguidelines.htm</p>
14 Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.	<p>The Board's approach to the engagement of third parties, including advisers and investment managers, is outlined in its Statement of Investment Policies available on the internet. Engagement of third parties is based on economic and financial grounds.</p> <p>The purchase of goods and services by the Agency is consistent with the Commonwealth Procurement Guidelines and governed by clear internal policies and procedures to encourage value for money, open and effective competition and fair dealing and ethics.</p> <p>www.futurefund.gov.au/investment/investment_policies</p>

Principle	Implementation and reference material
15 SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.	<p>The Board of Guardians requires that all investment activities are undertaken in accordance with applicable regulatory and disclosures requirements. Detailed due diligence and reporting is in place to monitor compliance. The legislation requires the Board of Guardians to act in a way that is unlikely to cause any diminution of the Australian Government's reputation in international financial markets.</p> <p>www.futurefund.gov.au/about_the_future_fund/legislation</p>
16 The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.	<p>The governance framework and objectives of the Board and the Agency are set out in the legislation and in public annual reports. The framework clearly establishes the independence and accountability arrangements for the Fund, the Board and the Agency.</p> <p>www.futurefund.gov.au/about_the_future_fund/legislation www.futurefund.gov.au/annual_reports</p>
17 Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in internal financial markets and enhance trust in recipient countries.	<p>An annual report and audited annual financial statements are tabled in Parliament and published via the website. The Board also issues public quarterly updates on performance and asset allocation.</p> <p>www.futurefund.gov.au/annual_reports www.futurefund.gov.au/investment/portfolio_updates</p>
<p>18 The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy , as set by the owner of the governing body(ies), and be based on sound portfolio management principles.</p> <p>18.1 The investment policy should guide the SWF's financial risk exposures and possible use of leverage.</p> <p>18.2 The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored.</p> <p>18.3 A description of the investment policy of the SWF should be publicly disclosed.</p>	<p>The Board's Statement of Investment Policies, published on the internet as required by legislation, details its investment strategy and risk tolerance and its application of portfolio investment principles. Annual reports provide additional insight and discussion of the investment strategy.</p> <p>These documents address matters relating to financial risk, leverage, the use of and extent of the activities and authority of internal/external managers as well as the process for their appointment and monitoring of their performance.</p> <p>The policies and practices detailed by these documents are consistent with the obligations contained in the legislation.</p> <p>www.futurefund.gov.au/about_the_future_fund/legislation www.futurefund.gov.au/investment/investment_policies www.futurefund.gov.au/annual_reports</p>

Principle	Implementation and reference material
<p>19 The SWF's investment decisions should aim to maximise risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds.</p> <p>19.1 If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed.</p> <p>19.2 The management of the SWF's assets should be consistent with what is generally accepted as sound asset management principles.</p>	<p>The Board's obligation to seek to maximise risk-adjusted financial returns is established in the legislation with return and risk parameters detailed through investment mandates created under the legislation. The Board is required to operate in a manner consistent with international best practice for institutional investment.</p> <p>The limited set of restrictions on the Board's investment activities, such as limits on the size of stakes in Australian and foreign listed companies, are clearly expressed in the legislation. The Board's approach to consideration of environmental, social and governance matters in its investments, and to the universe of investments it considers, is detailed in its Statement of Investment policies and reflects the Board's focus on acting as a prudent investor seeking to maximise risk-adjusted returns.</p> <p>www.futurefund.gov.au/about_the_future_fund/legislation</p>
<p>20 The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.</p>	<p>The Board has and seeks no access to privileged information or inappropriate influence through the Government in competing with private entities. The statutory governance framework, duties and obligations of Board members and the Code of Conduct applying to Agency staff provide a solid framework to prevent access to and use of privileged information. Clear protocols and processes have been established for the Board and Agency to maintain this position.</p> <p>www.futurefund.gov.au/about_the_future_fund/legislation</p>
<p>21 SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.</p>	<p>The Board is required to have regard to international best practice for institutional investment in determining its approach to corporate governance principles, including in relation to its voting policy.</p> <p>The Board's approach to the exercise of ownership and voting rights is detailed in its Statement of Investment Policies. The annual report discusses the application of the Board's policy including reporting in aggregate of how voting rights have been exercised.</p> <p>www.futurefund.gov.au/investment/investment_policies www.futurefund.gov.au/investment/investment_mandate</p>
<p>22 The SWF should have a framework that identifies, assesses, and manages the risks of its operations.</p> <p>22.1 The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function.</p> <p>22.2 The general approach to the SWF's risk management framework should be publicly disclosed.</p>	<p>Consistent with the legislation, investment mandates and obligation to have regard to international best practice for institutional investment, the Board and Agency have established a framework for the identification, assessment and management of the risks of its operations, including appropriate reporting and monitoring arrangements. Policies and procedures are in place to support the risk management framework.</p> <p>The approach to risk management is detailed in the Statement of Investment Policies and the annual report.</p> <p>www.futurefund.gov.au/investment/investment_policies www.futurefund.gov.au/annual_reports</p>



Principle	Implementation and reference material
23 The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.	<p>The assets and investment performance of the Funds, including performance against the benchmarks established in the Investment Mandate are reported to the responsible Ministers and publicly through the annual report and audited financial statements.</p> <p>www.futurefund.gov.au/annual_reports</p>
24 A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.	<p>The Board undertook its first review of its implementation of the Santiago Principles in June 2010 and repeated the review in July 2011. Further reviews will be published annually with the annual report and via the website. The Board also contributed to the IFSWF's report "Members' Experiences in the Application of the Santiago Principles" published in July 2011.</p> <p>www.futurefund.gov.au/about_the_future_fund/governance www.ifswf.org/pst/stp070711.pdf</p>

List of requirements

The Requirements for Annual Reports approved by the Joint Committee of Public Accounts and Audit requires that Annual reports include a list of requirements to help readers identify whether an annual report contains all required information. The following table satisfies this requirement.

Ref*	Part of Report	Description	Requirement	Location in annual report
8(3) & A.4		Letter of transmittal	Mandatory	p2
A.5		Table of contents	Mandatory	p1
A.5		Index	Mandatory	p138
A.5		Glossary	Mandatory	p137
A.5		Contact officer(s)	Mandatory	inside front cover
A.5		Internet home page address and Internet address for report	Mandatory	inside front cover
9	Review by Secretary		Mandatory	
9(1)		Review by departmental secretary	Mandatory	p6-9, 10-11
9(2)		Summary of significant issues and developments	Suggested	p6-9, 10-11
9(2)		Overview of department's performance and financial results	Suggested	p6-9, 10-11
9(2)		Outlook for following year	Suggested	p6-9, 10-11
9(3)		Significant issues and developments – portfolio	Portfolio departments – suggested	p6-9, 10-11
10	Departmental Overview		Mandatory	
10(1)		Role and functions	Mandatory	p3
10(1)		Organisational structure	Mandatory	p3
10(1)		Outcome and program structure	Mandatory	p31-32
10(2)		Where outcome and program structures differ from PB Statements/PAES or other portfolio statements accompanying any other additional appropriation bills (other portfolio statements), details of variation and reasons for change	Mandatory	not applicable
10(3)		Portfolio structure	Mandatory for portfolio departments	p30-35
11	Report on Performance		Mandatory	
11(1)		Review of performance during the year in relation to programs and contribution to outcomes	Mandatory	p12-29
11(2)		Actual performance in relation to deliverables and KPIs set out in PB Statements/PAES or other portfolio statements	Mandatory	012-29
11(2)		Where performance targets differ from the PBS/ PAES, details of both former and new targets, and reasons for the change	Mandatory	p12-29

* The reference is to the location of the item in the requirements – e.g., 'A.4' refers to the fourth item in Attachment A.

Ref*	Part of Report	Description	Requirement	Location in annual report
11(2)		Narrative discussion and analysis of performance	Mandatory	p12-29
11(2)		Trend information	Mandatory	p5
11(3)		Performance of purchaser/provider arrangements	If applicable, suggested	not applicable
11(3)		Significant changes in nature of principal functions/services	Suggested	not applicable
11(3)		Factors, events or trends influencing departmental performance	Suggested	p12-29
11(3)		Contribution of risk management in achieving objectives	Suggested	p12-29, 42-45
11(4)		Social inclusion outcomes	If applicable, mandatory	not applicable
11(5)		Performance against service charter customer service standards, complaints data, and the department's response to complaints	If applicable, mandatory	not applicable
11(6)		Discussion and analysis of the department's financial performance	Mandatory	p12-29, 42-44
11(7)		Discussion of any significant changes from the prior year or from budget	Suggested	p12-29
11(8)		Agency resource statement and summary resource tables by outcomes	Mandatory	p124
11(9)		Developments since the end of the financial year that have affected or may significantly affect the department's operations or financial results in future	If applicable, mandatory	not applicable
12	Management Accountability			
	Corporate Governance			
12(1)		Agency heads are required to certify that their agency comply with the Commonwealth Fraud Control Guidelines	Mandatory	p2
12(2)		Statement of the main corporate governance practices in place	Mandatory	p30-45
12(3)		Names of the senior executive and their responsibilities	Suggested	p32-35
12(3)		Senior management committees and their roles	Suggested	p32-35
12(3)		Corporate and operational planning and associated performance reporting and review	Suggested	p12-29
12(3)		Approach adopted to identifying areas of significant financial or operational risk	Suggested	p35, 45
12(3)		Policy and practices on the establishment and maintenance of appropriate ethical standards	Suggested	p11, 38

Ref*	Part of Report	Description	Requirement	Location in annual report
12(3)		How nature and amount of remuneration for SES officers is determined	Suggested	p40-41
	External Scrutiny			
12(4)		Significant developments in external scrutiny	Mandatory	p30-32
12(4)		Judicial decisions and decisions of administrative tribunals	Mandatory	not applicable
12(4)		Reports by the Auditor-General, a Parliamentary Committee or the Commonwealth Ombudsman	Mandatory	not applicable
	Management of Human Resources			
12(5)		Assessment of effectiveness in managing and developing human resources to achieve departmental objectives	Mandatory	p38-39
12(6)		Workforce planning, staff turnover and retention	Suggested	p38-39
12(6)		Impact and features of enterprise or collective agreements, individual flexibility arrangements (IFAs), determinations, common law contracts and AWAs	Suggested	p39
12(6)		Training and development undertaken and its impact	Suggested	p38
12(6)		Occupational health and safety performance	Suggested	p39
12(6)		Productivity gains	Suggested	–
12(7)		Statistics on staffing	Mandatory	p39
12(8)		Enterprise or collective agreements, IFAs, determinations, common law contracts and AWAs	Mandatory	p39
12(9) & B		Performance pay	Mandatory	p40-41
12(10)-(11)	Assets management	Assessment of effectiveness of assets management	If applicable, mandatory	not applicable
12(12)	Purchasing	Assessment of purchasing against core policies and principles	Mandatory	p42

Ref*	Part of Report	Description	Requirement	Location in annual report
12(13)-(24) & C, D	Consultants	The annual report must include a summary statement detailing the number of new consultancy services contracts let during the year; the total actual expenditure on all new consultancy contracts let during the year (inclusive of GST); the number of ongoing consultancy contracts that were active in the reporting year; and the total actual expenditure in the reporting year on the ongoing consultancy contracts (inclusive of GST). The annual report must include a statement noting that information on contracts and consultancies is available through the AusTender website. (Additional information as in Attachment D to be available on the Internet or published as an appendix to the report. Information must be presented in accordance with the pro forma as set out in Attachment D.)	Mandatory	p42
12(25)	Australian National Audit Office Access Clauses	Absence of provisions in contracts allowing access by the Auditor-General	Mandatory	not applicable
12(26)	Exempt contracts	Contracts exempt from the AusTender	Mandatory	not applicable
13	Financial Statements	Financial Statements	Mandatory	p47-117
	Other Mandatory Information			
14(1) & C		Occupational health and safety (section 74 of the <i>Occupational Health and Safety Act 1991</i>)	Mandatory	p39
14(1) & C		Freedom of information for the period 1 July 2010 to 30 April 2011 inclusive (see terms of subsection 8(1) of the <i>Freedom of Information Act 1982</i> as it existed prior to 1 May 2011)	Mandatory	p32, 123
14(1) & C		Advertising and Market Research (Section 311A of the <i>Commonwealth Electoral Act 1978</i>) and statement on advertising campaigns	Mandatory	p42
14(1) & C		Ecologically sustainable development and environmental performance (Section 516A of the <i>Environment Protection and Biodiversity Conservation Act 1999</i>)	Mandatory	p42
14(2) & D		Grant programs	Mandatory	not applicable
14(3) & D		Disability reporting – explicit and transparent reference to agency level information available through other reporting mechanisms	Mandatory	p125
14(4)		Correction of material errors in previous annual report	If applicable, mandatory	not applicable
F		List of Requirements	Mandatory	p133-136

Abbreviations

AASB	Australian Accounting Standards Board
AC	Companion of the Order of Australia
AO	Officer of the Order of Australia
AM	Member of the Order of Australia
ANAO	Australian National Audit Office
ASIC	Australian Securities and Investment Commission
ATO	Australian Tax Office
CPGs	Commonwealth Procurement Guidelines
CPI	Consumer Price Index
FFMA	Future Fund Management Agency
FMA Act	<i>Financial Management and Accountability Act 1997</i>
FMO	Finance Minister's Orders
FoI Act	<i>Freedom of Information Act 1982</i>
GST	Goods and Services Tax
HEEF	Higher Education Endowment Fund
LTSAA	Long Term Strategic Asset Allocation
PSA	<i>Public Service Act 1999</i>
RBA	Reserve Bank of Australia
VWAP	Volume Weighted Average Price

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