

Annual Report
2011/2012

futurefund

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25 September 2012

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

Dear Minister

I have pleasure in presenting 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 ended 30 June 2012 for presentation in Parliament.

The report has been prepared in accordance with section 81 of the *Future Fund Act 2006* (the Act). Sub-section 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 2011/12 as approved by the Joint Committee of Public Accounts and Audit under sub-section 63(2) and 70(2) and 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, noting that there were no actual or suspected fraud incidents in 2011/12.

A handwritten signature in blue ink, appearing to read "D Gonski", with a long horizontal flourish extending to the right.

David Gonski AC
Chairman
Future Fund Board of Guardians

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ABOUT THE FUNDS

The Future Fund Board of Guardians (the Board of Guardians), 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 Future Fund 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.¹

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.

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.

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.

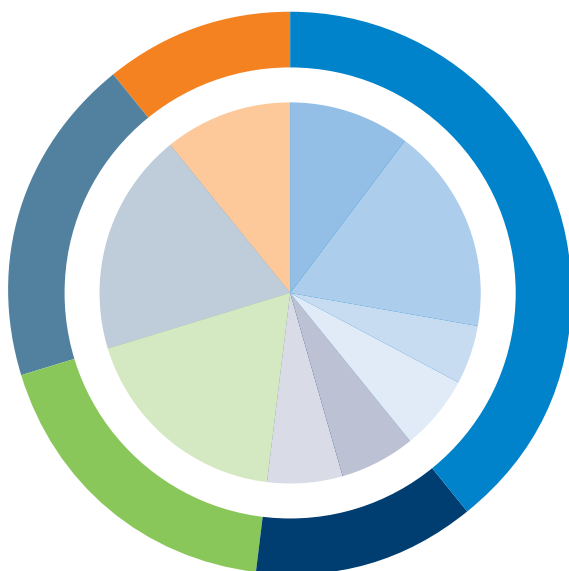
Investment Mandates for the three Nation-building Funds were issued to the Board on 14 July 2009 and set a benchmark return of the Australian three month bank bill swap rate +0.3% per annum calculated on a rolling 12 month basis while minimising the probability of capital losses over a 12 month horizon.

¹ See the Santiago Principles available at: www.ifswf.org

FACTS AT A GLANCE

Future Fund

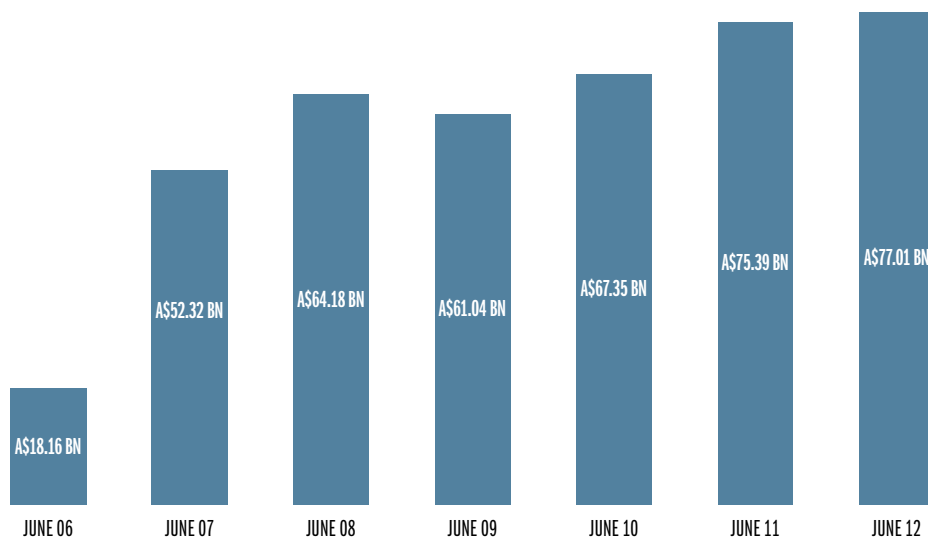
Asset allocation 30 June 2012



EQUITIES 39.3%		
AUSTRALIAN LISTED	A\$7,980 MIL	10.4%
DEVELOPED MARKET LISTED	A\$13,498 MIL	17.5%
EMERGING MARKET LISTED	A\$3,845 MIL	5.0%
PRIVATE EQUITY	A\$4,895 MIL	6.4%
TANGIBLES 12.8%		
PROPERTY	A\$4,948 MIL	6.4%
INFRASTRUCTURE & TIMBERLAND	A\$4,912 MIL	6.4%
DEBT 18.3%		
DEBT	A\$14,119 MIL	18.3%
ALTERNATIVE ASSETS 19.0%		
ALTERNATIVE ASSETS	A\$14,653 MIL	19.0%
CASH 10.6%		
CASH	A\$8,163 MIL	10.6%
TOTAL	A\$77,012 MIL	100%

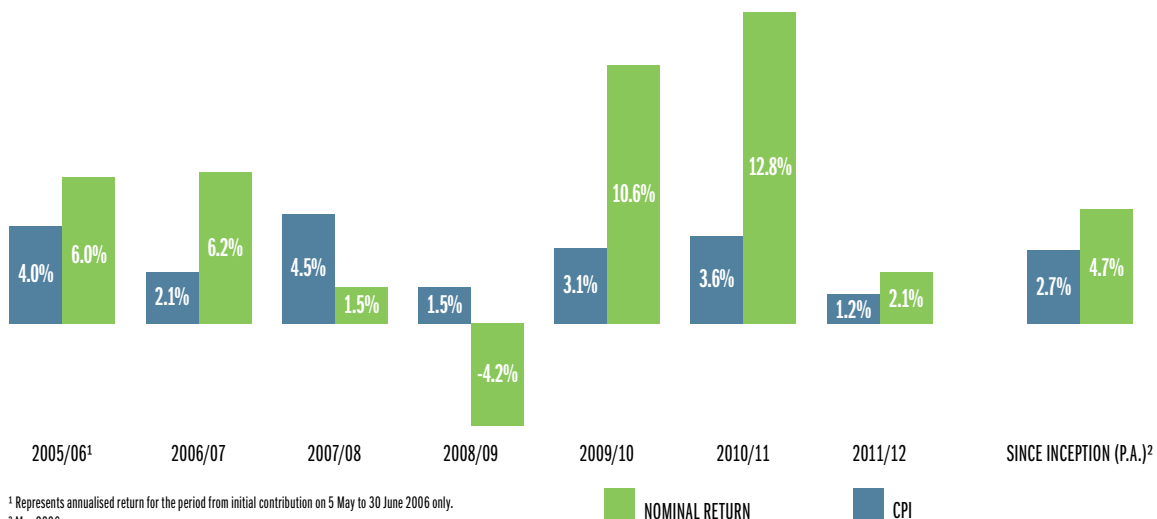
Definitions of these investment categories are provided on page 13.

Fund value May 2006 to June 2012



■ FUTURE FUND ASSETS

Nominal return and CPI



Returns are ex Telstra until the end of the 2010/11 year from which point the Telstra holding was no longer reported separately

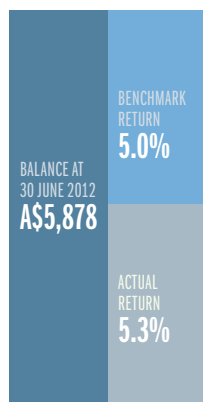
Operating result

TOTAL INCOME/LOSS	AS\$2,103.6 MIL
TOTAL EXPENDITURE	AS\$ 376.4 MIL
INCOME TAX EXPENSE	AS\$51.3 MIL
OTHER COMPREHENSIVE INCOME	AS\$(36.4 MIL)
TOTAL COMPREHENSIVE INCOME	AS\$1,639.6 MIL

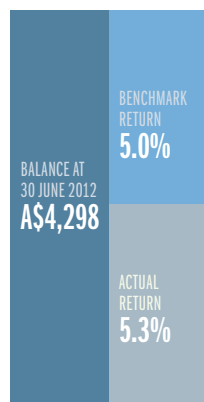
Nation-building Funds

Nation-building Funds performance 2011/2012

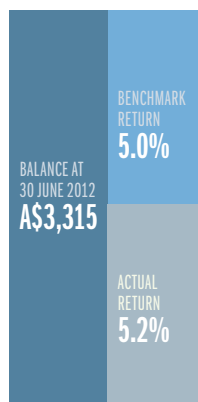
Building Australia Fund



Education Investment Fund



Health and Hospital Fund



REPORT FROM THE CHAIRMAN



The Future Fund generated a return of 2.1% for the financial year contributing to an annualised five year return of 4.4% per annum and a return of 4.7% per annum since the Fund was established in May 2006.

In the two and a half years following its creation the Fund received contributions from Government totalling \$60.5 billion. No further contributions have been received and at the end of the financial year the Fund was valued at \$77.01 billion.

The Board of Guardians is also responsible for investing the assets of the Building Australia Fund, Education Investment Fund and Health and Hospitals Fund. The Building Australia Fund and Education Investment Fund portfolios generated a return of 5.3% for the year, while the Health and Hospitals Fund generated a return of 5.2%. The returns on these funds exceeded the benchmark return of 5%.

Performance

Returns on the Future Fund remain below the long-term return target of at least CPI +4.5 to 5.5% per annum over the long term as set out in the Investment Mandate Directions. This highlights the extremely challenging investment environment that has characterised the Fund's early years.

It is also important to recognise that the Investment Mandate Directions require that the Board should take acceptable but not excessive levels of risk. Accordingly the portfolio has been positioned in such a way as to be capable of generating strong returns in positive markets while moderating the impact of market falls.

The portfolio has performed well given the extent of the uncertainty and market volatility that has prevailed over the last five years and the Board remains focused on its task of achieving the target returns over rolling 10 year periods.

Governance

The statutory governance framework for the Future Fund provides for the accountability and independence of the organisation, and this has been and remains an important feature of the Fund's operations.

During the year the tenures of Mr David Murray AO and Mr Brian Watson came to an end and the responsible Ministers appointed me as Chairman and Mr Steven Harker as a member of the Board of Guardians.

Supporting the statutory framework the Board has continued to develop operational structures and controls in line with best practice governance arrangements.

During the year the Board decided to extend its use of committees to provide additional flexibility and focus in dealing with important issues. I am pleased that my fellow Guardians will chair these committees, applying their considerable skills and experience. The new committee arrangements, which build on the Board's previous practice, are detailed elsewhere in this annual report.

Mark Burgess joined the organisation at the start of the financial year and, in order to better reflect Mark's role in leading the management team and representing the organisation externally, the Board changed Mark's title from General Manager to Managing Director and President.

The Fund has continued its close involvement with the International Forum of Sovereign Wealth Funds (IFSWF) and continues to endorse and implement the Generally Accepted Principles and Practices for Sovereign Wealth Funds (Santiago Principles).

Priorities

In a little over six years the Future Fund has established itself as a significant and effective institution, starting from scratch and navigating through a historic period of economic and investment uncertainty.

The Fund has now entered a new phase in its life. A talented management team has been assembled and the essential infrastructure built. The investment portfolio has been significantly developed.

The task for the Board now is to support this impressive progress by ensuring that the organisation continues to evolve. This is reflected in the continued evolution of the Board's governance arrangements and the Board's oversight of the work to further develop and sustain the quality of the management team.

Acknowledgements

The Board of Guardians is comprised of highly experienced people who have contributed enormously to the success of the Fund and I wish to formally acknowledge their work during the year.

David Murray AO and Brian Watson were members of the inaugural Board of Guardians established in 2006. On behalf of the Board I thank them for their very significant contributions. David's clear focus and robust understanding of the priorities and challenges for the Future Fund have been of tremendous value to its establishment. Brian's market expertise and international experience and perspective proved invaluable as the portfolio was designed and built.

I also thank the responsible Ministers, the Treasurer and the Minister for Finance and Deregulation, for their support for the work of the Future Fund and recognition of its achievements.

Above all, I thank the staff of the Agency. The Future Fund benefits greatly not only from the management team's expertise but also from its enthusiasm for its important work.



David Gonski AC

Chairman Future Fund Board of Guardians



David Murray AO took up his role as the inaugural Chair of the Future Fund Board of Guardians in May 2006. He was previously the Chief Executive Officer of the Commonwealth Bank of Australia, a role which he filled for 13 years, during which time he led the organisation through its privatisation and a period of significant growth.

His insight into governance and investment matters were invaluable to the Future Fund as it started out and also led to him playing a leading role in the development of the Generally Accepted Principles and Practices for Sovereign Wealth Funds, known as the Santiago Principles. Following this work, David was appointed the inaugural Chairman of the International Forum of Sovereign Wealth Funds.

David's leadership of the Fund over six years has been central to building the organisation's reputation as a prudent and sophisticated investor that is globally respected among its peers.

REPORT FROM THE MANAGING DIRECTOR AND PRESIDENT



Following strong positive returns over the last two years, market uncertainty resurfaced during 2011/12 with the Fund generating a modest return of 2.1% for the year.

The volatility that has characterised global markets over the six years since the Future Fund was established highlights a number of important issues: the importance of taking a medium-term approach to investing; the value of focusing on a carefully considered investment process; and the benefits of diversification.

The Fund's focus on these three fundamental points has been of significant value in navigating the turbulence investors have experienced. As a result the Fund has grown and is well positioned for a range of potential economic paths benign or otherwise.

Investment outlook

Investors globally continue to be concerned that debt and deficit challenges across most developed economies, acute economic imbalances in the Eurozone and slowing emerging markets will lead to an ongoing period of economic weakness.

Against this concern, policy makers, and central bankers in particular, have been focused on stimulating economic activity through monetary easing. The expansion of central bank balance sheets in Europe, the US and Japan has been beyond historic precedent and is indicative both of the importance policy makers place on preventing a deterioration in economic activity and of the degree of stimulus required in economies which are attempting to delever. One of the tools being applied by central banks is the purchase of government bonds which helps to push interest rates lower.

If policy makers can find the right cocktail of actions we believe they can be successful in preventing any further deterioration in economic activity. However, the period of deleveraging is likely to be prolonged, and throughout this process economic growth is likely to remain moderate at best.

In such circumstances, financial assets may perform well, as low interest rates support corporate profitability and improved valuations. However, as the evidence of recent years would suggest, the size of the imbalances and the complexity of the policy challenges required to address them means that this is unlikely to be a smooth path, and investors must continue to be alive to a range of possible outcomes.

Agency operations

Our business model, which leads us to outsource functions and tasks where external providers can offer better value and efficiency, allows us to apply our in-house resources to the most critical activities. These include investment strategy development, selection of specific strategies and opportunities, appointment and oversight of external managers, risk management and control and management of legal, risk and other services.

In this context, we have continued to develop the Agency to ensure that we bring together and keep the right people to develop, implement and monitor the investment program. We place significant emphasis on a 'One Team, One Portfolio' approach, designed to bring together the myriad talents and experiences within the management team so that we deliver the best possible outcome for the Commonwealth.

The results of our staff engagement survey are summarised in the People section of this report and it is clear that the organisation benefits from a highly motivated and focused group of people. During the last year we have sought to build on this, launching a number of initiatives to further encourage skills and career development and to ensure that appropriate succession plans are in place to sustain the quality of the team over time.

Elsewhere we have introduced a new data management platform which allows our team to use data and resources to manage the portfolio more efficiently both at a total fund level and within specific sectors. As the organisation matures we will continue to update our systems and processes to ensure they are fit for the next stage of development.

We have further enhanced our operational risk and monitoring arrangements and continue to work hard to ensure that a strong culture of risk and compliance management exists within the organisation.

Engagement

We have also increased our efforts to engage with other investors to better understand how they develop and implement their programs and to gather insights that will help us find better ways to run the portfolio and the organisation. We achieve this both through fund to fund meetings and through our participation in and support for a variety of industry bodies and associations in Australia and overseas.

This year's annual report has been further developed to provide more detail on the Fund and its operations. Explaining the investment process, particularly as we mature as an organisation, is an important way for us to give insight into the way the Fund has developed and into how we expect to manage it going forward. The investment, governance and mission beliefs of the Board form the background to our process and we lay out the decision-making processes and structures as well as sector strategies and reports for the year. This year's report also provides additional insight into the Ownership Rights and Environmental Social and Governance (ESG) Risk Management policy which was updated during the year.

Acknowledgements

In my report last year, I noted my early observation that the organisation had in place an outstanding team. This view has been confirmed through the year and a striking feature of the organisation is the appetite, at all levels, constantly to find better ways of working.

I thank the team for their hard work and dedication.

I also thank the Board of Guardians for the confidence it has shown in the staff and for its support and encouragement to the management team through the year.



Mark Burgess

Managing Director and President

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 REPORT

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 while delivering efficiency through common infrastructure.

*Future Fund Board of Guardians
Mission Statement*

Future Fund

Background

The Future Fund was established in May 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 since been made.

In addition, 2,105 million shares in Telstra (ASX:TLS) were transferred to the Fund in February 2007 and a further 57 million shares were transferred 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. During the 2011/12 year the Board announced that it had completed its strategy for rebalancing the portfolio and reduced its holding in Telstra to market weight or 100 million shares.

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 2013/14. 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) +4.5% to 5.5% per annum over the long term (the benchmark return);
- (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.

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 regularly, among other things, 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 has developed a Target Asset Allocation which reflects a judgement about the economic and market environment and the expected prospective reward for taking on risk in different asset sectors. These are discussed below.

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 the Target Asset Allocation of the Future Fund is described in broad categories.

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

Alongside this, genuine diversification is an important element of the investment strategy and although this incurs higher costs than those of many other investors, it is beneficial to performance during periods of market volatility. The investment model considers returns net of costs.

Within the 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).

To aid our analysis we have supplemented more traditional modelling of asset class risk and return with factor modelling. The factor model framework we use is tailored to our investment process in that it focuses on the translation of macroeconomic scenarios into forecasts for key factors such as those listed above and corresponding total portfolio outcomes. Such a quantitative model is only a tool that supplements our analysis but does not drive asset allocation decisions.

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 capital, buyout, distressed debt for control
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
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
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 Target Asset Allocation

The Target Asset Allocation is set to reflect our view that there are a series of longer-term structural pressures on the global economy and markets. These pressures are largely a result of the excessive debt levels accumulated across much of the developed world, which are now leading to a protracted deleveraging process. The interplay between the deleveraging forces, the extent of deleveraging and the various and varying policy efforts being undertaken to smooth their effect, is central to both the near and longer-term outlooks.

The Target Asset Allocation for 30 June 2013, together with the actual portfolio at 30 June 2012, is set out below.

Category	Actual portfolio at 30 June 2012	Target allocation at 30 June 2013
Equity	39.3%	41.0%
– Listed equity	32.9%	33.0%
– Private equity	6.4%	8.0%
Tangible assets	12.8%	16.5%
Debt	18.3%	17.5%
Alternative assets	19.0%	17.5%
Cash	10.6%	7.5%
Total capital allocation	100%	100%
Nominal interest rate overlay	0%	0%
Developed markets foreign currency	17.8%	15.0%
Emerging markets foreign currency	12.0%	12.5%

The debt and deleveraging process, including lower levels of investment which are a natural by-product, have acted to slow potential growth. In addition, in many countries the twin demographic issues of slowing population growth rates and higher dependency ratios will also tend to dampen potential growth over the medium term. So will constraints on key natural resources. Set against this is the secular rise of many of the emerging markets, including China and India, although whether this will be enough to fully compensate for a sluggish developed world seems unlikely.

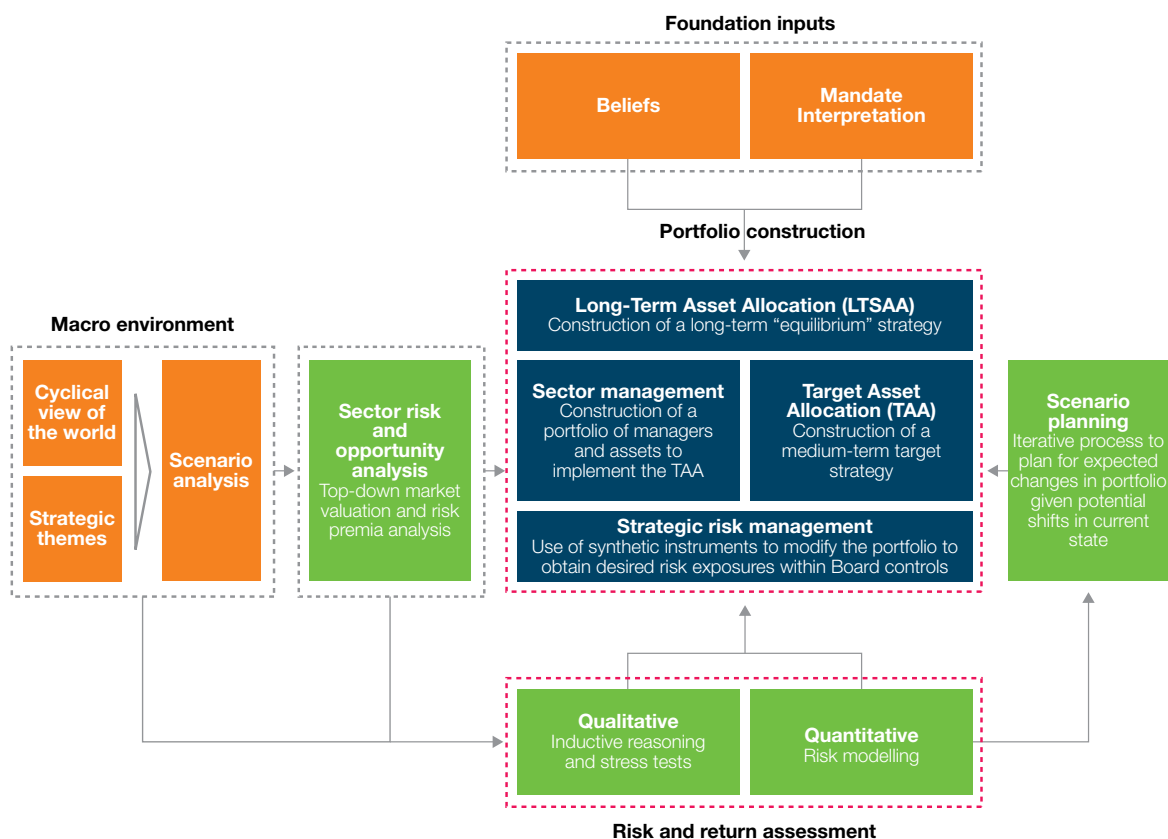
While we expect that, to some degree, monetary and fiscal policymakers will have some success in offsetting these forces, this is a highly complex environment and there are significant risks of policy mistakes and/or of the policy tools available losing their potency. In particular the complex linkages, in terms of both finances and politics, between sovereigns, banks and the real economy in Europe mean that a misstep by those pulling the levers could yet lead to a marked deterioration in conditions.

This context suggests to us that the outlook for investment returns is characterised by a wider range of potential outcomes than usual. We believe that markets have, in the main, broadly priced in a relatively low growth environment, and as a result relatively sound returns for risk assets might be expected. However, in managing the portfolio risk we must recognise that the substantial macroeconomic and policy fragilities that exist could have a significant impact on the valuation of markets. We therefore remain cautious on building in very high levels of broad market equity exposure, and instead continue to emphasise a broadly diversified portfolio that is able to take advantage of future periods of market weakness.

This portfolio is constructed to gain exposure to a range of attractive opportunities our bottom-up sector research is identifying, many of which are themselves created by the wider structural issues. As the exposures to tangible assets, private equity and private debt build, a key risk in the portfolio relates to the need to ensure sufficient liquidity to meet outstanding commitments, to ensure the portfolio's strategic exposures can be managed without undue cost and to provide the opportunity to take advantage of periods of market weakness.

The primary driver of illiquidity risk in the portfolio relates to currency, given the extensive program of hedging foreign currency exposures back into AUD which would require high levels of cash funding should the AUD fall sharply. Taking this into account, and given the relatively elevated level of the AUD, the portfolio has higher levels of foreign currency exposure than a year ago.

Investment process and decision-making



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 above 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:

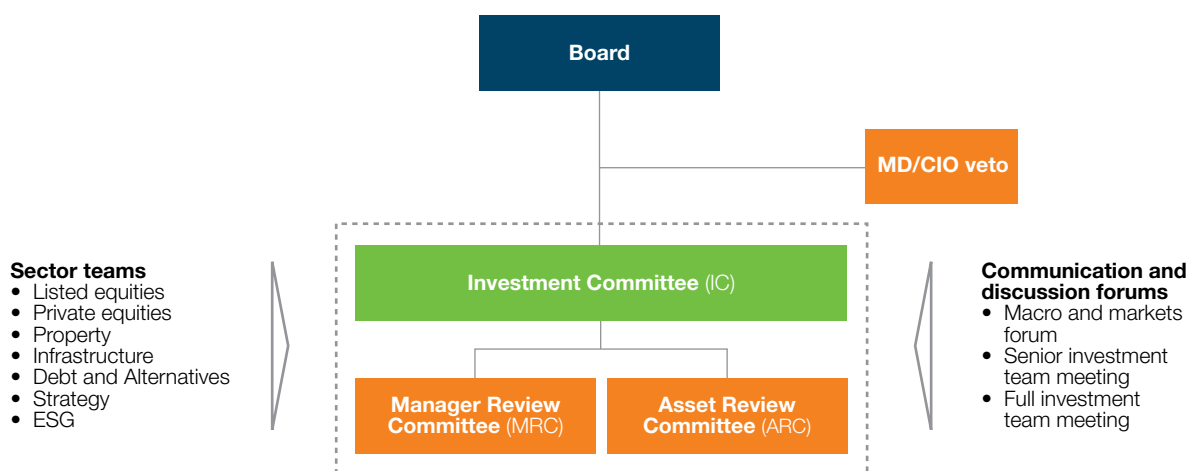
1. **Foundation inputs.** Our foundation inputs include our fundamental beliefs or investment philosophies as well as our mandate interpretation. We review the basic objectives of the Fund and interpret what the implications are for investing and our resultant attitudes towards various types of investment 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 signposts, 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 analytics, macro factors 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.

Investment decision-making structure



Applying the strategic process

Central to the application of the strategic process is a focus on engaging staff from across the investment team in discussing, developing and testing the strategy. Discussion forums and cross-team meetings, together with a focus on building a collaborative and open culture, are used to share perspectives and feed into the formal decision-making process which revolves around three committees: Manager Review Committee; Asset Review Committee; Investment Committee.

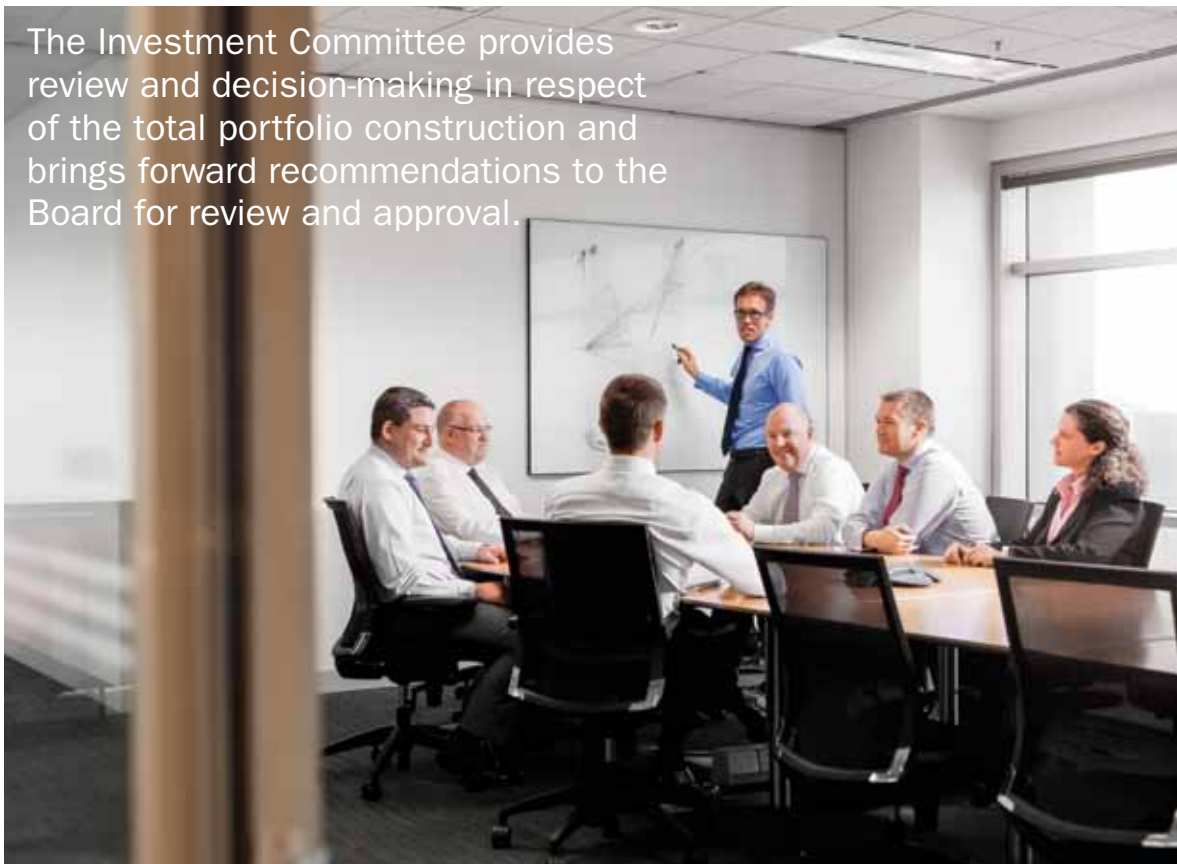
The Manager Review Committee (currently chaired by the Head of Equities) and Asset Review Committee (currently chaired by the Head of Private Equity) comprise senior representatives from across the sector teams.

The Committees consider detailed recommendations from sector teams in relation to investment manager appointments and investment in specific assets. The Committees also review managers and assets in the portfolio on at least a six monthly basis and report key findings and views to the Investment Committee.

The Investment Committee is chaired by the Chief Investment Officer and is attended by the Sector Heads, Head of Strategy, Director – Emerging Markets and the Managing Director. The Investment Committee provides review and decision-making in respect of the total portfolio construction and brings forward recommendations to the Board for review and approval. The Investment Committee also oversees the management of the portfolio within the delegations agreed by the Board.

The Committee approves research priorities, investment plans and sub-sector strategies of the investment teams and considers manager and asset recommendations with advice from the Manager Review Committee and Asset Review Committee.

The Investment Committee provides review and decision-making in respect of the total portfolio construction and brings forward recommendations to the Board for review and approval.



Left to right: Raphael Arndt, Barry Brakey, David Neal (back to camera), Mitchell Stack, Craig Thorburn, Steve Byrom, Elspeth Lumsden. (Mark Burgess and Steve Gilmore absent).

Implementation

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.

Investment manager and asset selection processes are designed to deliver a high-quality initial selection decision, and to ensure that portfolio construction does not lead to excessive concentration of manager risk in any one investment manager.

Appropriately experienced investment professionals, supported by specialist external advisers where necessary, are responsible for undertaking investment manager and asset due diligence applying a structured framework to assess the manager or asset and bring forward a recommendation to the Manager Review Committee or Asset Review Committee as appropriate. The framework incorporates assessment against agreed evaluation criteria and includes both desk research, third party research and site visits and interviews.

The Agency also undertakes detailed operational due diligence through the operational business units of Operations, Finance, Public Affairs and Legal. The Agency uses external advisers to undertake specialist due diligence or supplement the internal due diligence work as required.

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 while 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.

Investment monitoring practices have been established that are designed 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 portfolio report is provided to the Board which tracks performance against these limits.

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

Sector reviews

Consistent with the investment strategy and the Target Asset Allocation, work to build out and refine the portfolio continued during the 2011/12 year.

Listed equity

Strategy

The opportunity set includes all listed equity-related products including long-only managers and long/short and other equity-related hedge fund strategies across developed, emerging and frontier markets. We will consider investing through the broad range of investment organisations from start-up boutiques through to large global firms.

The nature of listed equities as a single, liquid global market does not lend itself to our being able to establish a competitive advantage in selecting and trading specific sectors or regions. There are many investors trading these decisions with short-term horizons to close out any perceived mispricing.

Our value-add therefore comes in two forms:

- using our long-term orientation and ability to disregard benchmark constraints to deliver a sector strategy that generates high long-term total risk-adjusted returns. We do this by identifying longer term thematic and various systematic risk premia and biasing the portfolio towards these, and
- implementing the strategy through deep and insightful manager research and mandate design.

We focus on a relatively small number of high-conviction managers. If suitably high-conviction active managers cannot be found we use cheaper passive products.

Report

We have retained a long-term and cautious approach to investing in listed equities given the current investment environment. Consistent with this stance, the listed equities portfolio is broadly diversified across a wide range of sectors and geographies.

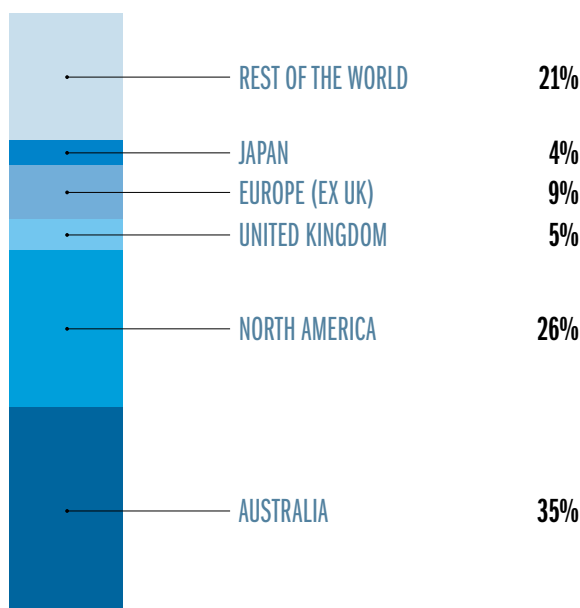
We have maintained a defensive tilt within global equities. This has been achieved through significant investments in high-quality companies and long/short equities, as both of these strategies are expected to perform better than the broad market in times of uncertainty and falling markets.

To balance our defensive exposure in global equities, we have meaningful investments in areas of the market where we believe that there are higher growth opportunities over the medium to long term. For example, we believe that there is a strong case for increasing our investment in both emerging and developed market companies with exposure to emerging market consumers. To this end, we have continued to build our emerging wealth allocation over the past 12 months in a deliberate and careful manner.

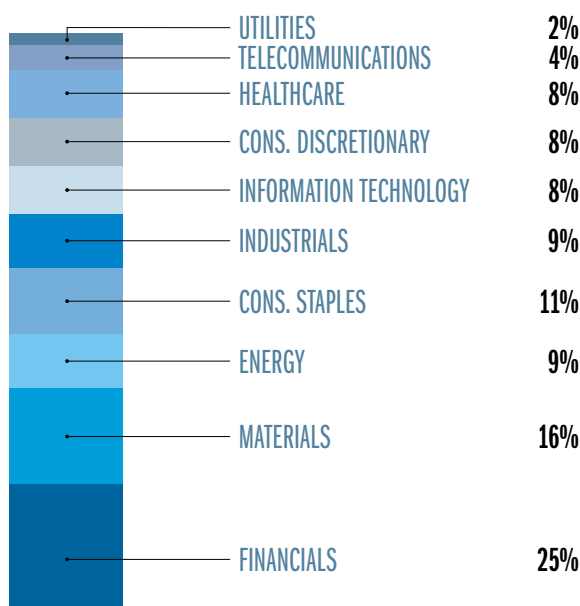
We believe that the listed equities portfolio is well placed to benefit from investing in a number of long-term strategic themes. As such, we have added another global equities manager which invests in selected worldwide companies which are linked to a diversified basket of long-term structural, industrial, scientific and/or geopolitical themes. During the past year we have also invested in a listed global agribusiness strategy. This strategy invests in companies where a significant amount of the earnings are derived from agribusiness activities and at all stages of the agricultural production and food consumption cycle. Going forward, we expect to make investments in a small number of other themes where we believe that there are supportive long-term structural drivers.

A key feature of our program since the Fund's inception has been our sizeable domestic equities exposure of around 30% of the total listed equities portfolio. Over the longer term, we believe that Australian equities provide a reasonable hedge to Australian inflation and exposure to secular growth in emerging markets through the resources sector.

Listed equity: region exposure at 30 June 2012



Listed equity: sector exposure at 30 June 2012



Private equity

Strategy

The opportunity set includes all private equity funds and related co-investment opportunities including buyouts, growth equity, venture capital, distressed for control and secondaries (pre-existing private equity commitments purchased from other investors) across developed and emerging markets.

Our value-add comes in three forms:

- delivery of a sector strategy that continuously answers the questions: where can the total fund get maximum benefits from investing in private equity markets and with private equity skill sets;
- recognition that skill, and the persistence of skill, is scarce and that we should only invest in managers in which we have high conviction are world-class;
- leveraging relationships, the Fund's scale and our internal resources to build further exposure to 'sweet spot' transactions at high-conviction managers with substantial fee savings through a highly focused co-investment strategy.

Report

As of 30 June 2012 we had \$9.9 billion of capital committed with 21 private equity managers. During the year we allocated \$0.6 billion to three new managers (a US venture manager, an Australian buyout manager and a small European growth/buyout manager) and a further \$1.4 billion to our existing managers, including co-investments alongside those managers. Invested capital increased from \$3.0 billion to \$4.9 billion over the course of the year, reflecting \$1.8 billion of capital calls, \$0.2 billion of distributions and \$0.3 billion of unrealised asset value appreciation.

Of the capital called, 35% was for distressed opportunities, 29% was for venture capital and growth equity opportunities, 21% was for buyout opportunities and the remaining 15% was invested in secondaries. Distributions were received through realisations of some of our early investments in secondaries, distressed opportunities and venture-backed companies. As at 30 June 2012 private equity represented 6.4% of the Fund's total assets.

Our private equity strategy is predicated on our view that private equity fulfils two functions within the Fund's investment portfolio. The first is to invest in high 'alpha' opportunities, where we believe we can earn a significant premium over similar but more liquid equity investments. Most of these investments would fall in the buyout or secondaries categories. The second function is to expose the Fund to investment themes that it cannot readily gain exposure to through other more liquid investments.

In the second category we would include such themes as exposing the portfolio to innovation (venture),

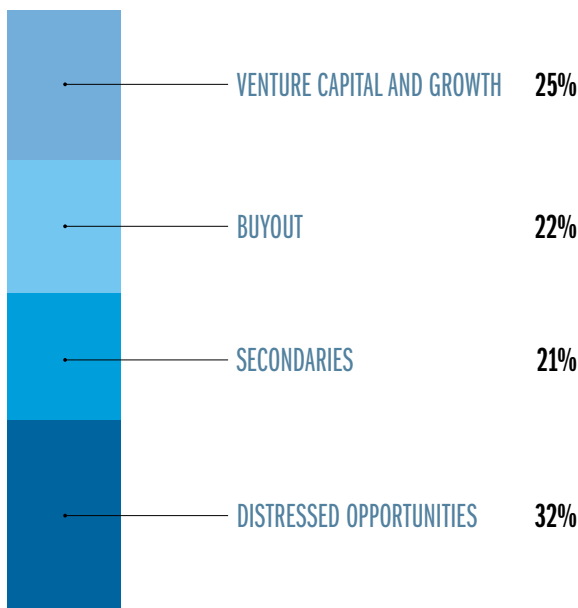
companies in financial difficulty that require capital to undertake financial restructurings and/or operational turnarounds (distressed opportunities), and funding idiosyncratic growth within small companies, particularly in sectors or geographies where alternative funding options are scarce (growth equity).

Looking at the market opportunity, we see the distressed opportunity continuing to materialise in both the US and Europe and, as capital continues to be deployed into this strategy, we are looking to make further allocations to this strategy to replenish the amount of uninvested capital we have available to deploy, particularly if the current uncertain economic climate continues to protract or if another economic downturn occurs.

Whilst still being opportunistic in developed markets, our growth equity strategy is now emerging markets focused, particularly where bank financing is not a viable alternative for small and rapidly growing companies. With the help of our managers, we are taking small steps in these markets as we continue to build our knowledge and relationships.

We continue to view the large end of the buyout market as a challenging place to invest capital, with the smaller end of the market less affected by the broader economic environment, swings in credit markets and the ongoing overhang of uninvested capital that is impacting pricing and competition. We continue to selectively add highly disciplined managers with (among other attributes) experience in generating strong returns in volatile economic environments.

Private equity: strategy exposure at 30 June 2012



Tangible assets

The tangible assets allocation, covering property, infrastructure and timberlands, provides long-term, consistent income streams, which, for the most part, are expected to increase at least in line with inflation.

Property

Strategy

We target sectors of the market and geographies that we believe will outperform over the long term. We predominantly invest in discretionary mandates with aligned, experienced and disciplined managers, although we will from time to time invest directly.

We prefer mandates, joint ventures, syndicates and smaller clubs where the investors have some influence, compared to larger discretionary funds.

Value-add comes from three sources:

- undertaking internal primary research to identify sectors and geographies that, in the context of our medium-to long-term view, offer a compelling risk return trade-off to our total portfolio;
- implementing the strategy through deep and insightful manager research and a focus on mandate design to maximise alignment and strong governance;
- maintaining a skilled and engaged team and close relationships with our managers. This is essential to gaining access to quality opportunities and to leveraging favourable terms and fees. It also allows us to understand our individual asset positions, to maintain discretion over strategic decisions across a material proportion of the direct portfolio and to access market intelligence.

Report

We are invested with 13 managers across 22 portfolios. We have added three new managers to the portfolio this year. We have also added to or expanded the mandates of our existing managers in three instances. This will lead to an increased exposure to Australian office and the US multi-family, office and industrial sectors. We have also increased our exposure to special situations.

We partially down weighted our exposure to listed global real estate investment trusts (REIT) as pricing improved over the year.

The portfolio has benefited through its exposure to the retail sector with strong capital appreciation. This has been led by our investment in General Growth Properties, the second largest owner of premium retail malls in the United States. We are in a consortium managed by Brookfield Asset Management that recapitalised the company in 2010. General Growth Properties has enjoyed strong sales growth over the year and there has been an upward re-rating of core property as investors seek safety. This has resulted in a portfolio tilt to retail. We expect our relative exposure to retail to fall as our office, residential and industrial portfolios build.

Similarly, we have an overweight position to the United States. This is firstly as a consequence of strong capital appreciation. Secondly, we substantially shifted our REIT exposure away from Europe as our concerns in respect of risk of the region increased over the past 12 months. We expect our relative exposure to the United States will adjust downwards over time as we invest in other regions.

We are monitoring the United Kingdom and Europe very carefully. While cautious of the economic situation, we expect that quality opportunities may emerge. We have added two new managers to our roster to exploit this on a very selective basis.

Our portfolio of retail and office properties in Australia is performing consistently, providing relatively strong income returns supported by high occupancy rates and some capital growth. In particular our exposure to three major shopping centres in Perth has made a positive contribution to the portfolio. Lakeside Joondalup, Rockingham City and Midland Gate have all enjoyed strong sales growth supported by the strong Western Australian economy.

Valuations continue to improve in most markets. In particular, the value of core property has shifted as many institutions favour lower-risk opportunities in an uncertain environment. They are more focused on capital preservation than necessarily pursuing returns. Bidding for the properties with long-term stable income is quite intense in many global markets.

We remain disciplined in searching for properties that can meet our mandate return requirements. Consistent with the strategic view that global growth is likely to be muted for some time, we are seeking additional drivers of return from our property investments. We believe this can be derived from opportunities with one or more of the following characteristics:

- Micro drivers, such as demographics, scarcity or dislocated local markets.
- Value, whether it be from a mispricing of capital markets (through capitalisation rates above normalised levels) or leasing markets (through rental levels being below normalised levels).

- Assumption of risk, where the risk is being rewarded by improved return.
- Recapitalisation in distressed markets where properties can be accessed through the corporate structure at attractive valuations (through both equity and debt).
- The arbitrage in valuations between the listed and direct.

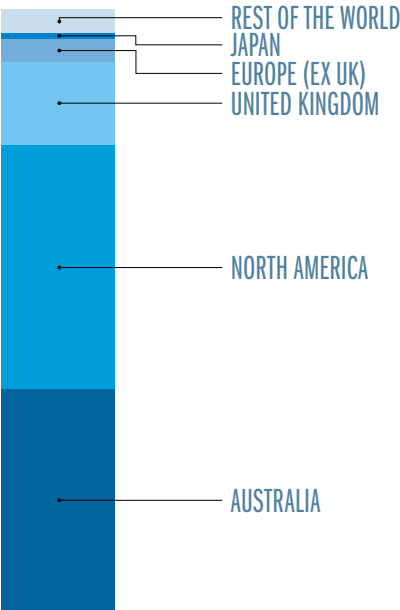
While our environment remains competitive, we continue to be presented with a diverse pipeline of opportunities that meet our criteria, but we do need to be patient.

Open discussion and idea sharing across teams is an important facet of the investment approach.

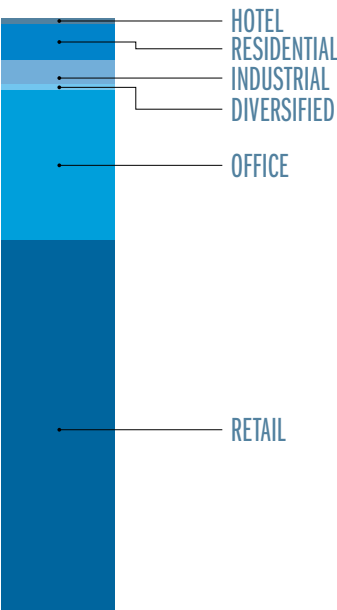


Left to right: Amanda Xie (Infrastructure), Pieta Fazio (Property), David Simons (Private equity).

Property: region exposure at 30 June 2012



Property: sector exposure at 30 June 2012



Infrastructure

Strategy

Our fundamental approach is to understand the nature of the exposures we have at the underlying asset level and tailor the portfolio build to match our portfolio requirements. To do this we invest with managers as well as directly.

This hybrid approach provides the flexibility to use our capital and expertise to create exposures with the best fit to the Fund's mandate utilising five investment avenues:

- manager pooled funds;
- multi-asset separate mandates;
- co-investments with pooled funds;
- direct investments with single asset manager mandates; and
- listed mandates.

41%

37%

Our value-add comes in two forms:

- understanding our underlying exposures and how they will behave in different circumstances. This ensures we can build and maintain the infrastructure portfolio to fit the overall Fund's requirements; and
- maintaining a skilled and engaged team which is prepared to work closely with managers giving us insights which can be used elsewhere in the portfolio, access to preferred opportunities and lower than normal fees.

Report

We increased our exposure to infrastructure during the year, making a number of new fund commitments and several direct investments. Our strategy continues to be to invest with skilled managers – directly through funds as well as undertaking co-investments.

The continuing effects of the financial crisis have led to increased demand for core infrastructure as the assets are seen as defensive. In the Northern Hemisphere, expected returns for low risk assets have fallen in line with bond yields. In our view, current market pricing rarely compensates for elevated economic and political risks in these jurisdictions. As a result we are currently focusing our continued portfolio build out on other markets.

1%

6%

4%

1%

25%

63%

Australian assets are of particular interest to us, given the stronger link to domestic inflation and the fact that we do not need to hedge the currency risk. To this effect we have established a number of separate account mandates with selected managers to focus on domestic opportunities over coming years.

We have also made allocations to managers who target opportunistic infrastructure. Returns on these investments are less reliant on continued economic growth and based more on the ability of our managers to implement a business turnaround or roll-up strategy. The more complex asset management task, as well as the lack of capital available for these assets, means that expected returns are higher than those expected for core infrastructure. During the year we co-invested in three opportunistic infrastructure assets:

- Star West Generation – a US power generation asset, alongside Highstar
- Edinburgh Airport – a UK airport, alongside Global Infrastructure Partners (GIP)
- Access Midstream Partners – a US gas gathering infrastructure company, alongside GIP

We maintained our exposure to listed infrastructure which has provided opportunities at times when equity markets have underpriced infrastructure exposures. As defensive assets rallied later in the year our manager took advantage of this to reduce the exposure somewhat.

Looking forward we remain confident that we will be able to access infrastructure opportunities which add diversity to the fund's risk exposures while also providing a degree of inflation protection. We will remain selective to ensure that the assets we acquire are priced appropriately given the risks in the global investment environment.

Timberland

We continued our focus on developing our timberland exposure during the year, considering opportunities in North America, New Zealand and Australia. During the year market pricing of assets in North America appeared to strengthen as the outlook for housing starts improved and new capital entered the sector. During the year we also participated in the sale process by the South Australian Government of the forward rotations associated with the Green Triangle assets of ForestrySA via our mandate with The Campbell Group.

For portfolio construction purposes we look through our exposures to the underlying risk characteristics of the assets. We consider infrastructure assets to fall within the following broad risk allocations:

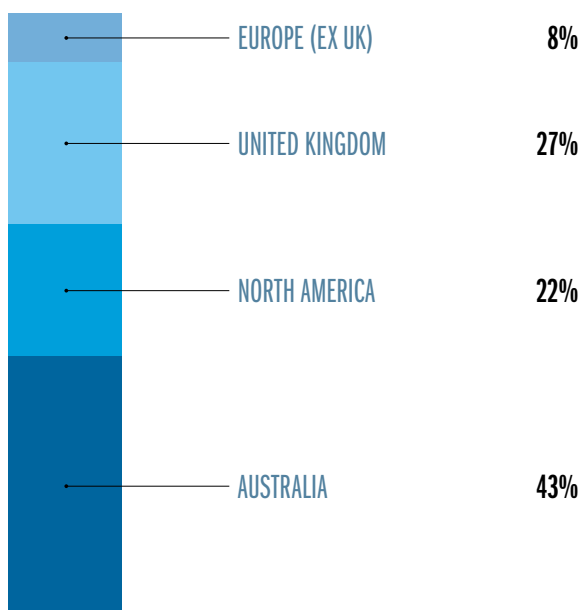
Economic – Economic infrastructure has performance linked to the economy in which it exists. All of these businesses will exhibit strong growth in underlying demand when economic growth is robust, tend to exhibit strong capital growth characteristics and generally have revenues linked either directly or indirectly to inflation. Examples include airports, ports (particularly container ports), toll roads and base load power generation.

Regulated – Regulated assets tend to be true natural monopolies providing essential services and as a result have extremely predictable revenues and minimal demand elasticity. Examples include electricity, gas and water transmission and distribution companies where the scale of investment means it is uneconomic to duplicate the system.

Contracted – Contracted assets are investments which generate a substantial part of their revenue under a long-term contractual arrangement with a purchaser of the services, generally with payment streams which are linked directly to inflation. Examples include gas transmission (where it is common to have long-term offtake contracts with shippers), some telecommunications networks (eg satellites), some power generators and Public Private Partnerships (PPPs).

Opportunistic – Opportunistic assets are infrastructure businesses involving complicated investments (requiring turnaround, roll-up or restructuring) which allow us to capture expected higher returns. The strategy is return seeking in that it attempts to extract additional return through manager skill in parts of the market where there is capital scarcity. The underlying infrastructure assets provide some level of base inflation protection in a high inflation environment but are not the primary driver of return.

Infrastructure: region exposure at 30 June 2012



Debt

Strategy

The opportunity set is global and includes all credit-oriented investment products and strategies including:

- investment grade and high-yield corporate credit, both in bond and loan format;
- securitised credit in various forms;
- private debt, including corporate and mortgage loans; and
- mandates with broad global multi-sector coverage as well as specific thematic, regional or sector specialists.

Our value-add derives from:

- an active approach to sector allocation which applies an absolute value mindset in identifying and harvesting excess credit risk, complexity and illiquidity premia; and
- recognising that the most reliable form of value-add, particularly within higher risk sectors, is the avoidance of default losses. The high credit underwriting skills of our managers are therefore paramount.

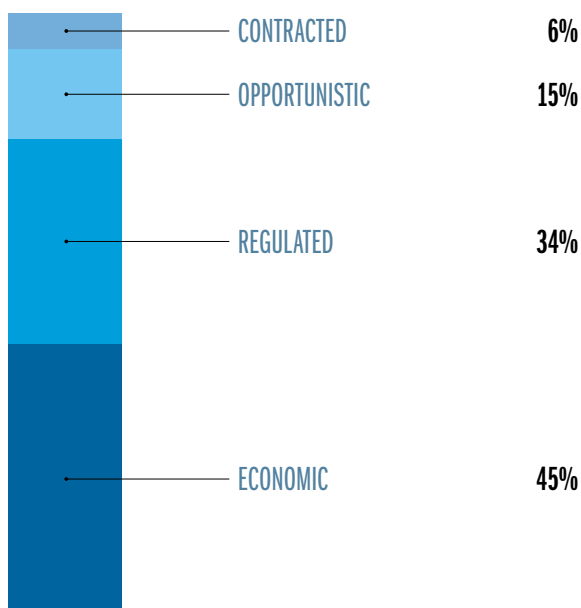
The breadth and complexity of the sectors within credit mean that the strategy will, with the exception of some very simple debt transactions, be almost universally implemented through fully discretionary mandates or co-mingled vehicles.

We focus on building core relationships with managers that demonstrate multiple, high-quality skill sets. This accumulation of sector capabilities creates levers of access through which we can dynamically orientate the portfolio to the most attractive opportunities.

Report

Global credit markets have continued to exhibit volatile performance over the last 12 months, with generally resilient credit fundamentals often overwhelmed by macroeconomic uncertainty and newsflow. This represents a 'stability' of sorts given that this environment has prevailed since the first few investments in the Debt portfolio were initiated in early 2008. In recognition of this we have continued to manage the Debt portfolio very actively, with a focus on evolving our strategy opportunistically from both a relative value perspective as well within the total risk stance.

Infrastructure: category exposure at 30 June 2012

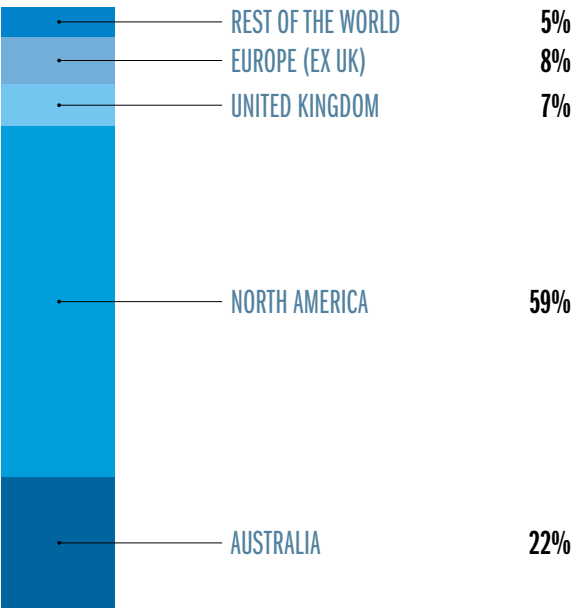


Early in the program this meant a focus on very high grade opportunities which offered compelling reward for risk in an extremely uncertain environment, before shifting the allocations substantially towards senior secured corporate loans, structured credit and bank capital securities in the post-Lehman environment as risk premia increased dramatically. Given the broad rally in risk markets from early 2009 to mid-2011, we realised substantial gains and 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 had rallied most aggressively.

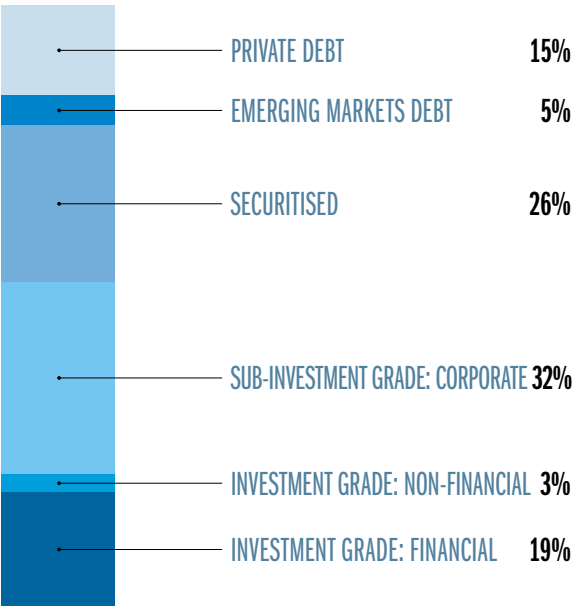
Activity over the last 12 months has largely been an extension of this theme, with the Debt portfolio decreasing in size in both nominal terms and in proportionate asset allocation. This has been accomplished through continued trimming within a number of more liquid credit sectors we view as more fully valued. Against this we provided new funding to a few specific areas. We continue to see pockets of opportunity in niche private lending strategies such as middle-market corporate debt, property debt and infrastructure debt. 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, which remains saddled with legacy assets and confronting an environment of regulatory adjustment. In addition, we continue to see interesting opportunities in areas such as US mortgage-backed securities, structured credit and lower grade corporate credit where there still appears to be outsized reward for bearing incremental illiquidity and complexity risk. In both examples, we aim to pair strong credit sourcing and selection skills to capture high current income with as few default losses as possible.

We continue to design the Debt program around pairing partners that bring high-level credit selection expertise with mandates that offer sufficient range and flexibility of activity to meaningfully orient towards areas where they see most value. This 'platform' approach enables a dynamic process where incremental shifts towards sectors which offer attractive returns occur within individual manager mandates. Supplementing this are a number of more targeted mandates focused on specific market opportunities such as those noted above. We continue to see this approach as appropriate to the rapidly evolving environment we have experienced and expect going forward.

Debt: region exposure at 30 June 2012



Debt: sector exposure at 30 June 2012



Alternatives

Strategy

The opportunity set includes:

- a broad variety of specialised active management strategies within traditional asset classes. Core sectors include multi-strategy, distressed debt and macro-directional;
- exposure to alternative or non-traditional risk premia such as commodities, volatility and re-insurance; and
- other managers or mandates which do not align well with the principal sector strategies.

Our value-add comes in two forms:

- the mandate flexibility of such strategies increases the Fund's exposure to lowly correlated active management return; and
- the ability to exploit our balance sheet and/or long time horizon to bear illiquidity, complexity or other alternative risks which we view as offering strong risk-adjusted returns and portfolio diversity.

We address the complexity and breadth of the alternatives portfolio by focusing our internal efforts on either strategic, long term strategies which we expect will be enduring exposures (such as macro-directional) or more thematic exposures for which exposure may be large with a practicable, visible time frame (such as distressed debt).

We supplement this focused direct allocation activity with investment platforms operated by strategic partners, which thus far have taken the form of two bespoke fund of hedge fund relationships. These partners are a partial extension of our team and provide us with operational leverage.

Report

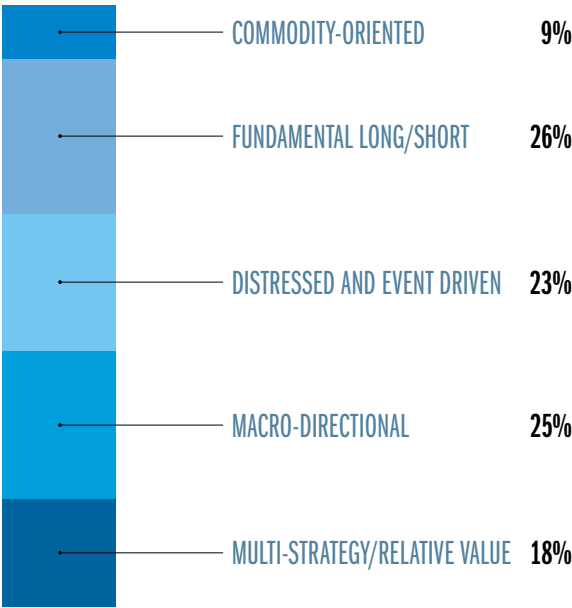
Growth of the Alternatives portfolio slowed over the past fiscal year and at current size is close to its target portfolio weighting. Reflective of this, new manager appointments were fewer in number as activity has shifted towards rotating exposure and refining the current allocation.

Part of this portfolio activity included a program of refreshing our event-driven and distressed credit exposures as we continue to receive substantial capital back from commitments made early in the financial crisis. For some time it appeared that the health of capital markets, low interest rates and higher prices were going to create an extended trough of activity ahead of an expected uptick in refinance-driven defaults in a few years' time. While this has largely progressed as expected, continuing uncertainty in Europe and a deleveraging financial sector are beginning to present an improved environment to our managers in this sector and has led to some re-allocation activity.

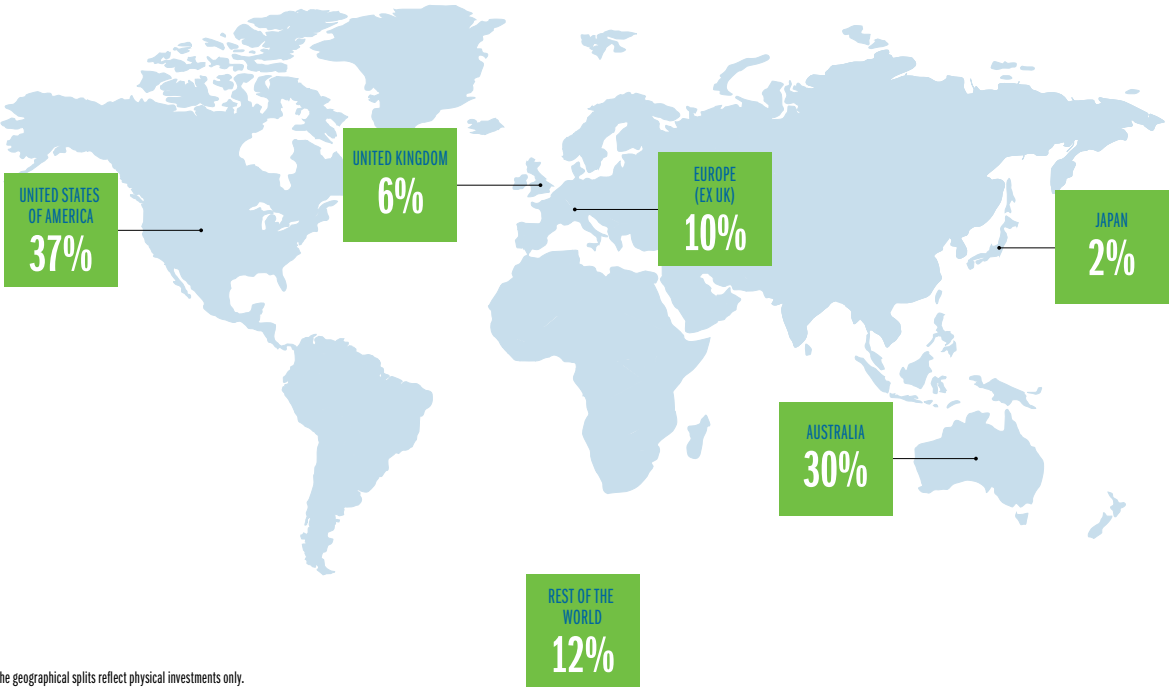
Our portfolio continues to operate with a bias towards macro-directional strategies, which we see as well placed to benefit from the volatile market environment and which also provide substantial diversity to traditional market betas at the wider Fund level. We continue to favour a mix of discretionary and systematic approaches in an effort to diversify decision-making approaches. Similarly, we have built a meaningful exposure to active commodity trading managers, partnering with organisations that can manage exposure to the sector as risk-efficiently as possible with limited levels of commodity market beta exposure.

On the whole we remain attracted to opportunities where we can identify and access superior active management talent within aligned structures and which expose the Fund to outcomes differentiated from the core asset classes. In the coming year we expect to further diversify the exposure set to include greater allocations to niche risk premia which function in a similar manner.

Alternatives: strategy exposure at 30 June 2012



Future Fund investments by geography at 30 June 2012



The geographical splits reflect physical investments only.
Unlisted investments investing in multiple regions have been classified as Rest of the World.

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 17.8% of the total portfolio. We also held a 12% 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 2012 we had an option portfolio that reduced the listed equities exposure by 0.9% or \$700 million and increased the developed market currency exposure by 0.4% or \$323 million.

Ownership rights and ESG risk management

The Board believes that effective management of material financial and reputational risks and opportunities related to environmental, social and governance (ESG) issues will, over the long term, support its requirement to maximise returns earned on the Funds. The Board builds this perspective into its own investment decision-making, including the management of ownership rights, and into its process for selecting the external investment managers responsible for individual investment decisions. External managers are given discretion to invest widely and across a variety of industries.

In particular, the Board believes that there is a positive relationship between good governance and investment value and acknowledges the value of exercising its ownership rights, including voting rights where relevant, across the broad range of its investments. The management of ownership rights in 2011/12 is detailed below.

The Board's overall framework for managing the complex financial and reputational risks and opportunities related to ESG issues is articulated in the Future Fund Statement of Investment Policies, which can be found on the Future Fund website.

Simply put, ESG integration is about investors and companies taking a longer-term view and understanding the full spectrum of future risks and opportunities to which assets are exposed. The exercise of ownership rights complements this analytical approach by securing the greatest possible share of the attendant returns streams, which have the tendency to be eroded by agency and intermediation costs. These rights are essential to ensuring the appointment and retention of fiduciaries of the highest quality, and motivating those agents to manage for value creation over the long term and to act as if as if they themselves were the beneficial owners of the capital entrusted to them.

Investment decision-making

Given the Future Fund's status as a large, long-term asset owner with a globally diversified portfolio, top-down views on the strategic themes that will dominate outcomes for investors over the medium to long term are a crucial component of the capital allocation process. Many of those themes have a strong ESG component, both in terms of system inputs (such as demography and resource scarcity) and regulatory and consumer responses to those inputs.

In addition to the Fund's overall investment strategy, a number of specific strategies in which the Fund invests are designed to target the returns associated with these long-term themes, such as agribusiness, personalised healthcare, and growing wealth and improving quality of life in both emerging economies and among the oldest cohorts of the population.

As part of its manager selection and monitoring process the Board will consider the extent to which the manager is managing effectively financial risks and opportunities that may arise from ESG issues (where relevant to the manager's investment strategy). To the extent that formal or informal ownership rights accrue in the manager's portfolio and are delegated to the manager, due consideration is given to the manager's ability to exercise those rights in the best interests of the Fund.

Exercising ownership rights

The exercise of ownership rights is a key means by which to encourage owner-orientated governance in investee entities. This reflects the Board's view that good governance, (i.e. how an organisation is structured, operated and controlled and how it manages environmental, social and regulatory risks) 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.

The way in which the Board exercised the voting rights attached to its holdings in publicly listed Australian companies is reported in aggregate each year. Activity for the 2011/12 financial year is summarised below.

Exercise of voting rights in publicly listed Australian companies 2011/12

Resolution type	Number of resolutions	FF WITH company board	FF ABSTAIN	FF AGAINST company board
Elect director	544	93%	–	7%
Approve remuneration report	206	79%	–	21%
<i>Other remuneration matters</i>				
Amend/approve remuneration plan	54	76%	–	24%
Approve remuneration plan grant	187	70%	–	30%
Other resolutions	263	92%	0%	7%
Total voted	1,254 (249 ballots)	87%	0%	13%
Not voted	4 (1 ballot)			
Total eligible	1,258 (250 ballots)			

Responsibility for the exercise of voting rights in the international listed equities portfolio continues to be delegated to the Future Fund's external investment managers, subject to close oversight by the organisation and reviews of the managers' ownership policies and practices. In all cases the Fund retains the right to override managers and determine voting decisions directly.

The voting rights exercised by our investment managers in international listed equities holdings are monitored at both the whole portfolio and manager-by-manager levels. In 2011/12 the Future Fund's managers were eligible to exercise proxy votes in respect of 36,004 resolutions at 3,360 shareholder meetings. Those votes were exercised in 98% of cases at the resolution level and 99% 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/re-registration or power-of-attorney requirements), or that the Fund was ineligible to vote.

Each investment 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 8% of resolutions voted.

Engagement with investee entities

Engagement with the boards and executive management of the entities in which the Fund invests is an important tool for protecting our interests and establishing a climate of stewardship, with active oversight from investors and accountability of management to the provider of capital.

Engagement is used as a complement to voting activities to improve our analysis and the signalling power of the votes cast. More broadly, maintaining open, constructive relationships with investee entities improves fundamental investors' understanding of the quality of management and the long-term drivers of value, including ESG risks and opportunities.

Our preferred mechanism is for our investment managers to be the front line of engagement, given their in-depth company knowledge and contacts. This applies to managers using both active asset selection strategies and those implementing passive or other rules-based strategies. In respect of publicly listed Australian companies, the Agency will often work with the relevant manager to arrive at a list of corporate governance priorities, which will form the basis of the manager's engagement with the company.

On occasion the Agency engages directly with investee entities to better understand risks and opportunities related to ESG issues. This direct engagement is mainly in respect of Australian-domiciled companies, given the size and influence of our investments in our local market and practical considerations. In 2011/12 examples of this activity included:

- Discussions with executives from a global mining company about how they manage human rights risks related to projects in Africa and South-East Asia.
- Engagement with a director of an Australian construction company on how occupational health and safety is managed throughout the group and reflected in executive remuneration schemes.
- Engagement with the chair of a European oil and gas major on the quality of their relations with institutional shareholders and how they appraise ESG risks related to new projects.
- Direct contact with chairmen and other board members from a number of large publicly-listed Australian companies on our expectations around executive remuneration structures that are long-term in nature, align management interests with those of the owner, and reflect the 'pay for performance' paradigm.

Ownership rights in private markets

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 investment vehicles.

Where shareholder voting rights accrued to pooled vehicles from the underlying investments, the external 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 Agency's Private Markets team.

Many of the private markets pooled vehicles in which the Future Fund invests have advisory boards that give their investors a voice on certain key decisions. The Fund has the right to appoint a representative to the advisory boards of many of the pooled vehicles in which it invests. This right was taken up wherever practical in 2011/12.

One of the most powerful expressions of ownership rights occurs where investors take up seats on the boards of unlisted entities. The Fund has exercised the right to appoint directors to the boards of a number of the entities in which it invests as part of its infrastructure and property programs. Agency staff sit as directors on the boards of companies such as APAC (Melbourne and Launceston Airports) and Gatwick Airport, and property holdings such as 685 Third Avenue in New York. In other cases the Fund works closely with its external investment managers to select high-quality directors to act on behalf of the providers of capital.

Collaborations and contributing to a stronger investment system

The Fund has a direct interest in supporting financial markets that are stable, transparent and efficient.

The scale and global, inter-connected nature of many of the ESG risks and opportunities faced by long-term investors makes collaboration between like-minded investors attractive. The Fund is an active participant in a number of investor collaborations that address some of the systemic challenges related to ESG issues, including the Council of Institutional Investors and the International Corporate Governance Network.

This work is part of our broader involvement in networks that aim to advance best practice for institutional investment, improve system integrity and build new markets. The initiatives that we support include the Hedge Fund Standards Board, the Institutional Limited Partners Association, the International Forum of Sovereign Wealth Funds, the Pacific Pension Institute, the Paul Woolley Centre for Capital Market Dysfunctionalities and the Rotman International Centre for Pension Management.

Portfolio exclusions

Australia has ratified a number of international conventions and treaties that limit certain activities. Where the Board becomes aware that the activities of an entity or funding activity may contravene such a convention or treaty, the Board will consider the exclusion or removal of the investment from the portfolio generally having regard to the nature of the limitations.

Since 2009 the Fund has restricted all managers of directly-held investments from investing in securities issued by a small number of companies that may be involved in activities that are limited by the 2008 Convention on Cluster Munitions or the 1997 Anti-Personnel Mines Convention.

The companies currently excluded by the Fund on this basis are detailed on the Fund's website.

Telstra

During the 2011/12 year, the Board announced that it had completed its strategy for rebalancing the portfolio and reduced its holding in Telstra to 100 million shares or 0.8% of the company. The Board ceased reporting its Telstra holding separately from the rest of the portfolio with effect from 1 July 2011.

Performance

The return on the Future Fund portfolio over the year was 2.1%. Since the first contribution to the Fund in May 2006 the return has averaged 4.7% p.a. net of costs. Over the same period the, CPI has averaged 2.7%.

The investment program effectively commenced at the beginning of the 2007/08 financial year once the initial operating infrastructure of the Fund had been put in place. On 1 July 2007, the portfolio had a 91% exposure to cash and a 9% passive allocation to listed equities in Australia and overseas. Over the five year period from 1 July 2007 to 30 June 2012, the return (after all operating costs) averaged 4.4% p.a.

These returns remain below the benchmark return established in the Investment Mandate. However, in the context of the turbulence that has characterised markets since the establishment of the Fund, performance has been respectable and the portfolio remains prudently positioned in line with 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 the Government in the mandate. This is an important cultural feature of the organisation. 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 skills 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, are measured and rewarded. A series of benchmarks which approximate the characteristics of each category of the Target Asset Allocation has been developed and is set out below.

During the financial year to 30 June 2012 the actual portfolio underperformed the policy portfolio by 0.03%. Over the last three years the actual portfolio outperformed the policy portfolio by 1.22% p.a.

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

Costs

The Future Fund's management costs for 2011/12, as extracted from the audited financial statements, were \$325 million compared with \$446 million (inclusive of Telstra) in 2010/11. This fall largely reflects a reduction in performance fees payable to external investment managers during the year.

The Board uses the disclosure measures prescribed for financial products laid out in Schedule 10 of the regulations to the *Corporations Act 2001*. These measures have been further clarified by ASIC through its Information Releases and include the indirect cost ratio, a common way of expressing investment management costs in Australia.

The disclosure measures report costs under the following categories:

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 funds. 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. Accordingly the Future Fund's indirect cost ratio (management costs as a proportion of the assets under management) for 2011/12 was 0.433%. An overview of the indirect cost ratio for each of the last three years is provided in the table below.

Indirect cost ratio

	2009/10	2010/11	2011/12		
	Indirect cost ratio	Indirect cost ratio	Management costs	Transactional and operational costs	Indirect cost ratio
Future Fund (including Telstra holding)	0.410%	0.618%	\$324,858,000	\$102,822,000	0.433%
Future Fund (excluding Telstra holding)	0.436%	0.637%	Not applicable	Not applicable	Not applicable

The indirect cost ratio presented above does not incorporate investment costs incurred in non-consolidated investment vehicles or where the fund is part of a co-mingled group of funds. These costs are based on unaudited estimates and derived using a variety of methodologies particularly with regard to performance fees which may become payable. For the 2011/12 year the costs incorporated within these arrangements added around 68 basis points (2010/11: around 73 basis points) to the indirect cost ratio.

Cost management

The Board uses external investment managers and this, together with the commitment to a broadly diversified portfolio and breadth of investment classes, means that over time its costs will generally be higher than those of many other investors.

The commitment to genuine diversification is an important facet of the Board's investment strategy and, particularly during the market volatility of recent years, has been beneficial to the Fund's overall performance.

The Board monitors costs in the asset classes in which it invests closely, reviewing the expected returns and costs of implementing the investment strategy on an ongoing basis. 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 manager and the Board.

During the year the Board introduced additional oversight processes to maintain its focus on effective control of investment management costs and will continue to work closely with industry bodies and others to ensure that investment management fee practices better reflect alignment between the investor and the investment manager. This will be an area of ongoing focus by the Fund.

Under its statutory requirements the Board reports costs in accordance with section 81 of the *Future Fund Act 2006* and these are set out in the table below.

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

Purpose	Amount debited 2009/10	Amount debited 2010/11	Amount debited 2011/12
Contracts with investment managers	\$244,766,537	\$237,920,018	\$281,756,920
Board remuneration and allowances	\$757,417	\$791,202	\$820,952
Agency remuneration and employment costs	\$16,189,583	\$19,882,245	\$22,118,350
Consultants to the Board and Agency	\$11,760,416	\$13,002,821	\$9,543,955
Agency operations	\$12,986,047	\$7,978,663	\$13,129,369

Note that these costs are reported on a cash basis, whereas the costs presented on the preceding page include accruals.

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 \$6,429 million has been withdrawn from the Building Australia Fund including \$2,700 million during the 2011/12 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 \$3,108 million has been withdrawn from the Education Investment Fund including \$847 million during the 2011/12 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 \$2,384 million has been withdrawn from the Health and Hospitals Fund including \$1,241 million during the 2011/12 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 2011/12 year was 5% (Australian bank bill swap rate + 0.3%). The Building Australia Fund and Education Investment Fund both generated a return of 5.3% for the 2011/12 year, while the Health and Hospitals Fund generated a return of 5.2%.

The management costs of the Nation-building Funds are met from the assets of the Fund and were \$8.3 million for the Building Australia Fund, \$5.9 million for the Education Investment Fund and \$4.8 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 as described in the Investment Report for the Future Fund.

The indirect cost ratio for 2011/12 for the Building Australia Fund was 0.113%, for the Education Investment Fund it was 0.126% and for the Health and Hospitals Fund it was 0.119%. Further detail is provided below.

At 30 June 2012 the value of the Building Australia Fund stood at \$5,878 million, the Education Investment

Fund was valued at \$4,298 million and the Health and Hospitals Fund stood at \$3,315 million.

The legislation also requires that the Board and Agency report on various aspects of the costs incurred in investing the assets of the Nation-building Funds. These are required to be reported on a cash basis.

Indirect cost ratio

	2009/10	2010/11	2011/12		
	Indirect cost ratio	Indirect cost ratio	Management costs	Transactional and operational costs	Indirect cost ratio
Building Australia Fund	0.082%	0.114%	\$8,252,168	\$269,564	0.113%
Education Investment Fund	0.090%	0.123%	\$5,907,228	\$185,876	0.126%
Health and Hospitals Fund	0.095%	0.121%	\$4,783,598	\$154,719	0.119%

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

Building Australia Fund

Purpose	Amount debited 2009/10	Amount debited 2010/11	Amount debited 2011/12
Contracts with investment managers	\$6,421,224	\$10,849,783	\$9,276,627
Board remuneration and allowances	–	–	–
Agency remuneration and employment costs	–	–	–
Consultants to the Board and Agency	–	–	–
Agency operations	\$10,028	\$549,471	\$275,390

Education Investment Fund

Purpose	Amount debited 2009/10	Amount debited 2010/11	Amount debited 2011/12
Contracts with investment managers	\$4,317,170	\$6,922,666	\$6,224,975
Board remuneration and allowances	–	–	–
Agency remuneration and employment costs	–	–	–
Consultants to the Board and Agency	–	–	–
Agency operations	\$10,028	\$549,434	\$275,647

Health and Hospitals Fund

Purpose	Amount debited 2009/10	Amount debited 2010/11	Amount debited 2011/12
Contracts with investment managers	\$3,466,798	\$5,930,927	\$5,176,162
Board remuneration and allowances	–	–	–
Agency remuneration and employment costs	–	–	–
Consultants to the Board and Agency	–	–	–
Agency operations	\$10,028	\$526,179	\$275,340

Note that the costs reported under section 81 of the Act are reported on a cash basis, whereas the costs in the table showing indirect cost ratios include accruals.

Investment managers appointed by the Future Fund Board of Guardians at 30 June 2012

Asset class	Manager	
Equities		
Australian Equities	<ul style="list-style-type: none">JCP Investment PartnersMacquarie Investment Management	<ul style="list-style-type: none">Perennial Growth Management
Developed market equities	<ul style="list-style-type: none">Altrinsic Global AdvisorsBlackstone Alternative Asset ManagementGlobal Thematic Partners*Lazard Asset Management Pacific Co.	<ul style="list-style-type: none">Massachusetts Financial ServicesSchroder Investment Management AustraliaSoutheastern Asset ManagementState Street Global Advisors
Emerging market equities	<ul style="list-style-type: none">Arrowstreet CapitalState Street Global Advisors	<ul style="list-style-type: none">Trilogy Global Advisors
Private equity		
Buyout	<ul style="list-style-type: none">Advent International CorporationApax PartnersArcher Capital*Berkshire PartnersCharterhouse Capital PartnersHellman & Friedman	<ul style="list-style-type: none">Nordic CapitalQuadrant Private EquityRCP AdvisorsSouthern Cross ManagementWaterland Private Equity Investments*
Venture and growth	<ul style="list-style-type: none">Adams Street PartnersBessemer Venture PartnersCDH InvestmentsGreenspring Associates	<ul style="list-style-type: none">Horsley Bridge PartnersInsight Venture PartnersNew Enterprise Associates*
Special opportunities	<ul style="list-style-type: none">Adams Street PartnersHarbourVest Partners	<ul style="list-style-type: none">Oaktree Capital ManagementTowerBrook Capital
Property		
Unlisted	<ul style="list-style-type: none">Altarea Cogedim*Brookfield Asset ManagementColonial First State Global Asset ManagementCorVal PartnersGarrison Investment Group L.PHenderson Global Investors.	<ul style="list-style-type: none">Harbert Management*Lend Lease Investment ManagementMGPAPEET LimitedPrime Ag Corporation Limited*TIAA-CREF
Listed	<ul style="list-style-type: none">CBRE Clarion Real Estate Securities	
Infrastructure & Timberlands		
Unlisted	<ul style="list-style-type: none">AMP Capital InvestorsCiti Infrastructure PartnersGlobal Infrastructure Partners	<ul style="list-style-type: none">Highstar CapitalThe Campbell GroupUBS Global Asset Management
Listed	<ul style="list-style-type: none">RARE	
Debt		
High-grade debt	<ul style="list-style-type: none">Colonial First State Global Asset ManagementGoldman Sachs Asset ManagementM&G Investment Management	<ul style="list-style-type: none">Macquarie Investment ManagementPIMCO AustraliaVianova Asset Management
High-yield debt	<ul style="list-style-type: none">Ares ManagementHaymarket FinancialOak Hill AdvisorsOaktree Capital Management*	<ul style="list-style-type: none">Quadrant Real Estate AdvisorsSankaty AdvisorsStone Harbor Investment PartnersWestbourne Credit Management

Asset class	Manager	
Alternatives		
Fund of funds	<ul style="list-style-type: none">• BlackRock Alternative Advisors	<ul style="list-style-type: none">• Blackstone Alternative Asset Management
Multi-strategy/relative value	<ul style="list-style-type: none">• Arrowgrass Capital Partners• Ionic Capital Management• Makena Capital Management	<ul style="list-style-type: none">• Och-Ziff Management• Pacific Alliance Investment Management
Macro-directional	<ul style="list-style-type: none">• BlueCrest Capital Management• Brevan Howard Asset Management	<ul style="list-style-type: none">• Bridgewater Associates• Winton Capital Management
Distressed and event driven	<ul style="list-style-type: none">• Canyon Capital Advisors• Centerbridge Partners• King Street Capital	<ul style="list-style-type: none">• Oaktree Capital Management• Sankaty Advisors
Commodity-oriented	<ul style="list-style-type: none">• Astenbeck Capital Management• Blenheim Capital Management	<ul style="list-style-type: none">• Louis Dreyfus Investment Group• Vermillion Asset Management
Overlay strategies	<ul style="list-style-type: none">• Ashmore Investment Management• BlackRock Investment Managers	<ul style="list-style-type: none">• Insight Investment Management (Global)• Macquarie Investment Management• PIMCO
Cash	<ul style="list-style-type: none">• Colonial First State Global Asset Management	<ul style="list-style-type: none">• Macquarie Investment Management

*Indicates a new manager appointed, or an existing manager introduced into a new asset class, in 2011/12.

GOVERNANCE

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 regulations, guidelines, procedures and orders, establishes arrangements for delegations and authorities, spending and the 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 by Government 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 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 the Board's investment decisions

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.

Accountability

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

The Board is required to keep the responsible Ministers informed of the operations of the Board. The nominated Minister may also, by written notice, require the Board to prepare reports or provide information on specified matters relating to the performance of the Board's functions. The nominated Minister may cause such reports to be published.

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 2011 and February and May 2012 and provided the Committee with updates on its operations and the performance of the Funds. 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 133.

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 2012, the tenures of Mr David Murray AO and Mr Brian Watson as members of the Board of Guardians expired. In their places, the responsible Ministers appointed Mr David Gonski AC and Mr Steven Harker to the Board of Guardians each for five years.

Mr David Gonski AC, Chairman

Mr Gonski was appointed with effect from 3 April 2012 for five years.

Mr Gonski is the Chairman of Investec Bank Australia Limited (IBAL) and has significant management, financial structuring and corporate advisory experience. He was a founder of Investec's predecessor corporate advisory business, Wentworth Associates, and was previously a partner at the law firm Freehills. He is Chairman of Coca-Cola Amatil Limited, the Sydney Theatre Company and Ingeus Ltd and was Chairman of ASX Limited until the end of March 2012. He was a Director of Singapore Airlines until the end of July 2012 and is Chancellor of the University of New South Wales. Mr Gonski is a Life Fellow of the Australian Institute of Company Directors and a Fellow of CPA Australia. He was appointed an Officer of the Order of Australia in 2002 and a Companion of the Order of Australia in 2007.

Ms Carol Austin

Ms Austin was appointed with effect from 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 with effect from 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 and 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 with effect from 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 Steven Harker

Mr Harker was appointed with effect from 3 April 2012 for a period of five years.

Mr Harker has deep understanding of global financial markets and substantial expertise in investment and asset management. He is the Managing Director and Chief Executive Officer of Morgan Stanley Australia and is a Director of Australian Financial Markets Association Ltd and Investa Property Group.



Mr Stephen Fitzgerald

Mr Fitzgerald was appointed with effect from 3 April 2011 for a period of five years.

Until February 2012 Mr Fitzgerald was 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 until March 2009 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. Dr Mulcahy is a non-executive director of Mirvac Group, Coffey International, GWA International, ALS Limited and the Great Barrier Reef Foundation. He is Chairman of the advisory board of Pottinger.



Board of Guardians (left to right) Stephen Fitzgerald, Susan Doyle, Steven Harker, Carol Austin, David Gonski, Peter Costello, John Mulcahy.

Mr David Murray AO

Mr Murray was first appointed on 3 April 2006 for a period of five years and reappointed for one year with effect from 3 April 2011. His tenure as a member of the Board of Guardians expired on 2 April 2012.

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.

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. His tenure as a member of the Board of Guardians expired on 2 April 2012.

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.

Board committees

To assist it in its work the Board of Guardians operates a number of Board committees.

The Board established an Audit Committee in March 2007 and an Agency Appointments, Remuneration and Development Committee in November 2010.

In July 2009 the Board established a Market Transactions Committee to monitor, advise and

direct the Agency on behalf of the Board in relation to selected transactions. This transaction-specific Committee is reconstituted as required by the Board from time to time.

In April 2012, the Board reviewed its use of Board committees. As a result the Board decided to operate five committees to provide flexibility and focus in dealing with important matters within their agreed terms of reference.

Committee	Purpose	Membership
Audit Committee	Focuses on the control framework, external accountability, legislative compliance, internal audit and external audit.	Ms Susan Doyle (Chair) Ms Carol Austin Dr John Mulcahy
Risk Committee	Assures the Board that risks (other than investment risk which is the responsibility of the Board as a whole) are appropriately identified and managed.	Dr John Mulcahy (Chair) Mr Stephen Fitzgerald Mr Steven Harker
Governance Committee	Assists the Board to maintain appropriate governance standards for the organisation including consideration of relevant legislation, review of corporate governance policies and procedures including the Ownership Rights and ESG Risk Management Policy.	Hon Peter Costello AC (Chair) Ms Carol Austin Ms Susan Doyle Mr David Gonski AC Mr Stephen Fitzgerald Mr Steven Harker
Conflicts Committee	Provides oversight of and advises the Board in relation to questions of possible conflicts of interest arising for Board and Board committee members.	Mr Stephen Fitzgerald (Chair) Ms Carol Austin Hon Peter Costello AC Ms Susan Doyle Mr David Gonski AC Mr Steven Harker
Remuneration and Nominations Committee	Focuses on remuneration and appointment matters for staff and appointments to investment companies and advisory boards.	Mr David Gonski AC (Chair) Ms Carol Austin Mr Steven Harker

Board and Committee attendance 2011/12

	Board		Audit Committee ²		Remuneration and Nominations Committee ³	
	Meetings held while a member	Attended	Meetings held while a member	Attended	Meetings held while a member	Attended
Mr David Gonski AC	3	3	–	–	1	1
Ms Carol Austin	11	10	6	6	3	3
Hon Peter Costello AC	11	11	5	5	2	2
Ms Susan Doyle	11	10	6	6	2	2
Mr Stephen Fitzgerald	11	11	5	5	2	2
Mr Steven Harker	3	3	–	–	1	1
Dr John Mulcahy	11	11	6	6	2	2
Mr David Murray AO	8	8	– ¹	– ¹	2	2
Mr Brian Watson	8	7	5	5	2	2

1 David Murray attended five meetings at the invitation of the Committee.

2 From April 2012 the Audit Committee comprised Susan Doyle, John Mulcahy and Carol Austin. Previously all members of the Board, other than the Chair, were members of the Audit Committee.

3 Formerly the Agency Appointments, Remuneration and Development 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 Chairman of the Board of Guardians is also the Chief Executive of the Agency, although operational management has been delegated to the Managing Director of the Agency in accordance with the *Financial Management and Accountability Act 1997*.

Operational leadership for the Agency is provided by the Managing Director, Chief Investment Officer, Chief Operating Officer, Chief Financial Officer and Director, Human Resources who together make up the Executive Management Committee of the Agency.

Mr Mark Burgess, Managing Director and President

Mr Burgess took up his position on 1 July 2011. He 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, 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, Chief Operating Officer

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.

The Executive Management Committee provides operational leadership for the Agency.



Left to right: Paul Mann, Gordon McKellar, Liz McPherson, David Neal, Mark Burgess

Mr Paul Mann, *Chief Financial Officer*

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.

Risk Management

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. The strategic and investment implementation processes are described in the Investment Report. These strategic processes are instrumental in managing market, credit, liquidity and counterparty risks.

Strategic risk is the risk that the governance framework, Agency operating structure 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. The governance framework and operating structure is described in this Governance Report and the approach to people management is described in the People section.

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. Examples of the operational risks managed by the Agency include: legal risk, fraud risk, business continuity risk, outsourcing risk and compliance risk.

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.

The Agency maintains a Risk Register which documents the key risks and mitigating controls. The Agency's Operational Risk and Compliance Committee and the Board Audit Committee formally review the Risk Register on an annual basis. On a quarterly basis the effectiveness of these key controls is assessed, with results reported to the Agency Operational Risk and Compliance Committee and the Board Audit Committee.

The Agency Operational Risk and Compliance Committee assists the Board Audit Committee in the effective identification and 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 Register, monitoring mandate and portfolio compliance, incident reporting, tracking implementation of internal audit recommendations and oversight of key operational outsourcing arrangements.

A strong culture of risk and compliance management exists within the organisation. All staff are required to adhere to the Australian Public Service Code of Conduct and comply with core Agency operational policies which underpin the risk management framework. On an annual basis, staff certify their compliance with the Code and these policies.

The Agency seeks out opportunities to identify and share best practice approaches and benchmarks its approach to operational risk and compliance management through engagement with peer organisations.

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 Board's Audit Committee reviews the financial statements, oversees compliance and audit functions and evaluates the efficiency and effectiveness of the risk management framework.

The Board's Audit Committee receives internal and external audit reports and monitors management action in respect of these reports. During the year, the Board Audit Committee has met separately with the internal and external auditors in the absence of management.

The Board Audit Committee has approved the Agency's fraud risk assessment and fraud control plan. Fraud control initiatives are embedded into the Agency internal control framework. 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. Key controls such as segregation of duties, approval hierarchies, dual signatories and third party due diligence form part of the mitigation strategies. The effectiveness of these controls is assessed on a quarterly basis as part of the assessment referred to above.

There were no actual or suspected fraud incidents during 2011/12.

Following the Board's review of its committee structure, the Risk Committee will provide further focus on the positive role in the oversight and management of risk.

PEOPLE

People beliefs

We believe that our culture sets the framework for commitment to the Vision, Mission and Values of the organisation.

We believe our leaders should lead by example and uphold the values and beliefs of the Fund.

We believe that to achieve the business strategy we need to attract and retain the best people.

We believe that a high-performing team is one that is encouraged, engaged, motivated, supported and managed, and that building on and allowing people to use their strengths is more productive than focusing on weaknesses.

We believe that talented performers should be recognised and rewarded, and their talent fostered.

The Agency Human Resources Strategy 2012 – 2015 was presented to the Board in November 2011. The strategy is underpinned by our people beliefs.

Employee engagement survey

The HR strategy was also influenced by the results of an employee engagement survey conducted in August 2011. Participation in the survey was 94% and results of the survey showed we had an overall engagement level of 93%. Analysis of the survey identified areas of strength and areas for improvement as per the table below. Initiatives from the HR strategy will build on areas of strength and improve areas identified as requiring further attention.

Outcome of employee engagement survey conducted August 2011	
Areas of strength	Areas for further focus
Culture	Personal development
Development	Recognition and reward
Leadership	

Organisational development

Undergraduate qualifications are held by 88% of our staff while 43% have postgraduate qualifications. The Future Fund recognises that our greatest strength is in our people and their continued development and we have always maintained a focus on development with a budget allocation per person. A high percentage of staff have undertaken development in the past 12 months, varying from formal qualification programs to short courses to improve specific skill sets.

This year we have commenced the process of documenting jobs in terms of what it takes to be successful in the role. These 'Success Profiles' will inform recruitment, performance management, promotions, succession and talent management activities. Having developed succession plans for the most senior staff, during 2012/13 we will be deepening our succession planning processes as we use these profiles, together with strengthened career planning to identify succession plans across the wider organisation.

Internally we have run a range of development activities including manager training, systems training and 'lunch & learn' programs where senior members of each team present on current work and initiatives in their team to increase awareness across the organisation.

As part of the Performance Feedback Cycle, each staff member has a personal development discussion with their direct manager to form development plans for the following 12 months. In 2012/13 we will increase focus on development plans by introducing the opportunity for senior staff to have a discussion with their manager and with their manager once removed, which will result in a more detailed and longer-term focused career development plan. We will also be introducing a mentor program for staff in the early years of their career.

Our culture sets the framework for the organisation's mission, vision and values.



Rukmal De Silva (Equities) and Jessica Chiu (Operations).

Workforce planning

The Fund is focused on operating at the highest levels of efficiency. We operate an outsource model for functions and tasks where the Agency believes that external providers can offer better value and efficiency. Internally we provide high value-add services such as oversight of external providers and management and control of legal, risk and other services. Although we are required to use external fund managers, our experienced internal investment team creates high levels of value-add through choice of asset classes, manager selection, risk control and through the oversight of the investment portfolio. This year we have added nine roles, primarily in the Investment team. We

have a low voluntary turnover rate and lower than average absenteeism, and these statistics support our high engagement rate. Current staff dynamics are depicted below.

Work health and safety

A Work Health and Safety Committee has been established and meets once a quarter with the minutes of the WHS Committee being forward to the Executive Management Committee. The WHS Committee while conducting safety audits and general safety investigations is also looking at initiatives directed at employee wellbeing. The Agency had one lost time injury in 2011/12.

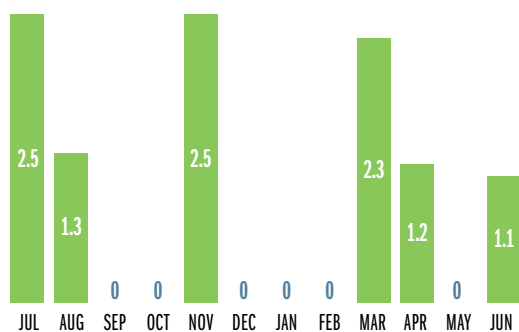
Staffing details

FFMA Classification	Full-time		Part-time		Male		Female	
	10/11	11/12	10/11	11/12	10/11	11/12	10/11	11/12
FFMA 1	–	–	–	–	–	–	–	–
FFMA 2	2	3	–	–	–	–	2	3
FFMA 3	23	27	–	1	6	9	17	19
FFMA 4	49	50	2	4	32	32	19	22
FFMA 5	3	3	–	–	3	3	–	–
FFMA 6	–	1	–	–	–	1	–	–
Total	77	84	2	5	41	45	38	44

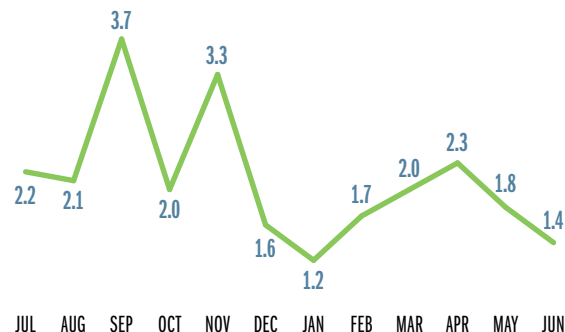
All staff are based in Melbourne.

19 staff are employed under Australian Workplace Agreements, 70 staff are employed under Common Law Agreements.

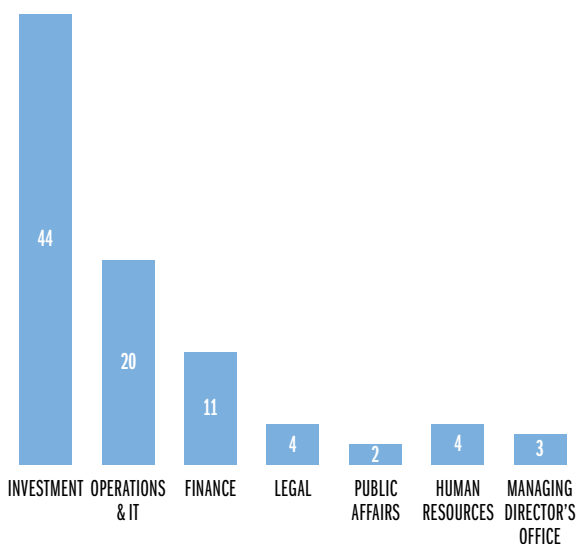
Employee turnover rate (%) 2011/12



Absenteeism rate (%) 2011/12



Headcount by department



includes superannuation); variable pay based on personal performance; variable pay based on the Fund performance. Fixed salary is aligned to the financial services industry market rate as is the determination of maximum variable. Actual variable pay based on personal performance reflects performance against key performance indicators and values. Actual variable pay based on Fund performance reflects average performance over three year periods and is determined on fixed calculations once Fund performance results are audited and confirmed.

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 were considered by the Board Committee for Agency Appointments, Remuneration and Development and approved by the Board at its August meeting.

Remuneration arrangements

Remuneration is based on the Board-endorsed Agency Remuneration Strategy. The Remuneration Strategy calls for us to set remuneration for employees 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. There are three components to remuneration: fixed salary (which

Board fees

Fees payable to Board members are determined by the Remuneration Tribunal. Effective 1 July 2011 the Tribunal set the annual fee payable to the Chair at \$188,010 and to all other members at \$94,020. 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	31	225,049	465	22,976	7,260
FFMA Band 4, 5 & 6	55	7,048,657	6,924	536,760	128,157
Total	86	7,273,706	–	–	84,578

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.

CONSOLIDATED FINANCIAL STATEMENTS

For the financial year ended 30 June 2012

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



Auditor-General for Australia



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 2012, which comprise: a Statement by the Chair of the Board of Guardians and Chief Financial Officer; 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 during the financial year.

Chair of the Board of Guardians Responsibility for the Consolidated 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 is necessary to enable the preparation of the financial statements that give a true and fair view and 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 about 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 the 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 Future Fund's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Chair of the Board of Guardians, as well as evaluating the overall presentation of the financial statements.

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

Independence

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

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 2012 and of its consolidated financial performance and cash flows for the year then ended.

Australian National Audit Office

A handwritten signature in blue ink, appearing to read 'I. McPhee', with a long horizontal stroke extending to the right.

Ian McPhee
Auditor-General
Canberra
25 September 2012

Statement by the Chair of the Board of Guardians and Chief Financial Officer 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 2012 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 Fund will present its financial report as a single entity.



D Gonski
Chair of the Board of Guardians
25 September 2012



P Mann
Chief Financial Officer
25 September 2012

Consolidated statement of comprehensive income

for the financial year ended 30 June 2012

	Notes	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
INCOME			
Dividends & imputation credits	4	1,212,585	1,790,286
Distributions	4	151,206	175,629
Interest income from financial assets not held at fair value through profit or loss	3	62,666	70,592
Net (loss)/gain on financial instruments held at fair value through profit or loss	4	(113,940)	427,419
Net foreign currency gains	4	775,745	6,173,537
Other income	5	15,372	41,899
TOTAL INCOME/(LOSS)		2,103,634	8,679,362
EXPENSES			
Investment management fees and advisory fees		191,955	153,790
Investment manager performance fees		54,259	218,937
Custodian's fees		10,674	8,575
Brokerage, duties and other statutory charges		49,428	34,969
Other investment portfolio expenses		22,972	16,399
Agency employees' remuneration	6	25,114	21,080
Other expenses	6,7	22,019	28,738
TOTAL EXPENSES		376,421	482,488
OPERATING RESULT FOR THE YEAR BEFORE TAX		1,727,213	8,196,874
Income tax expense	8	51,259	41,775
OPERATING RESULT FOR THE YEAR		1,675,954	8,155,099
Other comprehensive income			
Foreign currency translation differences for foreign operations		(36,372)	(130,341)
TOTAL COMPREHENSIVE INCOME/(LOSS)		1,639,582	8,024,758

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

Consolidated statement of financial position

as at 30 June 2012

	Notes	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
ASSETS			
Financial assets			
Cash and cash equivalents	18	2,807,313	3,995,152
Receivables	10	1,176,963	1,282,551
Investments	9	74,243,045	72,120,188
Other financial assets		19,701	8,608
Total financial assets		78,247,022	77,406,499
Non-financial assets			
Investment property at fair value	12	-	155,923
Trees in a plantation forest	12	-	69,133
Plant and equipment	11	1,394	1,931
Intangibles	11	2,054	9,522
Total non-financial assets		3,448	236,509
TOTAL ASSETS		78,250,470	77,643,008
LIABILITIES			
Financial liabilities			
Investments	9	509,720	433,088
Payables	14	727,042	1,762,669
Other provisions	15	1,179	1,079
Total financial liabilities		1,237,941	2,196,836
Non-financial liabilities			
Employee provisions	15	10,601	8,095
Total non-financial liabilities		10,601	8,095
Tax liabilities			
Current tax liabilities		53,740	130,993
Deferred tax liabilities	13	1,812	290
Total tax liabilities		55,552	131,283
TOTAL LIABILITIES		1,304,094	2,336,214
NET ASSETS		76,946,376	75,306,794
EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT			
Contributions by Government	16	60,536,831	60,536,831
Retained earnings		16,587,189	14,911,235
Foreign currency translation reserve		(177,644)	(141,272)
TOTAL EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT		76,946,376	75,306,794

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

Consolidated statement of cash flows

for the financial year ended 30 June 2012

	Notes	Year ended 30 June 2012 \$'000	Year ended 30 June 2011 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from sale of financial instruments held at fair value through profit or loss		58,301,628	60,548,376
Purchase of financial instruments held at fair value through profit or loss		(62,667,216)	(65,473,129)
Interest received		60,952	72,356
Dividends received		1,000,507	1,366,448
Distributions received		134,323	170,145
Franking credit refunds received		270,421	236,078
Realised foreign exchange gains		1,884,645	4,558,249
GST refund received		10,833	7,519
Other income received		3,271	37,385
Investment manager and advisory fees paid		(192,911)	(127,483)
Investment manager performance fees paid		(65,873)	(57,551)
Custodian's fees paid		(9,521)	(8,472)
Transaction fees paid		(39,945)	(43,686)
Other expenses paid		(81,527)	(71,203)
Net cash (used by)/provided by operating activities	18	(1,390,413)	1,215,032
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of investment properties		118,195	-
Proceeds from sale of trees in a plantation forest		72,205	-
Proceeds from sale of lease rights		9,300	-
Purchase of plant and equipment and software		(1,543)	(1,072)
Net cash provided by/(used in) investing activities		198,157	(1,072)
CASH FLOWS FROM FINANCING ACTIVITIES			
Amounts contributed by Government		-	-
Net cash received from financing activities		-	-
Net increase/(decrease) in cash held		(1,192,256)	1,213,960
Cash at the beginning of the reporting period		3,995,152	2,849,148
Effects of exchange rate changes on the balance of cash held in foreign currencies		4,417	(67,956)
Cash at the end of the reporting period	18	2,807,313	3,995,152

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

Consolidated statement of changes in equity

Year ended 30 June 2012				
	Contributed equity	Retained earnings	Foreign currency translation reserve	Total Equity
	\$'000	\$'000	\$'000	\$'000
Opening balance	60,536,831	14,911,235	(141,272)	75,306,794
Net operating result	-	1,675,954	-	1,675,954
Other comprehensive income				
Foreign currency translation of controlled entities	-	-	(36,372)	(36,372)
Total comprehensive income	-	1,675,954	(36,372)	1,639,582
Contributions made by Government	-	-	-	-
Closing balance	60,536,831	16,587,189	(177,644)	76,946,376

Year ended 30 June 2011				
	Contributed equity	Retained earnings	Foreign currency translation reserve	Total Equity
	\$'000	\$'000	\$'000	\$'000
Opening balance	60,536,831	6,756,136	(10,931)	67,282,036
Net operating result	-	8,155,099	-	8,155,099
Other comprehensive income				
Foreign currency translation of controlled entities	-	-	(130,341)	(130,341)
Total comprehensive income	-	8,155,099	(130,341)	8,024,758
Contributions made by Government	-	-	-	-
Closing balance	60,536,831	14,911,235	(141,272)	75,306,794

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

Consolidated schedule of commitments

as at 30 June 2012

	Notes	30 June 2012 \$'000	30 June 2011 \$'000
BY TYPE			
CAPITAL COMMITMENTS			
Infrastructure, plant and equipment		-	-
Collective investment vehicles	9	9,806,648	8,309,453
Corporate credit (bank loans)	9	7,247	38,322
Total capital commitments		9,813,895	8,347,775
OTHER COMMITMENTS			
Operating leases ^(a)		4,962	6,315
Other commitments ^(b)		3,255	3,730
Total other commitments		8,217	10,045
BY MATURITY			
CAPITAL COMMITMENTS			
One year or less		9,813,895	8,347,775
From one to five years		-	-
Over five years		-	-
Total capital commitments by maturity		9,813,895	8,347,775
OTHER COMMITMENTS			
Operating lease commitments			
One year or less		1,279	1,354
From one to five years		3,683	4,961
Over five years		-	-
Total operating lease commitments by maturity		4,962	6,315
Other commitments			
One year or less		1,844	1,922
From one to five years		1,411	1,808
Over five years		-	-
Total other commitments by maturity		3,255	3,730

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 6 months and 5 years remaining. 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 2012

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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 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, advisors and other service providers.

The Agency also supports the Board 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 has 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.

NOTE 1

Objectives of the Future Fund and the responsibilities of the Agency and the Board (continued)

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 Fund. The Board 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 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 Agency and the Board, collectively referred to as the Future Fund (the Fund), prepared in accordance with Section 80 of the Act.

The financial statements are required by section 49 of the FMA Act, 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 2011)*);
- 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 FMO's. 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 twelve months except for investments in financial assets and liabilities held for a longer term in accordance with the investment mandate.

NOTE 2

Summary of significant accounting policies (continued)

2.1 Basis of preparation of the consolidated financial statements (continued)

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 (Note 19 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 judgements and estimates used to value these investments are disclosed in Note 21F.

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. The Fund ensures that valuation principles applied are materially compliant with industry guidelines.

2.2 Statement of compliance

The financial report complies with Australian Accounting Standards as applicable to the Future Fund in accordance with the Finance Minister's Orders for the year ended 30 June 2012 made under the Financial Management and Accountability Act 1997.

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 Fund to disclose Australian Accounting Standards that have not yet been applied by the Fund, for standards that have been issued by the AASB but are not yet effective at the reporting date. 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.

NOTE 2

Summary of significant accounting policies (continued)

2.2 Statement of compliance (continued)

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

Title	Nature of change and impact on the financial statements
AASB 1054 <i>Australian Additional Disclosures, AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project</i>	<p>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.</p> <p>The adoption of these changes has not had a material impact on the consolidated financial statements of the Fund.</p>
AASB 2010-4 <i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	<p>Amends a number of pronouncements as a result of the IASB's 2008-2010 cycle of annual improvements.</p> <p>Key amendments include:</p> <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). <p>The adoption of these changes has not had a material impact on the consolidated financial statements of the Fund.</p>
AASB 2010-5 <i>Amendments to Australian Accounting Standards</i>	<p>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.</p> <p>The adoption of these changes has not had a material impact on the consolidated financial statements of the Fund.</p>
AASB 2010-6 <i>Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets</i>	<p>Makes amendments to AASB 7 Financial Instruments: Disclosures resulting from the IASB's comprehensive review of off balance sheet activities.</p> <p>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.</p> <p>The adoption of these changes has not had a material impact on the consolidated financial statements of the Fund.</p>

NOTE 2

Summary of significant accounting policies (continued)

2.2 Statement of compliance (continued)

There are no standards and amendments that apply to the Fund in the current reporting period for the first time but have no effect on the financial statements in the current period.

Standards and amendments that will become effective in future reporting periods

The table below illustrates standards and amendments that will become effective for, and apply to, the 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 Fund's initial assessment at this date, but may change. The 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.

Title	Application date	Nature of impending change and impact expected on the financial report
AASB 2009-11 <i>Amendments to Australian Accounting Standards arising from AASB 9</i>	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 10 <i>Consolidated Financial Statements</i>	Applies to annual reporting periods beginning on or after 1 January 2013	<p>Requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in AASB 127 'Consolidated and Separate Financial Statements' and Interpretation 112 'Consolidation - Special Purpose Entities'.</p> <p>The Standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.</p> <p>The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities').</p> <p>Under AASB 10, control is based on whether an investor has:</p> <ul style="list-style-type: none"> • Power over the investee • Exposure, or rights, to variable returns from its involvement with the investee, and • The ability to use its power over the investee to affect the amount of the returns. <p>AASB 10 may have a material impact on future consolidated financial statements. Work is currently underway to assess the final impact on the Fund.</p>
AASB 11 <i>Joint Arrangements</i>	Applies to annual reporting periods beginning on or after 1 January 2013	<p>Replaces AASB 131 'Interests in Joint Ventures'. Requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.</p> <p>Joint arrangements are either joint operations or joint ventures:</p> <ul style="list-style-type: none"> • A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognise their assets, liabilities, revenue and expenses in relation to its interest in a joint operation (including their share of any such items arising jointly). • A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with AASB 128 'Investments in Associates and Joint Ventures (2011)'. Unlike AASB 131, the use of 'proportionate consolidation' to account for joint ventures is not permitted. <p>AASB 11 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 12 <i>Disclosure of Interests in Other Entities</i>	Applies to annual reporting periods beginning on or after 1 January 2013	<p>Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.</p> <p>In high-level terms, the required disclosures are grouped into the following broad categories:</p> <ul style="list-style-type: none"> • <i>Significant judgements and assumptions</i> – such as how control, joint control, significant influence has been determined • <i>Interests in subsidiaries</i> – including details of the structure of the group, risks associated with structured entities, changes in control, and so on • <i>Interests in joint arrangements and associates</i> – the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information) • <i>Interests in unconsolidated structured entities</i> – information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities. <p>AASB 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.</p> <p>It is expected that AASB 12 will have an impact on the disclosures required for Other Entities in the future consolidated financial statements of the Fund.</p>
AASB 127 <i>Separate Financial Statements (2011)</i>	Applies to annual reporting periods beginning on or after 1 January 2013	<p>Amended version of AASB 127 which now only deals with the requirements for separate financial statements, which have been carried over largely unamended from AASB 127 'Consolidated and Separate Financial Statements'. Requirements for consolidated financial statements are now contained in AASB 10 'Consolidated Financial Statements'.</p> <p>The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and joint ventures are accounted for either at cost, or in accordance with AASB 9 'Financial Instruments'.</p> <p>The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.</p> <p>AASB 127 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 128 <i>Investments in Associates and Joint Ventures</i> (2011)	Applies to annual reporting periods beginning on or after 1 January 2013	<p>This Standard supersedes AASB 128 'Investments in Associates' and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases).</p> <p>It also prescribes how investments in associates and joint ventures should be tested for impairment.</p> <p>AASB 128 may have a material impact on future consolidated financial statements. Work is currently underway to assess the final impact on the Fund.</p>
AASB 13 <i>Fair Value Measurement and related Amendments to Australian Accounting Standards arising from AASB 13</i>	Applies to annual reporting periods beginning on or after 1 January 2013	<p>Replaces the guidance on fair value measurement in existing AASB accounting literature with a single standard. The AASB defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, AASB 13 does not change the requirements regarding which items should be measured or disclosed at fair value.</p> <p>AASB 13 applies when another AASB requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements). With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:</p> <ul style="list-style-type: none"> • <i>Level 1</i> – quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date • <i>Level 2</i> – inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly • <i>Level 3</i> – unobservable inputs for the asset or liability <p>Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g. whether it is recognised in the financial statements or merely disclosed) and the level in which it is classified.</p> <p>AASB 13 is not expected to 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 119 <i>Employee Benefits (2011)</i> , AASB 2011-10 <i>Amendments to Australian Accounting Standards arising from AASB 119 (2011) and AASB 2011-11 Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements</i>	Applies to annual reporting periods beginning on or after 1 January 2013	<p>An amended version of AASB 119 'Employee Benefits' with revised requirements for pensions and other post-employment benefits, termination benefits and other changes.</p> <p>The key amendments include:</p> <ul style="list-style-type: none"> • Requiring the recognition of changes in the net defined benefit liability (asset) including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of remeasurements in other comprehensive income, plan amendments, curtailments and settlements (eliminating the 'corridor approach' permitted by the existing AASB 119) • Introducing enhanced disclosures about defined benefit plans • Modifying accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and affect the recognition and measurement of termination benefits • Clarifying various miscellaneous issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs and risk-sharing and conditional indexation features • Incorporating other matters submitted to the IFRS Interpretations Committee. <p>AASB 119, AASB 2011-10 and AASB 2011-11 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 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>
AASB 2011-2 <i>Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements</i>	AASB 2011-2 - Applies to annual reporting periods beginning on or after 1 July 2013	<p>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.</p> <p>AASB 2011-2 will not have a material impact on future consolidated financial statements of the Fund.</p>
AASB 2011-7 <i>Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards</i>	Applies to annual reporting periods beginning on or after 1 January 2013	<p>Contains consequential amendments to 20 other standards and 4 interpretations in light of the issuance of the new standards in August 2011 - AASB 10 'Consolidated Financial Statements', AASB 11 'Joint Arrangements', AASB 12 'Disclosure of Interests in Other Entities', AASB 127 'Separate Financial Statements' (2011) and AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards'.</p> <p>AASB 2011-7 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 2011-9 <i>Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income</i>	Applies to annual reporting periods beginning on or after 1 July 2012	<p>These amendments arise from the issuance of the IASB Standard 'Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)' in June 2011.</p> <p>The amendments:</p> <ul style="list-style-type: none"> • Requires entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments) • Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax). <p>AASB 2011-9 will not have a material impact on future consolidated financial statements of the Fund.</p>

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 2012 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 2012 is disclosed at Note 17.

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 11 include investments and intangible assets held by controlled vehicles. These assets were disposed during the financial year.

Financial assets are recognised and derecognised 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 21F.

Investments

All investments, including those in associates (refer note 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).

NOTE 2

Summary of significant accounting policies (continued)

2.4 Financial assets (continued)

- Derivative instruments including forward foreign exchange contracts, swaps, swaptions, futures, forward contracts on mortgage backed securities 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.
- 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 21F 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. Dividend income is recognised gross of foreign withholding tax with any related foreign withholding tax recorded as income tax expense.

Imputation credits on investment in equity securities are recognised as income when the right to receive the refund of franking credits from the ATO has been 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.

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.

NOTE 2

Summary of significant accounting policies (continued)

2.6 Other income (continued)

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.

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.

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 16.

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 Act. 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 Agency 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 2012. 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.

NOTE 2

Summary of significant accounting policies (continued)

2.8 Employee entitlements (continued)

2.8.2 Superannuation

Staff of the 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 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 payroll run of the financial year.

2.8.3 Performance Related Payments

All permanently employed staff at the Agency 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 Agency 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. For the purpose of this calculation 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 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.

NOTE 2

Summary of significant accounting policies (continued)

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 Fund's financial risks are presented in Note 21.

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 12), 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.

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 Fund where there exists an obligation to restore the property to its original condition. These costs are included in the value of the 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 2012. 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 Fund was deprived of the asset, its value in use is taken to be its depreciated replacement cost.

NOTE 2

Summary of significant accounting policies (continued)

2.14 Plant and equipment – non financial assets (continued)

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 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	2011 & 2012
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 11.

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, prior to these rights being disposed.

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.

NOTE 2

Summary of significant accounting policies (continued)

2.16 Taxation

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

The Fund's Australian company subsidiaries are taxpaying entities. The tax expense from these subsidiaries is consolidated into the Fund's tax expense and offset against imputation credit refunds entitled to the Fund.

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.

(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.

NOTE 2

Summary of significant accounting policies (continued)

2.18 Derivative financial instruments

The Fund has entered into derivative contracts to manage its exposure to foreign exchange risk, interest rate risk, equity market risk and credit risk. The Fund also uses derivatives to gain indirect exposure to market risks. The use of derivative financial instruments by the Fund is governed by the Act. 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 21.

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 Change in accounting policy

In June 2012, the Fund undertook a detailed review of its accounting policy for withholding tax. Dividend income was previously disclosed net of withholding tax. As a consequence of the review, the accounting policy has been changed to reflect the withholding tax in the tax expense line item to ensure disclosure is more relevant for users as the Fund grows and foreign sourced income is increasing. There is no profit impact for the change in accounting policy, however disclosure of withholding tax has changed.

NOTE 2

Summary of significant accounting policies (continued)

2.21 Change in accounting policy (continued)

The voluntary change in accounting policy has been implemented by restating each of the affected financial statement of line items for the prior period as follows:

Statement of comprehensive income (extract)	Audited 30 June 2011 \$'000	Restatement \$'000	Restated 30 June 2011 \$'000
Dividends and imputation credits	1,757,776	32,510	1,790,286
Distributions	169,009	6,620	175,629
Net gain/(loss) on financial assets held at fair value through profit or loss	427,306	113	427,419
Brokerage, duties and other statutory charges	37,087	(2,118)	34,969
Other investment portfolio expenses	16,813	(414)	16,399
Operating result/(loss) before tax for the year	8,155,099	41,775	8,196,874
Income tax expense	-	41,775	41,775
Operating result/(loss) for the year	8,155,099	-	8,155,099

Refer to other gains and losses (note 4) and tax expense (note 8) for further details.

2.22 Rounding of amounts

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

NOTE 3

Investment income

	2012 \$'000	2011 \$'000
Interest income		
Interest income	62,666	70,592
Total interest income	62,666	70,592

NOTE 4

Other gains and losses

	2012 \$'000	2011 \$'000
Dividend income		
Dividend income – domestic equities and listed managed investment scheme distributions	477,732	923,344
Imputation credits refunded or refundable under Section 30 of the Future Fund Act 2006	137,290	348,327
Dividend income – international equities	597,563	518,615
Total dividend and imputation credit income	1,212,585	1,790,286
Distribution income		
Distributions – collective investment vehicles	151,206	175,629
Total distribution income	151,206	175,629
Net gain/(loss) on financial instruments held at fair value through profit or loss		
Net gain/(loss) on financial assets held at fair value through profit or loss	422,551	739,805
Net gain/(loss) on financial liabilities held at fair value through profit or loss	(536,491)	(312,386)
Total net gain/(loss) on financial instruments held at fair value through profit or loss*	(113,940)	427,419
Net gain arising on foreign currency#	775,745	6,173,537

* 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 significantly influenced this item for the year ended 30 June 2011. Refer Note 2.17(ii)

Net foreign currency gains of \$775,745,000 (2011: \$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).

During the year there was a change in accounting policy for the presentation of dividend income and gains on financial instruments held at fair value through profit and loss. Refer to Note 2.21 for details.

NOTE 5

Other income

	2012	2011
	\$'000	\$'000
Other income		
Fee income for services provided (Note 26B)	726	680
Rental income from investment property	10,512	11,228
Timberlands income	3,498	9,822
Change in fair value of non-financial assets	(1,055)	15,969
Other income	1,547	4,068
Resources received free of charge (ANAO)	144	132
Total other income	15,372	41,899

NOTE 6

Expenses

	2012	2011
	\$'000	\$'000
Agency employees' remuneration		
Wages and salaries	23,090	19,558
Superannuation	1,276	1,125
Leave and other entitlements payable	748	397
Total Agency employees' remuneration	25,114	21,080
Board members' remuneration		
Wages and salaries	753	728
Superannuation	68	65
Total Board members' remuneration	821	793
Other expenses	12,168	10,892
Timberlands expenses	2,913	11,340
Investment property expenses	3,801	3,739
Total other expenses	18,882	25,971
Depreciation		
Depreciation of infrastructure, plant and equipment	757	985
Total depreciation	757	985
Amortisation		
Amortisation of intangibles – computer software	104	63
Total amortisation	104	63
Total depreciation and amortisation	861	1,048

NOTE 7

Remuneration of Auditors

Financial statement audit services provided to the Fund totalled \$143,500 (2011: \$132,000). These services were provided free of charge. The fair value of all audit services provided by the Australian National Audit Office (ANAO) was:

	2012	2011
	\$	\$
Auditing the financial statements – Future Fund and subsidiaries	193,440	214,300

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:

	2012	2011
	\$	\$
Auditing the financial statements – subsidiary entities	1,261,560	712,050

NOTE 8

Income Tax Expense

The Fund is exempt from all forms of federal Australian taxation, except for Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST). Tax expense reflects withholding tax on income and other corporate taxes where imposed by certain countries. Accordingly, the Australian tax rate for the Fund is 0% (2011: 0%).

	Note	2012	2011
		\$'000	\$'000
(a) Income tax expense			
Current tax		49,734	41,479
Deferred tax		1,525	296
Adjustments for current tax of prior periods		-	-
		51,259	41,775
Deferred income tax (revenue)/expense included in income			
tax expense comprises:			
Decrease/(increase) in deferred tax assets		-	-
(Decrease)/increase in deferred tax liabilities	13	1,525	296
		1,525	296
(b) Numerical reconciliation of income tax expense to prima facie tax payable			
Profit before income tax		1,727,213	8,196,874
Tax at the applicable Australian tax rate of 0% (2011: 0%)		-	-
Tax effect of items which are not deductible/ (taxable) in calculating taxable income:			
Imputation credits for Australian subsidiaries		191,301	202,823
Difference in tax rates for Australian subsidiaries		(191,301)	(202,823)
Withholding tax		44,664	40,161
Other foreign corporate tax expense		6,595	1,614
Total income tax expense		51,259	41,775

NOTE 9

Investments

	2012 \$'000	2011 \$'000
Investment Summary		
Financial assets at fair value:		
Interest bearing securities	20,047,101	17,585,336
Listed equities and listed managed investment schemes	27,964,262	30,518,132
Collective investment vehicles	24,837,283	21,411,378
Derivatives	1,169,775	2,456,594
Restricted cash	224,622	146,185
Investments sold, not yet purchased	2	2,563
Total financial asset investments	74,243,045	72,120,188
Financial liabilities at fair value:		
Derivatives	(492,463)	(425,102)
Investments sold, not yet purchased	(17,257)	(7,986)
Total financial liability investments	(509,720)	(433,088)

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

	2012 \$'000	2011 \$'000
Interest bearing securities		
At fair value:		
Bank bills - domestic	-	242,996
Bank bills - international	223,491	123,455
Negotiable certificates of deposit - domestic	6,154,614	2,775,219
Negotiable certificates of deposit - international	4,151	-
Corporate debt securities - domestic	2,584,370	2,605,551
Corporate debt securities - international	3,180,103	3,574,966
Mortgage backed securities - domestic	479,438	633,573
Mortgage backed securities - international	1,730,766	2,062,652
Asset backed securities - international	1,076,518	1,167,790
Corporate credit (bank loans) – domestic	80,757	132,554
Corporate credit (bank loans) – international*	2,885,521	2,923,571
Government debt securities – international	874,107	894,337
Other interest bearing securities – domestic	132,851	-
Other interest bearing securities – international	640,414	448,672
Total interest bearing securities	20,047,101	17,585,336

* The Fund has invested in certain bank loans which draw down over time. At 30 June 2012 the value of unfunded commitments to these investments totalled \$7.247 million (2011: \$38.322 million). This amount is included in the consolidated schedule of commitments.

NOTE 9

Investments (continued)

	2012 \$'000	2011 \$'000
Listed equities and listed managed investment schemes		
At fair value:		
Domestic listed equities and listed managed investment schemes	9,338,673	9,728,702
International listed equities and listed managed investment schemes	18,625,589	20,789,430
Total listed equities and listed managed investment schemes	27,964,262	30,518,132
Collective investment vehicles		
At fair value:		
Unlisted investments	23,800,490	20,685,524
Unlisted shares	1,036,793	725,854
Total collective investment vehicles	24,837,283	21,411,378
Derivatives		
At fair value: - financial assets		
Currency contracts	806,714	2,207,843
Interest rate swap agreements	7,528	8,306
Interest rate options and swaptions	438	344
Interest rate futures	6,191	2,102
Bond futures	1,743	311
Equity swaps	6,173	13,253
Equity options and warrants	213,753	53,441
Equity futures	1,859	16,230
Commodity futures	3,630	1,510
Credit default swaps	47,083	35,879
Currency swaps	59,349	83,068
Currency options	13,898	33,596
Currency futures	568	711
Forward contracts on mortgage backed securities	848	-
Total derivative financial assets	1,169,775	2,456,594

NOTE 9

Investments (continued)

	2012 \$'000	2011 \$'000
Derivatives		
At fair value: - financial liabilities		
Currency contracts	(417,729)	(270,788)
Interest rate swap agreements	(7,828)	(94,176)
Interest rate options and swaptions	(2,055)	(405)
Interest rate futures	(659)	(2,402)
Bond futures	(3,640)	(1,163)
Equity swaps	(5,862)	(7,855)
Equity options and warrants	(4,736)	(182)
Equity futures	(17,730)	(581)
Commodity futures	(3,977)	(5,368)
Credit default swaps	(19,528)	(36,430)
Currency swaps	(6,332)	(4,874)
Currency options	-	(16)
Currency futures	(2,387)	(862)
Total derivative financial liabilities	(492,463)	(425,102)
Total derivatives	677,312	2,031,492

The Fund enters into currency contracts under ISDA agreements with various counterparties which include provisions for netting arrangements. The currency contract financial asset and financial liability balances above are stated gross of any netting arrangements. If the Fund were to net the balances the currency contracts would be shown as financial assets \$452,253,000 (2011: \$1,947,043,000) and financial liabilities \$63,268,000 (2011: \$9,988,000).

Restrictions on investments – cash

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 2012, the Fund has \$90,900,000 cash which has been posted as collateral with counterparties, (2011: \$59,900,000) and has received \$100,100,000 in cash and \$10,546,080 in US Treasury Bills (2011: \$1,555,508,000 in cash and \$8,952,007 in US Treasury Bills).

NOTE 9

Investments (continued)

Restrictions on investments – cash (continued)

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 2012, the Fund had posted \$84,672,662 (2011: \$86,284,987) 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.

Cash deposited with brokers

The Fund has posted cash with brokers to cover open futures, forward and option contracts. As at 30 June 2012, the Fund had posted \$49,049,000 (2011: \$0) 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 9

Investments (continued)

Collective investment vehicles

30 June 2012

As at 30 June 2012, 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 2012 are shown in the table on the following page.

Description of underlying strategy	Capital committed as at 30 June 2012	Outstanding commitment as at 30 June 2012	Net capital cost as at 30 June 2012	Fair value as at 30 June 2012
	Local currency	AUD equivalent \$'000	AUD equivalent \$'000	AUD equivalent \$'000
Private equity	AUD \$200,000,000	195,470	4,550	1,553 ¹
Private equity	EUR €1,590,934,718	769,228	1,410,918	1,338,745
Private equity	USD \$6,313,011,132	3,878,879	2,253,245	2,561,463
Debt	EUR €624,511,864	582,774	222,972	197,520
Global Property	AUD \$1,117,575,892	-	1,055,091	1,113,014
Global Property	EUR €338,000,000	231,593	228,239	182,506
Global Property	GBP £295,424,427	-	501,164	559,875
Global Property	USD \$983,194,071	664,841	314,772	359,328
Global Infrastructure	AUD \$537,435,886	-	537,436	645,303
Global Infrastructure	GBP £530,156,381	-	848,984	909,025
Global Infrastructure	USD \$1,650,904,615	699,617	1,094,021	890,960
Alternative strategies	USD \$10,499,562,776	1,130,483	9,142,218	9,298,063
Private equity – consolidated by parent	AUD \$150,000,000	113,100	36,900	24,495*
Private equity – consolidated by parent	EUR €375,000,000	324,985	144,783	140,653*
Private equity – consolidated by parent	USD \$1,000,000,000	317,058	755,301	363,836*
Debt – consolidated by parent	EUR €500,000,000	173,387	501,907	.*
Debt – consolidated by parent	USD \$1,250,000,000	505,732	693,593	20,338*
Global Property – consolidated by parent	USD \$566,666,667	-	546,654	.*
Global Infrastructure – consolidated by parent	AUD \$282,041,245	-	282,041	259,548*
Alternative strategies – consolidated by parent	USD \$6,030,000,000	219,501	5,219,511	4,116,877*
Listed Equities – consolidated by parent	USD \$2,158,500,000	-	1,990,176	1,854,181*
Timberland – consolidated by parent	USD \$125,000,000	-	63,877	.*
Total outstanding commitments		9,806,648		24,837,283

* 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 9

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	Outstanding commitment as at 30 June 2011	Net capital cost as at 30 June 2011	Fair value as at 30 June 2011
	Local currency	AUD equivalent \$'000	AUD equivalent \$'000	AUD equivalent \$'000
Private equity	AUD \$150,000,000	148,050	1,950	167 ¹
Private equity	EUR €1,517,934,719	1,034,818	1,182,014	1,048,256
Private equity	USD \$5,083,011,132	3,448,521	1,418,663	1,472,741
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 – consolidated by parent	USD \$1,000,000,000	630,488	408,944	183,250*
Debt – consolidated by parent	EUR €430,000,000	283,104	307,824	.*
Debt – consolidated by parent	USD \$1,000,000,000	638,894	317,280	3,774*
Global Property – consolidated by parent	AUD \$108,300,000	-	108,577	.*
Global Property – 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		21,411,378

* 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 9

Investments (continued)

Collective investment vehicles

As noted in Note 21F, 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 2012

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 \$9,807 million (2011: \$8,309 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 10

Receivables

	2012	2011
	\$'000	\$'000
Receivables		
Imputation credits refundable	357,661	568,074
Interest receivable	6,515	5,673
Dividends & distributions receivable	179,225	143,101
Unsettled sales	600,539	564,729
Other receivables	33,023	974
Total Receivables	1,176,963	1,282,551

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

NOTE 11

Non-financial assets

(See note 2.4)

	2012 \$'000	2011 \$'000
Investment property – at fair value (Note 12A)	-	109,046
Timberland investment property – at fair value (Note 12B)	-	46,877
Total investment property	-	155,923
Trees in a plantation forest (Note 12B)	-	69,133
Total trees in a plantation forest	-	69,133
Plant and equipment		
Computers, plant and equipment – at cost	5,185	5,102
Accumulated depreciation	(3,791)	(3,171)
Total plant and equipment	1,394	1,931
Intangibles		
Lease rights	-	8,687
Total intangibles – lease rights	-	8,687
Intangibles – software licenses		
Computer software purchased – cost	2,351	1,063
Accumulated amortisation	(297)	(228)
Total intangibles – software licences	2,054	835
Total intangibles	2,054	9,522

NOTE 11

Non-financial assets (continued)

Analysis of Plant and equipment, and Intangibles – software licenses	Year Ending 30 June 2012		
	Plant & equipment \$'000	Computer software \$'000	Total \$'000
Opening balance as at 1 July 2011			
Gross book value	5,102	1,063	6,165
Accumulated depreciation/amortisation	(3,171)	(228)	(3,399)
Net book value as 1 July 2011	1,931	835	2,766
<i>Additions:</i>			
by purchase	220	1,323	1,543
<i>Disposals:</i>			
Gross value of disposals	(137)	(35)	(172)
Accumulated depreciation/amortisation	137	35	172
<i>Depreciation/amortisation charge for the period</i>	(757)	(104)	(861)
Net book value as of 30 June 2012	1,394	2,054	3,448
Represented by:			
Gross book value	5,185	2,351	7,536
Accumulated depreciation/amortisation	(3,791)	(297)	(4,088)
	1,394	2,054	3,448

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

NOTE 12

Investment property and trees in a plantation forest

12A: Investment property

	2012	2011
	\$'000	\$'000
Fair value of investment property	-	109,046

	2012	2011
	\$'000	\$'000
At fair value		
Balance at beginning of year	109,046	108,002
Acquisitions	-	-
Capital expenditure on investment properties	789	594
Straight-lining of rental income	95	662
Net movement in leasing fees capitalised and amortised	231	46
Fair value adjustments on investment properties	(3,061)	(258)
Proceeds from sale of investment property	(69,235)	-
Deconsolidation of investment	(37,865)	-
Balance at end of year	-	109,046

The fair value of the Fund's investment property at 30 June 2011 was 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 30 June 2011.

NOTE 12

Investment property and trees in a plantation forest (continued)

12B: Timberland investment property and trees in a plantation forest

	2012 \$'000	2011 \$'000
Fair value of trees in a plantation forest	-	69,133
Fair value of timberland investment property	-	46,877
	-	116,010

	Timberland investment property		Trees in a plantation forest	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Balance at beginning of year	46,877	50,337	69,133	85,618
Acquisitions	-	-	-	-
Capital expenditure	1	21	644	759
Depletion of plantation forest trees	-	-	(2,736)	(7,286)
Net foreign currency gain/(loss)	2,083	(11,208)	3,157	(18,200)
Fair value adjustments	(1)	7,727	2,007	8,242
Disposal of timber and timberlands	(48,960)	-	(72,205)	-
Balance at end of year	-	46,877	-	69,133

The estimated fair value of the plantation forest trees and timberlands (collectively, timber investment) at 30 June 2011 was based on independent valuations prepared by independent real estate appraisers (members of the American Institute of Real Estate Appraisers), which were prepared in accordance with Uniform Standards of Professional Appraisal Practice.

The independent valuation firm was James W. Sewall Company.

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.

NOTE 12

Investment property and trees in a plantation forest (continued)

12B: Timberland investment property and trees in a plantation forest (continued)

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 \$2,736,000 (2011: \$7,286,000) and this amount forms part of the timberlands expenses total as disclosed in Note 6.

NOTE 13

Deferred tax liabilities

	2012 \$'000	2011 \$'000
The balance comprises temporary differences attributable to:		
Investments in collective investment vehicles	1,812	290
Total deferred tax liabilities	1,812	290
Deferred tax liabilities expected to be recovered within 12 months	-	-
Deferred tax liabilities expected to be recovered after 12 months	1,812	290
Movements		Investments in collective investment vehicles
At 1 July 2010		-
(Charged)/credited to profit and loss		296
FX translation gain/(loss)		(6)
At 30 June 2011		290
(Charged)/credited to profit and loss		1,525
FX translation gain/(loss)		(3)
At 30 June 2012		1,812

NOTE 14

Payables

	2012	2011
	\$'000	\$'000
Payables		
Unsettled purchases*	393,183	1,413,846
Other accrued expenses including management and performance fees payable	333,859	348,823
Total Payables	727,042	1,762,669

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

NOTE 15

Provisions

	2012	2011
	\$'000	\$'000
Employee provisions		
Annual leave	1,098	826
Long service leave	1,225	749
Other employee liabilities	8,278	6,520
Total Employee provisions	10,601	8,095
Other provisions		
Lease incentive	-	44
Prepaid income distributions	1,179	1,035
Total Other provisions	1,179	1,079

NOTE 16

Contributions by Government

	2012	2011
	\$'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 of the Act.

NOTE 17

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	
		30 June 2012 %	30 June 2011 %
Future Fund Investment Company No.1 Pty Ltd[^]	Australia	100	100
Secondary Overflow Cayman Fund, L.P.*	Cayman Islands	100	100
– Dover Street 2011 Overflow Fund L.P.*	United States	100	-
Quadrant Private Equity No.3C	Australia	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 Ltd	Cayman Islands	100	100
– Archer Capital Offshore Fund II, Ltd.*	Cayman Islands	100	100
– Archer Capital Mini-Master II, L.P.*	Cayman Islands	100	100
– Dover Offshore Fund II, Ltd.*	Cayman Islands	100	100
– Dover Master Fund II, L.P.*	Cayman Islands	100	100
– Fairchild Offshore Fund II L.P.*	Cayman Islands	100	100
– Fairchild Offshore Master Fund II L.P.*	Cayman Islands	100	100
– Kitty Hawk Offshore Fund II Ltd.*	Cayman Islands	100	100
– Kitty Hawk Master Fund II Ltd.*	Cayman Islands	100	100
– Worden Fund, L.P.*	Cayman Islands	100	100
– Worden Master Fund L.P.*	Cayman Islands	100	100
– Worden Fund Corp*	United States	100	100
– Worden Investment Limited*	Ireland	100	100
– Palisades Real Estate II, Ltd. (B)*	Cayman Islands	100	100
– Palisades Real Estate II (Cayman), L.P.*	Cayman Islands	100	100
– Stratus Feeder L.P.*	Cayman Islands	100	100
– G Capital Fund II, Ltd*	Cayman Islands	100	100
– Lantau Master Fund II*	Cayman Islands	100	-
– Lantau Overseas Fund II, L.P.*	Cayman Islands	100	-
Horsley Bridge Strategic Fund, L.P.*	United States	100	100
Lend Lease Retail Partners – Australia (Stud Park Shopping Centre Trust)	Australia	50	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

NOTE 17

Subsidiaries (continued)

Name of entity	Country of incorporation/ domicile	Equity holding	
		30 June 2012	30 June 2011
		%	%
Future Fund Investment Company No.3 Pty Ltd[^]	Australia	100	100
Pacific Alliance-FF Feeder Fund L.P.	Cayman Islands	100	100
– Pacific Alliance-FF Asia Special Situations Fund L.P.	Cayman Islands	100	100
Ares Credit Strategies Feeder Fund III L.P.	Cayman Islands	100	100
– Ares Credit Strategies Fund III, L.P.	Cayman Islands	100	100
– Ares CSF III Luxembourg SARL	Luxembourg	100	100
– Ares Private Debt Strategies Fund III, L.P.	United States	100	100
Metropolitan Fund L.P.	Cayman Islands	100	100
Highstar Capital IV-A L.P.*	United States	100	100
– SWG Arlington IV-A FIV Sub, LLC*	United States	100	100
– SWG Griffith IV-A FIV Sub, LLC*	United States	100	100
– SWG IV-A Interco LLC*	United States	100	100
– Caiman IV-A FIV Sub LLC*	United States	-	-
– Highstar Caiman IV-V Interco LLC*	United States	-	-
SWG Arlington CIV B, LLC*	United States	100	-
SWG Griffith CIV B, LLC*	United States	100	-
Global Infrastructure Partners - Co-Invest IV L.P.*	Cayman Islands	100	100
Global Infrastructure Partners II-D1, L.P.*	Scotland	100	-
– GIP II - D1 Intermediate (Scot), L.P.*	Scotland	100	-
FF Tactical Trading Fund Ltd	British Virgin Islands	100	100
Newcastle Fund L.P.	Cayman Islands	100	100
RCP FF Small Buyout Co-Investment Fund, L.P.*	United States	100	100
CIP Unit Trust No. 2*	Australia	100	100
Garrison Real Estate Fund II A L.P.*	United States	100	100
– GREF II A REO LLC*	United States	100	100
GPE VI-A OT Co-Investment L.P.*	Cayman Islands	100	-
Archer Capital Trust 5C	Australia	100	-
Archer Capital GF Trust 2C	Australia	100	-
BlackRock Co-Investment Fund III (Parallel) L.P.	United States	100	-
Advent International GPE VII-F 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, L.P.*	United States	100	100

NOTE 17

Subsidiaries (continued)

Name of entity	Country of incorporation/ domicile	Equity holding	
		30 June 2012	30 June 2011
		%	%
Greenspring GE (Offshore), L.P.*	Cayman Islands		
– Greenspring Growth Equity, L.P.*	United States	100	100
Greenspring GE II (Offshore), L.P.*	Cayman Islands	100	100
– Greenspring Growth Equity II, L.P.*	United States	100	100
Oaktree FF Investment Fund, L.P.*	Cayman Islands	100	100
– Oaktree FF Investment Fund Class E Holdings, L.P.*	Cayman Islands	100	100
Future Fund Investment Company No.5 Pty Ltd[^]	Australia	100	100
Future Fund Investment Trust No.1	Australia	100	100
Future Fund Investment Trust No.2	Jersey	100	100
– Future Fund Investment Trust No.3	Jersey	100	100
Brookfield Real Estate Partners F L.P.	United States	100	100
Brookfield Retail Holdings II LLC	United States	100	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	100
HERE Co-Investment Feeder Fund I, L.P.	Canada	100	-
– HERE Co-Investment Fund I, L.P.	Canada	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 18

Cash flow reconciliation

(a) Reconciliation of operating result to net cash from operating activities:

	2012 \$'000	2011 \$'000
Operating result	1,639,582	8,024,758
Non cash items included in the statement of comprehensive income	-	-
Depletion of trees in a plantation forest	2,736	7,286
Decrease/(increase) in fair value of trees in a plantation forest	1	(8,242)
Decrease/(increase) in fair value of investment properties	1,054	(7,469)
Depreciation and amortisation	861	1,048
Purchase of investments	(62,667,216)	(65,473,129)
Proceeds from sale of investments	58,301,628	60,548,376
Net loss/(gain) on revaluation of investments	216,569	(427,306)
Net loss/(gain) on foreign currency	1,101,256	(1,511,120)
Decrease/(increase) in accrued income	35,817	(117,684)
Increase in other assets	(11,488)	(6,478)
Increase in employee provisions	2,508	1,198
(Decrease)/increase in other payables	(15,226)	184,024
Increase / (decrease) in other provisions	1,505	(230)
Net cash (used by)/provided by operating activities	(1,390,413)	1,215,032

(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:

	2012 \$'000	2011 \$'000
Cash and cash equivalents	2,807,313	3,995,152

NOTE 19

Contingent liabilities and assets

Contingencies

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

NOTE 20

Senior executive remuneration

Remuneration of the Board members

Remuneration of the Board members is independently determined by the Australian Government Remuneration Tribunal. The Chair of the Board is also the statutory Chief Executive Officer of the Agency and is therefore deemed a senior executive for the purposes of disclosing remuneration in the tables presented in notes 20A and 20B below. No member of the Board nor the statutory Chief Executive Officer receive any entitlement to bonus payments in undertaking their roles.

20A: Senior executive remuneration expense for the reporting period

	2012 \$	2011 \$
Short-term employee benefits:		
Salary (including payment for leave taken)	4,794,501	4,606,481
Movement in annual leave provisions	71,205	67,194
Performance related payments	3,509,002	2,664,695
Total short-term employee benefits	8,374,708	7,338,370
Post-employment benefits:		
Superannuation	298,834	281,816
Total post-employment benefits	298,834	281,816
Other long-term benefits:		
Movement in long service provisions	176,769	112,578
Total other long-term employee benefits	176,769	112,578
Total	8,850,311	7,732,764

Notes:

- Note 20A was prepared on an accruals basis. As a result, the performance related payment expense disclosed above differs from the cash 'Bonus paid' in Note 20B. The "Bonus paid" relates to the performance payment for previous financial years.
- Note 20A 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 20

Senior executive remuneration (continued)

20B: Average annual reportable remuneration paid to substantive senior executives during the reporting period¹

Average annual reportable remuneration	2012					
	Senior Executives	Reportable salary ²	Contributed superannuation ³	Bonus paid 2010/11 year ⁴	Bonus paid prior years ⁵	Total
	No.	\$	\$	\$	\$	\$
Total remuneration:						
\$150,000 to \$179,999	1	-	-	100,740	57,547	158,287
\$180,000 to \$209,999	1	146,197	13,158	-	-	160,204
\$420,000 to \$449,999	1	333,476	31,269	66,455	15,704	446,904
\$540,000 to \$569,999	3	434,645	21,927	108,311	-	564,883
\$570,000 to \$599,999	1	374,523	48,570	165,138	-	588,231
\$600,000 to \$629,999	1	430,636	25,000	167,858	-	623,494
\$630,000 to \$659,999	1	378,131	25,000	249,535	-	652,666
\$750,000 to \$779,999	1	421,898	15,776	313,994	-	751,668
\$810,000 to \$839,999	2	422,367	32,889	365,797	-	821,053
\$1,380,000 to \$1,409,999	1	526,499	25,000	412,242	418,056	1,381,797
Total	13					

Notes:

1. This table reports substantive senior executives who received remuneration during the reporting period. Each row is an averaged figure based on headcount for individuals in the band.
2. Reportable salary includes the following:
 - a. Gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
 - b. Reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and
 - c. Exempt foreign employment income.
3. The 'contributed superannuation' amount is the average actual superannuation contributions paid to senior executives in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individual's payslips.
4. 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. 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.
5. Executives have the option of deferring performance payments to future years (see Note 2.8.3). These amounts include bonus payments made during the financial year which were previously deferred by the executive and therefore relate to the 2008/09 financial year or earlier years.

NOTE 20

Senior executive remuneration (continued)

20B: Average annual reportable remuneration paid to substantive senior executives during the reporting period¹ (continued)

Average annual reportable remuneration	2011					
	Senior Executives	Reportable salary ²	Contributed superannuation ³	Bonus paid 2009/10 year ⁴	Bonus paid prior years ⁵	Total
	No.	\$	\$	\$	\$	\$
Total remuneration:						
\$180,000 to \$209,999	1	181,202	16,308	-	-	197,927
\$420,000 to \$449,999	1	318,669	34,715	62,846	14,895	431,125
\$480,000 to \$509,999	2	309,952	14,183	181,950	-	506,085
\$510,000 to \$539,999	1	298,483	25,000	192,385	-	515,868
\$570,000 to \$599,999	2	384,582	36,171	163,781	-	584,534
\$600,000 to \$629,999	2	361,857	24,785	215,992	-	602,634
\$630,000 to \$659,999	1	381,031	15,200	252,395	-	648,626
\$720,000 to \$749,999	2	425,182	18,284	275,343	9,960	728,769
\$750,000 to \$779,999	1	157,527	25,000	295,437	289,921	767,885
\$870,000 to \$899,999	1	500,289	25,000	348,050	-	873,339
Total	14					

Notes:

1. This table reports substantive senior executives who received remuneration during the reporting period. Each row is an averaged figure based on headcount for individuals in the band.
2. Reportable salary includes the following:
 - a. Gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
 - b. Reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and
 - c. Exempt foreign employment income.
3. The 'contributed superannuation' amount is the average actual superannuation contributions paid to senior executives in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individual's payslips.
4. 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. 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.
5. Executives have the option of deferring performance payments to future years (see Note 2.8.3). These amounts include bonus payments made during the financial year which were previously deferred by the executive and therefore relate to the 2007/08 financial year or earlier years.

NOTE 20

Senior executive remuneration (continued)

20C: Other staff remuneration¹

Average annual reportable remuneration	2012					
	Other Executives	Reportable salary ²	Contributed superannuation ³	Bonus paid 2010/11 ⁴	Bonus paid prior years ⁵	Total
	No.	\$	\$	\$	\$	\$
Total remuneration:						
\$150,000 to \$179,999	4	136,270	15,735	13,274	-	165,279
\$180,000 to \$209,999	4	140,732	13,381	41,777	-	195,890
\$210,000 to \$239,999	8	172,820	17,327	40,322	-	230,469
\$240,000 to \$269,999	4	188,364	20,812	50,031	-	259,207
\$270,000 to \$299,999	3	234,433	22,135	33,329	3,107	293,004
\$300,000 to \$329,999	1	230,245	15,947	54,175	-	300,367
\$330,000 to \$359,999	3	253,708	27,466	63,519	-	344,693
\$360,000 to \$389,999	2	267,080	22,578	85,246	-	374,904
\$390,000 to \$419,999	4	266,531	25,531	110,320	-	402,382
\$480,000 to \$509,999	1	306,867	15,776	173,711	-	496,354
\$540,000 to \$569,999	2	319,783	15,776	209,134	-	544,693
Total	36					

Notes:

- This table reports staff who were employed by the entity during the reporting period whose reportable remuneration was \$150,000 or more the financial period and were not required to be disclosed in tables 20A or 20B above. Each row is an averaged figure based on headcount for individuals in the band.
- Reportable salary includes the following:
 - Gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
 - Reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and
 - Exempt foreign employment income.
- The 'contributed superannuation' amount is the average actual superannuation contributions paid to staff in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individual's payslips.
- 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. 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.
- Staff have the option of deferring performance payments to future years (see Note 2.8.3). These amounts include bonus payments made during the financial year which were previously deferred by the executive and therefore relate to the 2008/09 financial year or earlier years.

NOTE 20

Senior executive remuneration (continued)

20C: Other staff remuneration¹ (continued)

2011						
Average annual reportable remuneration	Other Executives	Reportable salary ²	Contributed superannuation ³	Bonus paid 2010/11 ⁴	Bonus paid prior years ⁵	Total
	No.	\$	\$	\$	\$	\$
Total remuneration:						
\$150,000 to \$179,999	5	143,215	15,146	4,150	-	162,511
\$180,000 to \$209,999	4	166,411	18,551	13,574	-	198,536
\$210,000 to \$239,999	8	175,770	20,092	29,998	-	225,860
\$240,000 to \$269,999	5	205,037	15,638	30,866	-	251,541
\$270,000 to \$299,999	1	208,731	15,200	48,784	-	272,715
\$300,000 to \$329,999	3	233,911	18,973	63,439	-	316,323
\$330,000 to \$359,999	4	246,326	24,813	74,223	-	345,362
\$450,000 to \$479,999	2	293,523	15,200	161,793	-	470,517
Total	32					

Notes:

1. This table reports staff who were employed by the entity during the reporting period whose reportable remuneration was \$150,000 or more the financial period and were not required to be disclosed in tables 20A or 20B above. Each row is an averaged figure based on headcount for individuals in the band.
2. Reportable salary includes the following:
 - a. Gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
 - b. Reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits); and
 - c. Exempt foreign employment income.
3. The 'contributed superannuation' amount is the average actual superannuation contributions paid to staff in that reportable remuneration band during the reporting period, including any salary sacrificed amounts, as per the individual's payslips.
4. 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. 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.
5. Staff have the option of deferring performance payments to future years (see Note 2.8.3). These amounts include bonus payments made during the financial year which were previously deferred by the executive and therefore relate to the 2007/08 financial year or earlier years.

NOTE 21

Financial instruments and financial risk management

21A: Risk management framework

The Board 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 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 at least monthly, compliance with the Board approved investment guidelines and with the Board approved strategic asset allocation.

21B: 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.

21C: 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 21

Financial instruments and financial risk management (continued)

21C(i): Interest rate risk

Interest rate exposure tables

The Fund's exposure to interest rates as at 30 June 2012 is set out below.

Financial asset	Note	Floating Interest Rate 2012 \$'000	Fixed Interest Rate 2012 \$'000	Non- interest Bearing 2012 \$'000	Total 2012 \$'000
Cash and cash equivalents		2,807,313	-	-	2,807,313
Bank bills		-	223,491	-	223,491
Negotiable certificates of deposit		-	6,158,765	-	6,158,765
Corporate debt securities		2,910,705	2,850,257	3,511	5,764,473
Mortgage backed securities		2,024,164	186,040	-	2,210,204
Asset backed securities		950,424	120,234	5,860	1,076,518
Corporate credit (bank loans)		2,203,760	762,518	-	2,966,278
Government debt securities		230,883	643,224	-	874,107
Other interest bearing securities		279,185	494,080	-	773,265
Other financial assets		-	-	55,392,608	55,392,608
Total financial assets		11,406,434	11,438,609	55,401,979	78,247,022
Interest rate swaps (notional amount) – pay		(110,639)	(399,378)	-	(510,017)
Interest rate swaps (notional amount) – receive		399,378	110,639	-	510,017
Equity swaps (notional amount) – pay		(52,461)	-	-	(52,461)
Equity swaps (notional amount) – receive		51,994	-	-	51,994
Currency swaps (notional amount) – pay		(3,967,977)	-	-	(3,967,977)
Currency swaps (notional amount) – receive		4,000,000	-	-	4,000,000

As at the reporting date the Fund's debt portfolio had an effective interest rate duration of 0.98 (2011: 0.88).

NOTE 21

Financial instruments and financial risk management (continued)

21C(i): Interest rate risk (continued)

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

Financial asset	Note	Floating Interest Rate	Fixed Interest Rate	Non- interest Bearing	Total
		2011	2011	2011	2011
		\$'000	\$'000	\$'000	\$'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		-	-	55,826,011	55,826,011
Total financial assets		13,929,141	7,651,347	55,826,011	77,406,499
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 Fund's debt portfolio had an effective interest rate duration of 0.88 (2010: 2.36).

NOTE 21

Financial instruments and financial risk management (continued)

21C(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 140 basis point (2011: 175 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 2012 and 30 June 2011) and there are concurrent movements in interest rates and parallel shifts in the yield curves. A 140 basis point (2011: 175 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 2012
	Impact on operating result
	\$'000
+ 140 basis points	(213,183)
- 140 basis points	309,968

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

NOTE 21

Financial instruments and financial risk management (continued)

21C(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, forward contracts on mortgage backed securities and interest rate option agreements as at 30 June 2012. The Act 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 swap and option transactions are undertaken using ISDAs. The Fund's interest rate and bond futures contracts are cash margined daily with the relevant futures clearing exchange. The notional value of the open positions, impact on fixed interest exposure and their fair value are set out below:

	Notional Value 2012 \$'000	Fair Market Value 2012 \$'000	Notional Value 2011 \$'000	Fair Market Value 2011 \$'000
Buy domestic interest rate futures contracts	2,392	48	16,651	(50)
Sell domestic interest rate futures contracts	(612,050)	651	(331,560)	(169)
Buy international interest rate futures contracts	29,393	3,699	231,783	826
Sell international interest rate futures contracts	(302,094)	1,134	(338,319)	(907)
Buy domestic bond futures contracts	27,489	(76)	-	-
Buy international bond futures contracts	706,280	(1,821)	740,705	(852)
Receiver (fixed) interest rate swap agreements	110,639	7,473	360,829	3,324
Payer (fixed) interest rate swap agreements	(399,378)	(7,773)	(1,491,454)	(89,104)
Buy forward contracts on mortgage backed securities	288,721	920	-	-
Sell forward contracts on mortgage backed securities	(85,133)	(72)	-	-
Interest rate options - call swaptions	(394,400)	(1,488)	(9,700)	(24)
Interest rate options - put swaptions	903,200	(90)	(68,900)	12
Interest rate options	(451,000)	(39)	(12,800)	(49)
Total	(175,941)	2,566	(902,765)	(86,993)

NOTE 21

Financial instruments and financial risk management (continued)

21C(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 2012	USD \$'000	EUR \$'000	GBP \$'000	JPY \$'000	Other ¹ \$'000	Total \$'000
Cash & cash equivalents	1,571,330	129,167	58,064	7,341	24,685	1,790,587
Listed equities and listed managed investment schemes	9,966,421	1,786,399	1,201,457	905,755	4,765,558	18,625,590
Interest bearing securities	8,405,703	699,432	859,880	18,099	626,927	10,610,041
Collective investment vehicles	19,419,010	1,868,023	1,468,901	32,956	2,719	22,791,609
Other investments	173,260	12,555	4,570	(965)	18,080	207,500
Receivables	626,437	18,314	30,092	8,170	40,274	723,287
Payables	(514,497)	(40,174)	(20,982)	(9,831)	(16,578)	(602,062)
Total physical exposure	39,647,664	4,473,716	3,601,982	961,525	5,461,665	54,146,552
Forward exchange contracts						
– buy foreign currency	6,883,689	1,182,461	952,790	4,570,546	9,671,346	23,260,832
– sell foreign currency	(39,692,779)	(5,959,520)	(2,091,484)	(99,476)	(6,487,730)	(54,330,989)
Currency futures	(92,365)	-	-	-	2,003	(90,362)
Currency options	312,046	-	-	10,834	-	322,880
Total derivative exposure	32,589,409	(4,777,059)	(1,138,694)	4,481,904	3,185,619	30,837,639
Total net exposure	7,058,255	(303,343)	2,463,288	5,443,429	8,647,284	23,308,913

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

NOTE 21

Financial instruments and financial risk management (continued)

21C(ii): Foreign currency risk management (continued)

The Fund's exposure in Australian equivalents to foreign currency risk at 30 June 2011 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 21

Financial instruments and financial risk management (continued)

Foreign currency sensitivity analysis

The following table demonstrates the impact on the consolidated entity's operating result of a 15% (2011: 15%) movement in exchange rates relative to the Australian dollar at 30 June 2012, 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 2012 Impact on operating result \$'000
+ 15% movement	3,831,764
- 15% movement	(3,671,217)

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

21C(iii): Equity price risk

Public markets equity price risk

The 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 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 2012 \$'000	30 June 2011 \$'000
Domestic listed equities and listed managed investment schemes	9,338,673	9,728,702
International listed equities and listed managed investment schemes	18,625,589	20,789,430
Total equity price risk exposure	27,964,262	30,518,132

NOTE 21

Financial instruments and financial risk management (continued)

21C(iii): Equity price risk (continued)

Equity derivative contracts

The Fund had open positions in exchange traded equity futures contracts and equity option contracts as at 30 June 2012. The Act 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	Fair Market Value	Notional Value	Fair Market Value
	2012	2012	2011	2011
	\$'000	\$'000	\$'000	\$'000
Buy domestic equity futures contracts	115,219	(4)	215,557	3,208
Sell domestic equity futures contracts	(4,868)	42	-	-
Buy international equity futures contracts	67,677	1,611	468,499	12,900
Sell international equity futures contracts	(339,029)	(17,520)	(14,787)	(459)
Equity swap agreements	52,461	(5,862)	193,109	(7,855)
Equity swap agreements	(51,994)	6,173	(192,891)	13,253
Exchange traded international volatility index call options	716	95	778	132
Exchange traded international equity index put options	(265,301)	1,917	-	-
Over the counter domestic equity index put options	(425,220)	10,991	-	-
Over the counter international equity index put options	(2,245,543)	38,042	(3,520,604)	53,127
Exchange traded warrants	176,443	157,972	-	-
Total	(2,919,439)	193,457	(2,850,339)	74,306

NOTE 21

Financial instruments and financial risk management (continued)

21C(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 2012	30 June 2011
	Impact on operating result \$'000	Impact on operating result \$'000
20% increase in Australian equities	2,638,068	2,676,110
15% increase in International equities	4,551,979	4,567,870
Total	7,190,047	7,243,980
20% decrease in Australian equities	(2,592,852)	(2,676,110)
15% decrease in International equities	(4,411,783)	(4,314,708)
Total	(7,004,635)	(6,990,818)

21C(iv): Other price risk (derivatives)

The Fund had open positions in exchange traded commodity futures contracts at 30 June 2012. The Act 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 2012 \$'000	Fair Market Value 2012 \$'000	Notional Value 2011 \$'000	Fair Market Value 2011 \$'000
Buy international commodity futures contracts	49,817	1,750	138,201	(2,935)
Sell international commodity futures contracts	(149,330)	(2,097)	(49,041)	(923)
Total	(99,513)	(347)	89,160	(3,858)

NOTE 21

Financial instruments and financial risk management (continued)

21C(v): *Other price risk (collective investment vehicles)*

The 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 21F, 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 21C(i) and 21C(iii).

21D: *Liquidity risk management*

Liquidity risk is the risk that the Fund will not be able to meet its obligations as they fall due. The primary obligation of the Fund, being the payment of the Commonwealth'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.

The Fund manages liquidity risk utilising four primary inputs:

- A liquidity risk model that measures the liquidity of the current (and planned) investment portfolio in a range of different market conditions;
- A portfolio projection model that forecasts the prospective build of the investment portfolio based on cash flow projections in a range of different market conditions;
- A commitment register of all contractual and discretionary obligations that may require future liquidity to fund; and
- A contingency plan to facilitate expeditious access to alternative forms of liquidity should access to traditional forms of liquidity be constrained.

NOTE 21

Financial instruments and financial risk management (continued)

21D: Liquidity risk management (continued)

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 the majority of payments occur within 1 year, the difference between discounted and undiscounted cashflows is immaterial.

As at 30 June 2012:

	Less than 3 months	3 months to 1 year	1 to 5 Years	> 5 Years	Total contractual cashflows	Carrying amount (assets)/ liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2012						
Non-derivatives						
Unsettled purchases	393,183	-	-	-	393,183	393,183
Other payables	333,859	-	-	-	333,859	333,859
Total non-derivatives	727,042	-	-	-	727,042	727,042
Derivatives						
Net settled (interest rate swaps, credit default swaps, interest rate options)	24,447	16,352	24,166	3,458	68,423	68,423
Gross settled (forward foreign exchange contracts, cross currency swaps)						
– (inflow)	(20,155,730)	(3,692,388)	(1,827,699)	-	(25,675,817)	(25,675,817)
– outflow	20,497,551	3,766,530	1,835,776	-	26,099,857	26,099,857
Total derivatives	366,268	90,494	32,243	3,458	492,463	492,463

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 9 for details on cash provided as collateral.

NOTE 21

Financial instruments and financial risk management (continued)

21D: Liquidity risk management (continued)

As at 30 June 2011:

	Less than 3 months	3 months to 1 year	1 to 5 Years	> 5 Years	Total contractual cashflows	Carrying amount (assets)/liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2011						
Non-derivatives						
Unsettled purchases	1,413,846	-	-	-	1,413,846	1,413,846
Other payables	348,823	-	-	-	348,823	348,823
Total non-derivatives	1,762,669	-	-	-	1,762,669	1,762,669
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

21E: 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 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.

NOTE 21

Financial instruments and financial risk management (continued)

21E: Credit risk (continued)

The Fund had, at 30 June 2012, an exposure of 11.4% (2011: 7.5%) 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	2,223,030
Westpac Banking Corporation	2,112,168
National Australia Bank Limited	1,931,346
Australia and New Zealand Banking Group Limited	2,463,952
Non-bank issued	8,488
Total	8,738,984

The exposures presented above reconcile to Note 9 of the financial statements as follows:

Domestic interest bearing securities issued by:	\$'000
Negotiable certificates of deposit - domestic	6,154,614
Corporate debt securities - domestic	2,584,370
Total	8,738,984

Exposures as at 30 June 2011:

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 10 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

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 21

Financial instruments and financial risk management (continued)

21E: 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, the impact on increasing or reducing credit exposures and their fair value are set out below:

	Notional Value	Fair Market Value	Notional Value	Fair Market Value
	2012	2012	2011	2011
	\$'000	\$'000	\$'000	\$'000
Buy Credit Protection	891,644	29,341	1,379,892	6,601
Sell Credit Protection	(190,725)	(1,786)	(488,655)	(7,152)
Total		27,555		(551)

Credit exposure by credit rating

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

	2012	2011
	\$'000	\$'000
<i>Long term rated securities</i>		
AAA	499,603	1,464,131
AA	4,912,069	7,352,005
A	1,261,127	1,089,898
BBB	659,867	794,312
Below Investment grade [#]	9,114,866	7,110,435
<i>Short term rated securities</i>		
A-1+/A-3/P-1	6,158,765	3,049,471
<i>Other</i>		
US Government Guaranteed	248,117	720,236
Total debt securities and cash held	22,854,414	21,580,488
Other non-debt financial assets	55,392,608	55,826,011
Total financial assets	78,247,022	77,406,499

[#] 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 2012 (30 June 2011: nil).

NOTE 21

Financial instruments and financial risk management (continued)

21F: 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 21

Financial instruments and financial risk management (continued)

21F: Fair values of financial assets and liabilities (continued)

(ii) Fair value in an inactive or unquoted market (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.

21G: Fair value hierarchy

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The following tables provide an analysis of financial instruments held at year end 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 21C (v) for collective investments, 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 21

Financial instruments and financial risk management (continued)

21G: Fair value hierarchy (continued)

As at 30 June 2012:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss:				
Interest bearing securities	398,017	17,067,923	2,581,161	20,047,101
Listed equities and listed managed investment schemes	27,255,893	72,532	635,837	27,964,262
Collective investment vehicles	-	562,769	24,274,514	24,837,283
Derivatives	14,102	996,225	159,448	1,169,775
Restricted Cash	224,622	-	-	224,622
Investments sold, not yet purchased	2	-	-	2
Total	27,892,636	18,699,449	27,650,960	74,243,045
Financial liabilities at fair value:				
Derivatives	28,409	464,038	16	492,463
Investments sold, not yet purchased	17,257	-	-	17,257
Total	45,666	464,038	16	509,720

The following table presents the transfers between levels for the year ended 30 June 2012:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Transfers between levels 1 and 2	4,789	(4,789)	-
Transfers between levels 1 and 3	(26,613)	-	26,613
Transfers between levels 2 and 3	-	17,882	(17,882)

NOTE 21

Financial instruments and financial risk management (continued)

21G: Fair value hierarchy (continued)

The following table presents the movement in level 3 instruments for the year ended 30 June 2012 by class of financial instrument.

	Interest bearing securities	Listed equities and listed managed investment schemes	Collective investment vehicles	Derivatives	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets at fair value through profit or loss:					
Opening balance	2,061,310	321,908	21,411,378	-	23,794,596
Purchases	1,409,623	307,762	5,124,161	162,714	7,004,260
Sales	(841,369)	(28,136)	(3,727,807)	-	(4,597,312)
Transfers into level 3	14,516	62,404	-	-	76,920
Gains and losses recognised in the statement of comprehensive income	5,270	(28,101)	1,466,782	(3,266)	1,440,685
Transfers out of level 3	(68,189)	-	-	-	(68,189)
Closing balance	2,581,161	635,837	24,274,514	159,448	27,650,960

	Interest bearing securities	Listed equities and listed managed investment schemes	Collective investment vehicles	Derivatives	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities at fair value through profit or loss:					
Opening balance	-	-	-	(7)	(7)
Purchases	-	-	-	-	-
Sales	-	-	-	-	-
Transfers into level 3	-	-	-	-	-
Gains and losses recognised in the statement of comprehensive income	-	-	-	(9)	(9)
Transfers out of level 3	-	-	-	-	-
Closing balance	-	-	-	(16)	(16)

NOTE 21

Financial instruments and financial risk management (continued)

21G: 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	3,542,171	7,044,951	14,250,161	24,837,283

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 21

Financial instruments and financial risk management (continued)

21G: 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	Listed equities and listed managed investment schemes	Collective investment vehicles	Derivatives	Total
	\$'000	\$'000	\$'000	\$'000	\$'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

	Interest bearing securities	Listed equities and listed managed investment schemes	Collective investment vehicles	Derivatives	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
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 21

Financial instruments and financial risk management (continued)

21G: 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

NOTE 22

Events occurring after reporting date

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

NOTE 23

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 2012 \$'000	30 June 2011 \$'000
Total assets	78,097,055	77,063,360
Total liabilities	1,150,679	1,756,566
Total equity and amount attributable to the Government	76,946,376	75,306,794
Profit/(loss)	1,639,582	8,024,758
Total comprehensive income	1,639,582	8,024,758

The parent entity has committed to funding the subsidiary commitments as detailed in Note 9 for both the current and comparative years.

NOTE 24

Compensation and debt relief disclosures

No 'Act of Grace' payments were made during the reporting period (2011: 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 (2011: nil).

No payments were made under the 'Defective Administration Scheme' during the reporting period (2011: nil).

No payments were made under section 73 of the Public Service Act 1999 during the reporting period (2011: nil).

No payments were made under ex-gratia programs during the reporting period (2011: nil).

NOTE 25

Special Accounts

25A: Special Accounts: Future Fund Special Account

Legal Authority — Future Fund Act 2006, *section 12*.

Appropriation authority – section 21 of the FMA Act

Purpose — establishment and ongoing operation of the Fund.

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

Future Fund Special Account	Period from 1 July 2011 to 30 June 2012	Period from 1 July 2010 to 30 June 2011
	\$'000	\$'000
Balance carried from previous period	-	-
Bank interest amounts credited	-	-
Appropriations for reporting period	-	-
Other Receipts:		
GST credits	10,833	7,519
Amounts transferred from investment account ^(a)	318,079	268,952
Amounts credited to the special account	-	-
Total Credits	328,912	276,471
Available for payments	328,912	276,471
Payments made:		
Investments debited from the Special Account (FFA s17)	-	-
Payments made		
- Remuneration of Agency staff	22,118	19,882
- Remuneration of Board members	821	791
- Suppliers	31,892	24,880
- Investment expenses	272,538	229,846
- Purchase of capital equipment and software	1,543	1,072
Total Debits	328,912	276,471
Balance carried forward to next year^(b)	-	-

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

(b) Excluding investments balances, see Note 25B

Compliance with Statutory Conditions in relation to Section 83 of the Constitution for payments made by the Future Fund Board of Guardians and the Future Fund Management Agency

Section 83 of the Constitution provides that no amount may be paid out of the Consolidated Revenue Fund except under an appropriation made by law. The Department of Finance and Deregulation provided information to all agencies in 2011 regarding the need to conduct risk assessments in relation to compliance with the statutory conditions on payments from special appropriations, including special accounts.

The Fund undertook a risk assessment for the 2011-12 financial year. No breaches of Section 83 were identified and the overall risk of a breach was considered low.

NOTE 25

Special Accounts (continued)

25B: Special Accounts: Investment of Public Money

Disclosures below are on a cash basis.

Future Fund Special Account: Investment of Public Money under section 17 of the <i>Future Fund Act 2006</i> (as amended)	Period from 1 July 2011 to 30 June 2012	Period from 1 July 2010 to 30 June 2011
	\$'000	\$'000
Opening balance	76,725,685	70,809,704
Investments made on transfer of funds from the Special Account	-	-
Realised investments reinvested	56,515,339	59,957,598
Interest earned reinvested	990,842	1,840,717
Dividends received reinvested	1,167,871	1,550,226
Franking credits received reinvested	270,421	298,951
Foreign currency realised reinvested	1,840,629	4,646,551
Amounts transferred to operations ^(a)	(318,079)	(268,952)
Investments realised	(58,863,506)	(62,109,110)
Closing Balance	78,329,202	76,725,685

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

NOTE 26

Reporting of outcomes

26A: 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 2012 \$'000	Outcome 1 2011 \$'000
Expenses		
Investment related expenses	336,002	447,749
Depreciation and amortisation	861	1,048
Agency and Board remuneration expenses	25,935	21,873
Other expenses	13,623	11,818
Income tax expense	51,259	41,775
Total expenses	427,680	524,263
<i>Costs recovered from provision of goods and services to the non-government sector</i>		
Income		
Interest	62,666	70,592
Dividends, distributions and imputation credits	1,363,791	1,965,915
Realised and unrealised investment gains and losses	661,805	6,600,956
Other income	15,372	41,899
Total income	2,103,634	8,679,362
Net cost (contribution) of outcome	(1,675,954)	(8,155,099)

NOTE 26

Reporting of outcomes (continued)

26B: Net cost of outcome delivery – Programs

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 Commonwealth which will fall due on future generations. The net cost of this output delivery is presented above in Note 26A.

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.

RESOURCE STATEMENT AND OTHER MANDATORY REPORTS

Resource statement

As an Agency under the Financial Management and Accountability Act 1997 the Agency makes a number of mandatory disclosures through its website and the annual report.

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 of the Agency to ensure the appropriate use of resources consistent with the organisation's objectives.

Nonetheless, the Agency is required to publish information in line with the outcome and output framework used by Government departments and Agencies.

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.

Agency resource statement

	Actual available appropriations for 2011/12 \$'000	Payments made 2011/12 \$'000	Balance remaining
Special Accounts			
Opening balance	-	-	-
Non-appropriation receipts to Special Accounts	328,912	328,912	-
Total Resourcing and Payments	328,912	328,912	-

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 2011/12 \$'000	Actual expenses 2011/12 \$'000	Variation \$'000
Program 1.1 Management of the investment of the Future Fund			
Advances from the Special Account	34,212	33,564	648
Total for Program 1.1	34,212	33,564	648
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	726	(6)
Total for Program 1.2	720	726	(6)
Total for Outcome 1	34,932	34,290	642

Average staffing level (number) 83

Procurement

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 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.

Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website at www.tenders.gov.au. Given the Agency's purpose, no campaign advertising was undertaken during the year and no reportable recruitment costs were incurred.

The Agency engages consultancy services in a variety of areas where specialist expertise is not available within the Agency or where an independent assessment is desirable. This is consistent with the Agency's outsourced business model. Selection processes may include open tender, selective tender, direct sourcing or the use of a panel.

During 2011/12, 12 new consultancy contracts were entered into involving total actual expenditure of \$246,083. In addition five ongoing consultancy contracts were active during the 2011/12 year, involving total actual expenditure of \$746,820 million.

Freedom of Information

The Board and Agency are subject to the *Freedom of Information Act 1982* (Fol Act) and are required to publish information to the public as part of the Information Publications Scheme (IPS). In line with this requirement a plan showing what information the Board and Agency publish is available on the Future Fund website (www.futurefund.gov.au).

Advertising and market research

During the 2011/12 year the Agency undertook recruitment advertising. The total cost of this was \$10,642. No campaign advertising was undertaken.

Grant programs

The organisation does not administer any grant programs.

Ecologically sustainable development and environmental performance

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 Investment Report refers to how environmental, social and governance matters are incorporated into the investment decision making which is the central purpose of the organisation.

As a small tenant in a large multi-tenancy office building it is difficult to establish meaningful metrics for energy and water use or to establish appropriate benchmarking and monitoring arrangements. The building from which the Agency operates has a NABERS 3 star rating. Building management continues to implement a range of energy, waste recycling and water initiatives throughout the building including the Agency's tenancy.

Disability reporting mechanisms

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 have no longer been 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 Fairing* report and, if appropriate, in strategic changes indicators in agency Annual Reports. More detail on social inclusion matters can be found at www.socialinclusion.gov.au.

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>.

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. 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 principal distinguishing characteristic is their shorter-term focus.

Principle	Implementation and reference material
<p>1 The legal framework should be sound and support the SWF's effective operation and the achievement of its stated objectives</p> <p>1.1 The legal framework should ensure the legal soundness of the SWF and its transactions</p> <p>1.2 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.</p>	<p>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.</p> <p>The legal basis and structure and the legal relationships between the Board, Agency and Government is detailed in the legislation which is publicly available.</p> <p>Additional detail and discussion of the basis and operation of the Board, Agency and the Funds themselves is available from the Board's annual report and website.</p> <p>www.futurefund.gov.au/about_the_future_fund/legislation www.futurefund.gov.au/investment/investment_mandate</p>
<p>2 The SWF's policy purpose should be being clearly defined and publicly disclosed</p>	<p>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.</p> <p>Detail on the policy purpose for each of the Funds is provided in the relevant legislation, annual reports and the organisation's website.</p> <p>www.futurefund.gov.au/about_the_future_fund/legislation www.futurefund.gov.au/investment/investment_mandate www.futurefund.gov.au/annual_reports</p>

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 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</p> <p>www.finance.gov.au/investment-funds/future-fund/transfers.html</p> <p>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</p> <p>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</p> <p>www.futurefund.gov.au/__data/assets/pdf_file/0016/3571/SoE_-_Final.pdf</p> <p>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</p> <p>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 and 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>
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>

Principle	Implementation and reference material
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.	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. www.futurefund.gov.au/about_the_future_fund/legislation www.futurefund.gov.au/annual_reports
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.	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. www.futurefund.gov.au/annual_reports www.futurefund.gov.au/investment/portfolio_updates
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. 18.1 The investment policy should guide the SWF's financial risk exposures and possible use of leverage. 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. 18.3 A description of the investment policy of the SWF should be publicly disclosed.	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. 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. The policies and practices detailed by these documents are consistent with the obligations contained in the legislation. www.futurefund.gov.au/about_the_future_fund/legislation www.futurefund.gov.au/investment/investment_policies www.futurefund.gov.au/annual_reports
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. 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. 19.2 The management of the SWF's assets should be consistent with what is generally accepted as sound asset management principles.	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. 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. www.futurefund.gov.au/about_the_future_fund/legislation www.futurefund.gov.au/investment/investment_policies

Principle	Implementation and reference material
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>The Board has 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>
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>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 was updated during the 2011/12 year and 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>
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 has repeated the review annually. The Board contributed to the IFSWF's report "Members' Experiences in the Application of the Santiago Principles" published in July 2011 and participated in discussions and reviews of implementation through the IFSWF.</p> <p>www.futurefund.gov.au/about_the_future_fund/governance www.ifswf.org/pst/stp070711.pdf</p>

List of Requirements

1. List of Requirements

(1) The List of Requirements must be included as an appendix to the annual report. If an item specified in the checklist is not applicable to an agency, it should be reported as not applicable rather than omitted from the list. Agencies should include a column indicating the location of the information in the annual report.

Ref*	Part of report	Description	Requirement	Location in annual report
8(3) & A.4		Letter of transmittal	Mandatory	p. 1
A.5		Table of contents	Mandatory	p. 2
A.5		Index	Mandatory	p. 151
A.5		Glossary	Mandatory	p. 150
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			
9(1)		Review by departmental secretary	Mandatory	pp. 6–7, 8–9
9(2)		Summary of significant issues and developments	Suggested	pp. 6–7, 8–9
9(2)		Overview of department's performance and financial results	Suggested	pp. 4–5, 6–7, 8–9
9(2)		Outlook for following year	Suggested	pp. 6–7, 8–9
9(3)		Significant issues and developments – portfolio	Portfolio departments – suggested	pp. 6–7, 8–9
10	Departmental Overview			
10(1)		Role and functions	Mandatory	p. 3
10(1)		Organisational structure	Mandatory	pp. 40–46
10(1)		Outcome and program structure	Mandatory	p. 41
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	Portfolio departments – mandatory	not applicable
11	Report on Performance			
11(1)		Review of performance during the year in relation to programs and contribution to outcomes	Mandatory	pp. 10–39
11(2)		Actual performance in relation to deliverables and KPIs set out in PB Statements/PAES or other portfolio statements	Mandatory	pp. 10–39
11(2)		Where performance targets differ from the PBS/PAES, details of both former and new targets, and reasons for the change	Mandatory	pp. 10–39
11(2)		Narrative discussion and analysis of performance	Mandatory	pp. 10–39

Ref*	Part of report	Description	Requirement	Location in annual report
11(2)		Trend information	Mandatory	pp. 4–5
11(3)		Significant changes in nature of principal functions/ services	Suggested	not applicable
11(3)		Performance of purchaser/provider arrangements	If applicable, suggested	p. 18
11(3)		Factors, events or trends influencing departmental performance	Suggested	pp. 10–39
11(3)		Contribution of risk management in achieving objectives	Suggested	pp. 10–39, 47
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	pp. 10–39
11(7)		Discussion of any significant changes from the prior year, from budget or anticipated to have a significant impact on future operations	Mandatory	pp. 10–39
11(8)		Agency resource statement and summary resource tables by outcomes	Mandatory	p. 120
12	Management and Accountability			
	Corporate Governance			
12(1)		Agency heads are required to certify that their agency comply with the Commonwealth Fraud Control Guidelines	Mandatory	p. 1
12(2)		Statement of the main corporate governance practices in place	Mandatory	pp. 40–47
12(3)		Names of the senior executive and their responsibilities	Suggested	pp. 42–46
12(3)		Senior management committees and their roles	Suggested	pp. 42–46
12(3)		Corporate and operational planning and associated performance reporting and review	Suggested	pp. 10–39
12(3)		Approach adopted to identifying areas of significant financial or operational risk	Suggested	pp. 10–39, 47
12(3)		Policy and practices on the establishment and maintenance of appropriate ethical standards	Suggested	p. 9, 47
12(3)		How nature and amount of remuneration for SES officers is determined	Suggested	p. 51
	External Scrutiny			
12(4)		Significant developments in external scrutiny	Mandatory	p. 41
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

Ref*	Part of report	Description	Requirement	Location in annual report
	Management of Human Resources			
12(5)		Assessment of effectiveness in managing and developing human resources to achieve departmental objectives	Mandatory	pp. 48–51
12(6)		Workforce planning, staff turnover and retention	Suggested	pp. 50–51
12(6)		Impact and features of enterprise or collective agreements, individual flexibility arrangements (IFAs), determinations, common law contracts and AWAs	Suggested	p. 50
12(6)		Training and development undertaken and its impact	Suggested	p. 49
12(6)		Work health and safety performance	Suggested	p. 50
12(6)		Productivity gains	Suggested	not applicable
12(7)		Statistics on staffing	Mandatory	p. 50
12(8)		Enterprise or collective agreements, IFAs, determinations, common law contracts and AWAs	Mandatory	p. 50
12(9) & B		Performance pay	Mandatory	p. 51
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	p. 134
12(13)–(24)	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.	Mandatory	p. 134
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	p. 52

Ref*	Part of report	Description	Requirement	Location in annual report
	Other Mandatory Information			
14(1) & C.1		Work health and safety (Schedule 2, Part 4 of the <i>Work Health and Safety Act 2011</i>)	Mandatory	p. 50
14(1) & C.2		Advertising and Market Research (Section 311A of the <i>Commonwealth Electoral Act 1918</i>) and statement on advertising campaigns	Mandatory	p. 134
14(1) & C.3		Ecologically sustainable development and environmental performance (Section 516A of the <i>Environment Protection and Biodiversity Conservation Act 1999</i>)	Mandatory	p. 134
14(1)		Compliance with the agency's obligations under the <i>Carer Recognition Act 2010</i>	If applicable, mandatory	not applicable
14(2) & D.1		Grant programs	Mandatory	p. 134
14(3) & D.2		Disability reporting – explicit and transparent reference to agency level information available through other reporting mechanisms	Mandatory	p. 134
14(4) & D.3		Information Publication Scheme statement	Mandatory	p. 134
14(5)		Correction of material errors in previous annual report	If applicable, mandatory	not applicable
F		List of Requirements	Mandatory	pp. 146–149

* The reference is to the location of the item in the requirements – e.g. 'A.4' refers to the fourth item in Attachment A.

Abbreviations

AASB	Australian Accounting Standards Board
AC	Companion of the Order of Australia
AO	Officer of the Order of Australia
ANAO	Australian National Audit Office
ASIC	Australian Securities and Investments 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>
FMOs	Finance Minister's Orders
FoI Act	<i>Freedom of Information Act 1982</i>
GST	Goods and Services Tax
HEEF	Higher Education Endowment Fund
RBA	Reserve Bank of Australia
VWAP	Volume Weighted Average Price

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