

Statement by Mark Burgess, Managing Director of the Future Fund to the Senate Finance and Public Administration Committee

Budget Estimates, 29 May 2013, Parliament House, Canberra

I would like to update the committee today on the performance and positioning of the Fund. We are pleased with the returns to date and I would like to take this opportunity to talk through how we are positioning the Fund for the next two to three years.

My colleague Mr David Neal, who is our Chief Investment Officer, will also be available to answer questions.

Firstly, the Fund, as previously announced, has continued to perform well with investment returns to 31 March 2013 up 10.6% for the first nine months of the financial year, 8.1% pa over three years and 5.7% since the Fund was created in May 2006. At the end of April the Fund had grown further to nearly \$87 billion representing an increase of around \$26 billion on the initial contributions to the Fund of \$60 billion.

Notwithstanding the market falls over the last week, we have seen the strength of investment returns reflecting an ongoing focus by investors on alternative places to invest in search of improved yields and in recognition that global conditions have improved relative to the investment market's previous expectations.

The improved conditions and rally in assets has been supported by active monetary policies designed to stabilise economic activity. This is occurring in most of the major regions.

This gain in asset prices follows a sharp rally in yielding assets cascading from government and sovereign debt down to corporate and, now, more risk related assets such as equities and long-dated infrastructure. These assets have now performed strongly over the past 12 months and the Fund has been able to capture these gains.

I now turn to the positioning of the portfolio looking forward.

Despite the rally I have outlined, we continue to find new investment opportunities in reasonably valued assets, albeit in less quantity than in earlier periods of the investment cycle.

Given this strong performance and the unusual degree of policy stimulus being applied, it is important, however, for investors, particularly those with a long-term focus, to assess the risk settings of their portfolios with a view to the expected investment cycle over the next two to three years.

As part of our normal program of analysis and review, the Fund has recently reaffirmed its approach to investment risk management.

We seek to take an appropriate, but not excessive, amount of risk in the context of achieving our goal of exceeding CPI+4.5-5.5% over the long term.

We recognise that the return objective is a challenging one, and that to achieve it requires material investment risk to be taken. Nevertheless we recognise the importance of protecting the Commonwealth's capital and we work hard to achieve the required returns without exposing the Fund to undue potential for capital loss.

We do this through the construction of a highly diversified portfolio and we maintain a flexible and dynamic approach to taking risk, to take account of changing conditions and opportunities. We will take higher levels of risk when strong reward is available and inversely we will avoid risk where we believe it is not appropriately rewarded.

Importantly, we are focused on pursuing our specific objective over the medium-to-long term. Whilst the activities of other investors are used to inform our thinking, we remain focused on achieving our own objectives over the long-term. Given this, the Board expects that the Fund's portfolio and performance will likely differ from other investors from time to time, perhaps markedly so.

To be clear, what we are describing here is not that we are predicting undue or elevated risk levels. As I noted earlier, we have continued to find attractive opportunities in the current environment. However, as the current economic and investment cycle develops, a disciplined and well thought through approach to investing over the long term will be of critical importance. We will be keen to discuss our views further with the committee.

Thank you for allowing me the time to discuss this important issue. We look forward to answering your questions.