Australian Government
Future Fund

20 October 2008

Portfolio Update at 30 September 2008

The Future Fund today released its first quarterly update for the 2008/9 year.

The majority of the Future Fund portfolio remained in cash, generating positive returns. Falls in listed equity markets over the quarter meant the return for the portfolio (ex Telstra) for the first three months of the 2008/9 year was minus 1.81%[1].

When combined with the positive performance for the 2007/8 year, the result for the 15 months since 1 July 2007, when the investment program effectively commenced, was minus 0.24%.

The Future Fund's benchmark is to target returns of at least the Consumer Price Index plus 4.5% over the long term.

The Future Fund's two billion Telstra shares, which are subject to escrow until 20 November 2008, generated a return of 3.23% for the quarter.

The asset allocation at 30 September 2008 is shown below:

Asset class	$m	Percentage of Fund (ex Telstra)
Australian equities	5,345	9.7
Global equities		
Developed markets	10,218	18.5
Developing markets	1,331	2.4
Private equity	286	0.5
Property	871	1.6
Infrastructure	283	0.5
Debt securities	5,529	10.0
Alternative assets	315	0.6
Cash	31,035	56.2
Total (ex Telstra)	55,213	100
Telstra holding	8,216	
Total Future Fund assets	63,429	

David Murray, Chair of the Future Fund Board of Guardians, said that the Future Fund's performance should be seen in light of the challenging investment environment.

"The global scale of the current financial situation presents a formidable challenge to all investors. It appears to be a once in a century occurrence particularly affecting shares in financial institutions which normally make up around of quarter of market value in global equity markets.

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[1] Rates of return are net of fees

“The first quarter saw Australian and global equity market indices fall in the region of 11% driven by concerns about the liquidity and solvency of the global banking system. This outweighed the stable performance of our large cash holding.

“A series of government bail outs and forced mergers of financial institutions, as well as growing recognition that the world economy faces the prospect of a marked slowdown, highlights the difficult investment environment.

“As a long term investor holding liquid assets, we are well placed to deal with this environment and take opportunities as they arise.

“Given the very difficult investment conditions, we continue to take a carefully considered approach to building the portfolio.”

The Higher Education Endowment Fund (HEEF) was established in September 2007 and received its first contribution of $3 billion in October 2007 and a further $3 billion in January 2008. These assets have been invested in line with the interim Investment Mandate which restricts investments to securities with negligible chance of capital loss.

The portfolio generated a return of 1.77% for the quarter or 6.84% since inception and the assets of the HEEF stood at $6,366 million at 30 September 2008.

Ends

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Rates of return are net of fees.