futurefund
Australia's Sovereign Wealth Fund

3 July 2020

Phillip Sweeney
Email: foi+request-6435-5bdfb12d@righttoknow.org.au

BY EMAIL

Dear Mr Sweeney

Freedom of Information request

I refer to your request received by the Future Fund Management Agency ("**Agency**") by email on 27 June 2020, requesting access under the *Freedom of Information Act 1982* ("**FOI Act**") to documents as follows (the "**Request**"):

> *I am seeking a copy of the audited financial statements for the Future Fund for 2018-2019 along with a copy of the auditor's report.*
>
> *I am not seeking a copy of the Annual Report which is available on the Fund's Website*

Authorised decision-maker

I am authorised by the principal officer of the Agency under section 23(1) of the FOI Act to make a decision on requests for access to documents. My name and designation are set out below. This letter sets out my decision in relation to your request for access to information.

Evidence on which my findings and decision are based

In considering your Request, I relied on the following information and documentary evidence:

- your Request;
- FOI Act; and
- *Guidelines issued by the Australian Information Commissioner under s 93A of the Freedom of Information Act 1982*.

Decision

I have decided to grant access to the documents the subject of the Request, being:

i) the audited financial statements of the Agency and the Future Fund Board of Guardians (together, the "**Future Fund**") for the financial year ending 30 June 2019; and

ii) the auditor's report in respect of those audited financial statements.

While noting you did not seek a copy of the Annual Report, the audited financial statements and auditor's report are published within that document and I therefore provide it in fulfilment of your Request for those documents. Please see pages 98 to 162 of the **enclosed** 2018-2019 Annual Report, which is also available on the Future Fund website at https://www.futurefund.gov.au/about-us/annual-reports.

As the information is already published by the Agency and in the public domain, I find that no exemptions apply to the information the subject of the Request. Accordingly, I confirm that the information the subject of your Request has been released in full.

The Agency is required by section 11C of the FOI Act to publish a disclosure log on its website detailing information released in response to a Freedom of Information access request, subject to certain exceptions. Particulars of the document produced pursuant to the Request will be published by the Agency on the disclosure log on the Future Fund website.

Reviews and Complaints

For information regarding review options or the process for making a complaint please refer to the Office of the Australian Information Commissioner's website at:

https://www.oaic.gov.au/freedom-of-information/reviews-and-complaints/

Yours sincerely

Gordon McKellar
FOI Decision Maker

Encl.

Australian Government
Future Fund

futurefund
Australia's Sovereign Wealth Fund

2018 annual report 2019

investing for the benefit of future generations of Australians

ISSN: 2205-8044 (print)
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Guide to reading this report

This report describes the governance, operations and performance of the Future Fund Board of Guardians and the Future Fund Management Agency over the 2018-19 financial year. Additional information, including periodic investment and operational updates, policies and plans, is available at www.futurefund.gov.au.

An electronic version of this report is available at www.futurefund.gov.au/about-us/annual-reports

Data in this report may not sum due to rounding.

Investment performance data in the main sections of this report may not correspond directly with data in the Financial Statements due to differences in classification. Investment performance data presented in the main sections of the report include the investments and notional values of derivatives held by both the Future Fund and Future Fund Investment Companies. The Statement of Financial Position in the Financial Statements presents the investments and net market value of derivatives held directly by the Future Fund and the Future Fund Investment Companies as one aggregated number.

As an aid to readers, this report includes a glossary of abbreviations and an alphabetical index.

Material used 'as supplied'

Provided you have not modified or transformed the material in any way (including, for example, by changing the text; calculating percentage changes; graphing or charting data; or deriving new statistics from published statistics), the Future Fund prefers the following attribution: Source: Future Fund.

Feedback

If you have questions about any aspect of this report, please contact the Future Fund's Head of Public Affairs & Strategic Relations on (03) 8656 6400.

Contents

Letter of transmittal

24 September 2019

Dear Minister

I am pleased to present the Annual Report of the Future Fund Board of Guardians (Board) and the Future Fund Management Agency (Agency) for the 2018-19 financial year.

The report has been prepared in accordance with section 46 of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) and section 81 of the *Future Fund Act 2006*, and includes the required disclosures in relation to the Future Fund, the Medical Research Future Fund, the Aboriginal and Torres Strait Islander Land and Sea Future Fund, the DisabilityCare Australia Fund, and the Nation-building Funds.

The report includes the Board and Agency's audited financial statements as required by section 34(i) of the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015.

As Accountable Authority of the Agency, I certify that:

- fraud risk assessments and fraud control plans have been prepared by the Agency
- appropriate mechanisms for preventing, detecting incidents of, investigating or otherwise dealing with, and recording or reporting fraud that meet the specific needs of the Agency are in place
- all reasonable measures have been taken to deal appropriately with fraud relating to the Agency.

Yours sincerely

P Costello

Hon Peter Costello AC
Chairman
Future Fund Board of Guardians

Year at a glance

Future Fund

11.5%
2018-19 return

5.6%
2018-19 benchmark target

10.4% pa
10 year return

6.5% pa
10 year benchmark target

$16.8 billion
Earnings for 2018-19

$102.1 billion
Earnings since inception

$162.6 billion
Balance at 30 June 2019

Cash flow history at 30 June 2019

	Contributions (bn)		Earnings (bn)		Withdrawals (bn)		Balance (bn)
Future Fund	$60.5	+	$102.1	−	$0.0	=	$162.6
Medical Research Future Fund	$9.0	+	$1.1	−	$0.3	=	$9.8
Aboriginal and Torres Strait Islander Land and Sea Future Fund	$2.0	+	$0.0	−	$0.0	=	$2.0
DisabilityCare Australia Fund	$18.6	+	$0.8	−	$3.1	=	$16.4
Building Australia Fund	$10.9	+	$2.3	−	$9.2	=	$4.0
Education Investment Fund	$6.5	+	$1.7	−	$4.2	=	$4.0
Total funds under management							**$198.8**

Other fund returns in 2018-19

Medical Research Future Fund

5.2%

3.0% benchmark target

Aboriginal and Torres Strait Islander Land and Sea Future Fund*

0.9%

–

DisabilityCare Australia Fund

2.2%

2.3% benchmark target

Building Australia Fund

2.3%

2.3% benchmark target

Education Investment Fund

2.3%

2.3% benchmark target

*This Fund was established in February 2019 and is in an initial transition phase.

Report from the Chairman

The Future Fund was created to strengthen the Commonwealth's long-term financial position.

In pursuit of that objective, 2018-19 was a good year with the Fund delivering a return of 11.5% or $16 billion.

The contributed capital of $60.5 billion has now earned over $102 billion in the Fund, taking the Future Fund to a total of $162.6 billion.

The capital and earnings are owned by the government and, ultimately, the citizens of Australia.

The Future Fund is a long-term fund. Over 10 years the Fund has achieved a return of 10.4% per annum, exceeding its benchmark of 6.5% per annum. This return is particularly impressive on a risk-adjusted basis given the level of risk taken by the Fund.

Since the Future Fund was established, the Board of Guardians has been highly disciplined in balancing its risk and return objectives as it invests on behalf of future generations of Australians.

This prudent approach has delivered strong long-term returns and remains the cornerstone of all investment decisions the Board makes.

In addition to the Future Fund, the Board also invests an additional five public asset funds on behalf of future generations of Australians.

The Medical Research Future Fund, which is designed to generate earnings to support grants to support medical research and innovation, continues to perform well. Since inception, the Fund has delivered a return of 4.5% per annum, exceeding its target return of 3.0% per annum.

The DisabilityCare Australia Fund and the two Nation-building Funds also performed as intended. The Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILS Fund) was established in February 2019 and is in an initial transition phase. The Board is developing a long-term investment strategy for the ATSILS Fund.

The addition of new portfolios to the Board's responsibilities is an important statement of the confidence and trust placed in the Board and reflects the strength of the Future Fund as an investment institution.

At 30 June 2019 the Board of Guardians invests over $198 billion across the six public asset funds.

Outlook

The first half of the financial year was characterised by volatile markets as concerns regarding the trade dispute between the US and China and other geopolitical issues came to the fore.

This led to a period of monetary policy easing by central banks which, together with market expectations of further easing and continued global economic growth, has supported strong asset returns in the second half of the year.

In the longer term the global economy will face structural challenges including demographic shifts and high levels of debt.

The Board continues to see long-term returns as unlikely to replicate the strong returns of recent years and is cautious of the risks for investors.

In this uncertain environment the Board is maintaining its patient long-term approach to investment.

Governance

In November 2018 the responsible Ministers appointed John Fraser to the Board of Guardians. John brings with him significant experience in investment management and corporate governance.

Also in November, I was reappointed for a second term as Chairman and John Poynton AO for a second term as a Board member, with effect from February 2019.

Following the end of the financial year, in July 2019 the Government made a $7.8 billion contribution to the Medical Research Future Fund. This is a significant inflow which will be invested in line with the Fund's mandate.

On 1 September 2019 the assets of the Building Australia Fund were transferred to the newly created Future Drought Fund, which the Board of Guardians will manage.

Acknowledgements

On behalf of the Board of Guardians, I thank the responsible Ministers for their continued support.

I thank my fellow members of the Board of Guardians, who each contribute a wealth of expertise and skill to the Board and its Committees.

Finally, I acknowledge and thank the staff of the Future Fund Management Agency, led by David Neal, for their hard work and dedication.

P Costello

Hon Peter Costello AC

Chairman
Future Fund Board of Guardians

Report from the Chief Executive Officer

We are very pleased with the investment performance of the funds under our management over more than a decade.

More pleasing still is that these strong returns have been generated whilst limiting the level of risk in the portfolio. We have kept a sharp focus on the specific investment mandates provided to us by the government for each of the funds we manage. This approach targets an appropriate level of risk and seeks to extract as much return as possible for that risk by a careful, thoughtful portfolio construction and an intense search for opportunities to add value by our talented and dedicated team.

Our investment activity this year has remained disciplined, with a continued focus on managing the flexibility and liquidity of the portfolio. In an increasingly uncertain and challenging environment the ability to adjust the portfolio to shifts in the market environment may well be paramount.

The number and value of funds we manage continue to grow, adding greater responsibility and complexity to our task. To sustain our success into the future we need the organisation to be in the best shape it can be. In 2018 we refined our structure to strengthen our collaborative approach and help us to be more nimble and streamlined in the hunt for investment opportunities, the management of risk and the development of strong enabling technology. Supported by great energy and commitment from across the team, together with a number of new key hires, we are delighted with the way the new structure has been bedded down over the last year.

The organisation has been a hive of activity building our investment data and analytics capabilities and improving our technology more broadly. The benefits of these projects are now starting to flow with improved access to better quality data in a more timely manner, all built on a more resilient and flexible technology infrastructure. A number of other exciting projects are nearing completion that will further transform our management of data and provision of analytics.

Whilst the completion of these projects is leading to a significant improvement in the quality of our investment technology, we believe that the role technology can play in adding value to our processes and ultimately our portfolios is profound. At its heart, the Future Fund's task is to transform data into information into insights and

ultimately into portfolio value creation. Given the scale and complexity of this task for a large portfolio diversified across geography, asset class, manager and structure, technology is a key enabler.

To lead our ongoing efforts in this space we were pleased to welcome Richard Large to the newly created role of Chief Technology Officer in February 2019. Richard is focused on developing our long-term technology strategy, ensuring that we have the capabilities and systems needed to take us into the next decade.

Last year we strengthened our investment leadership team, promoting David George and Wendy Norris as Deputy Chief Investment Officers for public and private markets respectively, reporting directly to Raphael Arndt as Chief Investment Officer. Completing the senior investment leadership team we were delighted to welcome Sue Brake as Deputy Chief Investment Officer, Portfolio Strategy. Together, Raphael, Wendy, David and Sue are focused on further strengthening our joined-up, collaborative approach to investing.

Looking across the organisation more broadly, leadership will be a critical factor in our future success. We have been focussing on uplifting our leadership capability as we push ourselves to collaborate more effectively and make better investment decisions. This will continue to be a focus into the years ahead.

Finally, we made good progress in developing our newly created dedicated risk function, which brings together our existing operational and investment risk teams. During the year, the Risk Team has reviewed and designed a revised Risk Management Framework that supports risk management as an enabler and value add towards achieving our vision and strategic priorities.

In summary, we've had a lot to keep ourselves busy with in 2018-19. I'm excited about the challenges and opportunities facing us in the year ahead as we strive to build on the success we have achieved to date.

Vale Paul Costello

Of great sadness to many of us at the Future Fund and across the broader industry, Paul Costello, the founding Chief Executive Officer of the Future Fund, passed away in November 2018.

Paul, in many ways, was the father of our successful culture at the Agency and a friend and mentor to me and others. His legacy lives on strongly here and will continue to do so for many years to come.

Acknowledgements

Thank you to the Chairman and the Board of Guardians for their continued support and guidance.

I also thank my extraordinary team at the Future Fund Management Agency for their effort and dedication across a very busy year. Every team across the business plays an important role, working together tirelessly as one team to deliver strong, long-term returns for the benefit of future generations of Australians.

I look forward to another busy and productive year ahead.

David Neal

Chief Executive Officer
Future Fund Management Agency

01

Organisation overview

We are Australia's sovereign wealth fund, investing for the benefit of future generations of Australians.

Every dollar that we make is a dollar that adds to Australia's wealth and contributes to its future.

Our organisation

Established in 2006, we invest the assets of six special purpose public asset funds: the Future Fund, the Medical Research Future Fund, the Aboriginal and Torres Strait Islander Land and Sea Future Fund, the DisabilityCare Australia Fund, and two Nation-building Funds.

The Future Fund Board of Guardians is responsible for investing the assets of the funds, supported by the Future Fund Management Agency.

We operate independently from the Australian Government and balance the risk and return aspects of each fund's investment mandate to maximise returns.

Our funds

Each fund we manage has an investment mandate that is determined by the Australian Government under legislation.

We have no role in determining the projects and initiatives that are supported by drawdowns out of the various funds. Our sole responsibility is to invest the funds.

Future Fund

The Future Fund was established in 2006 to strengthen the Australian Government's long-term financial position.

The Fund received contributions from a combination of budget surpluses, proceeds from the sale of the Government's holding of Telstra and the transfer of remaining Telstra shares.

Until 30 June 2017 the Investment Mandate for the Future Fund was to achieve an average annual return of at least the Consumer Price Index (CPI) + 4.5% to 5.5% per annum over the long term with an acceptable but not excessive level of risk.

From 1 July 2017 the long-term benchmark return target was reduced by the responsible Ministers to CPI + 4% to 5% per annum, reflecting the changed investment environment. The return objective must continue to be pursued with acceptable but not excessive levels of risk.

While legislation permits drawdowns from the Future Fund from 1 July 2020, the Government announced in the 2017-18 budget that it will refrain from making withdrawals until at least 2026-27.

The expected continued growth in the portfolio as a result of this decision will considerably strengthen the Commonwealth's position.

Withdrawals from the Future Fund, when they are made, will help the Australian Government to meet its obligations out of Consolidated Revenue (including defined benefit pensions) and thereby ease the pressure on government finances.

Medical Research Future Fund

The Medical Research Future Fund was established in 2015 to improve the health and wellbeing of Australians by providing grants of financial assistance to support medical research and medical innovation.

The Fund's Investment Mandate is to achieve at least the Reserve Bank of Australia cash rate target + 1.5% to 2.0% per annum, net of investment fees, over a rolling 10-year term.

Payments from the Medical Research Future Fund for projects and initiatives are determined by the Australian Government in accordance with the *Medical Research Future Fund Act 2015*.

Aboriginal and Torres Strait Islander Land and Sea Future Fund

The Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILS Fund) was established in February 2019 to enhance the Commonwealth's ability to make payments to the Indigenous Land and Sea Corporation.

The ATSILS Fund was established with a capital contribution of $2 billion transferred from the Aboriginal and Torres Strait Islander Land Account.

The Fund's Investment Mandate requires the Board to target an average return, net of costs, of at least the Consumer Price Index + 2.0% to 3.0% per annum over the long term while taking an acceptable but not excessive level of risk.

During the initial transition period, as the Future Fund Board of Guardians develops a long-term strategic asset allocation, the government anticipates a return lower than the benchmark return.

Payments from the ATSILS Fund will be managed in line with the *Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018*.

DisabilityCare Australia Fund

The DisabilityCare Australia Fund was established in 2014 to help fund the National Disability Insurance Scheme (NDIS), which will support a better life for Australians with a significant and permanent disability and their families and carers.

The Fund will reimburse States, Territories and the Commonwealth for expenditure incurred in relation to the NDIS.

The Fund's Investment Mandate sets a benchmark return of the Australian three-month bank bill swap rate + 0.3% per annum calculated on a rolling 12-month basis. Investments must minimise the probability of capital loss over a 12-month horizon.

Payments from the DisabilityCare Australia Fund are managed in accordance with the *DisabilityCare Australia Fund Act 2013*.

Nation-building Funds

The Nation-building Funds, namely the Building Australia Fund and the Education Investment Fund, were established in 2008 to provide financing resources to help meet the Australian Government's commitment to Australia's future through investment in critical areas of infrastructure.

The Funds' Investment Mandates set a benchmark return of the Australian three-month bank bill swap rate + 0.3% per annum calculated on a rolling 12-month basis.

The Mandates require that investments minimise the probability of capital loss over a 12-month horizon. The assets of the Nation-building Funds are invested in a combination of short- and medium-term debt instruments.

Payments from the Funds are determined by the Australian Government in accordance with the *Nation-building Funds Act 2008*.

Building Australia Fund

The purpose of the Building Australia Fund is to enhance the Australian Government's ability to make payments in relation to the creation or development of transport, communications, energy and water infrastructure and in relation to eligible national broadband matters.

After year end the Building Australia Fund was abolished and its assets transferred to the Future Drought Fund when the *Future Drought Fund Act 2019* came into effect on 1 September 2019.

Education Investment Fund

The purpose of the Education Investment Fund is to enhance the Australian Government's ability to make payments in relation to the creation or development of higher education infrastructure, research infrastructure, vocational education and training infrastructure.

The Australian Government has announced its intention to abolish the Education Investment Fund and transfer the assets to a new fund, the Emergency Response Fund.

Investing for the benefit of future generations of Australians

Every dollar of value that we add to the **Future Fund** will strengthen the Australian Government's long-term financial position.

Our purpose

We have a clear purpose: to invest for the benefit of future generations of Australians.

Everything we do is aligned to achieving our purpose. It provides a focus for our people, their efforts and our priorities.

Every extra dollar of value that we add to the funds we manage will have a real impact on future generations of Australians.

Our business strategy

To execute our purpose, we have developed a long-term business strategy that articulates a consistent, shared understanding of the direction and priorities of the organisation.

There are a number of factors that feed into our strategy: our purpose, our strategic imperatives and pillars, our culture and values, and the strategic activities we need to focus on.

Strategic imperatives

Our strategic imperatives highlight the essential ingredients to our success. They are:

- The best portfolios to achieve our Investment Mandates.
- A well-managed organisation with a talented, motivated and engaged team.
- Efficient, effective and fit-for-purpose processes and technology.
- The trust and respect of the Australian Government, Parliament and the investment community.

Culture and values

This is how we go about doing what we do – the character and behaviour we embed into the way we act and interact:

- We **focus on what matters**. Everything we do is focused on achieving our purpose, we don't get side-tracked by distractions.
- We always **do the right thing** by our country, our organisation and our team.
- We **work together** to achieve the best outcome every time and ultimately to achieve our purpose.

The **ATSILS Fund** assists Indigenous Australians to acquire and manage land, water and water-related rights.

Every dollar that we add to the **Medical Research Future Fund** supports medical research and medical innovation.

The value we create for the **DisabilityCare Australia Fund** goes towards expenditure under the National Disability Insurance Scheme.

The **Nation-building Funds** have supported investment in areas of infrastructure such as transport, communications, energy, water, education and research.

Strategic pillars

There are three key pillars to our business strategy:

- **One team, one purpose** – we work as one team, striving to find the best possible solutions. Combining a breadth of experience and skills into a collaborative whole creates a meaningful competitive advantage.
- **Nimble and flexible** – we are broad and creative in our search for opportunities to improve the portfolio, the organisation and ourselves. We believe that being flexible, nimble and opportunity-driven will add substantial value.
- **Leveraging the best in the world** – we have access to the best investment thinkers in the world through our peers and partners. We leverage the best in the world, building strong and enduring partnerships.

Strategic activities

To deliver our business strategy, we continue to focus on, and are making good progress in, three priority areas:

1. A multi-year program of work to materially upgrade our investment data, systems and analytics capability.
2. Driving greater efficiency and productivity improvements across the business.
3. Ongoing investment in our people and culture, through the provision of training and development and a well-structured employee environment that attracts and retains high performers.

The strategic activities we have chosen to focus on reflect the context we are operating in. The number of funds we manage, and the value of these funds, has grown over the years. At the same time, the investment environment has become more complex, and the increasing sophistication of institutional investors has led to a growing level of competition for attractive investment opportunities. Adding to that, significant improvements in technology are disrupting traditional investment models and creating new opportunities to generate returns and monitor and manage risk.

Upgrading our investment data, systems and analytics capability, and using technology to drive greater efficiency and effectiveness across our business and investment processes, will give us more insight into our portfolio exposures in real time and in turn help us to generate strong returns and monitor risk. We are also investing in our people and culture because we recognise that the capability of our staff is at the heart of our success.

During the year we deployed new data and analytics tools that have improved the quality and speed by which data gets to our investment teams, and how they access it. The application of tools like DataShare, which allows investment teams to access and publish data sets, frees up our Analysts' time, which they can now spend on value-add activities, leading to real productivity gains. Read more on page 23.

Our business strategy

Our purpose is **why** we exist	**Investing for the benefit of future generations of Australians**

Our **strategic imperatives** define **what** we must do to succeed	The best portfolios to achieve our Investment Mandates	A well-managed Agency with a talented, motivated and engaged team	Efficient, effective and fit-for-purpose processes and technology	The trust and respect of Government, Parliament and the investment community

How we will achieve our purpose is by upholding our **values**	Focus on what matters	Do the right thing	Work together
Our **strategic pillars** are the **strength** behind our purpose	One team, one purpose	Nimble and flexible	Leveraging the best in the world
Our current **strategic focus** is to...	Materially upgrade our investment data and analytics	Drive greater efficiency and productivity	Invest in our people and culture

Building a technology roadmap for the future

Richard Large, Chief Technology Officer

The Future Fund has a clear high-level vision of technology, data and analytics working in harmony to support investment decisions and corporate decision making.

The role of Chief Technology Officer was created in 2018 to lead the efforts to bring this vision to life.

Improvements in technology are disrupting traditional investment models by creating new opportunities to generate returns and monitor and manage risk.

As Australia's sovereign wealth fund investing over $198 billion on behalf of future generations of Australians, we need to keep up with advances in technology and harness the opportunities they offer so we can be the most effective investor we can.

We need to determine how we can deploy the latest innovations and emerging technologies to the benefit of the performance of the funds we manage and seek to give our organisation a strategic and competitive advantage.

Recent efforts have focused on providing us with solid foundations in the key areas of data sourcing, management and consumption alongside upgrading our infrastructure and refreshing our workplace technology.

Building on these strong foundations, we have embarked on a comprehensive review of our technology and data strategy which will provide the roadmap for the next three to five years.

We are undertaking extensive research as we explore the art of the possible.

The exercise is designed to ensure the organisation makes the right strategic decisions in relation to technology and also inspire and excite the broader business as we develop and implement our plans.

It is a highly collaborative approach designed to engage teams right across the business so that we can jointly define our future state and how we get there.

We will consider how we can employ artificial intelligence and machine learning tools to improve our investment process and to generate even greater insight into our portfolio.

We will look for ways to use technology to make knowledge sharing within our organisation more efficient and enable teams from right across the business to collaborate better.

We will also explore ways to improve how we work and organise ourselves. The Future Fund operates an outsourced model so we have a great opportunity to work alongside our partners to drive innovation in our processes.

There is a lot to do and we are all excited about the challenge.

We look forward to reporting back on our progress next year.

02

How we invest

Our investment approach is based on one team working together for the benefit of the portfolio as a whole. We call this our 'one team, one purpose' philosophy.

Our team collectively channels its best ideas, irrespective of asset class, up to the total portfolio to achieve the investment objective of each fund.

We invest across public and private markets in the broad categories shown in the table on the following page. Across each category we develop an investment strategy for each fund that is consistent with its investment objectives and our approach to total portfolio construction, which is discussed further in the following pages.

For the Future Fund and the Medical Research Future Fund, we construct highly diversified portfolios that are as robust as possible to a range of plausible scenarios.

The DisabilityCare Australia Fund and the Nation-building Funds have shorter-term investment horizons. The assets of these funds are invested in a combination of short- and medium-term debt instruments.

The Aboriginal and Torres Strait Islander Land and Sea Future Fund was established in February 2019. The Fund is in a transition phase as we develop a long-term investment strategy. At 30 June 2019 the assets of the Fund were invested in a combination of cash and short-term deposit instruments.

Investment categories

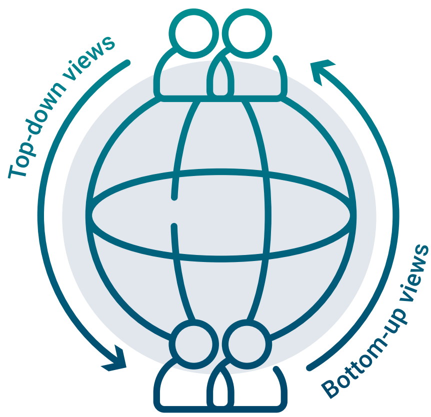
Category	Sectors covered
Alternative assets	Skill-based absolute return strategies and other risk premia providing diversity of return streams
Cash	Treasury bills, bank bills and deposits
Debt	Primarily through non-government fixed interest securities extending to mortgages, high yield credit and corporate loans
Portfolio overlays	Listed equities, developed and emerging market currency, domestic and global interest rates and portfolio protection strategies
Listed equities	Australian equities, global developed market equities, global emerging market equities, both long-only and long-short
Private equity	Venture capital, growth capital, buyout, distressed debt for control
Tangible assets	Real estate, infrastructure, timber and agricultural assets gained through public or private markets

Joined-up investment approach

When constructing the portfolio we bring together the top-down and bottom-up views. We call this being joined-up.

Our top-down people look at the global economy, financial markets and political risk, and think about how this will impact the portfolio. Their thinking is also influenced by the level and nature of the insights coming from our bottom-up people. Our bottom-up people look across the world for great assets and investment opportunities, thinking about whether they are being rewarded for the risk they are taking and having regard to the big picture context evaluated by our top-down people.

This joined-up, integrated approach means we don't set a fixed strategic asset allocation from the top and then require those allocations to be filled across each of the investment sectors. Instead our investors come together to share insights and take a whole of portfolio approach to making investment decisions. It is the cornerstone of our investment philosophy and we consider it a key comparative advantage that significantly improves the prospect of meeting our investment objective. It challenges our people to think broadly, test and challenge their views and the thoughts of their external partners, and compare the merits of any one investment versus another.



Dynamic investment process

Given that prospective returns and risks for all the different types of investment opportunities are always changing, we manage the portfolios dynamically.

By doing so we seek to extract the best possible return adjusted for the level of risk in markets and individual investments. We expect to increase risk levels when the expected reward for taking risk is high and to reduce risk levels when the expected reward for taking risk is low.

The key elements of our investment process are:

1

Foundation inputs

Our core investment beliefs inform our interpretation of each fund's investment mandate and its objectives and help us to determine our appetite for the types and levels of risk we are prepared to take in each of the funds. Our beliefs are listed on page 24.

2

Analysis of the investment environment

We develop a deep understanding of the investment environment we are operating in at any one time, along with regularly analysing a range of plausible future scenarios over multiple time horizons so that we can better understand how our portfolios might behave if conditions change.

3

Risk management and budgeting

Our investment policy framework helps us to clearly and effectively manage the risk of our funds at what we consider to be acceptable, rather than excessive, levels. Given our assessment of the environment and consistent with our investment policy framework, we then choose appropriate and mutually consistent risk settings for each of our portfolios, which are informed by their mandates. These risk budgets are dynamically managed.

4

Investment analysis and selection

Once we have decided on an appropriate risk budget for a given fund, we allocate and implement that budget through underlying investment activity. Our ongoing assessment of the investment environment provides us with insight into the behaviour of the investments we make and how they interact with each other in portfolio construction. We assess appropriate risk levels on a total portfolio level using a range of factor lenses.

Enhancing our decision-making process

We have undertaken a program of work over the last three years to evolve and optimise our investment decision-making process. This includes periodically assessing committee composition and skill-set and undertaking structured committee effectiveness exercises looking at how the committees make decisions and bring together diversity of thought.

The Investment Committee

Raphael Arndt
Chief Investment Officer (Chair)

Sue Brake
Deputy Chief Investment Officer, Portfolio Strategy

Sarah Carne
Head of Listed Tangibles

David George
Deputy Chief Investment Officer, Public Markets

Björn Kvarnskog
Head of Listed Equities

Hugh Murray
Head of Overlays

David Neal
Chief Executive Officer

Wendy Norris
Deputy Chief Investment Officer, Private Markets

Decision-making

The Agency's Investment Committee, which meets at least twice per month, provides review and decision-making in respect of the total portfolio construction and brings forward recommendations to the Board for review and approval. The Committee also oversees the management of the portfolio within the delegations agreed by the Board.

The Investment Committee is supported by the Manager Review Committee and the Asset Review Committee. Both of these Committees comprise senior representatives from across the Agency and have delegated authority from the Investment Committee to assess manager and asset due diligence.

The Committees consider detailed recommendations in relation to investment manager appointments and investment in specific assets.

Board

- **Management**
- **Investment Committee**
  - **Manager Review Committee**
  - **Asset Review Committee**

We are exploring changes to our process to ensure diversity of thought is used to enhance our decision-making, with some committees moving to seeking indicative views of committee members ahead of meetings. This will ensure that time in the meeting is focussed where it can add the greatest value. In addition, some committees no longer use sequential voting, instead voting simultaneously. We have also delivered training for committee members and chairs to help committees function as effectively as possible.

Delivering new data and analytics capability

Access to high quality information is key to investment decision-making. Over recent years we have embarked on a journey to materially upgrade our investment data and analytics capabilities.

We've made great progress.

We have completely redesigned our operating model for the sourcing, management and delivery of investment data. In the process we have established important new external partnerships to leverage best in class technology services and skills. Consequently we are enjoying a boost to the quality, scope and timeliness of the data we need to run our portfolios.

We have also built a new platform for the sharing and interrogation of data. These advanced consumption capabilities are giving us more visibility into our portfolio exposures, transforming data into insights and in turn helping us to generate strong returns and manage risk effectively.

So what does this look like in practice?

We have built a tool we call DataShare which allows our investment teams to easily access and publish data sets for consumption by other members of the investment team. Analysts need to produce data to assist in portfolio design and quantitative analysis and DataShare enables them to consolidate and manage all their required data in one centralised location. It also facilitates collaboration between teams.

We have developed business intelligence tools that can adopt new sources of information, make them readily available across our investment teams, and allow them to be easily accessed via user-friendly dashboards.

These tools are improving the quality, reliability and speed by which data gets to our investment teams, and how they access it. Improvements to our workplace technology and mobility solutions means these new tools are available wherever our staff are: in the office, at home or on the road.

The application of these tools is freeing up our Analysts' time, which they can now spend on value-add activities, leading to real productivity gains.

What's next? The development of a new technology and data strategy to determine our roadmap for the years ahead. Our Chief Technology Officer, Richard Large, discusses this on page 17.

Investment beliefs

Our investment beliefs are at the core of how we invest. These beliefs shape the way we interpret each fund's investment mandate and its objectives, and how we reach investment decisions.

We believe that:

- Success for the Future Fund, the Medical Research Future Fund and the Aboriginal and Torres Strait Islander Land and Sea Future Fund is achieving returns over rolling 10-year periods in accordance with the benchmark return of the respective mandates, while avoiding excessive downside risk.
- Success for the Nation-building Funds and the DisabilityCare Australia Fund is achieving returns over rolling 12-month periods in accordance with the benchmark return of the respective mandates, while minimising the probability of capital losses over a 12-month horizon.
- The Board is ultimately responsible for all investment decisions. The Board's role is to act as if it is the owner of the funds which belong to the Government on behalf of the Australian people.
- The Board must ensure all parties involved in the management of the funds, both internal management and external service providers, are as aligned as possible to delivery of success as defined above.
- The likelihood of meeting investment goals is directly related to the time, expertise and organisational effectiveness applied to decisions. Moreover, it is critical that a high quality and clear governance framework, incorporating adequate time and diversity of view, is in place.
- Portfolios are most efficiently managed as a whole, rather than a collection of sub-portfolios.
- Risk management should emphasise qualitative considerations, including a deep understanding of the investment environment. Quantitative measurement is important in supporting and testing this process.
- Investment risk is not well captured by a single metric, and there are additional risks that must be assessed and managed, such as liquidity, operational, counterparty and reputational risk.
- Focus should be on appropriate exposure to market risk factors because these are a stronger driver of long-term total portfolio risk and return than skill-related risk.
- A higher expected return per unit risk (investment efficiency) can be obtained from a broadly diversified allocation across different return drivers.
- Prospective returns and risks vary materially over time in a way that is at least partially observable and hence exploitable. The amount of risk taken should therefore be managed dynamically as conditions change.
- Being long-term funds, the Future Fund, the Medical Research Future Fund and the Aboriginal and Torres Strait Islander Land and Sea Future Fund can invest in illiquid assets where illiquidity is appropriately rewarded, providing opportunities to increase returns.
- Markets can be inefficient to an extent that skilful management can add value after fees. Such 'net alpha', being uncorrelated with other return streams, is extremely valuable to the total portfolio.
- The management of costs is very important to maximising returns. The Board will seek to lever the Fund's scale and market standing to reduce costs.

Partnering with investment managers

We partner with external investment managers who execute investment strategies on our behalf.

These managers have a detailed understanding of our investment strategy and our internal investment team works closely with them to seek out the best investment opportunities around the globe.

A list of our external managers at 30 June 2019 is available at Appendix A.

We prefer fewer, more meaningful, relationships with external managers. We select managers for their ability to generate information and insight, their willingness to genuinely collaborate and share knowledge and for the breadth of their collective coverage.

Our focus on alignment and building relationships has improved the quality of investment opportunities available to us and helped to make our dynamic investment process more efficient.

Using investment managers also aligns with our preference to keep our internal investment team as small and nimble as possible, while being as large as is necessary to cover our investment universe. This allows the team to focus on key investment decisions rather than being drawn into day-to-day asset management.

Our investment manager selection process is designed to deliver high quality partnerships, and to ensure that the portfolio construction does not lead to excessive concentration of manager risk in any one investment manager. We seek the best commercial terms available and favour those that are appropriately structured.

Appropriately experienced investment professionals are responsible for undertaking investment manager and asset due diligence. These professionals apply 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. We undertake regular reviews of external managers after appointment.

Due diligence incorporates assessment against agreed evaluation criteria and includes desk research, third party research, site visits and interviews.

We undertake detailed operational due diligence and use external advisers to undertake specialist due diligence or supplement the internal due diligence work as required.

Where we invest

As a global investor, we look across the world for the best investment opportunities available to maximise returns for the benefit of future generations of Australians.

We pursue strong relationships and close collaboration with our partners around the world. We share and acquire knowledge and access the best investment ideas through working with world-leading investment organisations.

As an Australian fund we are always actively looking for domestic investment opportunities. Our base currency is the Australian dollar and the return objective for our long-term funds is tied to Australian inflation.

Managing currency

In managing currency risk, we conceptually 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 explicitly manage the size and nature of the foreign currency exposures rather than allowing them to be shaped by the underlying investments.

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

Currency exposure for the Future Fund and the Medical Research Future Fund in 2018-19 is discussed in the Investment Performance section of this report. In the case of the DisabilityCare Australia Fund and the Nation-building Funds, given their higher domestic weighting and the conservative nature of these investment programs, we fully hedge all foreign currency exposures back to Australian dollars. In 2018-19, given the Aboriginal and Torres Strait Islander Land and Sea Future Fund was invested in a combination of cash and short-term deposit instruments, currency exposure was managed in line with the DisabilityCare Australia Fund and the Nation-building Funds.

Managing tax arrangements

In implementing our investment strategies we invest through various jurisdictions and investment vehicles for a variety of commercial, legal and tax reasons.

In Australia the *Future Fund Act 2006* exempts the Board from paying income tax. This reflects the fact that our earnings are owned by the Australian Government. Internationally we also benefit from sovereign immunity for tax purposes on the bulk of our investments.

Nonetheless, properly structuring our investments can be essential to maintaining our 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 our mandated objective to maximise risk-adjusted returns while not causing any diminution of the Australian Government's reputation in financial markets.

We 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. We do not invest in schemes that contravene the OECD's key principles of transparency and information exchange for tax purposes. In making investments we assess whether the jurisdictions through which we invest are regarded by the OECD as having substantially implemented the internationally agreed tax transparency standard.

Management of environmental, social and governance issues

Our approach

We believe that effective management of material environmental, social and governance (ESG) risks and opportunities will support our requirement to maximise long-term returns. The integration of ESG factors enables investors and companies to better understand the full spectrum of future risks and opportunities to which assets are exposed. Sound management of ESG factors also contributes more broadly to the development of more efficient and sustainable capital markets.

We focus on those ESG factors that have the potential to materially impact the performance of our investment portfolio and/or our reputation. Relevant ESG factors vary by industry, geography and across asset classes, but can include any of the following: environmental quality, climate change, human and labour rights, occupational health and safety, workplace culture, supply chain risks, corruption and corporate governance.

Given our long-term investment approach, we steer our focus towards the impact of ESG factors on long-term investment value and quality.

We integrate ESG factors into our investment decision-making processes, both at individual investment and portfolio levels. This approach includes the evaluation of ESG factors in direct investments, integration of ESG into the process for selecting the external investment managers responsible for individual investment decisions, and management of ownership rights.

Integrating ESG into the investment process

Governance

The Board has overall responsibility for risk management including that related to ESG factors. Our framework for managing the complex financial and reputational risks and opportunities related to ESG factors is articulated in our ESG Policy and incorporated in the Statement of Investment Policies available on our website. Our ESG Policy is consistent with our obligations under the *Future Fund Act 2006*, our investment mandates, beliefs and strategy. Our investment teams are assisted in the implementation of this Policy by a dedicated ESG team which reports directly to the Chief Investment Officer.

Transactional due diligence

We have formally integrated the consideration of ESG factors into our investment process. This includes the initial Investment Committee review of new investment opportunities and manager appointments, detailed due diligence activities, and ongoing investment monitoring and review.

Where we make direct investments, such as for direct infrastructure or property investments, or for any other investment decisions that fall outside the investment mandates with our investment managers, the evaluation of ESG factors is conducted internally. These assessments are conducted by the relevant sector team using tailored ESG review tools and supported by our ESG team with line of sight over all investment activities. In partnership with our investment managers, we may engage third party consultants for investments where ESG factors are especially complex or material. We also source ESG data and research from several specialist providers to enable us to better monitor and benchmark the ESG performance of our investment portfolios.

Partnering with our managers

Our investment model relies heavily on external investment managers to make investment decisions based on the investment strategy determined by the Board. As such, these investment managers play an important role in implementing our ESG strategy.

This model requires careful coordination and alignment between our organisation and our managers. As part of our manager selection and monitoring process we consider the extent to which the manager is effectively managing financial risks and opportunities that may arise from ESG issues. This process is underpinned by dedicated and ongoing engagement and monitoring in accordance with our Manager ESG Review Framework.

To the extent that formal or informal ownership rights accrue in the manager's portfolio, due consideration is given to the manager's ability to exercise those rights in the best interests of our organisation.

Long-term investment themes

As a large, long-term asset owner with a globally diversified portfolio, top-down views on the strategic trends that will influence outcomes for investors over the medium to long term are an important component in our capital allocation process. Many of those trends 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 (such as policies to limit global carbon emissions).

We are also interested in how disruptive innovation has the potential to impact our investment performance over different time horizons. We are integrating the assessment of these long-term themes and trends into our investment processes to enhance our capital allocation process.

Climate risk

For long-term investors, climate change presents risks and opportunities. While the exact impacts associated with climate change on financial markets are difficult to forecast, over longer timelines they are expected to be material especially for carbon intensive sectors of the economy. Moreover, climate risk may also materialise at a macro level, through changes in macro-economic conditions and financial stability. The risk to investors is exacerbated if markets are not accurately pricing these considerations.

Risks associated with the transition to a lower-carbon economy can include changes to policy settings, technology, and shifts in market dynamics. The physical impacts of climate change, manifested for example through the increased occurrence of extreme weather events, can damage infrastructure and property and cause supply chain disruptions. This can in turn result in lower productivity, reduced cash flows and impaired asset values.

As with other ESG risks, we consider climate change from a risk-adjusted returns perspective. As such, we integrate material transition and physical climate-related risks and opportunities into our investment processes. This includes understanding the potential risks to company earnings due to climate risk and to what extent markets are pricing-in carbon risk. Moreover, we monitor climate

The Future Fund invests in all segments of the economy, which means that many of our investments could be materially impacted, positively or negatively, by disruptive innovation. Given our long term, whole-of-portfolio approach, we can identify and consider material disruption themes and capitalise on opportunities to invest into disruption and manage disruption risk. Our Investment Stewardship and ESG team, including Sonia and Kerstin, have been focused on thinking about disruptive technology and how we can prepare for and take advantage of it as we look to sustain our success into the future.

performance of key portfolios and assess how our external managers are addressing climate risk.

More broadly, we are working to enhance our understanding of the impact on investment performance of the emerging methodologies designed to lower carbon risk of investment portfolios.

We also consider ESG and climate risk in our proxy voting and company engagement activities. Engagement with company boards offers us enhanced insight into the scope and management of climate risk at investee entities as well as an opportunity to share our perspectives and expectations.

As part of our diversified investment portfolio, and where the expected risk-adjusted return is attractive, we also invest in companies and technologies that seek to leverage the transition to a lower carbon economy, such as wind, solar and energy efficiency technologies.

Disruptive innovation

The world is currently experiencing a period of profound technological innovation. As new innovations are created, they provide opportunities for new business models to emerge which can materially and quickly disrupt prevalent consumption patterns and market composition. 'Disruptive' innovation themes are not typically limited to a specific industry or asset class and pose both opportunities and risks to investors.

We invest in all segments of the global economy, many of which are likely to be materially impacted by disruptive innovation. Given our long term, whole-of-portfolio approach, we are also well placed to identify and capitalise on opportunities to invest into disruption and manage disruption risk.

We are an active investor in disruption, primarily through our multibillion-dollar venture capital program but also through our hedge fund and global alpha exposures. These programs provide us access to fund managers with insights into the forefront of global technological trends. Our private equity co-investment program also provides direct exposure to pioneering firms at the cutting edge of new technological trends, such as artificial intelligence and 3D printing.

While we aim to harness the opportunities disruptive innovation offers, we are equally cognisant of the risks it poses to our portfolio, especially where our investments are illiquid and/or long tenored. For example, the introduction of autonomous vehicles may have implications for our infrastructure investments, just as the increasing influence of e-commerce may impact our retail property assets.

Predicting the impacts from disruption is inherently challenging given uncertain timelines, pathways of adoption and interdependencies of technologies. To enable us to better identify and manage these issues in our investment activities, we have created a dedicated disruption workstream within our investment team. Our disruption framework is designed to identify and evaluate key disruption trends and link these to our key investment exposures at an early stage, increase the investment team's knowledge of disruption risk and opportunities and promote greater knowledge sharing between the investment team and content specialists. Over time, we expect that these insights will be a key input into our portfolio construction activities.

Our voting principles

- Companies should disclose accurate and material information on a timely basis to allow shareholders to make informed decisions.
- Companies should respect shareholder rights and their directors should engage shareholders, particularly on major decisions.
- All shareholders should be treated equally and have the right to vote in proportion to their economic interest in the company.
- Companies should compose high calibre, commercially experienced and diverse boards of directors to provide superior business leadership and integrity.
- Boards should appropriately balance measures to protect the capital adequacy of the company with equitable treatment of shareholders.

Exercising ownership rights

We believe that good governance protects and creates investment value. Moreover, ownership rights are essential to ensuring the appointment and retention of fiduciaries of the highest quality and motivating those agents to support good governance practices and manage value creation over the long term.

Our voting principles, shown below, guide how we exercise these rights in public markets.

Voting our Australian equities shares

Voting rights in publicly listed Australian companies are exercised directly by our organisation.

Where a company resolution is found to be in conflict with our corporate governance principles or does not align with our best interests, we will consider voting against the company board. During 2018-19, we voted against Australian company boards in 8% of all resolutions.

We prioritise the application of our corporate governance principles in making these decisions. However, we also draw on the insight of our investment managers and proxy research providers.

A detailed report on how we voted our Australian shares can be found on our website, and is updated annually.

A summary of Australian voting activity during 2018-19 is presented below.

Exercise of voting rights in publicly listed Australian companies

Resolution type	Number of resolutions	FF with company board	FF abstain	FF against company board
Elect Director	456	96.7%	0.0%	3.3%
Approve Remuneration Report	189	81.0%	1.1%	18.0%
Approve Remuneration Grant	200	83.5%	0.0%	16.5%
Other Remuneration	20	95.0%	0.0%	5.0%
Capital Management	48	89.6%	6.3%	4.2%
Fees for Directors	28	100.0%	0.0%	0.0%
Mergers and Acquisitions	29	100.0%	0.0%	0.0%
Other	100	99.0%	0.0%	1.0%
Total resolutions voted	**1,070**	**91.5%**	**0.5%**	**8.0%**
Total meetings participated	**212**			
Not voted	**1/1**	Meetings/Resolutions		
Total eligible (resolutions)	**1,070**			
Total eligible (meetings)	**212**			

- Companies should establish a sound system of oversight, management and control of business risks.
- Structures that transfer power from shareholders to management or third parties to protect against takeovers are generally undesirable.
- Boards of directors should be composed to ensure the exercise of objective independent judgement on corporate affairs.
- Companies should have appropriate performance evaluation and incentive systems that align executives with long-term shareholder interests and company strategy.

Voting our international listed equities shares

We exercise all eligible voting rights in publicly listed international companies. Given the scope and complexity of corporate governance and proxy voting regimes in multiple international markets, our external investment managers advise us in exercising these voting rights. These managers, responsible for managing investments on our behalf, are well placed to evaluate good corporate governance in investee entities.

We oversee the quality of our external managers' insights into corporate governance and proxy voting as part of our Manager ESG Review Framework and by regularly evaluating their ownership policies and proxy voting decisions. We retain the right in all cases to override our managers' recommendations.

In 2018-19, we exercised proxy votes in respect of 38,102 resolutions at 3,324 shareholder meetings. In the cases where our votes were not exercised, generally our investment manager judged that it was not in our best interests to vote given structural impediments to shareholder voting (such as share blocking/re-registration or power-of-attorney requirements), or that we were ineligible to vote.

In aggregate, we voted against company boards' recommendations in 11% of all international resolutions.

A summary of international voting activity during 2018-19 is presented below.

Exercise of voting rights in publicly listed overseas companies

Resolution Type	Number of resolutions	FF with company board	FF abstain	FF against company board
Capital Management	3,975	75.7%	0.1%	24.3%
Elect Director	16,477	89.3%	1.6%	9.1%
Mergers and Acquisitions	726	89.1%	0.1%	10.7%
Other	13,173	85.5%	5.2%	9.3%
Remuneration	3,751	86.0%	1.5%	12.6%
Total resolutions voted	**38,102**	**86.2%**	**2.7%**	**11.1%**
Total meetings participated	**3,324**	Meetings		
Not voted	**4/28**	Meetings/Resolutions		
Total eligible (resolutions)	**38,130**			
Total eligible (meetings)	**3,328**			

Engagement with investee entities

Engagement with the boards of the entities in which we invest is a valuable tool for protecting our interests. Such contact is helpful in establishing a climate of long-term asset stewardship, with active oversight from investors and accountability of management to the provider of capital.

Engagement is also used as a complement to voting activities to improve analysis and the signalling power of the votes cast.

In addition, maintaining open, constructive relationships with investee entities improves fundamental investor understanding of the quality of management and the long-term drivers of value, including ESG risks and opportunities.

We engage directly with key investee entities to drive improvement in corporate governance practices and better understand the strategic risks and opportunities to which these organisations are exposed. This direct engagement is conducted mainly with Australian domiciled companies, given the size and influence of our investments in our local market, access to company boards and practical considerations. In international markets, we leverage the engagement activities of our investment managers.

Our engagement meetings are tailored to each organisation. Issues frequently tabled for discussion include: board and executive management quality, strategic priorities, remuneration, environmental and social issues, culture, and long-term value creation. Over the last five years, we have engaged with board representatives from a broad range of Australian listed companies, including across the ASX20.

Where applicable, we partner with investment managers to coordinate engagement activities with investee entities to ensure we communicate a consistent and mutually reinforcing message.

Ownership rights in private markets

Where eligible, we typically exercise the right to appoint a director to the board of an unlisted entity in which we invest directly. In some cases, such as Melbourne and Perth Airports and the Port of Melbourne, our staff sit as directors. In other cases, such as Edinburgh Airport, we have appointed high-quality directors to act on our behalf who are either employees of the relevant external manager or suitably qualified third parties selected in consultation with the manager.

We may also have the right to vote in relation to direct shareholdings in companies or pooled vehicles. In these situations, voting decisions are managed by our private markets teams. In addition, we participate wherever practical in the advisory boards of pooled vehicles that give investors a voice on certain key decisions.

Collaboration and contributing to a stronger investment system

We have a direct interest in supporting financial markets that are stable, transparent and efficient.

Collaboration with like-minded investors is an efficient and effective way of building knowledge and promoting best practice.

The interconnected nature of many of the ESG risks and opportunities faced by long-term investors makes collaboration between like-minded investors attractive.

Participating in collaborations and industry networks, including the International Corporate Governance Network (ICGN), GRESB, and Focusing Capital on the Long Term helps us to address these complex challenges. These structured multi-stakeholder initiatives are complemented by ongoing informal engagement with leading domestic and international asset owners and fund managers in identifying and promoting best practice in ESG integration.

More broadly, we are involved in industry networks that aim to improve system integrity, build new markets and advance best practice for institutional investment. These include: the Thinking Ahead Institute, the Standards Board for Alternative Investments (SBAI), the Institutional Limited Partners Association (ILPA), the International Forum of Sovereign Wealth Funds (IFSWF), the Institutional Investors Roundtable (IIR), the Pacific Pension & Investment Institute, the Australian Investment Council (AIC) and 20-20 Investment Association. Our staff have taken on leadership roles on the Board of Trustees of the SBAI, the Board of the IIR, the Board of the AIC, and advisory committees of IFSWF, GRESB and ICGN.

Portfolio exclusions

Our ESG Policy provides a framework which helps us to determine what entities and sectors are excluded from the investment portfolio for non-financial reasons.

Since 2009 we have restricted all managers of directly held investments from investing in securities issued by companies that are involved in activities that are limited by the 2008 Convention on Cluster Munitions or the 1997 Anti-Personnel Mines Convention.

In February 2013 the Board decided to restrict managers of directly held investments from investing in securities issued by entities directly involved in the manufacture of complete tobacco products.

Where serious breaches of ESG standards are identified, the Board prefers engagement over exclusion, working with the entity to improve performance. The Board reserves the option to exclude an investment for the most egregious sustained activities where the entity is unwilling or unable to change its practices.

The list of companies excluded from our portfolio under our ESG policy is available on our website.

03

Investment performance

Investment environment

Insights from our Chief Investment Officer, Dr Raphael Arndt

Across the financial year, global economic growth was stronger than expected and markets strengthened. However, long-term risks are building. The investment environment was generally positive for financial markets over the last year leading to strong returns, although it was a tale of two halves.

The global economy began the financial year showing strong momentum and synchronised growth across most major markets. Low inflation, accommodative monetary policies and low bond yields supported equity markets and delivered exceptionally strong returns to investors with very little volatility. On top of this, the prospect of tax reform and fiscal stimulus in the United States provided a further boost.

As 2018 unfolded conditions became somewhat less favourable leading to a marked pick-up in market volatility with significant falls in asset prices. An acceleration in wages in the US in February led to concerns of increasing inflation. Tighter monetary policy fed into higher bond yields and falling equity prices. Around the same time, global economic momentum peaked and showed more divergence, with European growth moderating sharply while the US continued to show strength following its fiscal package.

As the year progressed trade concerns moved to centre stage, with the US imposing tariffs across a range of industries and countries and several of the impacted countries retaliating. This led to heavy selling of risk assets in the December quarter. In the new year central banks became generally more accommodative, including signalling a tolerance for an inflation overshoot. This, together with some accommodation in the trade dispute, led markets to rally.

While economic conditions appear to have peaked for this cycle, monetary policy remains broadly supportive of growth in developed markets. Fiscal policy in the US is expected to support economic growth throughout 2019.

Beyond the next year the economic outlook becomes significantly less certain. The gradual erosion of spare capacity in developed markets may lead to inflationary pressures, particularly in the US. Setting monetary policy to ensure that the expansion is maintained while capping inflationary pressures will likely prove challenging for central banks, especially if regional differences persist.

This economic backdrop could prove challenging for financial markets and overall portfolio returns in the year ahead. Asset prices generally remain elevated despite the volatility seen in the second half of the year, and markets do not appear to be pricing in the significant risks which lie ahead.

The longer the current expansion continues, the greater the risk of imbalances or inflationary pressures that central banks will look to contain, potentially leading to a classic recession.

While this risk appears far from imminent, the forward-looking nature of financial markets means that asset values are likely to turn before any economic downturn. Also complicating the outlook is the fact that expected long-term real returns are low relative to history and become even less attractive when adjusted for cyclical and structural economic risks.

These conditions suggest a moderate exposure to risk assets is warranted. Given the uncertain path ahead, it is important to maintain portfolio flexibility to allow the level of portfolio risk to be adjusted as the increasingly uncertain outlook changes.

Future Fund

Mandate: Consumer Price Index plus 4% to 5% per annum over the long term with an acceptable but not excessive level of risk.

Earnings for 2018-2019	**$ 16.8 billion**	**Return 2018-2019**	**11.5%**
Earnings since inception	**$102.1 billion**	**Return since inception**	**8.2% pa**

Cash flow history

at 30 June 2019

Contributions		Earnings		Withdrawals		Balance
$60.5 billion	+	**$102.1** billion	–	**$0.0** billion	=	**$162.6** billion

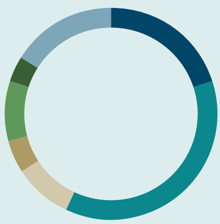
Asset allocation

at 30 June 2019

Australian equities	7%
Developed market equities	19%
Emerging market equities	10%
Private equity	16%
Property	7%
Infrastructure & Timberland	8%
Debt securities	9%
Alternatives	14%
Cash	12%

Investments by geography

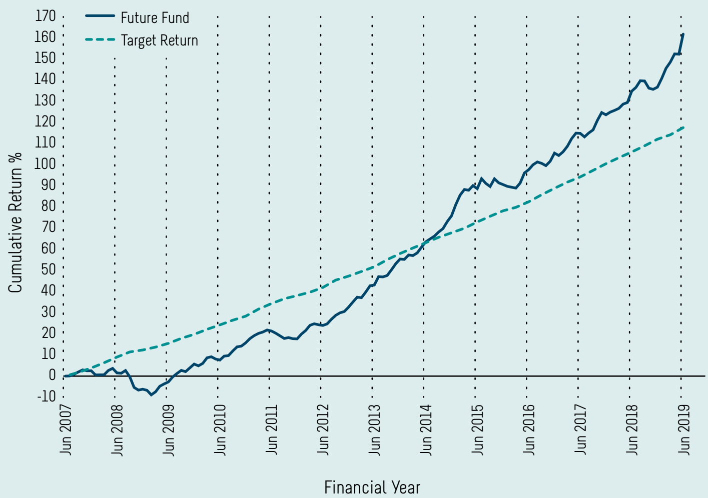
at 30 June 2019



Australia	20%
United States of America	37%
Europe (ex UK)	9%
United Kingdom	5%
Japan	9%
Developed (other)	4%
Emerging	16%

Cumulative returns

at 30 June 2019



Interpreting the Investment Mandate

The Future Fund's initial Investment Mandate was issued to the Board by the responsible Ministers in May 2006.

Until 30 June 2017 the Fund's Investment Mandate was to achieve an average annual return of at least the Consumer Price Index (CPI) + 4.5% to 5.5% per annum over the long term with an acceptable but not excessive level of risk.

A new Investment Mandate came into effect from 1 July 2017, which reduced the long-term benchmark return target to CPI + 4% to 5% per annum, reflecting the changed investment environment.

The return objective must continue to be pursued with acceptable but not excessive levels of risk.

The Fund's Investment Mandate is available at Appendix B.

As the Board pursues the Investment Mandate, it is also required to conduct itself in a manner that:

- is consistent with international best practice for institutional investment
- minimises the impact on the Australian financial markets
- is unlikely to cause a diminution of the Australian Government's reputation in financial markets.

In balancing the risk and return aspects of the Fund's Investment Mandate, our primary objectives are to:

- maximise the value of the Fund over the long term, which we define as rolling 10-year periods
- minimise the risk of significant capital losses along the way, with a particular focus on expected downside outcomes over rolling three-year periods.

There is a natural tension between these two objectives, and our investment policy framework has been designed to guide resolution of issues like this by formalising our approach to investment risk management in portfolio construction. This framework, along with the broad investment process, are described in greater detail in the 'How we invest' section of this report.

While we publicly report and discuss the performance of the Future Fund at a high level each quarter, outcomes over these short periods of time are not appropriate indicators of the likelihood of achieving the outcomes set out in the Mandate over the long term.

We explicitly reject 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 Fund. However, we appreciate that comparisons between the Fund's return and the returns of other funds with similar objectives, both locally and globally, are valid over the longer term.

Delivering returns while managing risk

As Australia's sovereign wealth fund, we recognise the responsibility and the challenge of investing the Future Fund on behalf of future generations of Australians.

The Investment Mandate of the Future Fund is to adopt an average return of at least Consumer Price Index plus 4% to 5% per annum over the long term, while taking 'acceptable but not excessive risk'.

As we invest the assets of the Fund, we are highly focused on balancing these risk and return objectives.

The Future Fund has exceeded its benchmark target and been well within its risk tolerance. Over 10 years the fund delivered 10.4% per annum, exceeding its benchmark of 6.5% per annum.

The challenge is to deliver strong returns while avoiding excessive risk. There are two key elements to it: opportunity selection and dynamic portfolio management.

Focusing on the best opportunities

Since the Future Fund was established it has focused on constructing a portfolio that can be as efficient as possible at turning risk into return.

Our team collectively channels its best ideas, irrespective of asset class, up to the total portfolio to achieve the Fund's investment objective. The intention is to uncover the best investment opportunities across all sectors. We avoid fixed asset allocations which we view as likely to constrain our thinking. Instead, we adapt our approach as circumstances warrant.

We bring together the top-down economic and market views and bottom-up asset class insights – we call this being joined up. It is the cornerstone of our investment philosophy, and we further consider it a key comparative advantage that significantly improves our prospects of meeting the Future Fund's Investment Mandate. Our top-down people look at the global economy, financial markets and political risk, and think about how this will impact the portfolio. Our bottom-up people look across the world for great assets, thinking about whether there is enough reward for the risk that is required.

By setting the big picture against local insights we generate a rich and nuanced view of the opportunities and outlook and seek out the best investment ideas for the targeted risk and return objectives in a given investment environment.

Dynamically managing a diversified portfolio

We aim to build a highly diversified portfolio that is as robust to as many plausible future outcomes as possible.

We look right through the portfolio to understand the return drivers of all the assets that we have and make sure that we're blending those in the right proportions to avoid excessive risk.

As well as accepting broad market risk we seek out opportunities where we can generate additional returns through skill and investment insights. Those skills can be in any asset class across the portfolio. For example, we have a substantial exposure to credit because it offers diversifying exposure and an opportunity for a skilled manager to add returns.

Prospective returns and risks change through time, so we manage the portfolio dynamically. We expect to increase risk levels when the expected reward for taking risk is high and to reduce risk levels when the expected reward for taking risk is low.

Risk positioning

Based on its interpretation of the Investment Mandate, the Board has an appetite for material levels of risk in the Future Fund. Nonetheless, in accordance with our investment process we aim to build a portfolio with some degree of resilience to the investment environment. We seek genuine diversification that achieves greater balance in portfolio construction while allocating risk in a flexible and dynamic manner.

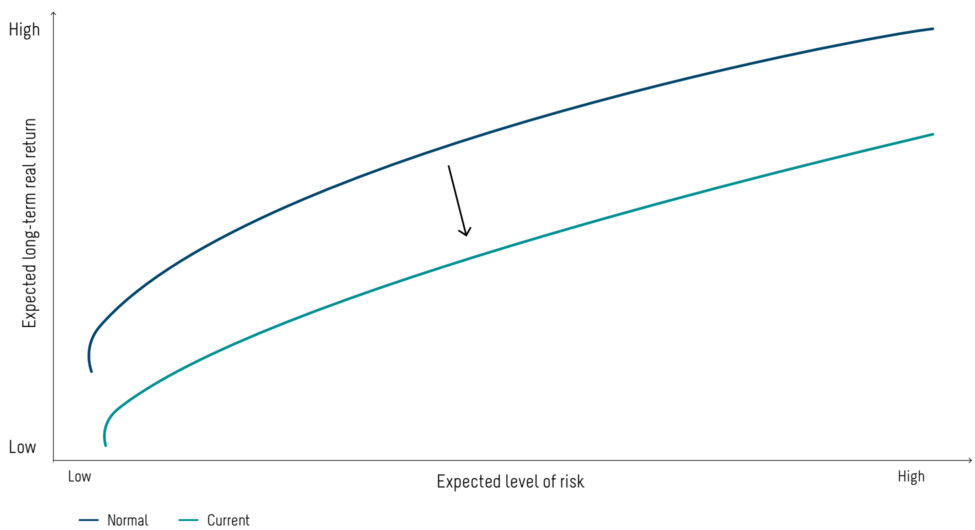
Our view is that real discount rates for risky assets are low and cash flow growth is expected to be positive but moderate over the long term, so expected real returns are below average relative to history. When we adjust these returns for risk, then the expected reward for taking more risk than we do at present is relatively unattractive. This trade-off is illustrated in stylised form in the chart below.

Our outlook on the global economy and markets is explored in more detail in our investment environment report on pages 32-33.

The broad focus of our portfolio construction in 2018-19 has been to:

- Retain high levels of portfolio flexibility to both withstand and potentially take advantage of any market dislocations that might arise.
- Be opportunistic and skill-based. Internally, and through our external investment managers, we aim to add additional return, or reduce risk, through the application of skill. Strategies that have low correlation with risk assets are particularly attractive (such as hedge funds, early stage venture capital and alternative risk premia).

Current risk/reward trade-off versus 'normal'



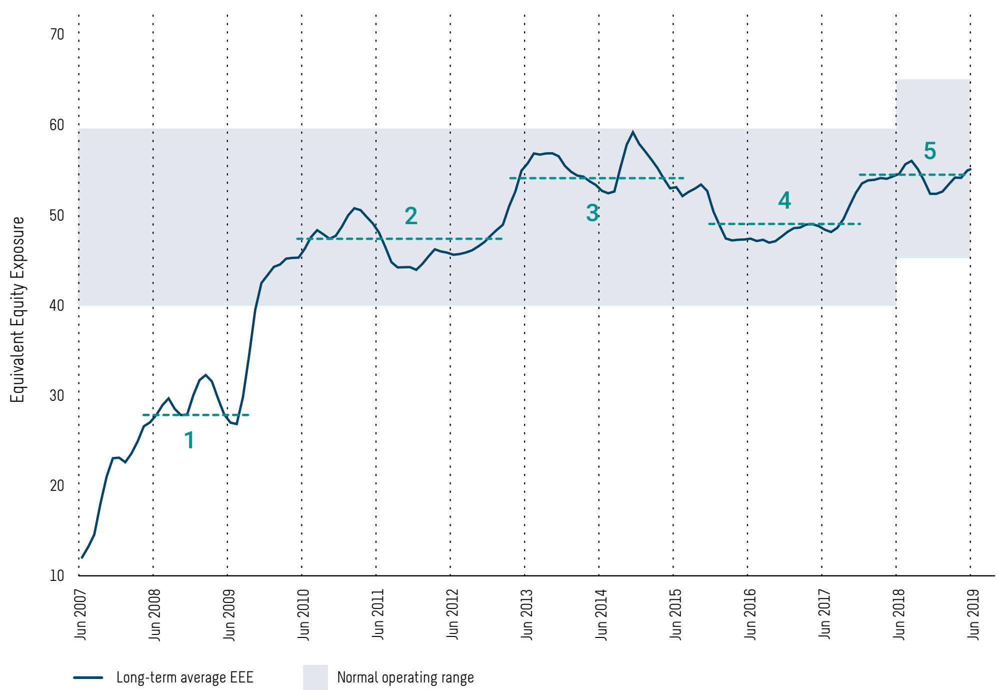
Measuring risk

One of the primary metrics we use to understand and manage the broad market risk exposure of the Future Fund is Equivalent Equity Exposure (EEE).

EEE estimates the amount of market exposure we have when looking through the whole portfolio.

Our EEE range for the Future Fund is 45-65. The average EEE in 2018-19 was 54 and at 30 June 2019 the EEE stood at 56, which is slightly above neutral.

Future Fund Equivalent Equity Exposure since inception



The chart above demonstrates how the EEE of the Future Fund has changed through time.

In 2017-18 the Future Fund's structural risk was increased to reflect the reduction in expected returns due to the market environment and the Government issuing a revised investment mandate. As a result, the normal operating risk range shifted from 40–60 to 45–65.

We are currently in the fifth distinct risk-taking regime for the portfolio since it was established.

1 Soon after inception in 2006, the build of the Future Fund portfolio was suspended in late 2007 due to concerns over financial stability and the sustainability of high asset prices, and a very low risk profile was maintained into the global financial crisis.

2 Portfolio risk exposure was increased as extraordinary and globally coordinated economic policies were implemented to fight the crisis.

3 Risk levels were raised further as the European crisis subsided and the President of the European Central Bank, Mario Draghi, committed to 'do whatever it takes' to underwrite the integrity of the Euro.

4 As expected returns declined (given strong market performance supported by low interest rates), portfolio risk was gradually reduced to moderately below normal levels.

5 Risk levels were increased towards more normal levels, reflecting the emergence of strong economic growth and corporate earnings and central banks signalling an extension of accommodative monetary policies, together with the decision to increase the Fund's structural risk appetite.

Investment Reviews

Listed equities

Strategy

The objective of the Listed Equities portfolio is to provide a liquid exposure to equity markets that generates attractive risk-adjusted returns over the long term. The portfolio structure has been tailored to benefit the risk-return profile of the total Future Fund via an enhanced beta sleeve for harvesting risk premia and a complementary alpha sleeve for accessing active manager skill.

The enhanced beta sleeve systematically harvests equity risk premia through exposure to factors that compensate for undiversifiable risk. The alpha sleeve complements this approach by investing in a skill based (stock picking) portfolio, targeting uncorrelated returns from equities management.

The opportunity set for the Listed Equities portfolio includes:

- Australian, developed and emerging markets
- physical and synthetic equity-related investments.

Report

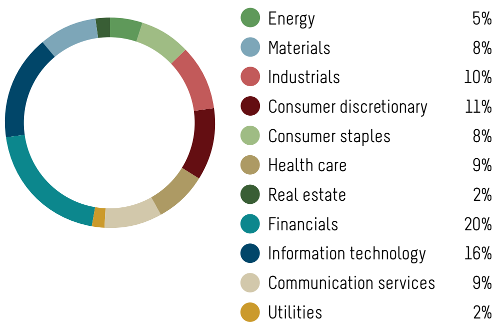
The Listed Equities portfolio was valued at $57.9 billion as at 30 June 2019. The portfolio, as a percentage of the total Future Fund, has increased from 32.1% at 30 June 2018 to 35.5% at 30 June 2019. This increase in allocation was implemented across all major regions, with a notable increase to emerging markets, reflecting attractive valuations. Our portfolio remains concentrated in global developed markets, while we continue to hold meaningful exposures to Australia and emerging markets.

Within the enhanced beta sleeve, we have refined the implementation of each sub-strategy. During the year, we further diversified our allocations to achieve a more robust balance of long-term equity factor premia and risk. We continue to maintain a defensive core via our exposure to high quality and value risk premia.

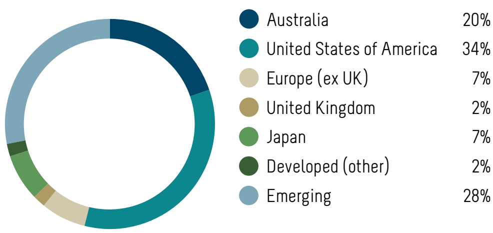
Within the alpha sleeve, our long/short portfolio continues to maintain a low exposure to equity market risk and an emphasis on stock picking skill. During the year, we increased our exposure to a number of high quality sector specialist strategies that we believe are particularly well placed in today's environment to generate equity alpha and provide niche exposures for the total Future Fund.

We believe it is important that risk premia are captured and implemented efficiently. We continue to work closely with select partners to help ensure a balanced risk premia exposure for the aggregate portfolio is achieved.

Sector exposure at 30 June 2019



Region exposure at 30 June 2019



Alternatives

Strategy

The Alternatives portfolio is designed to provide a return stream to the Future Fund that comprises a combination of active management skill based strategies and exposure to other diversifying risk premia. The returns of the portfolio should have little to no relationship with those produced from the other portfolio sectors or capital markets in general.

The opportunity set includes:

- a broad variety of specialised active management strategies within traditional asset classes
- exposure to 'alternative' or non-traditional risk premia such as momentum, volatility and insurance
- other managers or mandates which do not align well with the principal sector strategies.

The mandate flexibility of such strategies increases the Fund's exposure to diversifying active management return. We address the complexity and breadth of the Alternatives portfolio through a hybrid approach of direct manager relationships supplemented by activity with investment platforms operated by a handful of strategic partners. These partners act as an extension of our team and provide us with operational leverage.

We recognise that active manager skill is scarce, but also valuable as the ability to capture skill helps maximise the risk-adjusted performance of the total Fund. We take a value based approach to evaluating the costs of acquisition of such return streams – that is, management and performance fees. Our activity is centred on finding the right balance between identifying and accessing managers, strategies and organisations which can persistently add value while testing the market for more economic access points to the same or similar pattern of returns.

Report

At 30 June 2019 the Alternatives portfolio was valued at $22.0 billion, representing 13.5% of the Future Fund.

After significant change over the last five years, new manager investing activity has come down and the focus is on maximising high conviction core relationships as well as identifying outstanding new opportunities.

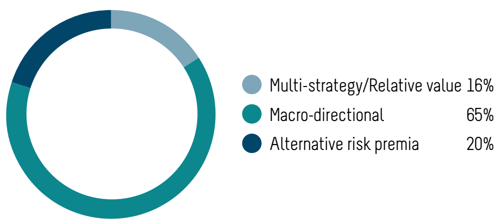
The portfolio largely delivered on its objective, providing positive returns while also offering significant protection to unexpected tail events in global equity markets. This was pleasing in a year when returns to the broader active management, hedge fund and risk premia universe of strategies were challenged. Defensive strategies were also challenged by the sharp rise in risk asset returns during 2019.

The active management industry, including hedge funds, is evolving. We have low conviction that broad industry returns will improve, so our strategy concentrates on investing with the handful of truly exceptional managers available to institutional investors. This manager set will evolve and we see signs that returns to managers who are experts in using non-traditional techniques are increasingly consistent and differentiating. We have focused our investment and research activity accordingly.

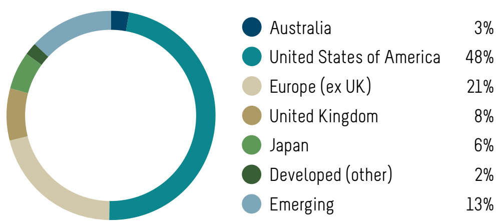
Activity within the largest sub-sector, macro-directional strategies, remained low. Performance was reasonably strong and the flexibility of managers in this space to navigate through changing environments for risk assets, in particular through the last quarter of 2018-19, was pleasing. We continue to run an active seeding program and to position the portfolio in a way which helps us identify and provide capital to mispriced assets following potential market dislocations. We graduated one seeded manager to a direct relationship during the period and have high conviction that this will become a key relationship over time.

The multi-strategy sub-sector is concentrated into our highest conviction managers. This sub-sector performed strongly with minimal sensitivity to the direction of risk assets. We continue to seek opportunities to grow our exposure to these well-resourced managers.

Strategy exposure at 30 June 2019



Region exposure at 30 June 2019



Debt

Strategy

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

- corporate credit
- securitised credit
- private debt, including corporate and mortgage loans
- emerging markets debt, denominated in both 'hard' and local currencies
- distressed and special situations credit.

The breadth and complexity of credit sub-sectors calls for our strategy, with few exceptions, to be implemented through external managers who oversee discretionary mandates.

Debt mandates and manager skillsets may be broad and multi-sector in nature or focused on specific themes, regions or sectors. Our portfolio has multiple levers through which we can dynamically access attractive opportunities as market conditions fluctuate.

Interest rate positioning is managed at the total fund level and is thus not a key component of Debt portfolio construction. Instead, the Debt portfolio's primary role is return generation, with a core of interest income ideally augmented by capital gains over time. We aim to deliver strong risk-adjusted returns with more downside protection than equity-orientated investments.

Report

At 30 June 2019 the Debt portfolio was valued at $14.6 billion, representing 9.0% of the Future Fund.

2018-19 was another positive year for debt markets. Credit market fundamentals remained generally robust, with low credit spreads offsetting modest leverage increases, and default levels remained low. However, concerns about future global economic growth, the path of interest rates, and trade disputes were enough for investors to retreat from risk assets, including credit, at the end of 2018. The US Federal Reserve's pivot to easier monetary policy in early 2019 encouraged investors to take risks. Ultimately credit markets ended the fiscal year about where they began, providing a year of interest income for investors who held firm through the volatility.

As a result, debt markets generated moderate returns, and so did our portfolio, with gains across all sub-sectors.

Consistent with a view we have held for some time, we continue to believe we are in the later stages of the credit cycle. We do not expect a plethora of defaults in the near term, but as and when conditions change, lenders may not be as well protected as in previous cycles. In addition to historically high leverage levels, nearly all new issuance in broadly syndicated US and European corporate credit is 'covenant-lite', which means that lenders have few avenues to properly monitor and arrest the decline of struggling borrowers.

At the same time, most credit sectors see pricing at or near historically tight spread levels, leaving little compensation for the added risk of such unfavourable structures. While each bond or loan is unique, we question if credit markets in general are adequately compensating investors for the risk of default levels and potentially lower recoveries on defaulted bonds or loans.

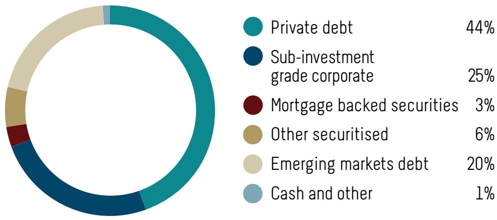
Our strategy remains one of discipline, patience and preparation. We have continued to reduce exposure, particularly to liquid corporate credit and mortgage-backed securities.

Our private debt program remains the largest debt sub-sector allocation. This program provides capital to a range of borrowers in developed markets around the world, with lending secured by collateral such as corporate assets and cash flows, property and infrastructure. We have built partnerships with several managers and plan to maintain this exposure while providing additional capital prudently as conditions warrant.

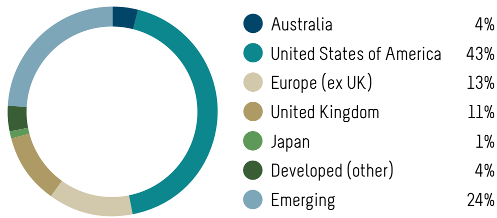
We continue to believe that emerging market sovereign and corporate bonds can provide valuable portfolio diversification benefits. However, developments in global trade and other macroeconomic conditions and the potential for volatility in capital flows continue to lead us to approach this sub-sector with some caution.

Our distressed debt, investment grade and high yield credit and mortgage-backed securities allocations are focused as much as possible toward idiosyncratic opportunities instead of general 'credit beta'. We continue to harvest gains from these sub-sectors as value is realised.

Strategy exposure at 30 June 2019



Region exposure at 30 June 2019



Infrastructure and Timberland

Strategy

The Infrastructure and Timberland strategy is designed to assist the Future Fund in meeting its investment mandate, by providing inflation protection and diversification from the broader equities market. These characteristics are also expected to provide downside protection and lower volatility during periods of market downturn. We invest across the risk return spectrum, with our core assets considered more defensive, and our opportunistic assets expected to deliver a higher level of return. This reflects our investment belief that a return premium exists for illiquidity and complexity and active asset management is required to deliver this premium.

We have a long-term partnership approach with our managers and have the flexibility to access unlisted opportunities across a combination of pooled funds, co-investments, and direct asset mandates. We also invest in listed infrastructure, which we expect to provide similar characteristics to unlisted infrastructure over the longer term.

Report

At 30 June 2019 we had $12.2 billion of capital invested in the Infrastructure and Timberland portfolio, representing 7.5% of the Future Fund.

Unlisted Australian assets comprise 44.9% of the Infrastructure and Timberland portfolio. Melbourne Airport is our largest individual exposure and continues to experience significant growth in international passenger numbers, particularly from Asia. We remain attracted to Australian infrastructure exposures, given their ability to deliver low volatility, inflation linked, Australian dollar returns, consistent with our portfolio mandate.

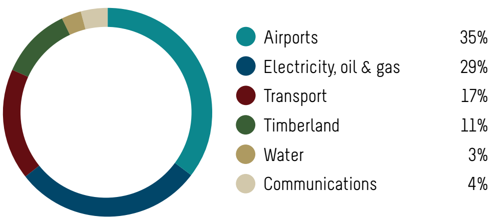
We increased our investment in timberland assets in Australia and New Zealand this year, focusing on high quality assets in the region. We are monitoring the local market for infrastructure opportunities, but we will remain highly selective as the market is very competitive.

Unlisted overseas assets represent 32.0% of the Infrastructure and Timberland portfolio and are primarily located in developed markets. Against a market backdrop of strong demand for global infrastructure and timberland assets and low interest rates, we have seen transaction processes being well supported. During the year we took advantage of this opportunity to further reduce our exposure to core assets, in particular our interest in Gatwick Airport. Our investment in Gatwick Airport has delivered excellent returns and demonstrates the success of our partnership approach with managers and our broader co-investment program. Notwithstanding the increasing level of capital being allocated to opportunistic infrastructure, we continue to believe that active managers can deliver an appropriate return premium and we supported capital raisings by existing managers during the year.

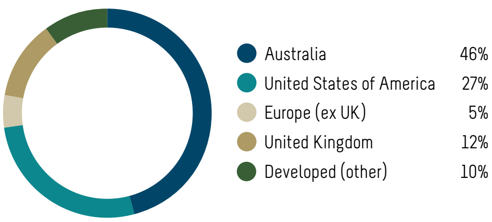
Our listed infrastructure strategy currently represents 23.1% of the Infrastructure and Timberland portfolio. Listed infrastructure has outperformed the broader equities market over the financial year, and in this context we continue to monitor valuation levels. The current level of our listed infrastructure exposure reflects our relative view of its attractiveness versus both global equities and unlisted infrastructure.

We are monitoring a number of themes with our managers, including technological disruption and evolving regulation, which have the potential to impact the infrastructure asset class. We are also focusing on our co-investment program with overseas managers, which allows us to influence portfolio construction as well as lowering average fees.

Sector exposure at 30 June 2019



Region exposure at 30 June 2019



Property

Strategy

We invest in direct and listed property across the globe.

Our property strategy is as follows:

- Access the underlying property via the optimum entry point.
- Use dynamic and flexible mandates which enable the portfolio to be positioned to meet the current market conditions.
- Invest with high-quality aligned managers that understand the macro environment, and are able to identify best relative value across markets and the risk spectrum.
- Our listed exposure seeks to provide a diversified, global listed property exposure. The risk and returns are expected to be in line with the broad market over the long term. The liquidity of the listed market also provides us the opportunity to express an investment strategy more quickly and at a lower cost than the direct market.

Report

At 30 June 2019 we had $10.9 billion of capital invested in property, representing 6.7% of the Future Fund.

Unlisted assets comprise 72% of the property portfolio. The unlisted property market remains strong, driven by strong fundamentals, low base rates, strengthening debt availability, and a weight of capital searching for investment opportunities. Valuations across several markets and sectors remain close to historical highs. We remain cautious over the medium term that the monetary policy cycle and geopolitical risks remain elevated.

We undertook a review of our property strategy during the year. This review focused on actively repositioning the portfolio to ensure it is well constructed for the current environment. A key focus of the strategy is to reduce exposure to late cycle investments and to identify and selectively invest in best-in-class managers and strategies that have a proven track record of performing well at this stage in the cycle.

We have taken advantage of favourable market conditions to sell assets where business plans are complete and have positioned our direct portfolio to be materially underweight compared with a traditional allocation to the sector.

We have tailored our current portfolio around four key characteristics, namely:

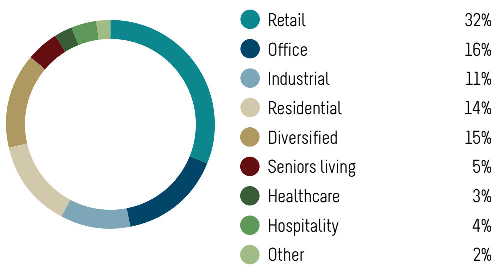
- Defensive investments: mandates in which returns are underpinned by reliable, stable income streams.
- Secular growth: mandates where returns are supported by favourable thematics or demographics including continued demand for global logistics facilities and an ageing population.
- Special situations: specific and one-off opportunities identified as a result of distress or pricing dislocation.
- Value-add: global value mandates, where managers are able to assess relative risk and return across markets.

Our direct portfolio construction reflects that real estate is inherently cyclical and granular, with different sectors and regions in and out of favour at any given moment. We retain a material weighting to the US that provides us with strong cash flows underpinned by relatively inexpensive debt.

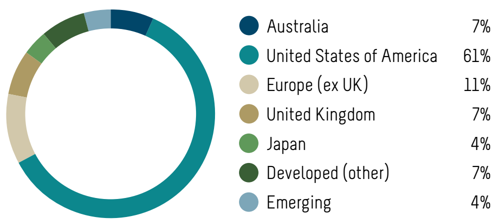
As we move forward through the cycle we will be selectively adding new managers that are positioning themselves to take advantage of market corrections. Additionally, we are investigating real estate technology companies and will continue to increase our investments in secular themes such as senior housing and logistics.

Our listed property strategy currently represents 28% of the property portfolio. Consistent with our unlisted property portfolio, we have selectively sold listed assets over the year where markets have performed strongly and valuations are not as compelling. Our current strategy in listed property is to have a broad market exposure across developed markets. The level of our listed property exposure reflects our relative view of its attractiveness verses global equities and unlisted property.

Sector exposure at 30 June 2019



Region exposure at 30 June 2019



Private Equity

Strategy

Our private equity strategy reflects our view that the asset class fulfils two functions within the Future 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 public market equity investments. Most of these investments would fall in the buyout, co-investment or secondaries categories across developed and emerging markets.

The second function is to expose the Fund to investment themes that it cannot readily gain exposure to through other more liquid investments. This includes themes such as exposing the portfolio to innovative and disruptive companies (venture and growth), 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 (venture growth equity).

Report

At 30 June 2019 we had $25.7 billion of capital invested in the Private Equity portfolio, representing 15.8% of the Future Fund.

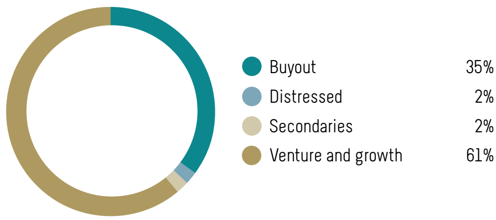
As the current economic expansion entered into its tenth year, the private equity market continued to make new deals, deliver exits and raise capital at near record levels.

The heavy competition for assets and increasing volumes of capital, across both debt and equity, into the market since 2014 has had the inevitable effect of increasing asset prices to all time highs.

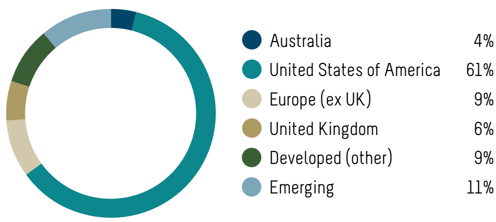
Given this backdrop, our core areas of focus remain the funding of innovation, disruptive business models and small company growth across both developed and emerging markets. We continue to look for highly disciplined managers with (among other attributes) experience in generating strong returns in volatile economic environments and which provide good access to co-investment opportunities. We are focused on alternative, more innovative and less crowded means of getting capital to work in private companies.

We continue to believe that many segments of the market are not offering sufficient return for the risks we are expected to take, which is leading us to look for more idiosyncratic return opportunities.

Strategy exposure at 30 June 2019



Region exposure at 30 June 2019



Currency

As discussed on page 25 we explicitly manage the size and composition of the foreign currency exposures in the portfolio rather than allowing them to be shaped by our underlying investments.

At 30 June 2019, we held an exposure to foreign developed market currencies equivalent to 25.8% of the total Future Fund. We expect our basket of developed market currencies to diversify the portfolio against broad market risk and generate liquidity in adverse conditions.

We also held an exposure of 15.1% of the Future Fund to emerging market currencies on 30 June 2019. We expect a diversified exposure to emerging market currencies to deliver a modest excess return through some combination of gradual real effective exchange rate appreciation and/or positive real interest rate differentials relative to the Australian dollar. Given that we expect its performance to be uncorrelated with broad market risk over the long term, we consider our basket of emerging market currencies to be an attractive risk-adjusted exposure at portfolio level.

Performance

At 30 June 2019 the Future Fund delivered a 10-year return of 10.4% per annum, exceeding its target of 6.5% per annum.

The Fund stood at $162.6 billion at 30 June 2019 with investment returns adding $102.1 billion to the seed capital from the Australian Government.

The Fund returned 11.5% in 2018-19 adding $16.8 billion in earnings.

Investment returns to 30 June 2019 are shown below, together with the target benchmark return set by the Investment Mandate.

Given the Future Fund's Investment Mandate requires us to take acceptable but not excessive risk, when assessing our overall performance we look closely at the level of risk we took in the portfolio. Capturing risk in a single number is problematic, but the table shows the level of realised volatility in the portfolio. While not perfect, this measure of risk is the standard, and perhaps best understood, industry measure.

Alongside the level of realised volatility we also report the Sharpe ratio, a measure of calculating the risk-adjusted return.

All returns are reported net of costs.

Future Fund returns, benchmark and levels of risk

Period to 30 June 2019	Return (% pa)	Target return (% pa)	Volatility (%)	Sharpe ratio
Inception (May 2006)	8.2	6.7	4.1	1.1
Ten years	10.4	6.5	3.7	2.1
Seven years	11.3	6.3	3.6	2.5
Five years	9.9	5.9	3.8	2.1
Three years	9.8	6.0	3.5	2.3
2018-19 financial year	11.5	5.6	4.4	2.3

Note:
The Investment Mandate sets a benchmark target return of at least CPI + 4.5% to 5.5% pa to 30 June 2017 and CPI + 4% to 5% pa thereafter.

Costs

Cost management

Our use of external investment managers, together with our commitment to a broadly diversified portfolio and breadth of investment classes, means that over time our costs will generally be higher than those investors with less complex portfolios.

The commitment to genuine diversification is an important facet of our investment strategy and has been beneficial to the Fund's overall performance delivering strong returns net of costs while reducing volatility. We are therefore more willing to pay higher fees where significant value is added over broad market exposure (such as private equity) or for exposures which are truly diversifying (such as hedge funds).

In asset classes where manager skill is less evident (such as listed equities), we have been transitioning the portfolio to a cheaper, more passive approach. However, we remain willing to support active management where we are confident that a manager can reliably add value net of fees.

Direct costs

Direct costs, previously reported as management costs and transaction and operational costs, reflect all directly incurred costs associated with the management of the Future Fund as reported in the audited financial statements.

The Fund's direct costs over the last three years are on the following page. This includes the direct cost ratio (direct costs divided by the average net assets for the financial year).

Changes in costs over the years reflect changes in the size of the Future Fund, investment activity undertaken during the year, and the accrual and payment of performance fees.

Look-through costs

In addition to direct costs, investment management and performance fee costs incurred indirectly through investment vehicles or where the fund is part of a co-mingled group of funds are reported as 'look-through' costs.

The look-through costs are identified by making additional enquiries of managers of non-consolidated investment vehicles to estimate the underlying management and performance fees of these entities.

In providing this additional information, we seek to provide a full and complete indication of investment management and performance fee costs.

We note that these additional cost disclosures are based on unaudited estimates and derived using a variety of methodologies, particularly with regard to performance fees which may become payable.

We employ a range of performance fee arrangements, which incorporate the use of high-water marks and claw-back provisions, to ensure as far as possible that performance fees reflect genuine outperformance over time.

It is important to note that the majority of accrued performance fees are only paid on realisation of an investment and therefore it is possible not all accrued fees will ultimately be paid.

The additional look-through costs over the last three years are on the following page.

Summary of direct costs and direct cost ratio

	2016-17	2017-18	2018-19
Direct costs	$383.1 million	$319.2 million	$311.2 million
Direct cost ratio	0.301%	0.231%	0.203%

Summary of look-through costs

	2016-17	2017-18	2018-19
Look-through costs	1.31%	1.34%	1.42%

Cost disclosures under section 81 of the *Future Fund Act 2006*

Under its statutory arrangements the Board also reports costs in accordance with section 81 of the *Future Fund Act 2006*.

Purpose	Amount debited 2016-17	Amount debited 2017-18	Amount debited 2018-19
Contracts with investment managers	$254,382,038	$291,006,497	$218,414,544
Board remuneration and allowances	$908,032	$852,505	$886,580
Agency remuneration and allowances	$38,842,944	$43,663,298	$46,856,999
Consultants and advisers to the Board and Agency	$16,064,403	$14,339,000	$16,266,996
Agency operations	$23,646,429	$23,564,832	$39,295,413

Note:

All costs reported under section 81 of the *Future Fund Act 2006* are reported on a cash basis, whereas the direct costs in the above table include accruals.

Medical Research Future Fund

Mandate: Reserve Bank of Australia cash rate plus 1.5% to 2.0% per annum over rolling 10-year periods with an acceptable but not excessive level of risk.

Earnings for 2018-2019	**$0.5 billion**	**Return 2018-2019**	**5.2%**
Earnings since inception	**$1.1 billion**	**Return since inception**	**4.5% pa**

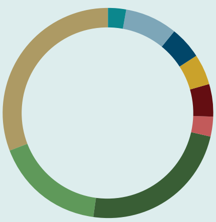
Cash flow history

at 30 June 2019

Contributions		Earnings		Withdrawals		Balance
$9.0 billion	+	$1.1 billion	−	$0.3 billion	=	$9.8 billion

Asset allocation

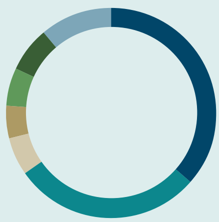
at 30 June 2019



Australian equities	3%
Developed market equities	8%
Emerging market equities	5%
Private equity	5%
Property	5%
Infrastructure	3%
Debt securities	24%
Alternatives	17%
Cash	31%

Investments by geography

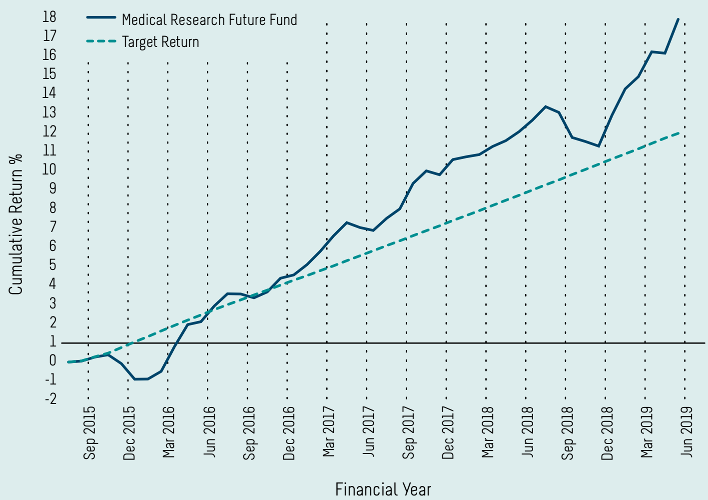
at 30 June 2019



Australia	37%
United States of America	29%
Europe (ex UK)	6%
United Kingdom	5%
Japan	6%
Developed (other)	7%
Emerging	11%

Cumulative returns

at 30 June 2019



Interpreting the Investment Mandate

The Medical Research Future Fund's Investment Mandate was issued to the Board by the responsible Ministers in November 2015 and is available at Appendix B and on our website.

The Mandate asks the Board to generate a return of 1.5% to 2.0% per annum above the Reserve Bank of Australia official cash rate over the long term while taking 'acceptable but not excessive risk'. The Board must also determine a Maximum Annual Distribution Amount taking account of:

- the principle that the nominal value of the credits to the Fund be preserved over the long term
- the principle of moderating the volatility of the maximum annual distribution.

In the same manner as the Future Fund, the Board is also required to conduct itself in a manner that:

- is consistent with international best practice for institutional investment
- minimises the impact on the Australian financial markets
- is unlikely to cause a diminution of the Australian Government's reputation in financial markets.

In managing the Fund's risk and return requirements and our role in declaring Maximum Annual Distribution Amounts, we try to:

- ensure a high probability of achieving the minimum benchmark return over rolling 10-year periods
- control the risk of losses, with a particular focus on expected downside outcomes over rolling three-year periods, so as to help preserve the nominal value of contributions over the long term
- determine a combined level of investment risk and an approach to distributions that facilitates relative predictability in distributions.

At times there may be a conflict between these competing objectives because of the so-called 'endowment trilemma', whereby:

- higher expected returns and distributions tend to increase the risk of losses
- for a given distribution policy increased investment risk increases the volatility of distributions
- adjusting the distribution policy for a given investment strategy can either decrease the volatility of distributions or the risk that capital is impaired over time, but not both at the same time.

However, our investment policy framework has been designed to guide the resolution of issues like this by formalising our approach to investment risk management in portfolio construction. This framework, along with the broad investment process, are described in greater detail in the 'How We Invest' section of this report.

Risk positioning

Based on its interpretation of the Mandate, the Board has a moderate appetite for risk in the Medical Research Future Fund on average. In accordance with our investment process, we also aim to build a portfolio with a relatively high degree of resilience to the investment environment. We seek genuine diversification that achieves greater balance in portfolio construction while allocating risk in a flexible and dynamic manner.

One of the primary metrics we use to understand and manage the broad market risk exposure of the Medical Research Future Fund is Equivalent Equity Exposure (EEE).

EEE estimates the 'look-through' sensitivity of the portfolio to price movements in global equity markets.

Our expected EEE range for the Medical Research Future Fund is 20 to 35. The average EEE in 2018-19 was 27 and at 30 June 2019 the EEE stood at 28, which is the middle of the range.

Investment Reviews

Listed equities

Strategy

The objective of the Listed Equities portfolio is to provide a liquid exposure to equity markets that generates attractive risk-adjusted returns over the long term. The portfolio structure has been tailored to benefit the risk-return profile of the total Medical Research Future Fund via an enhanced beta sleeve for harvesting risk premia and a complementary alpha sleeve for accessing active manager skill.

The enhanced beta sleeve systematically harvests equity risk premia through exposure to factors that compensate for undiversifiable risk. The alpha sleeve complements this approach by investing in a skill based (stock picking) portfolio, targeting uncorrelated returns from equities management.

The opportunity set for the Listed Equities portfolio includes:

- Australian, developed and emerging markets
- physical and synthetic equity-related investments.

Report

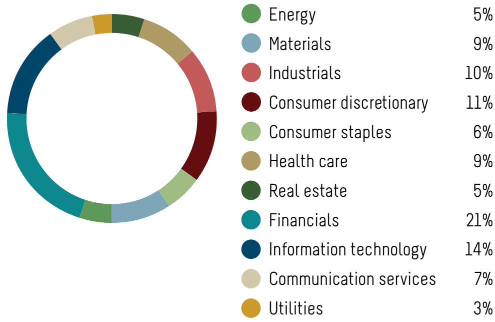
The Listed Equities portfolio was valued at $1.5 billion as at 30 June 2019, reflecting 15.2% of the Medical Research Future Fund.

Our portfolio remains concentrated in developed markets while we continue to hold meaningful exposures to Australia and emerging markets. For cost efficiency and flexibility as the Fund has grown, we have maintained exposure to market beta in domestic and offshore markets using both physical assets and futures.

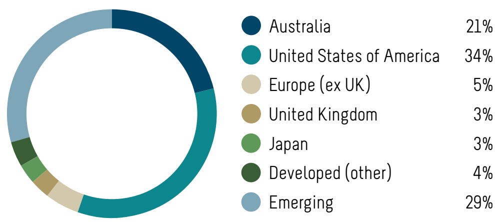
During the year, this was diversified via the implementation of an enhanced beta sleeve to capture a more robust balance of long-term equity factor premia and risk within the portfolio. We believe it is important that risk premia are captured and implemented efficiently and continue to work closely with select partners to help ensure the desired risk premia exposure for the total Medical Research Future Fund is achieved.

The exposure to alpha via long/short active equity strategies remained steady over the year.

Sector exposure at 30 June 2019



Region exposure at 30 June 2019



Alternatives

Strategy

The opportunity set includes:

- a broad variety of specialised active management strategies within traditional asset classes
- exposure to 'alternative' or non-traditional risk premia such as momentum, volatility and insurance
- other managers or mandates which do not align well with the principal sector strategies.

These strategies increase the Fund's exposure to diversifying active management return. The Medical Research Future Fund's Alternatives portfolio has a similar profile to the Future Fund and is made up of a subset of the same managers. Differences in the portfolios exist due to the different establishment date of the two funds, as well as the size and specific portfolio objectives of the funds.

We recognise that active manager skill is scarce, but also valuable as the ability to capture skill helps maximise the risk-adjusted performance of the total Fund. We take a value based approach to evaluating the costs of acquisition of such return streams–that is, management and performance fees. Our activity is centred on finding the right balance between identifying and accessing managers, strategies and organisations who can persistently add value while testing the market for more economic access points to the same or similar pattern of returns.

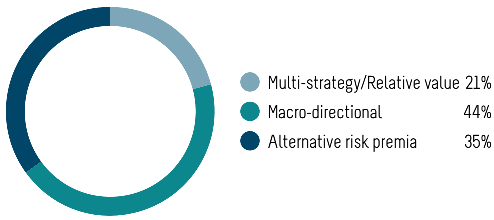
Report

The Alternatives portfolio was valued at $1.6 billion as at 30 June 2019, representing 16.8% of the Medical Research Future Fund.

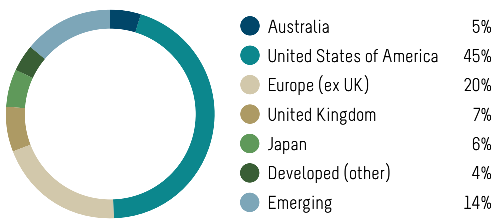
The Alternatives allocation in the Medical Research Future Fund fulfils a similar role to that of the Future Fund, which is the provision of a positive return stream which offers a diversification benefit at the total Fund level. The weightings to sub-sectors and the allocations within those subsectors will be slightly different due to the sequencing of investments as well as the different risk profiles of the two funds.

2018-19 saw limited investment activity, primarily concentrated on opportunities in the alternative risk premia subsector. Following a significant cash flow in July 2019, we expect significant investment activity in 2019-20. The increased scale will allow us to bring the expected profile closer to the more mature portfolio held by the Future Fund.

Strategy exposure at 30 June 2019



Region exposure at 30 June 2019



Debt

Strategy

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

- corporate credit
- securitised credit
- private debt, including corporate and mortgage loans
- emerging markets debt, denominated in both 'hard' and local currencies
- distressed and special situations credit.

The breadth and complexity of credit sub-sectors calls for our strategy to be, with few exceptions, implemented through discretionary mandates.

Debt mandates and manager skillsets may be broad and multi-sector in nature or focused on specific themes, regions or sectors. Our portfolio has multiple levers through which we can dynamically access attractive opportunities as market conditions fluctuate.

Interest rate positioning is managed at the total fund level and is thus not a key component of Debt portfolio construction. Instead, the Debt portfolio's primary role is return generation, with a core of interest income ideally augmented by capital gains over time. We aim to deliver strong risk-adjusted returns with more downside protection than equity-orientated investments.

Report

As at 30 June 2019 the Debt portfolio was valued at $2.4 billion, representing 24.3% of the Medical Research Future Fund.

The Fund's mandate has a lower risk profile than the Future Fund. As a result, we have built a debt portfolio which contains many, but not all, of the same sub-sectors as the Future Fund, but with a heavier tilt toward investment grade credit.

The Debt portfolio generated modest returns in 2018-19, with gains coming across all sub-sectors. A fairly sanguine risk environment, especially in the second half of the fiscal year, provided meaningful tailwinds for credit markets.

In 2018-19 we committed modest amounts of capital to distressed and middle market private corporate credit funds, and we intend to add at least one more commitment to a distressed-debt fund in 2019-20 as we continue to diversify the Fund's range of mandates.

Strategy exposure at 30 June 2019

Private debt	8%
Investment grade corporate	26%
Sub-investment grade corporate	15%
Mortgage backed securities	10%
Other securitised	17%
Emerging markets debt	14%
Cash and other	10%

Region exposure at 30 June 2019

Australia	29%
United States of America	31%
Europe (ex UK)	3%
United Kingdom	9%
Japan	3%
Developed (other)	12%
Emerging	14%

Infrastructure

Strategy

The infrastructure strategy is designed to assist the Medical Research Future Fund in meeting its Investment Mandate, by providing inflation protection and diversification from the broader equities market.

We have commenced building a globally diversified exposure to unlisted infrastructure, initially leveraging existing manager relationships to access attractive risk adjusted returns.

We also invest in listed infrastructure, which we expect to provide similar characteristics to unlisted infrastructure over the longer term. Our listed infrastructure strategy provides an opportunity to access liquid exposures based on pricing relativities. This strategy is also used to provide proxy exposure while we build our unlisted infrastructure portfolio.

Report

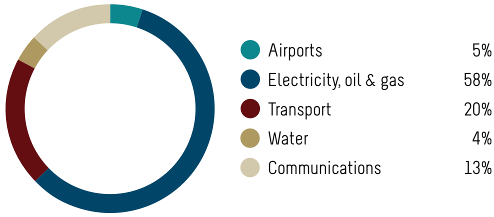
As at 30 June 2019 we had $302 million of capital invested in infrastructure, representing 3.1% of the Medical Research Future Fund.

We have made three commitments to unlisted infrastructure funds. These funds focus on global opportunistic strategies, consistent with our view that opportunistic infrastructure will provide attractive risk adjusted returns in a competitive, low interest rate environment.

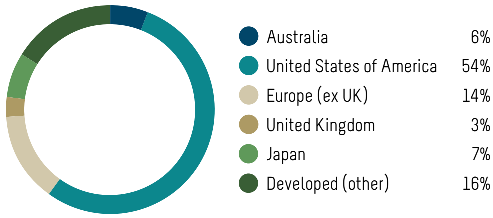
We expect the unlisted Infrastructure portfolio to grow over time. We continue to monitor the market for access to Australian and core exposures and will consider these selectively based on relative value.

During the year we initiated a passive global listed Infrastructure portfolio. While we expect to continue to have a listed infrastructure exposure over the longer term, it is likely to reduce gradually as we build our unlisted infrastructure exposure.

Sector exposure at 30 June 2019



Region exposure at 30 June 2019



Property

Strategy

Our strategy in direct property for the Medical Research Future Fund involves a concentrated build out of our highest conviction ideas. This focuses on mandates where returns are supported by favourable thematics and where our global managers can assess relative value across markets, ultimately providing superior risk-adjusted returns.

We also invest in listed property. Our listed exposure seeks to provide a diversified, global listed property exposure that is liquid. The risk and returns are expected to be in line with the broad market over the long term.

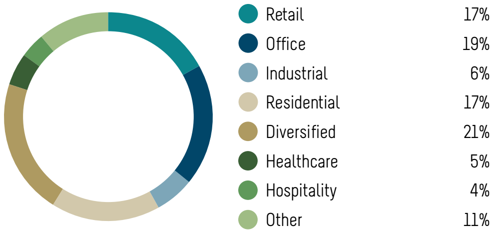
Report

As at 30 June 2019 we had $474 million of capital invested in property, representing 4.9% of the Medical Research Future Fund.

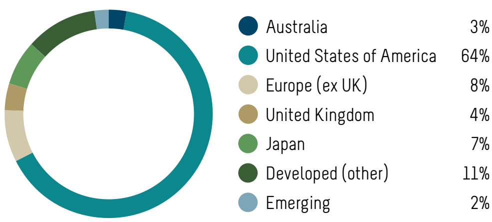
The Fund's Property portfolio build continued during the year. We made an investment alongside one of our highest conviction managers in the US.

We also initiated a passive global listed property portfolio during the year. While we expect to continue to have a listed property exposure, it is partly being used as a proxy while we build our unlisted property exposure.

Sector exposure at 30 June 2019



Region exposure at 30 June 2019



Private Equity

Strategy

We are continuing to build a portfolio of private equity exposure for Medical Research Future Fund, the majority of which will come from existing manager relationships.

Report

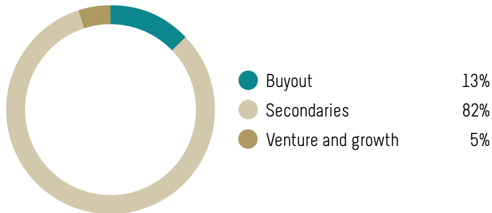
As at 30 June 2019 we had $458 million of capital invested in private equity, representing 4.7% of the Medical Research Future Fund.

The heavy competition for assets and increasing volumes of capital, across both debt and equity, into the market since 2014 has had the effect of increasing asset prices to all-time highs.

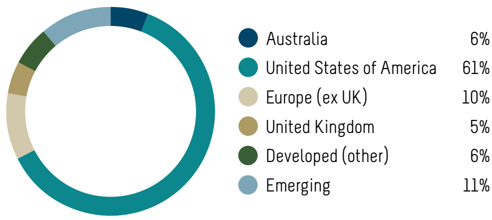
Given this backdrop, our core areas of focus remain the funding of innovation, disruptive business models and small company growth across both developed and emerging markets. We continue to look for highly disciplined managers with (among other attributes) experience in generating strong returns in volatile economic environments and who provide good access to co-investment opportunities but in doing so are focused on alternative, more innovative and less crowded means of getting capital to work in private companies.

We continue to believe that many segments of the market are not offering sufficient return for the risks we are expected to take, which is leading us to look for more idiosyncratic return opportunities.

Strategy exposure at 30 June 2019



Region exposure at 30 June 2019



Medical Research Future Fund returns and target benchmark

Period to 30 June 2019	Return (% pa)	Target return (% pa)
From inception	4.5	3.0
Three years	4.9	3.0
2018-19 financial year	5.2	3.0

Currency

As discussed on page 25, we explicitly manage the size and composition of the foreign currency exposures in the portfolio rather than allowing them to be shaped by our underlying investments.

At 30 June 2019, we held an exposure to foreign developed market currencies equivalent to 13.1% of the total Medical Research Future Fund. We expect our basket of developed market currencies to diversify the portfolio against broad market risk and generate liquidity in adverse conditions.

We also held an exposure of 6.2% of the Fund to emerging market currencies at 30 June 2019. We expect a diversified exposure to emerging market currencies to deliver a modest excess return through some combination of gradual (but incremental) real effective exchange rate appreciation and/or positive real interest rate differentials relative to the Australian dollar.

Performance

In 2018-19 the Medical Research Future Fund generated an investment return of 5.2%, exceeding its target benchmark of 3.0% per annum.

Since inception the Fund has delivered a return of 4.5% per annum, exceeding its target benchmark of 3.0% per annum.

The Fund received a contribution of $2.3 billion from the Australian Government on 10 July 2018, and at 30 June 2019 was valued at $9.8 billion.

Costs

Cost management

Our use of external investment managers, together with our commitment to a broadly diversified portfolio and breadth of investment classes, means that over time our costs will generally be higher than those investors with less complex portfolios.

The commitment to genuine diversification is an important facet of our investment strategy and has been beneficial to the Fund's overall performance delivering strong returns net of costs while reducing volatility.

We continue to closely monitor costs in the asset classes in which we invest, reviewing the expected returns and costs of implementing the investment strategy on an ongoing basis. In negotiating terms, we focus on securing arrangements that offer value for money for the skills and resources applied, that are competitive relative to other managers in the sector and that provide for strong alignment between managers and our organisation.

Every decision we make in relation to the portfolio is considered having regard to the returns and risks net of all costs, and all returns we report are always net of all costs.

Direct costs

Direct costs, previously reported as management costs and transaction and operational costs, reflect all directly incurred costs associated with the management of the Medical Research Future Fund.

The Fund's direct costs over the last three years are shown on the following page. This includes the direct cost ratio (direct costs divided by the average net assets for the financial year).

Changes in costs over the years reflect changes in the size of the Medical Research Future Fund, investment activity undertaken during the year, and the accrual and payment of performance fees.

We continued to build out and diversify the Fund's portfolio during the year. The fund is now invested across all asset classes.

Look-through costs

In addition to direct costs, investment management and performance fee costs incurred indirectly through investment vehicles or where the fund is part of a co-mingled group of funds are reported as 'look-through' costs.

The look-through costs are identified by making additional enquiries of managers of non-consolidated investment vehicles to estimate the underlying management and performance fees of these entities.

In providing this additional information, we seek to provide a full and complete indication of investment management and performance fee costs.

We note that these additional cost disclosures are based on unaudited estimates and derived using a variety of methodologies, particularly with regard to performance fees which may become payable.

We employ a range of performance fee arrangements, which incorporate the use of high-water marks and claw-back provisions, to ensure as far as possible that performance fees reflect genuine outperformance over time.

It is important to note that the majority of accrued performance fees are only paid on realisation of an investment and therefore it is possible not all accrued fees will ultimately be paid.

The additional look-through costs over the last three years are shown below.

Summary of direct costs and direct cost ratio

	2016-17	2017-18	2018-19
Direct costs	$10.1 million	$11.8 million	$14.0 million
Direct cost ratio	0.231%	0.168%	0.145%

Summary of look-through costs

	2016-17	2017-18	2018-19
Look-through costs	0.56%	0.61%	0.46%

Cost disclosures under section 81 of the *Future Fund Act 2006*

Under its statutory arrangements the Board also reports costs in accordance with section 81 of the *Future Fund Act 2006.*

Purpose	Amount debited 2016-17	Amount debited 2017-18	Amount debited 2018-19
Contracts with investment managers	$7,532,456	$9,390,187	$9,805,622
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$2,017,154	$2,271,251	$3,685,575

Note:

All costs reported under section 81 of the *Future Fund Act 2006* are reported on a cash basis, whereas the direct costs in the above table include accruals.

Aboriginal and Torres Strait Islander Land and Sea Future Fund

Mandate: Consumer Price Index plus 2.0% to 3.0% per annum over the long term with an acceptable but not excessive level of risk.

Return 2018-2019	0.9%

Cash flow history at 30 June 2019

Contributions		Earnings		Withdrawals		Balance
$2.0 billion	+	$0.0 billion	–	$0.0 billion	=	$2.0 billion

Interpreting the Investment Mandate

The Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILS Fund) was established in February 2019 to enhance the Commonwealth's ability to make payments to the Indigenous Land and Sea Corporation.

The ATSILS Fund was established with a capital contribution of $2 billion transferred from the Aboriginal and Torres Strait Islander Land Account.

The Fund's Investment Mandate requires the Board to target an average return, net of costs, of at least the Consumer Price Index + 2.0% to 3.0% pa over the long term while taking an acceptable but not excessive level of risk.

The Board of Guardians is in the process of developing a long-term investment strategy for the ATSILS Fund.

Investment review and risk positioning

While the Board develops a long-term investment strategy for the ATSILS Fund, it remains invested in a combination of cash and short-term deposit instruments.

During the initial transition period, as the Board of Guardians develops a long-term strategic asset allocation, the Australian Government anticipates a return lower than the benchmark return.

Performance

The ATSILS Fund commenced on 1 February 2019.

At 30 June 2019 the Fund had generated a return of 0.9% since inception and was valued at $2.0 billion.

Costs

Cost management

We closely monitor costs in the asset classes in which we invest, and review the expected returns and costs of implementing the investment strategy on an ongoing basis. In negotiating fee arrangements, we focus on 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 managers and our organisation.

All returns reported are net of costs.

Direct costs

Direct costs, previously reported as management costs and transaction and operational costs, reflect all directly incurred costs associated with the management of the ATSILS Fund.

The ATSILS Fund's direct costs for 2018-19 are shown below. This includes the direct cost ratio (direct costs divided by the average net assets for the financial year).

Summary of direct costs and direct cost ratio

	2018-19 (1 February 2019 to 30 June 2019)
Direct costs	$0.3 million
Direct cost ratio	0.037%

Cost disclosures under section 81 of the *Future Fund Act 2006*

Under its statutory arrangements the Board also reports costs in accordance with section 81 of the *Future Fund Act 2006*.

Purpose	**Amount debited 2018-19** (1 February 2019 to 30 June 2019)
Contracts with investment managers	$77,496
Board remuneration and allowances	-
Agency remuneration and allowances	-
Consultants and advisers to the Board and Agency	-
Agency operations	$64,383

Note:

All costs reported under section 81 of the *Future Fund Act 2006* are reported on a cash basis, whereas the direct costs in the above table include accruals.

DisabilityCare Australia Fund

Mandate: Australian bank bill swap rate plus 0.3% per annum calculated on a rolling 12-month basis while minimising the probability of capital loss.

Earnings for 2018-2019	$0.3 billion	Return 2018-2019	2.2%
Earnings since inception	$0.8 billion	Return since inception	2.4% pa

Cash flow history at 30 June 2019

Contributions		Earnings		Withdrawals		Balance
$18.6 billion	+	$0.8 billion	−	$3.1 billion	=	$16.4 billion

Interpreting the Investment Mandate

The DisabilityCare Australia Fund's Investment Mandate was issued to the Board by the responsible Ministers in July 2014 and is available at Appendix B and on our website.

In summary, the Mandate:

- benchmarks returns against the Australian three-month bank bill swap rate +0.3% per annum calculated on a rolling 12-month net-of-fee basis
- requires us to invest in such a way as to minimise the probability of capital losses over a 12-month horizon
- requires us to act in a way that:
  - is consistent with international best practice for institutional investment
  - minimises the impact on the Australian financial markets
  - is unlikely to cause a diminution of the Australian Government's reputation in financial markets
- allows for a review of the Mandate, including the benchmark return, by the responsible Ministers in consultation with the Board of Guardians.

Risk positioning

We are required to invest the assets of the Fund in such a way as to pursue the benchmark return while minimising the probability of capital losses over a 12-month horizon.

The Government has indicated that it expects to make additional capital contributions to the Fund as well as withdrawals to reimburse States, Territories and the Commonwealth for expenditure incurred in relation to the National Disability Insurance Scheme. We continue to focus on maintaining additional liquidity to help manage transaction costs and the timing of cash flows as they are confirmed.

Investment review

Strategy

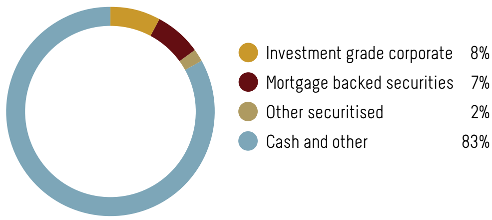
The DisabilityCare Australia Fund is designed to fund cash flows related to National Disability Insurance Scheme spending. Accordingly, we invest the Fund to provide an ample liquidity buffer to support these outflows.

Our core strategy is to invest in a combination of short- and medium-term domestic and global debt instruments, providing some yield above base cash rates while maintaining a high quality, liquid and defensive profile.

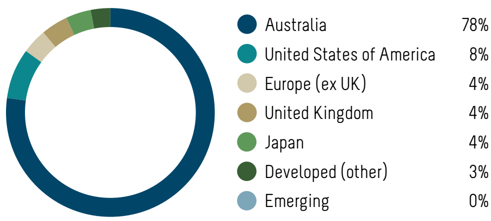
Report

Early in the life of the Fund, before withdrawals were expected, we positioned the portfolio into somewhat longer-maturity high quality credit instruments. As the expected duration of capital has fallen, we have taken steps to increase available liquidity and reduce risk. This has included broadening the active management strategy beyond a credit spread emphasis and lowering the level of credit spread duration risk.

Sector exposure at 30 June 2019



Region exposure at 30 June 2019



Performance

In 2018-19 the DisabilityCare Australia Fund generated an investment return of 2.2%, marginally below its benchmark of 2.3%.

The Fund received capital contributions of $4.3 billion from the Australian Government in 2018-19. The value of the Fund was $16.4 billion at 30 June 2019.

Costs

Cost management

We continue to closely monitor costs in the asset classes in which we invest, reviewing the expected returns and costs of implementing the investment strategy on an ongoing basis. In negotiating fee arrangements, we focus on 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 managers and our organisation.

All returns reported are net of costs.

Direct costs

Direct costs, previously reported as management costs and transaction and operational costs, reflect all directly incurred costs associated with the management of the DisabilityCare Australia Fund.

The Fund's direct costs over the last three years are shown below. This includes the direct cost ratio (direct costs divided by the average net assets for the financial year).

Changes in costs over the years reflect changes in the size of the Fund and the investment activity undertaken during the year.

Summary of direct costs and direct cost ratio

	2016-17	2017-18	2018-19
Direct costs	$4.7 million	$7.0 million	$10.8 million
Direct cost ratio	0.072%	0.065%	0.073%

Cost disclosures under section 81 of the *Future Fund Act 2006*

Under its statutory arrangements the Board also reports costs in accordance with section 81 of the *Future Fund Act 2006*.

Purpose	Amount debited 2016-17	Amount debited 2017-18	Amount debited 2018-19
Contracts with investment managers	$4,664,201	$5,836,281	$7,568,294
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$868,195	$748,573	$1,065,443

Note:

All costs reported under section 81 of the *Future Fund Act 2006* are reported on a cash basis, whereas the direct costs in the above table include accruals.

Nation-building Funds

Mandate:

Australian bank bill swap rate plus 0.3% per annum over rolling 12-month periods while minimising the probability of capital loss.

Building Australia Fund

Earnings for 2018-2019	$0.1 billion	Return 2018-2019	2.3%
Earnings since inception	$2.3 billion	Return since inception	3.5% pa

Cash flow history at 30 June 2019

Contributions $10.9 billion + Earnings $2.3 billion − Withdrawals $9.2 billion = Balance $4.0 billion

Education Investment Fund

Earnings for 2018-2019	$0.1 billion	Return 2018-2019	2.3%
Earnings since inception	$1.7 billion	Return since inception	3.5% pa

Cash flow history at 30 June 2019

Contributions $6.5 billion + Earnings $1.7 billion − Withdrawals $4.2 billion = Balance $4.0 billion

Interpreting the Investment Mandate

The Investment Mandates for the Building Australia Fund and the Education Investment Fund, known collectively as the Nation-building Funds, were issued to the Board by the responsible Ministers in July 2009 and are available at Appendix B and on our website.

In summary, each Mandate:

- benchmarks returns against the Australian three-month bank bill swap rate +0.3% per annum on a rolling 12-month net-of-fee basis.
- requires the Board to invest in such a way as to minimise the probability of capital losses over a 12-month horizon
- requires the Board to act in a way that:
  - is consistent with international best practice for institutional investment
  - minimises the impact on the Australian financial markets
  - is unlikely to cause a diminution of the Australian Government's reputation in financial markets
- allows for a review of the Mandate, including the benchmark return, by the responsible Ministers in consultation with the Board of Guardians.

Risk profile

We are required to invest the assets of the Funds in such a way as to pursue the benchmark return while minimising the probability of capital losses over a 12-month horizon.

In July 2019 the Parliament passed the *Future Drought Fund Act 2019*. The assets of the Building Australia Fund were transferred to the Future Drought Fund on 1 September 2019 with the Future Fund Board of Guardians responsible for investing the fund. The Building Australia Fund was closed.

The Government has also indicated that it intends to abolish the Education Investment Fund, with the uncommitted balances transferred to a proposed Emergency Response Fund. The timing of this process is uncertain. Accordingly, we continue to maintain additional liquidity in the Education Investment Fund portfolio.

Investment Review

Strategy

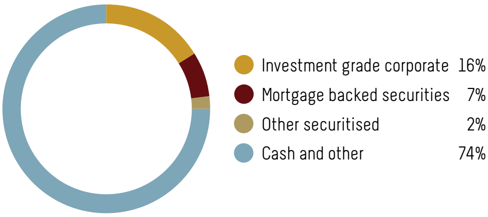
Our core strategy is to invest in a combination of short- and medium-term domestic and global debt instruments, providing some yield above the base cash rates while maintaining a high quality and defensive profile. The portfolios continue to be positioned in a highly liquid manner.

Report

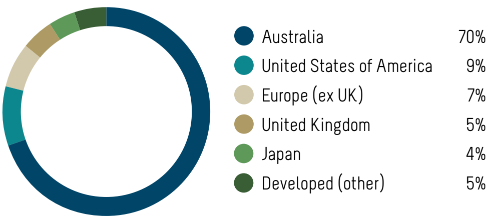
During 2018-19 we continued to manage the Nation-building Funds in accordance with their Mandates, with little activity during the period. Performance in 2018-19 was in line with the benchmark for each Fund.

Building Australia Fund

Strategy exposure at 30 June 2019

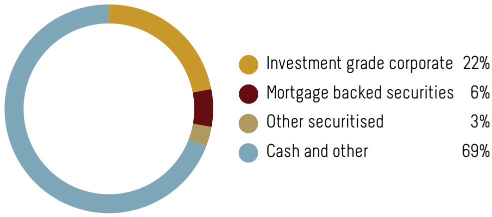


Region exposure at 30 June 2019

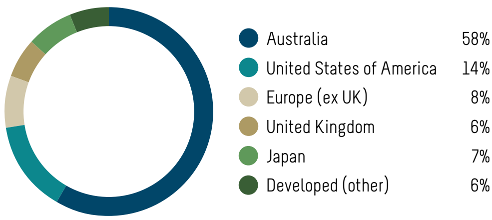


Education Investment Fund

Strategy exposure at 30 June 2019



Region exposure at 30 June 2019



Performance

The benchmark return for each of the Nation-building Funds in 2018-19 was 2.3%. Both Funds met this benchmark, each achieving a return of 2.3%.

The value of the Building Australia Fund was $4.0 billion at 30 June 2019. The value of the Education Investment Fund was also $4.0 billion at 30 June 2019.

Costs

Cost management

We continue to closely monitor costs in the asset classes in which we invest, reviewing the expected returns and costs of implementing the investment strategy on an ongoing basis. In negotiating fee arrangements, we focus on 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 managers and our organisation.

All returns reported are net of costs.

Direct costs

Direct costs, previously reported as management costs and transaction and operational costs, reflect all directly incurred costs associated with the management of the Nation-building Funds.

The Nation-building Funds' direct costs over the last three years are shown below. This includes the direct cost ratio (direct costs divided by the average net assets for the financial year).

Changes in costs over the years reflect changes in the size of the Nation-building Funds and the investment activity undertaken during the year.

Summary of direct costs and direct cost ratio

Building Australia Fund

	2016-17	2017-18	2018-19
Direct costs	$3.6 million	$3.8 million	$3.7 million
Direct cost ratio	0.097%	0.098%	0.095%

Education Investment Fund

	2016-17	2017-18	2018-19
Direct costs	$3.8 million	$4.1 million	$4.2 million
Direct cost ratio	0.102%	0.107%	0.108%

Cost disclosures under section 81 of the *Future Fund Act 2006*

Under its statutory arrangements the Board also reports costs in accordance with section 81 of the *Future Fund Act 2006*.

Building Australia Fund

Purpose	Amount debited 2016-17	Amount debited 2017-18	Amount debited 2018-19
Contracts with investment managers	$3,486,610	$3,676,473	$3,180,068
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$358,894	$294,829	$312,791

Education Investment Fund

Purpose	Amount debited 2016-17	Amount debited 2017-18	Amount debited 2018-19
Contracts with investment managers	$3,693,845	$3,993,854	$3,795,379
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$361,726	$295,548	$307,433

Note:

All costs reported under section 81 of the *Future Fund Act 2006* are reported on a cash basis, whereas the direct costs in the above table include accruals.

04

Governance and accountability

The statutory governance arrangements for the funds we manage are set out primarily in the *Future Fund Act 2006*, the *Medical Research Future Fund Act 2015*, the *Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018*, the *DisabilityCare Australia Fund Act 2013* and the *Nation-building Funds Act 2008*.

This core legislation sets out the roles and responsibilities of the Australian Government and of the Board and the Agency. In addition, the *Public Governance, Performance and Accountability Act 2013* applies to the Agency and (to a limited extent) the Board and, together with Commonwealth regulations, guidelines, procedures and orders, establishes arrangements for delegations and authorities, spending and the accounting treatment of costs, liabilities, income and expenses.

The core legislation provides the Australian 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 sets out the arrangements for contributions to and withdrawals from the various funds.

The Board 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.

The Board operates independently from the 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 annual appropriations through Parliament.
- The Board must be consulted on draft Investment Mandate Directions which must be consistent with the requirements of the legislation, and any submissions the Board makes on a draft Investment Mandate must be tabled in Parliament. The investment mandates for each of the funds define the risk and return requirements and timeframe for investment activity while 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.

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

More broadly, we are a founding member of the International Forum of Sovereign Wealth Funds (IFSWF) and fully implement the Santiago Principles. The Santiago Principles promote transparency, good governance, accountability and prudent investment practices whilst encouraging a more open dialogue and deeper understanding of sovereign wealth fund activities.

Accountability

The legislation provides accountability arrangements for the organisation, including the tabling in Parliament of an annual report and audited financial statements. We also publish quarterly portfolio updates to provide details of the investment activity and performance of our funds. Other public updates are provided in the form of published speeches and comments to the media. We are required to keep the responsible Ministers informed of the operations of the organisation and provide data to the Department of Finance for the purpose of producing its financial statements and other reports.

The nominated Minister may also, by written notice, require us to prepare reports or provide information on specified matters relating to the performance of our functions and have these published.

Statements of Expectations and Statements of Intent have also been exchanged between the then Minister for Finance and Deregulation and our organisation. These documents further delineate the responsibilities and communication arrangements between the parties and are available on our website.

We routinely appear before public Estimates Hearings of the Senate Committee on Finance and Public Administration to provide the Committee with updates on our operations and the performance of the funds. In 2018-19 we appeared at hearings in October 2018, February 2019 and April 2019. These public hearings are based upon the Outcome and Output structure detailed in the Portfolio Budget Statements.

Board of Guardians

As at 30 June 2019 the Board consisted of a Chair and six other members.

Members are appointed by the Treasurer and the Minister for Finance and selected for their expertise in investing in financial assets, managing investments or corporate governance.

Board members are appointed on a part-time basis for a term of up to five years and are eligible to be reappointed.

Hon Peter Costello AC

Chairman

Mr Costello was first appointed to the Board with effect from 18 December 2009. Mr Costello was appointed acting Chairman on 11 January 2014 and Chairman with effect from 4 February 2014 for a five-year term. He was reappointed as Chairman for another five-year term with effect from 4 February 2019.

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 has been Chair of the G20 Central Bank Governors and Finance Ministers, the OECD Ministerial Council, the APEC Finance Ministers, and a Governor of the IMF, World Bank and Asian Development Bank.

He has served as Chairman of the Independent Advisory Board to the World Bank.

Mr Costello is the Chairman of Nine Entertainment Co. Mr Costello 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 Erin Flaherty

Ms Flaherty was appointed with effect from 3 April 2016 for a five-year term.

Ms Flaherty has extensive experience in corporate governance, finance, infrastructure and law, including most recently as an Executive Director at Infrastructure NSW and Deputy Chief Executive Officer at Reliance Rail. Ms Flaherty was also an inaugural member of the Sydney Metro Authority, the independent body established to oversee the Sydney Metro rail project.

Her current appointments include Non-Executive Director of Moorebank Intermodal Company and PCYC NSW and National Chair, Professional Scholarship Selection Committee of the Australian-American Fulbright Commission.

Mr John Fraser

Mr Fraser was appointed with effect from 12 November 2018 for a five-year term.

Mr Fraser has more than 40 years' experience in leadership roles in economics, public policy, capital markets and asset management in Australia and overseas. Mr Fraser is a Non-Executive Director of AMP Limited and Judo Bank. He was Secretary to the Australian Treasury from 2015 to July 2018 serving as a member of the Board of the Reserve Bank of Australia, a member of the Australian Council of Financial Regulators and Chair of the G20 Global Infrastructure Hub.

Prior to this, Mr Fraser was Chairman and CEO of UBS Global Asset Management based in London, a member of the UBS Group Executive Board and Chairman of UBS Saudi Arabia. He also served as an Australian Stock Exchange Board Director and as Chairman of Victorian Funds Management Corporation. Prior to 1993, Mr Fraser held a number of senior positions with the Treasury over 20 years, including postings at the International Monetary Fund and the Australian Embassy in the United States.

In 2001 he received a Centenary medal for service to Australian society through business and economics.

Ms Carolyn Kay

Ms Kay was appointed with effect from 14 April 2015 for a five-year term.

Ms Kay has more than 30 years' experience in the finance sector both in executive and non-executive roles. As an executive Ms Kay worked as a banker and as a lawyer at Morgan Stanley, JP Morgan and Linklaters & Paines in London, New York and Australia. She has served as a non-executive director of enterprises across a broad range of industries.

Ms Kay is currently a Director of Scentre Group, Myer Family Investments, the Australia-China Council and in the not-for-profit sector, the General Sir John Monash Scholarship Foundation. She was awarded a Centenary Medal for services to business.

Mr John Poynton AO

Mr Poynton was first appointed with effect from 4 February 2014 for a five-year term. He was reappointed for another five-year term with effect from 4 February 2019.

Mr Poynton is Chairman of Jindalee Partners, Strike Energy Limited and Sapien Cyber Ltd and a Non-Executive Director of Crown Resorts Limited. He has previously served as the Chairman, Deputy Chairman or Non-Executive Director of a number of ASX listed companies, Federal Government boards, education institutions and not-for-profit enterprises.

Mr Poynton is an Officer in the General Division of the Order of Australia and is a past recipient of a WA Citizen of the Year award in the industry and commerce category. He holds a Bachelor of Commerce and an honorary Doctor of Commerce from the University of Western Australia.

Mr Michael Wachtel

Mr Wachtel was appointed with effect from 3 April 2016 for a five-year term.

Mr Wachtel's primary business experience is global in nature and predominantly in the area of large complex international business. Through various leadership roles in the professional services industry he has extensive experience in organisational leadership, finance, risk management and governance, including as a former Chair (Asia Pacific & Oceania) of Ernst & Young (EY) and a member of the EY Global Governance Council & Global Risk Executive Committee.

He is a Non-Executive Director of SEEK and the St Vincent's Medical Research Institute and a past President of the International Fiscal Association (IFA Australia). He holds Bachelors of Commerce and Law from the University of Cape Town and a Masters of Law from The London School of Economics.

Dr Jane Wilson

Dr Wilson was appointed with effect from 14 April 2015 for a five-year term.

Dr Wilson has had a distinguished career as an independent Director with a background in finance, banking and medicine. Dr Wilson is a Non-Executive Director of Transurban, Costa Group Holdings and an independent Director of Sonic Healthcare Ltd and the General Sir John Monash Foundation. She is also Co-Chair of the Australian Government Advisory Board on Technology and Healthcare Competitiveness. Dr Wilson was Deputy Chancellor of the University of Queensland and has previously served on boards of ASX-listed companies, Government-owned Corporations and not-for-profit companies.

Dr Wilson was awarded the 2016 Australian Institute of Company Directors Queensland Gold Medal Award for contribution to business and the wider community. She holds a Bachelor of Medicine and an Honorary Doctor of Business from the University of Queensland and an MBA from the Harvard Business School.

Board and Board Committee membership 2018-19

Board/Committee	Members
Future Fund Board of Guardians Responsible for the investment of the public asset funds in accordance with the relevant legislation and Directions.	Hon Peter Costello AC (Chair) Ms Erin Flaherty Mr John Fraser[1] Ms Carolyn Kay Mr John Poynton AO Mr Michael Wachtel Dr Jane Wilson
Audit & Risk Committee[2] Focuses on the control framework, external accountability, legislative compliance, internal and external audit and the appropriate identification and management of risks.	Mr Michael Wachtel (Chair) Ms Erin Flaherty Mr John Fraser[3] Ms Carolyn Kay Mr John Poynton AO Dr Jane Wilson
Remuneration & Nominations Committee Focuses on remuneration and appointment matters for staff and appointments to boards of investment companies.	Hon Peter Costello AC (Chair) Mr John Fraser[3] Ms Carolyn Kay Mr Michael Wachtel
Conflicts Committee Provides oversight of and advises the Board in relation to any questions of possible conflict of interest arising for Board and Board Committee members.	Mr John Poynton AO (Chair) Ms Erin Flaherty Dr Jane Wilson
Transaction Committee Provides support and assistance to the Board in respect of any transaction, matter or issue as referred to the Committee by the Board from time to time.	Hon Peter Costello AC (Chair) Mr John Fraser[3] Ms Carolyn Kay

Notes:

1. Appointed to the Board with effect from 12 November 2018.
2. Hon Peter Costello AC attends meetings as an observer.
3. Appointed to Committee with effect from 4 December 2018.

Board and Board Committee attendance 2018-19

Member	Future Fund Board of Guardians		Audit & Risk Committee		Remuneration & Nominations Committee	
	Meetings held and eligible to attend as a member	Attended	Meetings held and eligible to attend as a member	Attended	Meetings held and eligible to attend as a member	Attended
Hon Peter Costello AC	9	9	0	5	5	5
Ms Erin Flaherty	9	8	5	5	0	0
Mr John Fraser[1]	5	5	1	2	3	3
Ms Carolyn Kay	9	9	5	5	5	5
Mr John Poynton AO	9	9	5	5	0	3
Mr Michael Wachtel	9	9	5	5	5	5
Dr Jane Wilson	9	9	5	5	0	1

Notes:

The Conflicts Committee and the Transaction Committee are ad-hoc Committees. The Committees meet on an as needs basis and did not formally convene during the year.

Board Members are able to attend meetings of Committees of which they are not a member.

1. Board term commenced on 12 November 2018 and Remuneration & Nominations, Audit & Risk and Transaction Committees membership commenced with effect from 4 December 2018.

Future Fund Management Agency

The Board is supported by the Future Fund Management Agency. Employed under the *Public Service Act 1999*, the Agency comprises professionals from a range of sectors including finance, investment, legal and corporate services, who are responsible for making recommendations to the Board on the most appropriate investment strategy for each fund, and for the implementation of these strategies.

The Chair of the Board is the Accountable Authority for the Agency, although operational management has been delegated to the Chief Executive Officer. In 2018-19 the Chair of the Board and the Accountable Authority for the Agency was Hon Peter Costello AC.

The Agency's Management Committee, led by the Chief Executive Officer, is accountable for the operations of the Agency. At 30 June 2019 the Management Committee comprised the Chief Executive Officer, General Counsel and Chief Risk Officer, Chief Culture Officer, Chief Operating Officer, Chief Financial Officer, Chief Investment Officer, and Chief Technology Officer.

Mr David Neal

Chief Executive Officer

Mr Neal joined the Future Fund in 2007 as the organisation's first Chief Investment Officer where he established the Fund's investment team and built and designed the Fund's investment model, including its distinctive 'one team' investment approach.

Mr Neal was appointed as Chief Executive Officer of the Future Fund Management Agency in 2014 and is responsible for the leadership and strategic direction of the Agency and supporting the Future Fund Board of Guardians.

Prior to joining the Future Fund, Mr Neal spent 15 years with Willis Towers Watson where he started his career in the United Kingdom. He went on to establish and lead the firm's investment consulting business in Australia, building it into one of the leading investment consulting businesses in the country. As Head of Investment Consulting at Willis Towers Watson Australia Mr Neal led the team providing advisory services to the Future Fund when it was first established in 2006.

Mr Neal is a Director of Perth Airport, a member of the MSCI Advisory Council, and a member of the ASIC External Advisory Committee. He holds a Master of Arts (Hons) in Electronic and Structural Materials Engineering from St Edmund Hall, Oxford University.

Dr Raphael Arndt

Chief Investment Officer

Dr Arndt has held the role of Chief Investment Officer since 1 September 2014. In March 2018 Dr Arndt took on a number of responsibilities previously held by the Chief Investment Strategist. Prior to his appointment as Chief Investment Officer, Dr Arndt had been Head of Infrastructure and Timberland since 2008.

Dr Arndt is Chair of the Investment Committee and a Board Member of the Melbourne Lord Mayor's Charitable Foundation. He has previously been an Investment Director with Hastings Funds Management and has also held infrastructure policy positions with both the private sector and the Victorian Department of Treasury and Finance. Dr Arndt started his career as an engineer working with Ove Arup & Partners.

Mr Richard Large

Chief Technology Officer

Mr Large joined the Future Fund in 2019. He was formerly Global Head of Business Systems at Aberdeen Asset Management for 15 years and has over 25 years of experience in the Investment Management industry. Mr Large has implemented investment capabilities to support portfolio management for a wide range of asset types including Equities, Fixed Income, Multi-Asset, Quants, Private Equity, Fund of Funds and Property. He previously held senior technology and operations roles at Prudential Portfolio Managers and M&G Investments.

Mr Paul Mann

Chief Financial Officer

Mr Mann commenced his role as Chief Financial Officer in 2007. He served as acting Managing Director between 1 March and 4 August 2014. He 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.

Mr Gordon McKellar

Chief Operating Officer

Mr McKellar joined the Future Fund in 2007. He has over 30 years' of operational experience in funds management and asset servicing. He was previously Head of Operations at BNP Paribas Securities Services and prior to this held a number of operational and client management roles with Deutsche Bank and Bankers Trust in Edinburgh, New York and Sydney.

Ms Elizabeth McPherson

Chief Culture Officer

Ms McPherson joined the Future Fund in 2010 and has held the position of Chief Culture Officer since 2014. In 2016 Ms McPherson's responsibilities of people, culture and communication were expanded to include strategic project management and in March 2018 change management and planning was added to create a business unit focused on organisational development.

Ms McPherson has a Masters in Leadership, Postgraduate qualifications in Change Management and in Employee Relations as well as undergraduate qualifications in HR and Business. Ms McPherson was part of the Promina Insurance leadership team when it merged with Suncorp in 2007 and remained with Suncorp until 2010, leading organisational design and change management initiatives. Previously she worked with CSL and Wesfarmers, Mandarin Oriental Hotel Group Hong Kong and with the South African Government.

Mr Cameron Price

General Counsel and Chief Risk Officer

Mr Price joined the Future Fund in March 2014 as General Counsel. He took up the additional position of Chief Risk Officer in March 2018. Previously he was a Partner and Board member at law firm Allens Linklaters, where he had 25 years of experience in corporate law, with particular expertise in mergers and acquisitions, private equity, equity capital markets and corporate governance.

Risk management

We believe that effective governance of our own operations is essential to the successful pursuit of our objectives. In particular, we are focused on the prudent management of risk.

The organisation, along with many financial institutions, has adopted the 'Three Lines of Defence' model for risk governance. This model is built around three elements which we have adapted to suit our organisation:

1. First line of defence is the business. The business 'owns' each risk and must ensure that there are controls in place to appropriately manage the risk within the Board's risk appetite. The business is responsible for identifying, analysing, managing, monitoring and reporting risks.
2. Second line of defence is the independent Risk Team, led by the Chief Risk Officer. This team develops the organisation's risk management framework to promote effective and consistent risk management across the organisation, assists and supports the business in developing its risk management policies, systems and controls, and provides independent review and challenge of the first line. The Risk Team reports periodically to the Board, Board Committees and Agency Committees. The Risk Team considers organisational risk management from a strategic perspective as well as at the individual key risk level.
3. Third line of defence is an independent internal audit function which is outsourced. The function provides independent assurance that the risk management framework is appropriate and is operating effectively (including through independent control testing).

Monitoring and managing risk

We consider risk in three broad categories: investment risk, operational risk and external risk:

1. Investment risk – risks for which we expect to be compensated. These risks often cannot be eliminated, particularly if they are of a strategic nature, nor are they inherently undesirable if they are compensated by expected returns. We therefore seek to optimise rather than minimise investment risks.
2. Operational risks – risks for which we do not expect to be compensated. While some level of operational risk is unavoidable in practice, normally we are not compensated for it (ie higher operational risk is not usually expected to produce higher expected returns). This makes operational risk inherently undesirable and hence we seek to take all reasonable measures to minimise it without imposing excessive costs or constraints on our strategy, decision making or operations.
3. External risks – risks that arise from external events which are outside the organisation's control. These external events usually have a very low probability of occurrence (or at least their form and timing are not predictable) or they are difficult to envisage. They may include natural disasters or terrorism with immediate and major impact, or geopolitical or regulatory change with long-term material impact. These are also likely to be inherently undesirable, but since they are outside our control they cannot be minimised or optimised. We therefore seek to prepare for such events and manage their impact should they occur.

The Board has overall responsibility for risk management for the organisation. This includes setting the risk appetite and acceptance of the residual risk rating for each key risk identified in the organisation's Risk Register. The Board sets the investment risk appetite (via control ranges, limits ad other directions) within which the Agency's relevant investment team should operate.

The Board's Audit & Risk Committee has been established to provide assurance to the Board that the risks as detailed in the organisation's Risk Register are appropriately identified and managed and to provide assurance and assistance to the Board on the organisation's risk, control and compliance frameworks.

The Agency operates a number of committees which are directly involved in the oversight of risk management as documented in their respective charters, including:

- Management Committee
- Investment Committee
- Operational Risk & Compliance Committee.

Each Agency committee considers risks within the scope of its oversight role. For example, the Investment Committee has oversight of investment risks.

Risk culture

Risk culture is a key component of the broader organisational culture. The Risk Team assists in promoting a positive risk culture by:

- championing quality risk conversations at key Agency and Board Committees
- steering the organisation towards appropriate responses to incidents, including any appropriate training or adjustments to control
- developing and implementing a framework that facilitates clarity of individual roles, responsibilities and accountabilities.

Internal audit

Deloitte Touche Tohmatsu provides internal audit services reporting to the Audit & Risk Committee and has full access to staff and information when conducting its reviews.

The Audit & Risk Committee receives internal reports and monitors management action in respect of these reports.

During the year, the Committee has met separately with the internal auditors in the absence of management.

External audit

The Australian National Audit Office undertakes the external audit of the organisation, engaging a professional accounting firm to assist in this process.

The Audit & Risk Committee receives external audit reports and monitors management action in respect of these reports.

During the year, the Committee has met separately with the external auditors in the absence of management.

Fraud control

The Agency undertook a regular fraud and corruption risk assessment and updated its Fraud and Corruption Control Plan during the year which was reviewed and approved by the Agency's Operational Risk & Compliance Committee and the Board's Audit & Risk Committee.

Fraud and corruption control initiatives are embedded into the Agency's internal control framework. Key controls such as segregation of duties, approval hierarchies, dual signatories and third party due diligence form part of the mitigation strategies.

Cyber security

As part of the Agency's internal control framework, a specific IT risk management framework has been established to provide assurance that IT-related risks, including cyber risk, are identified, managed and monitored. A defence-in-depth cyber security strategy has been implemented to assist in identifying, managing, and monitoring the cybersecurity landscape, threats, technologies and controls.

05
Our people

Life at the Future Fund

We all want to make a difference in some way. What we do at the Future Fund every day will make a difference to all Australians.

Our people come to work every day expecting to do meaningful work with the opportunity to learn and contribute to the success of our organisation.

Our 'one team, one purpose' philosophy drives our culture and the way we work. The philosophy extends into all aspects of our organisation.

We are committed to providing our staff with a positive culture, exemplified by colleagues and leaders who respect and care about each other, where staff challenge and support each other to be their best and where people are acknowledged and rewarded for their contributions.

Our values define how we approach our work. They are:

- We **focus on what matters**. Everything we do is focused on achieving our purpose, we don't get sidetracked by distractions.
- We always **do the right thing** by our country, our organisation and our team.
- We **work together** to achieve the best outcome every time and ultimately to achieve our purpose.

Investing in our people and culture

We recognise that the capability of our staff is at the heart of our success. That is why our organisation's business plan identifies investing in our people and culture as one of our three key strategic priorities.

Progress in 2018-19

Investing in our leaders

We recognise the critical importance of leadership in building and maintaining a strong culture and positive working environment, and in extracting the best from our workforce.

Over the last three years we have increased our focus on leadership development, reflecting that leaders of a growing organisation face new demands. This has included delivering in-house training for managers on leadership fundamentals and project leadership.

In the year ahead, we will build on this investment in our leadership layer through a comprehensive, multi-module leadership program designed specifically for our context and needs.

Developing our people

We have a well-established training policy with professional development budgets available for all staff.

In 2018-19 we launched a new online tool called *mylearning* which has become the central location for employee development. Through this tool we are delivering online training modules to assist new starters during their onboarding and induction. We have also developed a set of compliance training modules for ongoing staff on a broad range of topics, including information protection and disclosure, dealing with inside information, and reputation risk awareness.

Through *mylearning* staff can also access an online training planner where they can capture all external development activities they have undertaken. This professional development record will assist our staff to track their development as they move through their career.

Bedding down the organisation of the future

In 2017-18 we were focused on designing how our organisation needed to operate going into the future. This included making a range of changes to our

During the year Richard Large, Chief Technology Officer, Sue Brake, Deputy Chief Investment Officer, Portfolio Strategy, and Daniel Doyle, Head of Investment Data Management joined our organisation, further strengthening our investment, data and technology functions as the organisation matures and goes into its second decade.

structure to strengthen our investment, technology and risk functions as the organisation matures and goes into its second decade.

In 2018-19 we focused on bedding down the restructure, including appointing internal staff and external hires to key leadership positions.

Flexible working

We are committed to creating a workplace where everyone feels that there is a healthy balance in all they do. We believe this will support a culture of inclusion, trust and respect and will encourage innovation, creativity, productivity, discretionary effort and focus.

Our *mytime* policy enables staff to make choices about when, where and for how long they engage in work-related tasks, supporting staff to manage their own time to balance the multiple demands from life and work. During 2018-19, 13 employees accessed *mytime* arrangements.

In addition to *mytime*, formal flexible work arrangements are available to all staff. This includes personal leave arrangements for primary and secondary carers. At 30 June 2019, 21 employees had flexible work arrangements in place.

Diversity and inclusion

We focus on diversity and inclusion because it's the right thing to do. We also believe the best business and investment decisions are made by teams that can bring together diverse views.

We continue to make good progress against our Inclusion and Diversity Plan, which provides a framework for how we will achieve an inclusive and diverse culture.

The strategies and initiatives we have put in place include:

- encouraging females within our organisation to apply for senior roles
- encouraging the executive recruitment agencies we work with to provide balanced shortlists in terms of gender representation, as well as a greater mix of cultural backgrounds
- implementing our flexible work arrangement, *mytime*, which allows our people to manage their time in a way that works for them
- improving our technology capability to support flexible work practices
- delivering interview training for hiring managers which includes unconscious bias training to raise awareness which can lead to changes in behaviour.

Work, health and safety

Employee safety and wellbeing continues to be a focus for the organisation.

Our Work Health & Safety Committee operated throughout the year and undertook safety audit reviews of the office spaces.

We ensured new staff were informed of our ergonomic principles of work space management. First aid and fire warden training was also provided.

A range of wellbeing initiatives including health checks and awareness programs were delivered throughout the year.

We recorded no lost-time injuries for the period.

Our workforce

Our workforce at 30 June 2019 was 155 staff.

We welcomed 22 new starters during the year: 13 were replacements for existing roles, and nine were for new roles. We had 25 internal promotions and five internal secondments.

Our central office is located in Melbourne. We have an office in Sydney and a small number of staff have arrangements in place to regularly work across both locations.

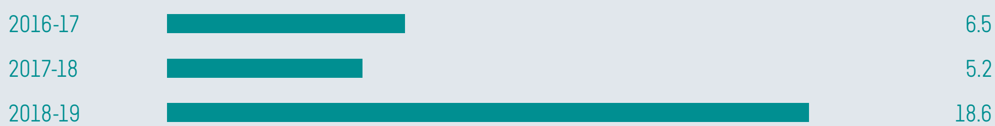
A strong positive culture and high level of engagement is reflected in the Human Resource statistics: lost time injuries – nil; absentee rate – 1.7%. We anticipated that our turnover rate would increase as a result of our restructure. Typically it is single figures, however this year it was 18.6%. This includes positions made redundant as a result of the restructure.

Headcount by business area at 30 June 2019

Notes: Other includes: CEO's Office, Public Affairs & Strategic Relations, Organisational Development and Legal.

Absenteeism rate (%) over time

Turnover rate (%) over time



A full breakdown of our workforce in accordance with the reporting requirements under the PGPA Act is on the following page.

All Agency staff are employed under the *Public Service Act 1999*.

Ongoing employees at 30 June 2019

	Male			Female			Indeterminate			Total
	Full-time	Part-time	Total Male	Full-time	Part-time	Total Female	Full-time	Part-time	Total indeterminate	
SES 3	1	–	1	–	–	–	–	–	–	1
SES 2	3	–	3	–	–	–	–	–	–	3
SES 1	–	–	–	–	–	–	–	–	–	–
EL 2	26	3	29	12	–	12	–	–	–	41
EL 1	8	–	8	3	–	3	–	–	–	11
APS 6	12	–	12	11	7	18	–	–	–	30
APS 5	12	–	12	13	2	15	–	–	–	27
APS 4	6	–	6	18	4	22	–	–	–	28
APS 3	–	–	–	1	1	2	–	–	–	2
APS 2	–	–	–	2	–	2	–	–	–	2
APS 1	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–	–
Total	**68**	**3**	**71**	**60**	**14**	**74**	**–**	**–**	**–**	**145**

Non-ongoing employees at 30 June 2019

	Male			Female			Indeterminate			Total
	Full-time	Part-time	Total Male	Full-time	Part-time	Total Female	Full-time	Part-time	Total indeterminate	
SES 3	–	–	–	–	–	–	–	–	–	–
SES 2	–	–	–	–	–	–	–	–	–	–
SES 1	–	–	–	–	–	–	–	–	–	–
EL 2	1	–	1	–	–	–	–	–	–	1
EL 1	1	–	1	–	–	–	–	–	–	1
APS 6	–	–	–	2	–	2	–	–	–	2
APS 5	–	–	–	–	–	–	–	–	–	–
APS 4	–	–	–	2	1	3	–	–	–	3
APS 3	1	–	1	–	1	1	–	–	–	2
APS 2	1	–	1	–	–	–	–	–	–	1
APS 1	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–	–
Total	**4**	**–**	**4**	**4**	**2**	**6**	**–**	**–**	**–**	**10**

Ongoing employees at 30 June 2018

	Male			Female			Indeterminate			Total
	Full-time	Part-time	Total Male	Full-time	Part-time	Total Female	Full-time	Part-time	Total indeterminate	
SES 3	1	–	1	–	–	–	–	–	–	1
SES 2	3	–	3	–	–	–	–	–	–	3
SES 1	–	–	–	–	–	–	–	–	–	–
EL 2	29	2	31	11	–	11	–	–	–	42
EL 1	4	–	4	4	–	4	–	–	–	8
APS 6	15	–	15	13	4	17	–	–	–	32
APS 5	13	–	13	9	5	14	–	–	–	27
APS 4	10	–	10	14	4	18	–	–	–	28
APS 3	–	–	–	2	–	2	–	–	–	2
APS 2	–	–	–	3	–	3	–	–	–	3
APS 1	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–	–
Total	**75**	**2**	**77**	**56**	**13**	**69**	**–**	**–**	**–**	**146**

Non-ongoing employees at 30 June 2018

	Male			Female			Indeterminate			Total
	Full-time	Part-time	Total Male	Full-time	Part-time	Total Female	Full-time	Part-time	Total indeterminate	
SES 3	–	–	–	–	–	–	–	–	–	–
SES 2	–	–	–	–	–	–	–	–	–	–
SES 1	–	–	–	–	–	–	–	–	–	–
EL 2	1	–	1	–	–	–	–	–	–	1
EL 1	–	–	–	–	–	–	–	–	–	–
APS 6	–	–	–	–	–	–	–	–	–	–
APS 5	2	–	2	1	–	1	–	–	–	3
APS 4	–	1	1	4	1	5	–	–	–	6
APS 3	1	–	1	1	2	3	–	–	–	4
APS 2	1	–	1	–	–	–	–	–	–	1
APS 1	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–	–
Total	**5**	**1**	**6**	**6**	**3**	**9**	**–**	**–**	**–**	**15**

Employees by full-time and part-time status at 30 June 2019

	Ongoing			Non-ongoing			Total
	Full-time	Part-time	Total ongoing	Full-time	Part-time	Total non-ongoing	
SES 3	1	–	1	–	–	–	1
SES 2	3	–	3	–	–	–	3
SES 1	–	–	–	–	–	–	–
EL 2	38	3	41	1	–	1	42
EL 1	11	–	11	1	–	1	12
APS 6	23	7	30	2	–	2	32
APS 5	25	2	27	–	–	–	27
APS 4	24	4	28	2	1	3	31
APS 3	1	1	2	1	1	2	4
APS 2	2	–	2	1	–	1	3
APS 1	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–
Total	**128**	**17**	**145**	**8**	**2**	**10**	**155**

Employees by full-time and part-time status at 30 June 2018

	Ongoing			Non-ongoing			Total
	Full-time	Part-time	Total ongoing	Full-time	Part-time	Total non-ongoing	
SES 3	1	–	1	–	–	–	1
SES 2	3	–	3	–	–	–	3
SES 1	–	–	–	–	–	–	–
EL 2	40	2	42	1	–	1	43
EL 1	8	–	8	–	–	–	8
APS 6	28	4	32	–	–	–	32
APS 5	22	5	27	3	–	3	30
APS 4	24	4	28	4	2	6	34
APS 3	2	–	2	2	2	4	6
APS 2	3	–	3	1	–	1	4
APS 1	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–
Total	**131**	**15**	**146**	**11**	**4**	**15**	**161**

Employment type by location at 30 June 2019

	Ongoing	Non-ongoing	Total
NSW	5	–	**5**
Qld	–	–	**–**
SA	–	–	**–**
Tas	–	–	**–**
Vic	140	10	**150**
WA	–	–	**–**
ACT	–	–	**–**
NT	–	–	**–**
Overseas	–	–	**–**
Total	**145**	**10**	**155**

Employment type by location at 30 June 2018

	Ongoing	Non-ongoing	Total
NSW	–	–	**–**
Qld	–	–	**–**
SA	–	–	**–**
Tas	–	–	**–**
Vic	146	15	**161**
WA	–	–	**–**
ACT	–	–	**–**
NT	–	–	**–**
Overseas	–	–	**–**
Total	**146**	**15**	**161**

Employment arrangements at 30 June 2019

	SES	Non-SES	Total
Individual employment contract	4	151	155
Total	**4**	**151**	**155**

No employees identified as indigenous in 2017-18 or 2018-19.

Remuneration report

Remuneration strategy

Remuneration for all Agency staff, including members of the Agency Management Committee, meets the requirements outlined in the Australian Public Sector Workplace Bargaining Policy (the Bargaining Policy), which was introduced in March 2014, and later revised in October 2015 and 2018 to set the terms and conditions of employment for Australian Public Service entities.

All employees, including SES and non-SES, operate on individual employment contracts.

While Agency remuneration arrangements are determined by the Chair of the Board, as Accountable Authority for the Agency, consultation with the Board is provided through the Board's Remuneration & Nominations Committee.

Performance related pay

In addition to fixed pay, ongoing staff have the opportunity to earn a variable pay component known as Performance Related Pay (PRP), which is based on both personal performance (Individual Plan) and investment performance (Fund Plan).

The mix of variable pay based on personal performance and variable pay based on investment performance depends on the individual's role, with investment performance a higher component of variable pay for investment staff.

All staff have some exposure to investment performance in their variable pay arrangements, which serves to help focus all employees on the pursuit of the mandated investment objectives.

Performance related pay tied to personal performance

Actual variable pay based on personal performance reflects an individual's performance against key performance indicators (goals) and the organisation's values.

Each individual's goals align to the organisation's strategic imperatives, which define what the Agency must do to succeed:

- The best portfolios to achieve our Investment Mandates.
- A well-managed Agency with a talented, motivated and engaged team.
- Efficient, effective and fit-for-purpose processes and technology.
- The trust and respect of Government, Parliament and the investment community.

Performance related pay tied to investment performance

Actual variable pay based on Fund performance reflects the average performance over rolling three-year periods for the Future Fund and is determined once performance results are audited and confirmed.

Performance related pay for investment performance is assessed against the Future Fund's absolute return against its mandated target return over three years.

Remuneration of Key Management Personnel in 2018-19

Key Management Personnel (KMP) are those who have authority and responsibility for planning, directing and controlling the activities of the Board and Agency directly and indirectly throughout the year. This represents members of the Board and members of the Agency's Management Committee.

The Board of Guardians and the Agency are established by the *Future Fund Act 2006* (the Act). In accordance with the Act members of the Board are appointed by the responsible Ministers.

The Act prescribes that fees payable to Board members are determined by the Commonwealth Remuneration Tribunal (the Tribunal).

The Tribunals' Determination 2018, taking effect from 1 July 2018, set the annual fee payable to the Chair at $210,460 and the fee for other members at $105,230.

The official travel entitlement for Board members was set at Tier 1. Board members are not eligible for performance related payments.

During 2018-19, the Guardians of the Fund were as follows:

Future Fund Board of Guardians

Name	Title
Hon Peter Costello AC	Chairman
Ms Erin Flaherty	Board member
Mr John Fraser[1]	Board member
Ms Carolyn Kay	Board member
Mr John Poynton AO	Board member
Mr Michael Wachtel	Board member
Dr Jane Wilson	Board member

Notes:

1. John Fraser's Board term commenced on 12 November 2018.

During 2018–19, the Agency's Management Committee comprised the following:

Management Committe

Name	Title
Mr David Neal	Chief Executive Officer
Dr Raphael Arndt	Chief Investment Officer
Mr Richard Large[1]	Chief Technology Officer
Mr Paul Mann	Chief Financial Officer
Mr Gordon McKellar	Chief Operating Officer
Ms Elizabeth McPherson	Chief Culture Officer
Mr Cameron Price	General Counsel and Chief Risk Officer

Notes:

1. Richard Large commenced with the organisation on 11 February 2019.

Remuneration mix for Management Committe

As is the case for all staff, remuneration for members of the Management Committee includes both fixed and at risk performance related pay. At risk performance related pay includes elements tied to investment performance (Fund Plan) and personal performance (Individual Plan).

Executives with greater influence over the investment portfolio have a larger proportion of their available at risk performance related pay linked to investment performance. Those in non-investment focused roles have at risk performance related pay more closely tied to the delivery of personal objectives that support the implementation of the business strategy.

The following table summarises the composition of at risk performance related pay for each member of the Management Committee.

At risk performance related pay for each member of the Management Committee in 2018-19

Name	Maximum at risk performance related pay as a % of fixed remuneration	% of at risk performance related pay tied to investment performance (Fund Plan)	% of at risk performance related pay tied to personal performance (Individual Plan)
Mr David Neal	120	70	30
Dr Raphael Arndt	120	70	30
Mr Richard Large[1]	45	25	75
Mr Paul Mann	55	25	75
Mr Gordon McKellar	55	25	75
Ms Elizabeth McPherson	45	25	75
Mr Cameron Price	45	25	75

Notes:

1. Richard Large commenced with the organisation on 11 February 2019.

Remuneration outcomes for Key Management Personnel in 2018-19

Remuneration outcomes for members of the Board are set by the Determination of the Remuneration Tribunal.

Remuneration outcomes for members of the Management Committee reflect the combination of fixed pay and performance related pay as outlined above.

The use of rolling three-year periods for the calculation of absolute investment performance aligns to the organisation's long-term investment objective.

At 30 June 2019, over three years the Future Fund earned $39.8 billion, returning 9.8% per annum.

Key remuneration outcomes for Key Management Personnel in 2018-19

		Short-term benefits			Post employment benefits	Other long-term benefits		Termination benefits	Total remuneration ($)
Name	Position title	Base Salary ($)	Bonuses ($)	Other benefits and allowances ($)	Superannuation contributions ($)	Long service leave ($)	Other long-term benefits[1] ($)		
David Neal	Chief Executive Officer	648,591	770,759	–	25,000	23,432	–	–	1,467,782
Raphael Arndt	Chief Investment Officer	664,832	759,367	–	20,532	18,733	–	–	1,463,464
Richard Large[2]	Chief Technology Officer	196,546	67,206	–	15,700	3,001	–	–	282,453
Paul Mann	Chief Financial Officer	492,826	232,116	–	33,282	19,571	–	–	777,795
Gordon McKellar	Chief Operating Officer	524,262	273,784	–	33,282	17,317	–	–	848,645
Elizabeth McPherson	Chief Culture Officer	510,489	197,136	–	33,282	19,456	–	–	760,363
Cameron Price	General Counsel and Chief Risk Officer	524,207	–	–	33,282	16,818	214,540	–	788,847
Peter Costello	Chairman	209,791	–	699	19,927	–	–	–	230,417
Erin Flaherty	Board Member	104,895	–	478	9,964	–	–	–	115,337
John Fraser[3]	Board Member	66,644	–	130	6,247	–	–	–	73,021
Carolyn Kay	Board Member	104,895	–	443	9,964	–	–	–	115,302
John Poynton	Board Member	104,895	–	1,624	9,964	–	–	–	116,483
Michael Wachtel	Board Member	104,895	–	427	9,964	–	–	–	115,286
Jane Wilson	Board Member	104,896	–	455	16,151	–	–	–	121,502

Notes:

For the purposes of reporting requirements under the PGPA Act, all Future Fund senior executives are captured in the Key Management Personnel disclosure.

1. Under the Agency's Deferred Earnings Plan, staff are able to defer receipt of a proportion of their Performance Related Pay payable to them in a given financial year and have this treated as a notional investment in the Future Fund.
2. Richard Large commenced with the organisation on 11 February 2019.
3. John Fraser's Board term commenced on 12 November 2018.

Remuneration outcomes for other highly paid staff in 2018-19

		Short-term benefits			Post employment benefits	Other long-term benefits		Termination benefits	Total remuneration
Total remuneration bands	Number of other highly paid staff	Average base salary ($)	Average bonuses ($)	Average other benefits and allowances ($)	Average superannuation contributions ($)	Average long service leave ($)	Average other long term benefits[1] ($)	Average termination benefits ($)	Average total remuneration ($)
$220,001-$245,000	6	169,153	33,872	–	18,894	5,772	4,490	–	232,181
$245,001-$270,000	8	195,166	21,762	–	23,887	5,386	8,892	–	255,093
$270,001-$295,000	5	181,915	71,841	–	16,771	4,986	7,857	–	283,370
$295,001-$320,000	2	212,038	62,195	–	27,786	8,211	–	–	310,229
$320,001-$345,000	8	203,548	81,354	–	19,440	8,788	16,323	–	329,453
$345,001-$370,000	2	256,437	37,734	–	23,297	7,236	25,871	–	350,573
$370,001-$395,000	4	242,330	89,244	–	22,963	7,596	20,213	–	382,345
$395,001-$420,000	2	280,559	85,109	–	24,291	19,258	–	–	409,217
$420,001-$445,000	–	–	–	–	–	–	–	–	–
$445,001-$470,000	2	239,796	177,497	–	20,005	13,353	–	–	450,651
$470,001-$495,000	2	282,383	153,670	–	20,329	18,239	–	–	474,621
$495,001-$520,000	4	313,464	159,287	–	25,700	8,634	–	–	507,085
$520,001-$545,000	4	315,160	78,861	–	25,955	11,666	100,936	–	532,578
$545,001-$570,000	1	294,310	227,726	–	24,999	21,312	–	–	568,347
$570,001-$595,000	–	–	–	–	–	–	–	–	–
$595,001-$620,000	1	327,478	250,815	–	24,999	9,316	–	–	612,609
$620,001-$645,000	1	366,304	229,792	–	24,999	10,130	–	–	631,225
$645,001-$670,000	–	–	–	–	–	–	–	–	–

		Short-term benefits			Post employment benefits	Other long-term benefits		Termination benefits	Total remuneration
Total remuneration bands	Number of other highly paid staff	Average base salary ($)	Average bonuses ($)	Average other benefits and allowances ($)	Average superannuation contributions ($)	Average long service leave ($)	Average other long term benefits[1] ($)	Average termination benefits ($)	Average total remuneration ($)
$670,001-$695,000	–	–	–	–	–	–	–	–	–
$695,001-$720,000	1	319,791	317,309	–	58,830	18,176	–	–	714,106
$720,001-$745,000	1	360,358	329,963	–	24,999	16,617	–	–	731,937
$745,001-$770,000	–	–	–	–	–	–	–	–	–
$770,001-$795,000	1	382,253	363,749	–	24,999	12,570	–	–	783,571
$795,001-$820,000	1	379,550	261,299	–	33,282	11,913	128,700	–	814,744
$820,001-$845,000	1	383,603	396,358	–	24,999	16,363	–	–	821,324
$845,001-$870,000	–	–	–	–	–	–	–	–	–
$870,001-$895,000	–	–	–	–	–	–	–	–	–
$895,001-$920,000	–	–	–	–	–	–	–	–	–
$920,001-$945,000	1	431,391	–	–	24,999	18,563	449,598	–	924,551
$945,001-$970,000	1	444,569	481,629	–	20,539	12,156	–	–	958,893
$970,001-$995,000	–	–	–	–	–	–	–	–	–
$995,001-$1,020,000	–	–	–	–	–	–	–	–	–
$1,020,001-$1,045,000	–	–	–	–	–	–	–	–	–
$1,045,001-$1,070,000	2	460,795	563,807	–	22,766	17,076	–	–	1,064,444

Notes:

1. Under the Agency's Deferred Earnings Plan, staff are able to defer receipt of a proportion of their Performance Related Pay payable to them in a given financial year and have this treated as a notional investment in the Future Fund.

Remuneration of all staff in 2018-19

While the Agency operates on individual employment contracts rather than an enterprise agreement, it adjusts its practices to meet the requirements of the Bargaining Policy and associated Directions for fixed pay (which includes superannuation). The Bargaining Policy and Directives apply for three years: 2017-18, 2018-19 and 2019-20.

In addition to fixed pay, ongoing staff have the opportunity to earn a variable pay component known as Performance Related Pay (PRP). Non-salary benefits are also available to staff, reflecting our commitment to ensuring our people have every opportunity to balance their work and life. We support and encourage flexible working arrangements to cater for family, study, community and similar commitments.

Other non-salary benefits include annual flu vaccinations, skin and health checks, ergonomic assessments and furniture, contributions to relevant professional memberships and salary sacrifice arrangements.

Salary ranges by classification level in 2018-19

	Minimum salary ($)	Maximum salary ($)
SES 3	388,000	700,000
SES 2	388,000	700,000
SES 1	388,000	700,000
EL 2	268,000	589,000
EL 1	196,000	332,000
APS 6	145,000	253,000
APS 5	114,000	191,000
APS 4	82,000	137,000
APS 3	56,000	99,000
APS 2	56,000	99,000
APS 1	-	-
Other	-	-
TOTAL[1]	**56,000**	**700,000**

Notes:

The Future Fund Management Agency operates a classification system that ranges from FFMA1 – FMMA7. In line with reporting requirements under the PGPA Act remuneration information is now reported in accordance with the Australian Public Service classification system.

Actual salaries fall within the available ranges shown above. Salaries are inclusive of superannuation. Where a staff member sits in a range is influenced by market data. How and when a staff member moves through a range is influenced by market data, organisational and personal performance.

1. In line with reporting requirements under the PGPA Act, the total minimum salary is intended to show the lowest minimum salary available. Likewise, the total maximum salary is intended to show the highest maximum salary available.

Performance Related Pay

As highlighted previously, in addition to fixed pay, ongoing staff have the opportunity to earn a variable pay component known as Performance Related Pay (PRP), which is based on both individual performance and fund performance.

The mix of variable pay based on individual performance and variable pay based on fund performance depends on the individual's role, with fund performance generally a higher component of variable pay for investment staff.

At 30 June 2019, over three years the Future Fund earned $39.8 billion, returning 9.8% per annum.

The payments detailed in the table below include pro rata performance pay for staff who were not employed for the full 12-month cycle but were eligible for payment.

Performance pay by classification level in 2018-19

	Number of employees receiving performance pay ($)	Aggregated (sum total) of all payments made ($)	Average of all payments made ($)	Minimum payment made ($)	Maximum payment made ($)
SES 3	1	770,759	770,759	770,759	770,759
SES 2	3	1,265,267	421,756	232,116	759,367
SES 1	–	–	–	–	–
EL 2	42	7,656,299	182,293	5,275	568,132
EL 1	12	1,053,461	87,788	30,461	212,639
APS 6	30	1,404,461	46,815	7,826	136,715
APS 5	27	690,949	25,591	1,268	57,071
APS 4	28	241,888	8,639	291	24,088
APS 3	2	8,535	4,268	537	7,998
APS 2	2	9,315	4,658	3,264	6,051
APS 1	–	–	–	–	–
Other	–	–	–	–	–
TOTAL	**147**	**13,100,934**	**89,122**	**291**	**770,759**

Notes:

The Future Fund Management Agency operates a classification system that ranges from FFMA1 – FMMA7. In line with reporting requirements under the PGPA Act remuneration information is now reported in accordance with the Australian Public Service classification system.

06

Financial statements

Financial statements for the financial year ended 30 June 2019

These financial statements consist of the Future Fund Management Agency and the Board of Guardians.

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance

Opinion

In my opinion, the financial statements of the Future Fund Management Agency and Board of Guardians ('together the Entity') for the year ended 30 June 2019:

(a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and

(b) present fairly the financial position of the Entity as at 30 June 2019 and its financial performance and cash flows for the year then ended.

The financial statements of the Entity, which I have audited, comprise the following statements as at 30 June 2019 and for the year then ended:

- Statement by the Chair of the Future Fund Board of Guardians and Chief Financial Officer of the Future Fund Management Agency;
- Statement of comprehensive income;
- Statement of financial position;
- Statement of cash flows;
- Statement of changes in equity;
- Schedule of commitments;
- Notes to and forming part of the financial statements, comprising a summary of significant accounting policies and other explanatory information.

Basis for opinion

I conducted my audit in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Entity in accordance with the relevant ethical requirements for financial statement audits conducted by me. These include the relevant independence requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) to the extent that they are not in conflict with the *Auditor-General Act 1997*. I have also fulfilled my other responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

Key audit matter	How the audit addressed the matter
Valuation of collective investment vehicles held at fair value through profit or loss *Refer to Note 16.7 Fair Value Hierarchy (Collective Investment Vehicles)* As at 30 June 2019, collective investment vehicles (as	To assess the controls over the valuation of all collective investment vehicles I: • inspected the custodian's independent auditor's assurance report in respect of the design and operating effectiveness of relevant controls over the valuation of investments by the custodian;

GPO Box 707 CANBERRA ACT 2601
19 National Circuit BARTON ACT
Phone (02) 6203 7300 Fax (02) 6203 7777

defined in note 7.3) totaled $75 billion.

Collective investment vehicles includes holdings of a diverse range of asset categories including debt, private equity, hedge funds, and direct property, infrastructure and timberland assets. Valuation techniques are varied depending on the particular asset category and holding.

All investments are held in custody by the Entity's appointed custodian.

I consider the valuation of collective investment vehicles to be a key audit matter due to the size of the investments, and the inherent subjectivity and significant judgements and estimates required where market data is not available to determine the fair value of these investments.

In addition, disclosures that support the user's understanding of the valuation of collective investment vehicles are complex.

- assessed the qualifications, competence and objectivity of the custodian's independent auditor; and
- tested the design and operating effectiveness of a sample of the controls in place at the Entity to assess the valuation of collective investment vehicles whether they be performed by the custodian, the collective investment manager, a valuation specialist or management.

I assessed, on a sample basis, the valuation of indirectly held single infrastructure and timberland investments as at 30 June 2019. To do so I:

- evaluated the qualifications, competence and objectivity of the valuation expert used by management;
- tested the valuation models used including the reasonableness of key assumptions regarding growth rates, discount rates and multiples applied to earnings within the models; and
- performed a cross-check between management's valuation and the valuation applied by comparable companies, including considering the underlying assumptions.

To assess the valuation of all other collective investment vehicles as at 30 June 2019, on a sample basis, I:

- agreed the fair value to capital account statements received from the underlying investment manager;
- obtained audited financial statements of each underlying collective investment vehicle as at 30 June 2019, where available, and agreed the audited net asset value to the capital account statement;
- where 30 June 2019 audited financial statements were unavailable, investigated significant movements from the most recent audited financial statements; and
- performed an assessment of the audited financial statements of the collective investment vehicle which included considering the regulatory framework under which the financial statements were prepared, the accounting policies adopted and evaluating the qualifications, competence and objectivity of the audit firm performing the audit and the opinion provided.

I assessed the appropriateness of the related disclosures in Note 16.7 to the financial statements.

Other information

The Accountable Authority is responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019 but does not include the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and accordingly I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Accountable Authority's responsibility for the financial statements

As the Accountable Authority of the Entity, the Chair of the Future Fund Board of Guardians is responsible under the *Public Governance, Performance and Accountability Act 2013* (the Act) for the preparation and fair presentation of annual financial statements that comply with Australian Accounting Standards and the rules made under the Act. The Chair of the Future Fund Board of Guardians is also responsible for such internal control as the Chair of the Future Fund Board of Guardians determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chair of the Future Fund Board of Guardians is responsible for assessing the ability of the Entity to continue as a going concern, taking into account whether the Entity's operations will cease as a result of an administrative restructure or for any other reason. The Chair of the Future Fund Board of Guardians is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the assessment indicates that it is not appropriate.

Auditor's responsibilities for the audit of the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian National Audit Office Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with the Australian National Audit Office Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit 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 Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;
- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern; and

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Accountable Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

From the matters communicated with the Accountable Authority, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Australian National Audit Office

Grant Hehir
Auditor-General for Australia

Canberra

24 September 2019

Statement by the Chair of the Future Fund Board of Guardians and Chief Financial Officer of the Future Fund Management Agency

In our opinion, the attached financial statements of the Future Fund Management Agency and the Board of Guardians (together the "**Fund**") for the year ended 30 June 2019 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* ("**PGPA Act**"), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they fall due.

In preparing the financial statements, the Fund has applied an exemption from sections 6, 8 and 9 of the Financial Reporting Rules which has been provided by the Minister for Finance allowing the Fund to present a financial report in a format that complies with the 'investment entity' requirements under Australian Accounting Standards. The effect of this exemption is that the Fund will present its financial report as a single entity.

....	....
Hon P Costello AC	**P Mann**
Chair of the Board of Guardians	Chief Financial Officer
24 September 2019	24 September 2019

Statement of comprehensive income
for the financial year ended 30 June 2019

	Notes	Year ended 30 June 2019 $'000	Year ended 30 June 2018 $'000
INCOME			
Dividends and imputation credits	3	**6,078,029**	4,012,071
Distributions	3	**1,140,860**	683,172
Interest income from financial assets not at fair value through profit or loss		**44,957**	28,740
Net gains on financial instruments at fair value through profit or loss	3	**10,522,598**	9,137,078
Net foreign currency (losses)/gains	3	**(765,506)**	(1,210,415)
Other income		**14,249**	3,548
TOTAL INCOME		**17,035,187**	12,654,194
EXPENSES			
Investment management fees and advisory fees		**81,952**	106,713
Investment manager performance fees		**13,356**	3,229
Custody fees		**16,691**	15,135
Brokerage, duties and other statutory charges		**21,332**	31,557
Other investment portfolio expenses		**4,676**	5,334
Agency employees' remuneration	4	**52,910**	50,722
Other expenses	4,5	**51,825**	34,459
TOTAL EXPENSES		**242,722**	247,149
OPERATING RESULT FOR THE YEAR BEFORE TAX		**16,792,465**	12,407,045
Income tax expense	6	**65,004**	72,091
OPERATING RESULT FOR THE YEAR		**16,727,461**	12,334,954
Other comprehensive income for the year		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**16,727,461**	12,334,954

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

Statement of financial position
as at 30 June 2019

	Notes	As at 30 June 2019 $'000	As at 30 June 2018 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	13	**1,781,107**	2,418,038
Receivables	8	**1,515,267**	1,715,788
Investments	7	**160,309,641**	144,199,434
Other financial assets		**2,991**	1,811
Total financial assets		**163,609,006**	148,335,071
Non-financial assets			
Plant and equipment		**3,752**	4,774
Intangibles		**2,944**	3,474
Total non-financial assets		**6,696**	8,248
TOTAL ASSETS		**163,615,702**	148,343,319
LIABILITIES			
Financial liabilities			
Investments	7	**563,459**	1,560,417
Payables	9	**529,352**	988,072
Total financial liabilities		**1,092,811**	2,548,489
Non-financial liabilities			
Employee provisions	10	**29,736**	28,960
Total non-financial liabilities		**29,736**	28,960
Tax liabilities			
Deferred tax liabilities		**18,524**	18,700
Total tax liabilities		**18,524**	18,700
TOTAL LIABILITIES		**1,141,071**	2,596,149
NET ASSETS		**162,474,631**	145,747,170
EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT			
Contributions by Government	11	**60,536,831**	60,536,831
Retained earnings		**101,937,800**	85,210,339
TOTAL EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT		**162,474,631**	145,747,170

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

Statement of cash flows
for the financial year ended 30 June 2019

	Notes	Year ended 30 June 2019 $'000	Year ended 30 June 2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from sale of financial instruments at fair value through profit or loss		**122,555,198**	130,781,920
Purchase of financial instruments at fair value through profit or loss		**(128,016,348)**	(134,172,418)
Interest received		**57,237**	27,839
Dividends received		**4,891,472**	3,099,768
Distributions received		**1,093,576**	626,425
Franking credit refunds received		**952,916**	835,678
Net settlement of foreign exchange contracts		**(1,816,670)**	(244,199)
GST refund received		**2,936**	5,052
Other income received		**4,200**	3,206
Investment management fees and advisory fees paid		**(86,555)**	(114,630)
Investment manager performance fees paid		**(7,187)**	(32,671)
Custody fees paid		**(14,309)**	(13,795)
Brokerage, duties and other statutory charges paid		**(37,970)**	(70,374)
Taxes paid		**(65,180)**	(53,391)
Other expenses paid		**(110,520)**	(88,564)
Net cash (used in)/provided by operating activities	**13**	**(597,204)**	589,846
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment and software		**(1,603)**	(3,072)
Net cash used in investing activities		**(1,603)**	(3,072)
Net (decrease)/increase in cash held		**(598,807)**	586,774
Cash at the beginning of the reporting period		**2,418,038**	1,785,174
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(38,124)**	46,090
Cash at the end of the reporting period	13	**1,781,107**	2,418,038

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

Statement of changes in equity
for the financial year ended 30 June 2019

	Contributed equity $'000	Retained earnings $'000	Total Equity $'000
Year ended 30 June 2019			
Opening balance	**60,536,831**	**85,210,339**	**145,747,170**
Net operating result	**-**	**16,727,461**	**16,727,461**
Other comprehensive income	**-**	**-**	**-**
Total comprehensive income	**-**	**16,727,461**	**16,727,461**
Contributions made by Government	**-**	**-**	**-**
Closing balance	**60,536,831**	**101,937,800**	**162,474,631**
Year ended 30 June 2018			
Opening balance	60,536,831	72,875,385	133,412,216
Net operating result	-	12,334,954	12,334,954
Other comprehensive income	-	-	-
Total comprehensive income	-	12,334,954	12,334,954
Contributions made by Government	-	-	-
Closing balance	60,536,831	85,210,339	145,747,170

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

Schedule of commitments
as at 30 June 2019

	Notes	30 June 2019 $'000	30 June 2018 $'000
BY TYPE			
CAPITAL COMMITMENTS			
Collective investment vehicles	7.3	**20,493,662**	19,418,150
Corporate Credit (bank loans)		**-**	52
Total capital commitments		**20,493,662**	19,418,202
OTHER COMMITMENTS			
Operating leases[1]		**12,237**	14,413
Other commitments[2]		**10,226**	11,343
Total other commitments		**20,290**	25,756
BY MATURITY			
CAPITAL COMMITMENTS			
One year or less		**20,493,662**	19,418,202
Total capital commitments by maturity		**20,493,662**	19,418,202
OTHER COMMITMENTS			
Operating lease commitments			
One year or less		4,270	3,527
From two to five years		7,967	10,886
Five years and above		-	-
Total operating lease commitments by maturity		12,237	14,413
Other commitments			
One year or less		8,184	9,124
From two to five years		2,042	2,219
Total other commitments by maturity		10,226	11,343

Note: Commitments are GST inclusive.

1. Operating lease commitments relate to rental commitments for the lease of property. Lease terms have on average 3 years remaining. The Fund has no option to purchase any leased items at the conclusion of the lease term.
2. 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 financial statements
for the financial year ended 30 June 2019

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 objective of the Act is to strengthen the Commonwealth's long-term financial position.

The Future Fund will be available to cover costs that will be payable by the Commonwealth in relation to 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.

Future Fund Management 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 **Public Governance, Performance and Accountability Act 2013** (the "**PGPA 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, advisers and other service providers.

The Agency also supports the Board in the investment of the assets of the Building Australia Fund ("**BAF**") and the Education Investment Fund ("**EIF**") (together the Nation-building Funds), the DisabilityCare Australia Fund ("**DCAF**"), the Medical Research Future Fund ("**MRFF**") and the Aboriginal and Torres Strait Islander Land and Sea Future Fund ("**ATSILSFF**").

Future Fund Board of Guardians

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

The roles and responsibilities of the Board are set out in the Act. 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, DisabilityCare Australia Fund, Medical Research Future Fund and Aboriginal and Torres Strait Islander Land and Sea Future Fund as set out in the *Nation-building Funds Act 2008*, the *DisabilityCare Australia Fund Act 2013*, the *Medical Research Future Fund Act 2015* and the *Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018*. The assets and financial results of these funds do not form part of these financial statements.

Note 2
Summary of significant accounting policies

2.1 Basis of preparation of the financial statements

These 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 42 of the PGPA Act, and are general purpose financial statements prepared on a going concern basis.

The financial statements have been prepared in accordance with:

- Financial Reporting Rules ("**FRR**") (being the *Public Governance, Performance and Accountability Rule 2015*) for reporting periods ending on or after 1 July 2018; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("**AASB**") that apply for the reporting period.

In preparing the financial statements, the Fund has applied an exemption from sections 6, 8 and 9 of the Financial Reporting Rules which has been provided by the Minister for Finance allowing the Fund to present a financial report in a format that complies with the investment entity requirements under Australian Accounting Standards. The effect of this exemption is that the Fund will present its financial report as a single entity.

These 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 and the revaluation of employee entitlements. Cost is based on the fair values of the consideration given in exchange for assets or the fair value of consideration or services received in exchange for the creation of a liability.

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

- investments in financial assets and liabilities. These investments are held for the longer term consistent with the Fund's investment mandate;
- plant and equipment which are depreciated over their useful lives; and
- certain employee liabilities such as leave entitlements.

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 or losses will flow, and the amounts of the assets or liabilities can be reliably measured.

Commitments, which are not liabilities or assets under Australian Accounting Standards are not recognised in the statement of financial position. They are reported as appropriate in the schedule of commitments.

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

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. Further details surrounding the judgements and estimates used to value these investments are disclosed in Note 16.6 and 16.7.

Note 2
Summary of significant accounting policies (continued)

2.1 Basis of preparation of the financial statements (continued)

Consolidation exemption for investment entities

The Fund meets the definition of an "investment entity" under AASB 10 Consolidated Financial Statements and does not consolidate its subsidiaries as listed in Note 12. Instead, those subsidiaries are investments and are measured at fair value through profit or loss. The Fund's assessment of the investment entity definition is as follows:

An investment entity is defined as an entity that:

- obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- measures and evaluates the performance of substantially all of its investments on a fair value basis.

Regarding the first and second requirements of the definition, the Fund is a sovereign wealth fund that invests for the benefit of future generations of Australians which is generated through both capital appreciation and investment income. Furthermore, the performance of the investments made through subsidiaries are measured and evaluated on a fair value basis.

2.2 Statement of compliance

The financial report complies with Australian Accounting Standards as applicable to the Future Fund in accordance with the Financial Reporting Rules for the year ended 30 June 2019 made under the *Public Governance, Performance and Accountability Act 2013*.

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.

Adoption of new accounting standards in the current reporting period

The Fund has applied the following new and revised accounting standard which became effective for the annual reporting period commencing on 1 July 2018:

AASB 9 Financial Instruments, and the relevant amending standards (effective from 1 January 2018)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The new standard had no significant impact on the recognition and measurement of the Fund's financial instruments as they are at fair value through profit or loss.

AASB 15 Revenue from Contracts with Customers (effective from 1 January 2018)

AASB 15 Revenue from Contracts with Customers addresses the recognition of revenue that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new standard had no significant impact on the recognition of revenue of other income as revenue is recognised when it is no longer subject to reversal.

Note 2
Summary of significant accounting policies (continued)

2.2 Basis of preparation of the financial statements (continued)

Standards and amendments that will become effective in future reporting periods

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2019 reporting period and have not been early adopted by the Fund. The Fund's assessment of the impact of these new standards and interpretations is set out below. The Fund intends to adopt all of the standards upon their application date.

AASB 16 Leases (effective from 1 January 2019)

The purpose of this standard is to provide a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. Lessees will be required to recognise all leases on balance sheet, except for short-term leases and leases of low value assets. The Fund does not expect this to have a material impact on the operating result of the Fund.

2.3 Financial assets and liabilities

All investments of the Fund are in financial assets or financial liabilities 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.

Further details on how the fair values of financial instruments are determined are disclosed in Notes 16.6 and 16.7.

2.3.1 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 financial assets at fair value through profit and loss.

Cash does not include any amounts held in escrow accounts or margin accounts where its use is restricted. These are treated as investments.

2.3.2 Receivables

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.

2.3.3 Investments

Collective Investment Vehicles are at fair value through profit or loss and all other Investments are designated at fair value through profit or loss. Subsequent to initial recognition, all investments are measured at fair value with changes in their fair value recognised in the statement of comprehensive income each reporting date.

Investments 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. Investments are initially measured at fair value.

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.

Note 2
Summary of significant accounting policies (continued)

2.3.3 Investments (continued)

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 market prices 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. Collective investment vehicles are entities that enable investors to pool their money and invest the pooled funds, rather than buying securities directly. Collective investment vehicles are used to invest in private equity funds, hedge funds, debt funds, listed equity funds, infrastructure funds and property funds and are usually structured as interests in limited partnerships and limited liability companies.

  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 or independent expert valuation reports and capital account statements and the most recent audited financial statements of each scheme or vehicle.

  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 Investment Council.
- Derivative instruments are used by the Fund in accordance with the Act to manage its exposure to foreign exchange risk, interest rate risk, equity market risk and credit risk and to gain indirect exposure to market risks. The Fund uses forward foreign exchange contracts, swaps, futures, exchange traded and over the counter options and forward contracts on mortgage backed securities which 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. Further disclosure regarding the use of derivatives by the Fund is presented in Note 16.
- 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 prices. 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.

The fair value of financial assets and financial liabilities that are not traded in an active market are determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of observable market inputs and relying as little as possible on entity-specific inputs. Note 16.6 has further information surrounding the determination of fair values for investments.

Note 2
Summary of significant accounting policies (continued)

2.3.4 Future Fund Investment Companies

Some of the investments of the Future Fund Board of Guardians are held through wholly owned investment holding companies, Future Fund Investment Companies ("**FFICs**").

The FFICs are funded primarily via loan arrangements between the Future Fund Board of Guardians and each respective FFIC. These loans are designated as financial assets and measured at fair value with changes in their fair value recognised in the statement of comprehensive income each reporting date. Interest receivable at the reporting date is included in the fair market value of the loans.

The outstanding balance of the loan assets is unsecured and is repayable in cash on the earlier of demand or within the time period set out in the loan documents. Interest rates are set on the loans having regard to either the 5 or the 10-year government bond rate in the market in which the underlying investment is made.

As the FFICs hold a substantial portion of the investments of the Fund, disclosures in the financial instruments and financial risk management notes (Note 16) include the underlying investments of the FFICs on a look-through basis as this provides users of the financial statements with more relevant information in relation to the investment portfolio. The Note clearly states where this look-through has been applied. Additional disclosures regarding collective investment vehicles held in the FFICs have been included in Note 7.

2.4 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 investments in equity securities are recognised as income when the right to receive the refund of franking credits from the Australian Taxation Office ("**ATO**") has been established.

Interest revenue is recognised in the statement of comprehensive income for all financial instruments that are not at fair value through profit or loss using the effective interest method as set out in *AASB 9 Financial Instruments*. Interest income on assets at fair value through profit or loss is included in the net gains/(losses) on financial instruments at fair value through profit or loss in the statement of comprehensive income.

2.5 Other income

Services and resources received free of charge

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

Other income

Other income is measured at the fair value of consideration received or receivable.

Note 2
Summary of significant accounting policies (continued)

2.6 Transactions with the Government as owner

2.6.1 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 Fund Account. As shown in Note 11 there were no contributions received during the year. No contributions were received in the previous financial year.

2.6.2 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. Under the Act debits can be made to the extent of unfunded superannuation liabilities from whichever is the earlier of:

(1) the time when the balance of the Fund is greater than or equal to the target asset level; or

(2) 1 July 2020. In May 2017 the Government announced there would be no draw down from the Fund until at least 2026-27.

2.7 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 amount is calculated with regard to the rates expected to be paid on settlement of the liability.

2.7.1 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.

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 2019. 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 FRRs, for determining the present value of the long service leave liability.

2.7.2 Superannuation

Staff of the Fund are variously eligible to contribute to the Commonwealth Superannuation Scheme ("**CSS**"), Public Sector Superannuation Scheme ("**PSS**") or the Public Sector Superannuation Scheme ("**Accumulation Plan**"). Staff may join any other complying 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 the Government actuary. 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.

Note 2
Summary of significant accounting policies (continued)

2.7.3 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 previous and current financial years. 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 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.

2.8 Leases

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.

2.9 Financial Risk Management

Disclosures regarding the Fund's financial risks are presented in Note 16.

2.10 Taxation

The Fund has sovereign immunity from taxation in Australia and foreign jurisdictions. In some limited cases and in some limited countries, foreign taxes can be payable on certain classes of income and capital gains. Mostly these foreign taxes 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 amount 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.

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. As the fund is tax exempt in Australia, there is no current Australian tax amount recognised in the financial statements.

The Fund does incur foreign withholding taxes and capital gains taxes in some jurisdictions which are recorded as current taxes.

While foreign corporate taxes are incurred on certain foreign investments of the Fund held via holding entities or within collective investment vehicles, the Fund applies the investment entity exemption and does not consolidate these investments. Those tax expenses are therefore not recorded in the financial statements. Corporate tax paid or payable on foreign investments results in a lower mark to market fair valuation of these investments and is included in the net gain or loss on financial instruments at fair value in the statement of comprehensive income.

Note 2
Summary of significant accounting policies (continued)

2.10 Taxation (continued)

Deferred Tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Fund intends to settle its current tax assets and liabilities on a net basis.

While foreign deferred corporate taxes are recognised on certain foreign investments of the Fund as per above, as the Fund applies the investment entity exemption and does not consolidate these investments, those deferred tax expenses are not recorded in the financial statements. Deferred taxes on foreign investments result in an adjusted mark to market fair valuation of these investments and are included in the net gain or loss on financial instruments at fair value in the statement of comprehensive income.

Fringe Benefits Tax and Goods and Services Tax

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 FFICs, being wholly owned Australian corporate investment holding companies are taxpaying entities. The tax paid by the FFICs is recoverable via imputation credit refunds to which the Fund is entitled under the Act.

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.

2.11 Foreign currency

Functional and presentation currency

Items included in the financial statements of the Fund are measured using the currency of the primary economic environment in which the Fund operates (the functional currency). The functional currency of the Fund is Australian dollars. It is also the presentation currency.

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 at fair value are reported in the Statement of Comprehensive income on a net basis within net gains/(losses) on financial instruments at fair value through profit and loss.

Note 2
Summary of significant accounting policies (continued)

2.12 Rounding of amounts

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

Note 3
Dividends, distributions and net gains/(losses)

	2019 $'000	2018 $'000
Dividend income and imputation credits		
Dividend income – domestic equities and listed managed investment scheme distributions	**793,513**	**379,103**
Imputation credits refunded or refundable under Section 30 of the *Future Fund Act 2006*	**1,235,195**	**955,762**
Dividend income – related entities (FFICs)[1]	**2,092,632**	**1,859,693**
Dividend income – international equities	**1,956,689**	**817,513**
Total dividend and imputation credit income	**6,078,029**	**4,012,071**
Distribution income		
Distributions – collective investment vehicles	**1,140,860**	683,172
Total distribution income	**1,140,860**	683,172

1. There are no dividends receivable from FFIC related entities.

	2019 $'000	2018 $'000
Net gains/(losses) on financial instruments at fair value through profit or loss		
Net gains on financial assets at fair value through profit or loss	**10,262,556**	9,632,252
Net gains / (losses) on financial liabilities at fair value through profit or loss	**260,042**	(495,174)
Total net gains on financial instruments at fair value through profit or loss [1]	**10,522,598**	9,137,078
Net losses arising on foreign currency [2]	**(765,506)**	(1,210,415)

1. This total includes the foreign currency impact from translating financial assets and liabilities from their local currency amounts into Australian dollars.
2. Net foreign currency losses of $765,506,000 (2018: losses of $1,210,415,000) arise mainly as a result of the implementation of the Board's foreign currency hedging policy. Offsetting gains/losses on investment values are included in the total net gain on financial instruments at fair value through profit and loss of $10,522,598,000 (2018: gains of $9,137,078,000).

Note 4
Expenses

	2019 $'000	2018 $'000
Agency employees' remuneration		
Wages and salaries	**49,408**	46,987
Superannuation	**2,675**	2,673
Leave and other entitlements payable	**827**	1,062
Total Agency employees' remuneration	**52,910**	50,722
Other expenses		
Board remuneration		
Wages and salaries	**801**	784
Superannuation	**82**	81
Total board remuneration	**883**	865
Depreciation & amortisation		
Depreciation of plant and equipment	**1,826**	1,391
Amortisation of intangibles – computer software	**1,328**	1,277
Total depreciation & amortisation	**3,154**	2,668
Other operating expenses (including audit fees)	**47,788**	30,926
Total other expenses	**51,825**	34,459

Note 5
Remuneration of Auditors

Included in other operating expenses is the financial statement audit services provided to the Fund which totaled $156,000 (2018: $145,000) were provided by the Australian National Audit Office ("ANAO") at no cost to the Fund. The fair value of all audit services provided by the ANAO, including the services provided free of charge and for the audits of the FFICs was:

	2019 $	2018 $
Auditing the financial statements – Future Fund and FFICs	**216,500**	205,000

No other services were provided by the ANAO.

The Fund's auditor is the ANAO who has contracted Ernst & Young (2018: Ernst & Young) to assist with the assignment.

Note 6
Income tax expense

As per Note 2.10, the Fund is exempt from federal Australian income taxation. Tax expense reflects foreign withholding tax on income and other capital gains or corporate taxes where imposed by certain countries. Accordingly, the Australian tax rate for the Fund is 0% (2018: 0%).

	2019 $'000	2018 $'000
Income tax expense		
Current tax	**65,180**	53,391
Deferred tax	**(176)**	18,700
Adjustments for current tax of prior periods	**-**	-
	65,004	72,091
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax	**16,792,465**	12,407,045
Tax at the applicable Australian tax rate of 0% (2018: 0%)	**-**	-
Tax effect of items which are not deductible/(taxable) in calculating taxable income:		
Imputation credits earned from Australian subsidiaries	**897,711**	1,286,343
Difference in tax rates on Australian subsidiaries	**(897,711)**	(1,286,343)
Withholding tax	**66,218**	50,954
Other foreign corporate tax expense	**(1,214)**	21,137
Total income tax expense	**65,004**	72,091

Note 7
Investments

	2019 $'000	2018 $'000
Investment Summary		
Financial assets at fair value:		
Future Fund Investment Companies (FFICs)	**60,233,281**	55,105,566
Interest bearing securities	**22,566,125**	22,153,056
Listed equities and listed managed investment schemes	**50,589,214**	44,541,578
Collective investment vehicles	**24,867,550**	20,689,522
Derivatives	**1,326,678**	1,086,639
Restricted cash	**726,793**	623,073
Total financial asset investments	**160,309,641**	144,199,434
Financial liabilities at fair value:		
Derivatives	**(563,459)**	(1,560,417)
Total financial liability investments	**(563,459)**	(1,560,417)

Note 7
Investments (continued)

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

The table below shows the FFICs balance split between loans and equity.

	2019 $'000	2018 $'000
FFICs		
At fair value:		
Loans provided to FFICs[1]	**46,941,046**	42,954,427
Residual equity in FFICs[2]	**13,292,235**	12,151,139
Total FFICs[3]	**60,233,281**	55,105,566

1. The FFIC loans would be classified as Level 2 in accordance with Note 16.7
2. The residual equity in the FFICs would be classified as Level 3 in accordance with Note 16.7. Movement in residual equity for FFIC's is due to changes in retained earnings and the current year surplus
3. Refer to Note 2.3.4 for more information regarding the FFICs and loan arrangements.

The table below shows the reconciliation of loans provided to FFICs.

	2019 $'000	2018 $'000
FFICs		
Beginning of the year	**42,954,427**	39,865,117
Loans advanced	**15,612,033**	10,603,108
Loan repayments received	**(15,594,996)**	(7,685,305)
Interest charged[1]	**1,075,470**	1,000,496
Interest repayments received	**(947,211)**	(671,803)
Fair value gain/(loss)	**3,841,323**	(157,186)
End of year	**46,941,046**	42,954,427

1. Interest on the FFIC loans is included in the net gain/(loss) on financial instruments at fair value through profit or loss – refer to Note 2.4 for further details

Note 7
Investments (continued)

	2019 $'000	2018 $'000
Interest bearing securities		
At fair value:		
Bank bills – international	**4,619**	19,797
Negotiable certificates of deposit - domestic	**10,187,948**	11,564,996
Corporate debt securities - international	**1,017,906**	927,652
Mortgage backed securities – domestic	**-**	6,216
Mortgage backed securities - international	**322,838**	461,827
Asset backed securities - international	**678,956**	596,314
Corporate credit (bank loans) – international	**909,084**	713,248
Government debt securities – domestic	**731,644**	-
Government debt securities – international	**8,073,914**	7,425,579
Other interest-bearing securities – international	**639,216**	437,427
Total interest bearing securities	**22,566,125**	22,153,056
Listed equities and listed managed investment schemes		
At fair value:		
Domestic listed equities and listed managed investment schemes	**11,012,903**	9,524,619
International listed equities and listed managed investment schemes	**39,576,311**	35,016,959
Total listed equities and listed managed investment schemes	**50,589,214**	44,541,578
Collective investment vehicles		
At fair value:		
Unlisted investments	**22,868,026**	18,736,786
Unlisted shares	**1,999,524**	1,952,736
Total collective investment vehicles	**24,867,550**	20,689,522

Note 7
Investments (continued)

	2019 $'000	2018 $'000
Derivatives		
At fair value: - financial assets		
Currency contracts	**640,948**	407,631
Interest rate swap agreements	**50,492**	23,876
Interest rate futures	**277,113**	148,720
Equity options and warrants	**135,474**	430,998
Equity futures	**76,900**	13,102
Credit default swaps	**14,179**	8,624
Currency swaps	**102,496**	2,820
Currency options	**28,875**	50,868
Forward contracts on mortgage backed securities	**201**	-
Total derivative financial assets	**1,326,678**	1,086,639

	2019 $'000	2018 $'000
Derivatives		
At fair value: - financial liabilities		
Currency contracts	**(468,530)**	(1,329,785)
Interest rate swap agreements	**(18,822)**	(55,212)
Interest rate futures	**(3,058)**	(670)
Equity futures	**(221)**	(11,379)
Credit default swaps	**(28,862)**	(35,045)
Currency swaps	**(43,966)**	(128,316)
Currency options	**-**	(10)
Total derivative financial liabilities	**(563,459)**	(1,560,417)
Total derivatives	**763,219**	(473,778)

The Fund enters into certain derivative transactions under International Swaps and Derivatives Association (ISDA) agreements with various counterparties, which include provisions for netting arrangements. The derivative financial asset and financial liability balances above are stated gross of any netting arrangements.

The gross and net positions of financial assets and liabilities that have been offset in the balance sheet are disclosed in the first three columns of the following table. Under the terms of the ISDA agreements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. The fourth column in the tables below show the amounts which could be offset at the counterparty level. As the Fund does not presently have a legally enforceable right of set-off, these amounts have not been offset in the balance sheet.

Note 7
Investments (continued)

Financial assets	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts of financial assets $'000	Gross amounts set off in the balance sheet $'000	Net amount of financial assets presented in the balance sheet $'000	Amounts subject to master netting arrangements $'000	Net amount $'000
2019					
Derivative financial instruments	**950,645**	**-**	**950,645**	**(554,256)**	**396,389**
Total	**950,645**	**-**	**950,645**	**(554,256)**	**396,389**
2018					
Derivative financial instruments	917,311	-	917,311	(917,311)	-
Total	917,311	-	917,311	(917,311)	-

Financial assets	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts of financial liabilities $'000	Gross amounts set off in the balance sheet $'000	Net amount of financial liabilities presented in the balance sheet $'000	Amounts subject to master netting arrangements $'000	Net amount $'000
2019					
Derivative financial instruments	**554,256**	**-**	**554,256**	**(554,256)**	**-**
Total	**554,256**	**-**	**554,256**	**(554,256)**	**-**
2018					
Derivative financial instruments	1,509,311	-	1,509,311	(917,311)	592,000
Total	1,509,311	-	1,509,311	(917,311)	592,000

Note 7
Investments (continued)

7.1 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 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 2019, the Fund has $0 in cash which has been posted as collateral with counterparties, (2018: $298,003,382) and has received $425,687,588 in cash (2018: $215,233,235).

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 2019, the Fund had posted $577,589,714 (2018: $257,360,079) 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 provided as margin on swap accounts

The Fund has posted cash with a central counterparty to cover exchange traded swap positions as required under clearing house rules. As at 30 June 2019, the Fund had posted $24,202,559 (2018: $49,440,235) in swap 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 prepayments for investments

The Fund prepays cash for applications into some Alternative investments in advance of the effective date for allocation of units as set out in the legal documents. Therefore, the cash remains a financial asset of the Fund, however, any alternate use of this cash is restricted. As at 30 June 2019, the Fund prepaid $125,000,000 (2018: $18,270,000).

7.2 Restrictions on investments – listed equities

The Fund has in place an automatic contractual lien over the Fund's listed equities with a counterparty when the Fund's exposure to that counterparty exceeds the base unsecured threshold. At 30 June 2019 no assets are subject to the lien (2018: no assets subject to the lien).

This agreement is instead of posting cash collateral and provides the Fund with greater efficiency in managing its liquidity.

7.3 Collective investment vehicles

Commitments made to collective investment vehicles as at 30 June 2019

As disclosed in the schedule of commitments and in the following tables, the Fund, directly and via the FFICs has committed to provide capital to various collective investment vehicles. The total of these commitments at balance date is $20,494 million (2018: $19,418 million). The Fund's commitment obligations, being capital calls, are set out in the various underlying subscription documents. While 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 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 7
Investments (continued)

7.3 Collective investment vehicles (continued)

Investment funds of the types the Fund invests in usually allow the fund's manager, general partner or other controlling entity to require repayment of distribution payments previously made to investors in order to cover certain fund liabilities (such as obligations to indemnify or to meet warranty claims on sold assets). In line with standard market practice, the Fund requires these 'giveback' obligations to be limited in both total amount (e.g. to between 10-25% of total distributions received) and liability period (e.g. for no longer than two years after the distributions are received). The Fund is not aware of any giveback obligations at 30 June 2019 (or 30 June 2018).

30 June 2019 – directly held by the Fund

As at 30 June 2019, the Fund had made commitments to a number of collective investment vehicles. Capital commitments (local currency), the net cost of the current investments net of returns of capital (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2019 are shown in the table below.

Description of underlying strategy	Contractual capital committed as at 30 June 2019 Local Currency '000	Outstanding commitment as at 30 June 2019 AUD equivalent $'000	Net capital cost as at 30 June 2019 AUD equivalent $'000	Fair value as at 30 June 2019 AUD equivalent $'000
Alternative strategies	AUD $8,870,307	-	8,311,643	8,489,600
Debt	AUD $2,201,714	204,201	1,771,772	1,767,859
Debt	EUR €1,116,376	830,062	711,574	1,036,127
Debt	USD $2,372,947	1,136,206	1,697,662	2,079,488
Global Infrastructure	AUD $837,918	-	837,918	1,979,134
Global Infrastructure	USD $2,090,648	1,559,491	931,291	1,180,690
Listed Equities	AUD $643,147	-	626,256	608,699
Listed Equities	USD $601,103	-	798,525	937,762
Private Equity	EUR €169,984	-	205,857	182,335
Private Equity	USD $287,281	62,249	287,600	571,465
Property	AUD $551,935	-	76,615	109,056
Property	EUR €87,124	16,577	93,765	116,938
Property	GBP £453,832	443,662	234,819	386,684
Property	USD $5,239,870	2,021,351	4,006,313	5,138,081
Timberlands	USD $167,561	-	221,205	283,632
Total		6,273,799	20,812,815	24,867,550

Note 7
Investments (continued)

7.3 Collective investment vehicles (continued)

30 June 2019 – indirectly held via the FFICs

As at 30 June 2019, the Fund had made commitments to a number of collective investment vehicles via its FFICs. Capital commitments (local currency), the net cost of the current investments net of returns of capital (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2019 are shown in the table below.

Description of underlying strategy	Contractual capital committed as at 30 June 2019 Local Currency '000	Outstanding commitment as at 30 June 2019 AUD equivalent $'000	Net capital cost as at 30 June 2019 AUD equivalent $'000	Fair value as at 30 June 2019 AUD equivalent $'000
Alternative Strategies	AUD $9,830,000	589,526	8,240,512	8,684,895
Alternative Strategies	USD $6,319,197	105,565	3,755,691	4,784,700
Debt	EUR €1,009,368	811,887	12,337	114,968
Debt	USD $9,757,927	1,440,815	2,492,103	4,093,608
Global Infrastructure	AUD $2,765,477	196,498	2,255,741	2,513,379
Global Infrastructure	GBP £262,029	-	168,789	895,208
Global Infrastructure	USD $882,333	153,677	625,050	882,775
Listed Equities	USD $2,623,370	-	750,257	2,279,506
Private Equity	AUD $875,747	222,961	435,207	414,554
Private Equity	EUR €1,648,438	1,263,773	831,227	1,328,322
Private Equity	GBP £303,604	13,959	494,706	516,240
Private Equity	USD $19,975,395	8,270,611	13,613,700	21,889,415
Property	AUD $287,150	-	293,452	450,767
Property	EUR €955,791	587,174	604,424	668,274
Property	USD $809,656	563,417	277,032	375,500
Timberlands	AUD $511,827	-	258,148	563,716
Total		**14,219,863**	**35,108,376**	**50,455,827**

Note 7
Investments (continued)

7.3 Collective investment vehicles (continued)

30 June 2018 – directly held by the Fund

As at 30 June 2018, the Fund had made commitments to a number of collective investment vehicles. Capital commitments (local currency), the net cost of the current investments net of returns of capital (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2018 are shown in the table below.

Description of underlying strategy	Contractual capital committed as at 30 June 2018 Local Currency '000	Outstanding commitment as at 30 June 2018 AUD equivalent $'000	Net capital cost as at 30 June 2018 AUD equivalent $'000	Fair value as at 30 June 2018 AUD equivalent $'000
Alternative strategies	AUD $7,864,104	-	7,846,616	7,870,094
Debt	AUD $1,701,714	342,679	1,229,699	1,172,326
Debt	EUR €967,721	71,900	692,122	981,173
Debt	USD $2,317,818	1,219,995	1,460,095	1,645,877
Global Infrastructure	AUD $837,918	-	837,918	1,854,461
Global Infrastructure	USD $1,323,302	645,184	820,596	1,080,138
Listed Equities	AUD $500,000	-	500,000	504,100
Listed Equities	USD $451,270	-	577,735	653,995
Private Equity	EUR €169,984	16,424	252,447	348,933
Private Equity	USD $350,007	22,718	368,847	458,425
Property	AUD $751,935	200,000	94,698	151,559
Property	EUR €87,124	26,867	87,404	109,443
Property	GBP £362,914	343,521	191,102	378,524
Property	USD $5,770,501	3,730,416	2,256,145	3,211,100
Timberlands	USD $167,561	-	222,175	269,374
Total		6,619,704	17,437,599	20,689,522

Note 7
Investments (continued)

7.3 Collective investment vehicles (continued)

30 June 2018 – indirectly held via the FFICs

As at 30 June 2018, the Fund had made commitments to a number of collective investment vehicles via its FFICs. Capital commitments (local currency), the net cost of the current investments net of returns of capital (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2018 are shown in the table below.

Description of underlying strategy	Contractual capital committed as at 30 June 2018 Local Currency '000	Outstanding commitment as at 30 June 2018 AUD equivalent $'000	Net capital cost as at 30 June 2018 AUD equivalent $'000	Fair value as at 30 June 2018 AUD equivalent $'000
Alternative Strategies	AUD $7,395,807	158,544	6,796,961	7,042,008
Alternative Strategies	JPY ¥55,626,296	-	78,270	94,672
Alternative Strategies	USD $9,816,648	536,184	5,585,376	7,391,781
Debt	AUD $925,000	-	925,000	987,905
Debt	EUR €1,022,760	763,644	41,189	212,888
Debt	USD $6,229,204	688,668	1,528,392	2,639,845
Global Infrastructure	AUD $2,765,200	316,022	2,086,001	2,365,206
Global Infrastructure	GBP £262,029	-	252,731	1,549,763
Global Infrastructure	USD $996,351	112,152	1,011,949	1,112,461
Listed Equities	USD $2,548,370	-	822,042	2,174,302
Private Equity	AUD $882,178	272,417	436,640	414,396
Private Equity	EUR €1,198,438	549,325	872,923	1,378,745
Private Equity	GBP £175,000	13,754	285,776	386,820
Private Equity	USD $17,493,296	7,477,054	11,229,216	17,257,553
Property	AUD $755,075	260,605	500,773	756,035
Property	EUR €1,006,391	676,686	728,768	747,337
Property	USD $933,403	739,069	248,942	289,940
Timberlands	AUD $557,704	234,322	86,068	392,463
Total		12,798,446	33,517,017	47,194,120

Note 8
Receivables

	2019 $'000	2018 $'000
Receivables		
Imputation credits refundable	**1,260,150**	1,466,334
Interest receivable	**3,026**	2,204
Dividends & distributions receivable	**177,987**	166,434
Unsettled sales	**74,104**	80,816
Total Receivables	**1,515,267**	1,715,788

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

Note 9
Payables

	2019 $'000	2018 $'000
Payables		
Unsettled purchases[1]	**461,665**	932,824
Other accrued expenses including management and performance fees payable	**67,687**	55,248
Total Payables	**529,352**	988,072

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

Note 10
Provisions

	2019 $'000	2018 $'000
Employee provisions		
Annual leave	**2,187**	2,174
Long service leave	**5,361**	5,033
Other employee liabilities	**22,188**	21,753
Total Employee provisions	**29,736**	28,960

Note 11
Contributions by Government

	2019 $'000	2018 $'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 12
Unconsolidated subsidiaries and interests in unconsolidated structured entities

As an investment entity, the Fund does not consolidate any of the subsidiaries listed below.

The Fund also invests via non-controlled structured entities. As these are investments of the Fund they are at their fair value and any undrawn capital is shown as an outstanding commitment which equates to the Fund's maximum exposure to loss from its investment in these entities.

All entities (controlled or non-controlled) have some or all of the following characteristics:

- the requirement for the Fund (or a FFIC entity) to fund future commitments to the entity as called by the investment manager or general partner. These amounts are limited in terms of total value and callable only in accordance with the underlying legal arrangements. These amounts are disclosed in Note 7.3;
- the lack of control over the payment of dividends, distributions or the return of capital from the entity. These are controlled by the general partner or the investment manager in accordance with the legal arrangements entered into upon initial investment;
- limitations on transfer or redemption of the interest in the entity. The Fund ensures that these are normal commercial arrangements for investments of this type, typically existing to protect and treat all investors in an equitable manner; and
- limited recourse to the Fund (ordinarily capped at the commitment or invested capital value) for any claims or liabilities incurred by these entities.

Note 12
Unconsolidated subsidiaries and interests in unconsolidated structured entities (continued)

Name of entity	Country of incorporation/ domicile	Equity holding 30 June 2019 %	30 June 2018 %
Future Fund Investment Company No.1 Pty Ltd^[1]	**Australia**	**100**	**100**
Future Fund Investment Company No.2 Pty Ltd^[1]	**Australia**	**100**	**100**
Global Hedged Strategies Fund Ltd[2]	Cayman Islands	100	100
Future Fund Investment Company No.3 Pty Ltd^[1]	**Australia**	**100**	**100**
GWII Unit Trust 2[2]	Australia	100	100
Co-Investment Fund (Parallel) LP[2]	United States	100	100
Future Fund Investment Company No.4 Pty Ltd^[1]	**Australia**	**100**	**100**
Future Fund Investment Company No.5 Pty Ltd^[1]	**Australia**	**100**	**100**
Blue Jay Fund Ltd[2]	Bermuda	100	100
Elementum Tranquillus Fund Ltd[2]	Bermuda	100	100
Clocktower FF LP[2]	Cayman Islands	100	100
Future Fund Investment Company No.6 Pty Ltd (Dormant)[1]	**Australia**	**100**	**100**
FFH No.3 Trust[1]	**Australia**	**100**	**100**
Queenscliff Trust[1]	**Australia**	**100**	**100**
Bain Capital Distressed and Special Situations 2016 (F) LP[1]	**United States**	**100**	**100**
Bain Capital Distressed and Special Situations 2016 (F-EU), LP (formerly Sankaty Credit Opportunities (F) Europe LP)[1]	**England**	**100**	**100**
Heathcote Fund Ltd[1]	**Cayman Islands**	**100**	**100**

^ Audited by the Australian National Audit Office.

1. Held directly by the Future Fund
2. Held indirectly by a Future Fund subsidiary

Note 13
Cash flow reconciliation

	2019 $'000	2018 $'000
Reconciliation of operating result to net cash		
from operating activities:		
Operating result	**16,727,461**	12,334,954
Depreciation and amortisation	**3,154**	2,668
Purchase of investments	**(128,016,348)**	(134,172,418)
Proceeds from sale of investments	**122,555,198**	130,781,920
Net gain on revaluation of investments	**(11,021,173)**	(9,390,033)
Unrealised (gain)/loss on foreign currency	**(1,051,164)**	966,216
Decrease in accrued income	**193,809**	79,703
Increase in other assets	**(1,180)**	(1,367)
Increase in employee provisions	**776**	4,072
Increase/(Decrease) in other payables	**12,439**	(34,569)
(Decrease)/increase in deferred tax liability	**(176)**	18,700
Net cash (used in)/provided by operating activities	**(597,204)**	**589,846**

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:

	2019 $'000	2018 $'000
Cash and cash equivalents	**1,781,107**	**2,418,038**

Note 14
Contingent liabilities and assets

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

Note 15
Related party transactions

15.1 Parent entity

The ultimate controlling entity of the Fund is the Commonwealth of Australia.

15.2 Subsidiaries

Interests in subsidiaries are set out in Note 12.

15.3 Key management personnel

Key management personnel are defined as the Board, members of the Agency's Management Committee which includes the Chief Executive Officer, Chief Investment Officer, Chief Operating Officer, Chief Financial Officer, Chief Culture Officer, General Counsel & Chief Risk Officer and Chief Technology Officer and the Finance Minister and the Treasurer. These persons are the only persons considered to have the capacity and responsibility for decision making that can have a material impact on the strategic direction and financial performance of the Fund.

Remuneration of the Finance Minister, Treasurer and Board members is independently determined by the Australian Government Remuneration Tribunal. No member of the Board nor the statutory Accountable Authority receive any entitlement to performance related payments in undertaking their roles. The remuneration of the Finance Minister and Treasurer is not paid by the Fund and is therefore excluded from the compensation disclosed in Note 15.4.

15.4 Key management personnel compensation

	2019 $'000	2018 $'000
Short-term employee benefits	**6,667,334**	6,683,719
Post-employment benefits	**276,540**	276,513
Other long-term benefits	**332,869**	295,589
Termination benefits	**-**	461,595
Total Compensation	**7,276,743**	7,717,416

The total number of key management personnel that are included in the above table are 14 (2018: 14).

15.5 Transactions with related parties

	2019 $'000	2018 $'000
Subscriptions for capital and expenses[1]		
Subsidiaries	**433,063**	855,220
Dividend and distribution revenue[1]		
Subsidiaries	**240,713**	225,042

1. FFBG subsidiaries excluding FFIC entities. FFIC transactions reflected in FFIC loans (Note 7) and FFIC dividend income (Note 3).

Note 15
Related party transactions (continued)

15.6 Terms and conditions

Transactions relating to dividends, distributions and funding of capital and expenses with related parties were made in accordance with the individual legal agreements.

15.7 Transactions with government-related entities

Transactions with other Australian government-controlled entities for normal day-to-day business operations were provided under normal terms and conditions. This includes the payment of workers compensation and insurance premiums and superannuation. They are not considered significant individually to warrant separate disclosure as related party transactions. See Note 3 for details regarding the imputation credits refundable from the Australian Taxation Office.

Note 16
Financial instruments and financial risk management

16.1 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 compliance daily. Reporting to the Board includes compliance with the Board approved investment guidelines and with the Board approved strategic asset allocation.

16.2 Financial risk management objectives

The Investment Mandate set by the Government specifies a benchmark return for the Fund and requires that it take an acceptable but not excessive level of risk. The Board sets and reviews 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 while pursuing long-term returns.

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

Note 16
Financial instruments and financial risk management (continued)

16.3 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.

16.3.1 Interest rate risk

Interest rate exposure tables

The exposure to interest rates as at 30 June 2019 of the Fund and the FFICs are set out below.

Financial asset	Floating Interest Rate 2019 $'000	Fixed Interest Rate 2019 $'000	Non-interest Bearing 2019 $'000	Total[1] 2019 $'000
Cash and cash equivalents	2,687,312	-	-	2,687,312
Bank bills	-	4,619	-	4,619
Negotiable certificates of deposit	-	10,187,948	-	10,187,948
Corporate debt securities	179,056	1,416,926	-	1,595,982
Mortgage backed securities	304,170	18,668	-	322,838
Asset backed securities	647,485	31,471	-	678,956
Corporate credit (bank loans)	1,153,630	-	-	1,153,630
Government debt securities	38,208	9,504,528	-	9,542,736
Other interest-bearing securities	662,451	583,622	-	1,246,073
Other financial assets	-	-	136,250,568	136,250,568
Total financial assets	5,672,312	21,747,782	136,250,568	163,670,662
Notional value of derivative positions				
Interest rate swaps (notional amount) – pay	(3,192,569)	(1,731,890)		
Interest rate swaps (notional amount) – receive	1,731,890	3,192,569		
Currency swaps (notional amount) – pay	(9,753,225)	-		
Currency swaps (notional amount) – receive	9,686,858	-		

As at the reporting date the Fund's debt portfolio had an effective interest rate duration of 0.90 (2018: 1.16).

1. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes additional interest rate securities and cash and cash equivalents held by the FFICs.

Note 16
Financial instruments and financial risk management (continued)

16.3.1 Interest rate risk (continued)

The exposure to interest rates as at 30 June 2018 of the Fund and the FFICs are set out below.

Financial asset	Floating Interest Rate 2018 $'000	Fixed Interest Rate 2018 $'000	Non-interest Bearing 2018 $'000	Total[1] 2018 $'000
Cash and cash equivalents	3,485,427	-	-	3,485,427
Bank bills	-	19,797	-	19,797
Negotiable certificates of deposit	-	11,564,996	-	11,564,996
Corporate debt securities	92,551	1,401,096	-	1,493,647
Mortgage backed securities	447,788	20,255	-	468,043
Asset backed securities	571,517	24,797	-	596,314
Corporate credit (bank loans)	846,788	-	-	846,788
Government debt securities	38,694	8,526,333	150	8,565,177
Other interest-bearing securities	400,358	590,958	1,634	992,950
Other financial assets	-	-	120,994,207	120,994,207
Total financial assets	**5,883,123**	**22,148,232**	**120,995,991**	**149,027,346**
Notional value of derivative positions				
Interest rate swaps (notional amount) – pay	(3,528,835)	(759,506)		
Interest rate swaps (notional amount) – receive	759,506	3,528,835		
Currency swaps (notional amount) – pay	(6,143,664)	-		
Currency swaps (notional amount) – receive	5,940,356	-		

1. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes additional interest rate securities and cash and cash equivalents held by the FFICs.

Note 16
Financial instruments and financial risk management (continued)

16.3.1 Interest rate risk (continued)

Interest rate derivative contracts

The Fund had open positions in exchange traded interest rate futures contracts, interest rate swap agreements and interest rate option agreements as at 30 June 2019. The Act governs the use of financial derivatives as detailed in Note 2.3.3.

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 transacts in interest rate derivatives in the following forms:

- bi-lateral over-the-counter contracts;
- centrally cleared over-the-counter contracts; and
- exchange traded derivatives.

The Fund's bi-lateral 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 bi-lateral swap and option transactions which are not subject to mandatory central clearing are undertaken using ISDAs. Centrally cleared transactions are cash margined at least daily. The Fund's interest rate 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 2019 $'000	Fair Market Value 2019 $'000	Notional Value 2018 $'000	Fair Market Value 2018 $'000
Buy domestic interest rate futures contracts	**4,771,222**	**24,098**	8,842,183	65,473
Buy international interest rate futures contracts	**13,765,701**	**253,015**	13,319,327	82,693
Sell domestic interest rate futures contracts	**(4,521,736)**	**(1,580)**	(4,269,943)	546
Sell international interest rate futures contracts	**(140,815)**	**(1,478)**	(156,965)	(662)
Receiver (fixed) interest rate swap agreements	**3,192,569**	**43,957**	3,528,835	(38,319)
Payer (fixed) interest rate swap agreements	**1,731,890**	**(12,287)**	(759,506)	6,983
Total		**305,725**		116,714

No interest rate derivatives are held by the FFICs.

Note 16
Financial instruments and financial risk management (continued)

16.3.1 Interest rate risk (continued)

Interest rate sensitivity analysis

The following table demonstrates the impact on the operating result of the Fund and the FFICs for a 20-basis point (2018: 20 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 2019 and 30 June 2018) and there are concurrent movements in interest rates and parallel shifts in the yield curves. A 20-basis point (2018: 20 basis point) movement would result in the following impact on the debt portfolios (including interest rate derivatives) contribution to the Fund and FFICs' 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 2019 Impact on operating result $'000
+ 20 basis points	**(371,306)**
- 20 basis points	**379,140**

	30 June 2018 Impact on operating result $'000
+ 20 basis points	(432,205)
- 20 basis points	398,034

16.3.2 Foreign currency risk management

The Fund and the FFICs undertake certain transactions denominated in foreign currencies and accordingly are 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 and other derivatives.

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 Act governs the use of financial derivatives as detailed in Note 2.3.3. The Fund's counterparties for foreign exchange contracts include major banking firms and their affiliates. The Fund diversifies its exposure by utilising major banking firms, 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.

Note 16
Financial instruments and financial risk management (continued)

16.3.2 Foreign currency risk management (continued)

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

30 June 2019	USD AUD $'000	EUR AUD $'000	GBP AUD $'000	JPY AUD $'000	Other[1] AUD $'000	Total AUD $'000
Cash & cash equivalents	1,517,010	158,917	331,830	158,833	244,355	2,410,945
Listed equities and listed managed investment schemes	20,334,421	3,180,889	1,684,541	4,347,801	16,189,180	45,736,832
Interest bearing securities	4,640,850	276,691	197,592	8,010,562	59,453	13,185,148
Collective investment vehicles	44,496,621	3,446,964	1,798,131	-	-	49,741,716
Other investments	745,529	54,874	15,514	17,300	73,621	906,838
Receivables	280,314	20,848	17,848	5,788	83,116	407,914
Payables	(101,470)	(19,454)	-	(349,143)	-	(470,067)
Total physical exposure	71,913,275	7,119,729	4,045,456	12,191,141	16,649,725	111,919,326
Forward exchange contracts and currency swaps						
- buy foreign currency	13,056,401	3,422,131	616,800	668,774	15,757,389	33,521,495
- sell foreign currency	(55,632,676)	(5,778,800)	(4,747,047)	(2,902,132)	(10,495,688)	(79,556,343)
Currency options	30,884	-	-	-	-	30,884
Total derivative exposure	(42,545,391)	(2,356,669)	(4,130,247)	(2,233,358)	5,261,701	(46,003,964)
Total net exposure	29,367,884	4,763,060	(84,791)	9,957,783	21,911,426	65,915,362

1. Other includes AUD equivalent exposures to other currencies which, when considered individually, are immaterial.

Note 16
Financial instruments and financial risk management (continued)

16.3.2 Foreign currency risk management (continued)

The Fund and FFICs' exposure in Australian equivalents to foreign currency risk at 30 June 2018 was as follows:

30 June 2018	USD AUD $'000	EUR AUD $'000	GBP AUD $'000	JPY AUD $'000	Other[1] AUD $'000	Total AUD $'000
Cash & cash equivalents	2,442,599	161,798	86,278	101,660	246,012	3,038,347
Listed equities and listed managed investment schemes	19,034,668	3,433,753	1,888,032	3,763,998	11,193,332	39,313,783
Interest bearing securities	4,347,975	265,098	190,568	7,389,444	248,653	12,441,738
Collective investment vehicles	38,184,791	3,778,520	2,315,108	94,672	-	44,373,091
Other investments	495,800	55,381	20,834	64,495	4,920	641,430
Receivables	129,504	41,330	37,774	4,347	63,294	276,249
Payables	(247,731)	(25,965)	(16,032)	(790,350)	(9,316)	(1,089,394)
Total physical exposure	64,387,606	7,709,915	4,522,562	10,628,266	11,746,895	98,995,244
Forward exchange contracts and currency swaps						
- buy foreign currency	10,541,618	2,025,901	159,645	795,389	14,911,721	28,434,274
- sell foreign currency	(41,970,331)	(10,207,274)	(4,371,554)	(4,196,202)	(7,719,826)	(68,465,187)
Currency options	41,609	-	-	-	-	41,609
Total derivative exposure	(31,387,104)	(8,181,373)	(4,211,909)	(3,400,813)	7,191,895	(39,989,304)
Total net exposure	33,000,502	(471,458)	310,653	7,227,453	18,938,790	59,005,940

1. Other includes AUD equivalent exposures to other currencies which, when considered individually, are immaterial.

Note 16
Financial instruments and financial risk management (continued)

16.3.2 Foreign currency risk management (continued)

Foreign currency sensitivity analysis

The following table demonstrates the impact on the Fund and the FFICs' operating result of a 8.7% (2018: 9.2%) movement in exchange rates relative to the Australian dollar at 30 June 2019, with all other variables held constant. If the foreign currency rises against the Australian dollar there will be a positive impact on the operating result. 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 on the two previous tables).

	30 June 2019 Impact on operating result $'000
+ 8.7% movement	**8,211,055**
- 8.7% movement	**(8,073,499)**

	30 June 2018 Impact on operating result $'000
+ 9.2% movement	7,134,323
- 9.2% movement	(6,975,279)

16.3.3 Equity price risk

Public markets equity price risk

The Fund and the FFICs are 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 and FFICs hold all of its equities at fair value through profit or loss.

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

	2019[1] $'000	2018[1] $'000
Domestic listed equities and listed managed investment schemes	**12,388,540**	10,210,608
International listed equities and listed managed investment schemes	**44,590,317**	39,313,782
Total equity price risk exposure	**56,978,857**	49,524,390

1. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes additional public market equities held by the FFICs.

Note 16
Financial instruments and financial risk management (continued)

16.3.3 Equity price risk (continued)

Equity derivative contracts

The Fund had open positions in exchange traded equity futures contracts and exchange traded and over the counter equity option contracts as at 30 June 2019. The Act governs the use of financial derivatives as detailed in Note 2.3.3. Equity futures, options and warrants are used to manage market exposures to equity price risk and to ensure that asset allocations remain within approved limits. The Fund's counterparties for over the counter equity 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 over the counter 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 2019 $'000	Fair Market Value 2019 $'000	Notional Value 2018 $'000	Fair Market Value 2018 $'000
Buy domestic equity futures contracts	**112,487**	**1,350**	80,693	1,608
Buy international equity futures contracts	**3,688,533**	**75,329**	412,951	(11,219)
Sell international equity futures contracts	**-**	**-**	(597,396)	11,334
Over the counter international equity index put options	**(3,062,571)**	**41,333**	(947,596)	5,520
Over the counter international equity index call options	**2,712,134**	**85,426**	11,584,104	421,984
Exchange traded warrants domestic	**-**	**-**	-	130
Exchange traded warrants international	**9,538**	**5,889**	7,910	3,439
Total		**209,327**[1]		432,796[1]

1. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes additional equity derivatives held by the FFICs.

Note 16
Financial instruments and financial risk management (continued)

16.3.3 Equity price risk (continued)

Equity price sensitivity analysis

The analysis below demonstrates the impact on the Fund and FFICs' 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 in Note 16.3.2. 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.

	2019 Impact on operating result $'000	2018 Impact on operating result $'000
20% increase in Australian equities	**3,624,788**	3,572,582
15% increase in International equities	**15,004,158**	12,624,074
Total	**18,628,946**	16,196,656
20% decrease in Australian equities	**(3,624,788)**	(3,572,582)
15% decrease in International equities	**(14,731,977)**	(11,708,559)
Total	**(18,356,765)**	(15,281,141)

16.3.4 Other price risk (collective investment vehicles)

The Fund and FFICs are exposed to other price risks arising from its investments in collective investment vehicles. The Fund and FFICs mitigate this risk through diversification of its investments.

As noted in Note 16.6, 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 use of proxy information to assist in determining these sensitivities is detailed below.

Private real estate proxy

A proxy index of publicly traded real estate investment trusts ("**REITs**") has been created that is appropriate for the geographical exposure of the portfolio.

Private equity proxy

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

Note 16
Financial instruments and financial risk management (continued)

16.3.4 Other price risk (collective investment vehicles) (continued)

Infrastructure proxy

Utilisation of an appropriate index of publicly traded infrastructure companies in the appropriate geography and sector is used 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 interest rate sensitivity analysis and equity risk sensitivity analysis presented earlier in Notes 16.3.1 and 16.3.3.

16.4 Liquidity risk management

Liquidity risk is the vulnerability of portfolio cash-flow management to compromise or failure. In particular, it is the risk that insufficient at-call liquidity is available to meet the Fund's liabilities and obligations as they fall due.

The Fund devotes considerable resources to liquidity risk management and the Liquidity Risk Management Policy is one of four main investment policies that support the investment process and help to ensure that the Fund and the FFICs takes 'acceptable but not excessive' risk.

The implementation of the Liquidity Risk Management Policy relies upon the following primary inputs:

- A daily stress test that is designed to ensure that the Fund and the FFICs hold enough at-call liquidity to meet our short-term obligations at all times. If the level of at-call liquidity in the Fund and the FFICs is insufficient to pass this test, it must be replenished;
- A portfolio projection model that forecasts the prospective build of the Fund and the FFICs, based on cash flow projections in a range of different market conditions;
- A commitment register of all contractual and discretionary capital commitments that may need to be funded with at-call liquidity in the future;
- A contingency plan that is designed to expedite access to alternative forms of at-call liquidity should access to traditional sources be constrained.

The following tables summarise the maturity profile of the Fund and FFICs' 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 discounted cash flows. As the majority of payments occur within one year, the difference between discounted and undiscounted cashflows is immaterial.

Note 16
Financial instruments and financial risk management (continued)

16.4 Liquidity risk management (continued)

The following tables summarise the maturity profile of the Fund and FFICs' 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 discounted cash flows. As the majority of payments occur within one year, the difference between discounted and undiscounted cashflows is immaterial.

	Less than 3 months $'000	3 months to 1 year $'000	1 to 5 Years $'000	> 5 Years $'000	Total contractual cashflows $'000	Carrying amount (assets)/ liabilities $'000
2019						
Non-derivatives						
Unsettled purchases	479,820	-	-	-	479,820	479,820
Other payables	108,438	-	-	-	108,438	108,438
Total non-derivatives	588,258	-	-	-	588,258	588,258[1]
Derivatives						
Net settled (interest rate swaps, credit default swaps, interest rate options)	9,783	85,146	-	-	94,929	94,929
Gross settled (forward foreign exchange contracts, cross currency swaps)						
- (inflow)	(26,055,932)	(8,832,863)	-	-	(34,888,795)	(34,888,795)
- outflow	26,430,009	8,927,322	-	-	35,357,331	35,357,331
Total derivatives	383,860	179,605	-	-	563,465	563,465[1]

1. Total balances do not agree with the investment balance reported in Note 7 and the payables balances reported in Note 9 as the FFICs are included in this disclosure.

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 7 for details on cash provided as collateral.

Note 16
Financial instruments and financial risk management (continued)

16.4 Liquidity risk management (continued)

As at 30 June 2018:

	Less than 3 months $'000	3 months to 1 year $'000	1 to 5 Years $'000	> 5 Years $'000	Total contractual cashflows $'000	Carrying amount (assets)/ liabilities $'000
2018						
Non-derivatives						
Unsettled purchases	1,096,558	-	-	-	1,096,558	1,096,558
Other payables	94,452	-	-	-	94,452	94,452
Total non-derivatives	1,191,010	-	-	-	1,191,010	1,191,010[1]
Derivatives						
Net settled (interest rate swaps, credit default swaps, interest rate options)						
Gross settled (forward foreign exchange contracts, cross currency swaps)	229,380	1,252	-	-	230,632	230,632
- (inflow)	(32,698,538)	(9,690,967)	-	-	(42,389,505)	(42,389,505)
- outflow	33,786,968	9,932,327	-	-	43,719,295	43,719,295
Total derivatives	1,317,810	242,612	-	-	1,560,422	1,560,422[1]

1. Total balances do not agree with the investment balance reported in Note 7 and the payables balances reported in Note 9 as the FFICs are included in this disclosure.

16.5 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 16
Financial instruments and financial risk management (continued)

16.5 Credit risk (continued)

The Fund had, at 30 June 2019, an exposure of 6.27% (2018: 7.94%) 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:	2019 $'000	2018 $'000
Westpac Banking Corporation	**2,546,334**	2,745,737
Australia and New Zealand Banking Group Limited	**2,125,653**	3,009,182
National Australia Bank Limited	**2,918,285**	2,941,786
Commonwealth Bank of Australia	**2,547,760**	2,669,127
Other domestic banks	**49,916**	199,164
Non-bank issued	**-**	6,216
Total	**10,187,948**	11,571,212

The exposures presented above reconcile to Note 7 of the financial statements as follows:

Domestic interest bearing securities issued by:	2019 $'000	2018 $'000
Negotiable certificates of deposit - domestic	**10,187,948**	11,564,996
Mortgage backed securities - domestic	**-**	6,216
Total	**10,187,948**	11,571,212

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.

Credit risk derivatives

The Funds' managers utilise credit default swaps to gain exposure to credit risk. The Act governs the use of financial derivatives as detailed in Note 2.3.3.

The Fund transacts in credit default swaps in the following forms:

- bi-lateral over-the-counter contracts; and
- centrally cleared over-the-counter contracts.

The Fund's bi-lateral 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, where contracts are not subject to mandatory clearing arrangements, by executing such contracts pursuant to master netting agreements. All transactions which are not centrally cleared are undertaken using ISDAs approved by the Fund. Centrally cleared transactions are cash margined at least daily. 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 by each counterparty or the central clearing exchange.

Note 16
Financial instruments and financial risk management (continued)

16.5 Credit risk (continued)

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 2019 $'000	Fair Market Value 2019 $'000	Notional Value 2018 $'000	Fair Market Value 2018 $'000
Buy domestic equity futures contracts	**594,173**	**(16,965)**	793,950	(26,597)
Exchange traded warrants international	**46,876**	**2,282**	212,017	176
Total		**(14,683)**		(26,421)

No credit risk derivative contracts are held by the FFICs.

Credit exposure by credit rating

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

	2019 $'000	2018 $'000
Long term rated securities		
AAA	**61,993**	143,687
AA	**140,277**	60,192
A	**3,062,713**	3,615,398
BBB	**226,972**	62,602
Below Investment grade / not rated[1]	**5,907,472**	5,191,312
Short term rated securities		
A-1+/A-1/A-2	**17,964,742**	18,929,500
Other		
US Government Guaranteed	**55,925**	30,448
Total debt securities and cash held	**27,420,094**	28,033,139
Other non-debt financial assets	**136,250,568**	120,994,207
Total financial assets	**163,670,662**[2]	149,027,346[2]

1. The Fund and FFICs have a number of mandates with managers specialising in managing distressed debt and corporate loans portfolios.
2. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes cash and financial assets held by the FFICs.

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 annually in July each year.

There are no overdue contractual receipts due from counterparties as at 30 June 2019 (2018: nil).

Note 16
Financial instruments and financial risk management (continued)

16.6 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 at fair value through profit or loss are measured initially at fair value. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments 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.

16.6.1 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 public market investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

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.

16.6.2 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, the use of independent valuation experts 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.

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

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

Note 16
Financial instruments and financial risk management (continued)

16.7 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 market data 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.

The Fund ensures that valuation techniques used by managers are consistent with the Fund's accounting policy.

As noted in Note 16.3.4 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.

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the beginning of the reporting period. The Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole).

Note 16
Financial instruments and financial risk management (continued)

16.7 Fair value hierarchy (continued)

The tables below provide information on the fair value hierarchy for the Fund and FFICs as at 30 June 2019.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total[1] $'000
Recurring fair value measurements				
Financial assets at fair value through profit or loss:				
Interest bearing securities	-	23,024,934	1,707,848	24,732,782
Listed equities and listed managed investment schemes	56,312,307	30,416	636,134	56,978,857
Collective investment vehicles	-	-	75,323,374	75,323,374
Derivatives	102,660	1,219,883	4,228	1,326,771
Restricted Cash	726,793	-	-	726,793
Total	57,141,760	24,275,233	77,671,584	159,088,577
Financial liabilities at fair value through profit or loss:				
Derivatives	(1,801)	(561,664)	-	(563,465)
Total	(1,801)	(561,664)	-	(563,465)

1. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes the investment related assets and liabilities held by the FFICs. The difference between the table above and Note 7 is financial asset investments of $1,221,934,000 and financial liability investments of $6,000.

The following table presents the transfers between levels for the year ended 30 June 2019:

	Level 1 $'000	Level 2 $'000	Level 3 $'000
Transfers between Levels 1 and 2	-	-	-
Transfers between Levels 1 and 3	14,090	-	(14,090)
Transfers between Levels 2 and 3	-	69,647	(69,647)

Note 16
Financial instruments and financial risk management (continued)

16.7 Fair value hierarchy (continued)

The following table presents the movement in Level 3 instruments for the year ended 30 June 2019 by class of financial instrument.

	Interest bearing securities $'000	Equities and listed managed investment schemes $'000	Collective investment vehicles $'000	Derivatives $'000	Total $'000
Financial assets at fair value through profit or loss:					
Opening balance	1,401,375	92,775	67,883,206	1,202	69,378,558
Purchases	396,266	253,622	17,787,280	813	18,437,981
Sales	(48,843)	(21,192)	(14,693,183)	-	(14,763,218)
Transfers into Level 3	4,670	34,656	-	-	39,326
Gains and losses recognised in the statement of comprehensive income	29,506	324,210	4,346,071	2,213	4,702,000
Transfers out of Level 3	(75,126)	(47,937)	-	-	(123,063)
Closing balance	1,707,848	636,134	75,323,374	4,228	77,671,584

There were no Level 3 financial liabilities.

Note 16
Financial instruments and financial risk management (continued)

16.7 Fair value hierarchy (continued)

The Fund must invest all the assets of the Fund via investment managers. Listed below are the valuation techniques and significant unobservable inputs for the investments classified in Level 2 and Level 3. Due to the diverse nature of the Fund's investments it is not possible to list the ranges of the inputs.

As at 30 June 2019:

	Fair Value $'000	Valuation Technique	Unobservable Inputs
Recurring fair value measurements			
Financial assets at fair value through profit or loss:			
Interest bearing securities	**24,732,782**	Discounted cash flow	Discount Rate
		Market Approach	Earnings Multiple
		Broker Quotations	N/A
		Independent Pricing Services	N/A
		Recovery Rate	Illiquidity Discount
Equities and listed managed investment schemes	**666,550**	Discounted cash flow	Discount Rate
		Independent Pricing Services	N/A
		Recent Transaction	N/A
		Recovery Value	Recovery Rate
Collective investment vehicles	**74,760,388**	Market Approach	Earnings Multiple
			Net Asset Value
	562,986	Discounted cash flow	Discount Rate
Derivatives	**1,224,111**	Independent Pricing Services	N/A
		Broker Quotations	N/A
Total	**101,946,817**		
Financial liabilities at fair value through profit or loss:			
Derivatives	**(561,664)**	Independent Pricing Services	N/A
		Broker Quotations	N/A
Total	**(561,664)**		

Note 16
Financial instruments and financial risk management (continued)

16.7 Fair value hierarchy (continued)

The tables below provide information on the fair value hierarchy for the Fund and FFICs as at 30 June 2018:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total[1] $'000
Recurring fair value measurements				
Financial assets at fair value through profit or loss:				
Interest bearing securities	11,042	23,135,295	1,401,375	24,547,712
Listed equities and listed managed investment schemes	49,382,612	49,003	92,775	49,524,390
Collective investment vehicles	-	439	67,883,206	67,883,645
Derivatives	153,193	932,321	1,202	1,086,716
Restricted Cash	623,073	-	-	623,073
Total	50,169,920	24,117,058	69,378,558	143,665,536
Financial liabilities at fair value through profit or loss:				
Derivatives	(12,049)	(1,548,373)	-	(1,560,422)
Total	(12,049)	(1,548,373)	-	(1,560,422)

1. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes the investment related assets and liabilities held by the FFICs. The difference the table above and Note 7 is financial asset investments of $533,898,000 and financial liability investments of $5,000.

The following table presents the transfers between levels for the year ended 30 June 2018:

	Level 1 $'000	Level 2 $'000	Level 3 $'000
Transfers between Levels 1 and 2	(768)	768	-
Transfers between Levels 1 and 3	10,437	-	(10,437)
Transfers between Levels 2 and 3	-	4,442	(4,442)

Note 16
Financial instruments and financial risk management (continued)

16.7 Fair value hierarchy (continued)

The following table presents the movement in Level 3 instruments for the year ended 30 June 2018 by class of financial instrument.

	Interest bearing securities $'000	Equities and listed managed investment schemes $'000	Collective investment vehicles $'000	Derivatives $'000	Total $'000
Financial assets at fair value through profit or loss:					
Opening balance	1,563,335	77,082	57,876,767	208,136	59,725,320
Purchases	219,647	21,476	20,452,802	-	20,693,925
Sales	(358,533)	(1,384)	(15,340,754)	(282,297)	(15,982,968)
Transfers into Level 3	418	17,048	-	-	17,466
Gains and losses recognised in the statement of comprehensive income	(18,039)	5,444	4,894,391	75,363	4,957,159
Transfers out of Level 3	(5,453)	(26,891)	-	-	(32,344)
Closing balance	1,401,375	92,775	67,883,206	1,202	69,378,558

There were no Level 3 financial liabilities.

Note 16
Financial instruments and financial risk management (continued)

16.7 Fair value hierarchy (continued)

The Fund must invest all the assets of the Fund via investment managers. Listed below are the valuation techniques and significant unobservable inputs for the investments classified in Level 2 and Level 3. Due to the diverse nature of the Fund's investments it is not possible to list the ranges of the inputs.

As at 30 June 2018:

	Fair Value $'000	Valuation Technique	Unobservable Inputs
Recurring fair value measurements			
Financial assets at fair value through profit or loss:			
Interest bearing securities	24,536,670	Discounted cash flow	Discount Rate
		Market Approach	Earnings Multiple
		Broker Quotations	N/A
		Independent Pricing Services	N/A
		Recovery Rate	Illiquidity Discount
Equities and listed managed investment schemes	141,778	Discounted cash flow	Discount Rate
		Independent Pricing Services	N/A
		Recent Transaction	N/A
		Recovery Value	Recovery Rate
Collective investment vehicles	67,883,645	Market Approach	Earnings Multiple
			Net Asset Value
		Discounted cash flow	Discount Rate
Derivatives	933,523	Independent Pricing Services	N/A
		Broker Quotations	N/A
Total	93,495,616		
Financial liabilities at fair value through profit or loss:			
Derivatives	(1,548,373)	Independent Pricing Services	N/A
		Broker Quotations	N/A
Total	(1,548,373)		

Note 17
Events occurring after reporting date

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

Note 18
Special Accounts

18.1 Special Accounts: Future Fund Special Account

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

Appropriation authority – section 80 of the PGPA 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 2018 to 30 June 2019 $'000	Period from 1 July 2017 to 30 June 2018 $'000
Balance carried from previous period	-	-
Bank interest amounts credited	-	-
Appropriations for reporting period	-	-
Other Receipts:		
GST credits	**2,936**	5,052
Amounts transferred from investment account[1]	**320,388**	371,446
Amounts credited to the special account	-	-
Total Credits	**323,324**	376,498
Available for payments	**323,324**	376,498
Payments made:		
nvestments debited from the Special Account (FFA s17)		
Payments made		
- Remuneration of Agency staff	**46,857**	43,663
- Remuneration of Board members	**887**	853
- Suppliers	**62,776**	44,049
- Investment expenses	**211,201**	284,861
- Purchase of capital equipment and software	**1,603**	3,072
Total Debits	**323,324**	376,498
Balance carried forward to next year[2]	-	-

1. The operations of the Fund are funded via the investment revenue generated.
2. Excluding investments balances, see Note 18.2.

Note 18
Special Accounts (continued)

18.2 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 Future Fund Act 2006 (as amended)	Period from 1 July 2018 to 30 June 2019 $'000	Period from 1 July 2017 to 30 June 2018 $'000
Opening balance	**121,792,123**	116,165,293
Investments made on transfer of funds from the Special Account		
Realised investments reinvested	**126,741,470**	130,723,804
Interest earned reinvested	**1,393,850**	1,502,829
Dividends received reinvested	**5,985,048**	3,726,193
Franking credits received reinvested	**952,916**	835,678
Foreign currency realised reinvested	**(1,816,670)**	(244,199)
Amounts transferred to operations[1]	**(320,388)**	(371,446)
Investments realised	**(122,859,879)**	(130,546,029)
Closing Balance	**131,868,470**	121,792,123

1. The operations of the Fund are funded via the investment revenue generated.

Note 19
Reporting of outcomes

19.1 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, Nation Building Funds, DisabilityCare Australia Fund, Medical Research Future Fund and Aboriginal and Torres Strait Islander Land and Sea Future Fund in line with the Government's investment mandates.

The net contribution of outcome 1 is disclosed in the Statement of comprehensive income.

19.2 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, DisabilityCare Australia Fund, Medical Research Future Fund and Aboriginal and Torres Strait Islander Land and Sea Future Fund. These investments are held for and on behalf of the Commonwealth of Australia.

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 in the Statement of comprehensive income.

Program 1.2 Management of the investment of the Building Australia Fund, Education Investment Fund, DisabilityCare Australia Fund, Medical Research Future Fund and the Aboriginal and Torres Strait Islander Land and Sea Future Fund (the BAF, EIF, DCAF,MRFF & ATSILSFF).

Note 19
Reporting of outcomes (continued)

19.2 Net cost of outcome delivery – Programs (continued)

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 and EIF (each a "**fund**") and subsequently by the *DisabilityCare Australia Fund Act 2013*, the *Medical Research Future Fund Act 2015* and the *Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018* to support the Board in the investment of the assets of the DCAF, MRFF and ATSILSFF. 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. During year the Agency charged the funds a combined amount of $4,510,000 (2018:$3,403,000) which is included in other income in the statement of comprehensive income and the amount owing to the Agency at 30 June 2019 was $1,181,839 (2018: $879,000). Direct costs to the BAF, EIF, DCAF, MRFF and ATSILSFF, 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.

Note 20
Maturity Disclosure

AASB 101 requires that for each asset and liability line item, the amount expected to be recovered or settled beyond 12 months is disclosed as set out in the table below:

	As at 30 June 2019 <12 months $'000	As at 30 June 2019 >12 months $'000	As at 30 June 2018 <12 months $'000	As at 30 June 2018 >12 months $'000
Financial assets				
Cash and cash equivalents	**1,781,107**	**-**	2,418,038	-
Receivables	**1,515,267**	**-**	1,715,788	-
Investments	**39,596,394**	**120,713,247**	36,941,880	107,257,554
Other financial assets	**2,991**	**-**	1,811	-
Non-financial assets				
Plant and equipment	**-**	**3,752**	-	4,774
Intangibles	**-**	**2,944**	-	3,474
TOTAL ASSETS	**42,895,759**	**120,719,943**	41,077,517	107,265,802
LIABILITIES				
Financial liabilities				
Investments	**563,459**	**-**	1,560,417	-
Payables	**529,352**	**-**	988,072	-
Non-financial liabilities				
Employee provisions	**22,736**	**7,000**	23,927	5,033
Tax liabilities				
Deferred tax liabilities	**-**	**18,524**	-	18,700
TOTAL LIABILITIES	**1,115,547**	**25,524**	2,572,416	23,733

Note 21
Budgetary reports

The following tables provide a comparison of the original budget as presented in the 2018 – 19 Portfolio Budget Statements ("**PBS**") to the 2018 – 19 final outcome as presented in accordance with Australian Accounting Standards for the entity. The budget is not audited.

The 2018 – 19 budget was based on the assumption that the mandated return is achieved for each forward estimates year. CPI is estimated in these budget numbers. In that context, the budget construct, including related investment costs, was based on the estimated mandated return. Actual results will always deviate from these assumed returns. For 2018 – 19, the Fund generated a net of costs return of $16.73bn (11.5%), an 84% increase from the budgeted amount. For comparative purposes, the mandated return used for budget purposes for the equivalent period was 6.4%.

There are therefore significant variances between budgeted and actual outcomes. Due to the volatile nature of investment markets, it is difficult to accurately predict the financial outcomes of the Fund. Further, as PBS financial information is presented in a concise format which differs to the level of information presented in this financial report, the tables below compare actual and budgeted information for the statement of comprehensive income and statement of financial position.

STATEMENT OF COMPREHENSIVE INCOME	Year ended 30 June 19 $'000	PBS – Administered 30 June 19 $'000	PBS – Departmental 30 June 19 $'000	Variance 30 June 19 $'000
Total income	17,035,187	9,654,845	80,830	7,299,512
Total expenses including income tax	307,726	525,449	80,830	(298,553)[1]
OPERATING RESULT FOR THE YEAR	16,727,461	9,129,396	-	7,598,065

STATEMENT OF FINANCIAL POSITION	As at 30 June 19 $'000	PBS – Administered 30 June 19 $'000	PBS – Departmental 30 June 19 $'000	Variance 30 June 19 $'000
Total assets	163,615,702	154,002,256	32,406	9,581,040
Total liabilities	1,141,071	2,049,709	32,406	(941,044)
TOTAL EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT	162,474,631	151,952,547	-	10,522,084

1. Total expenses were lower than budgeted mainly due to the total budgeted expense estimate based on the consolidation of subsidiaries under accounting standards which is required for budget preparation. As the Fund applies the investment entity standard, expenses incurred in subsidiaries are not included in the financial statements as separate expenses but are included in the change in fair value of the investment entities in which the expenses are incurred.

07

Other mandatory reporting

Resource statement

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

Nonetheless, the Agency is required to publish information in line with the outcome and output statement used by government departments and agencies.

The Future Fund was established in 2006 to strengthen the Australian Government's long-term financial position. The outcome for the Agency is: make provision for the Commonwealth's unfunded superannuation liabilities and development of infrastructure by managing the operational activities of the Future Fund, the Medical Research Future Fund, the Aboriginal and Torres Strait Islander Land and Sea Future Fund, the DisabilityCare Australia Fund and the Nation-building Funds in line with the Government's Investment Mandates.

Future Fund Management Agency resource statement

	Actual Available appropriation - current year (a)	Payments made (b)	Balance remaining (a)-(b)
	$'000	$'000	$'000
Administered			
Special accounts	376,200	376,200	–
Total special accounts receipts	376,200	376,200	–
Total resourcing and payments for entity X (A + B)	**376,200**	**376,200**	**–**

Procurement

The procurement of goods and services by the Agency is consistent with the Commonwealth Procurement Rules 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 public asset funds are excluded from the mandatory provisions of the Commonwealth Procurement Rules.

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. 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 2018-19 28 new consultancy contracts were entered into involving a total actual expenditure of $2,791,783. In addition 11 ongoing consultancy contracts were active during 2018-19, involving total actual expenditure of $579,773.

A summary of expenditure on consultants in 2018-19 is below:

	Total
No. of new contracts entered into during the period	28
Total actual expenditure during the period on new contracts (inc. GST)	2,791,783
No. of ongoing contracts engaging consultants that were entered into during a previous period	11
Total actual expenditure during the period on ongoing contracts (inc. GST)	579,773

The Agency supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprises (SMEs) and Small Enterprise participation statistics are available on the Department of Finance's website.

The Agency recognises the importance of ensuring that small businesses are paid on time. The results of the survey of Australian Government Payments to Small Business are available on the Treasury's website.

The Agency's support for small business includes using the Commonwealth Contracting Suite for procurements under $200,000 in accordance with applicable Department of Finance resource management guidance.

Freedom of Information

Agencies subject to the *Freedom of Information Act 1982* (FOI Act) are required to publish information to the public as part of the Information Publication Scheme (IPS). This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a section 8 statement in an annual report.

Each agency must display on its website a plan showing what information it publishes in accordance with the IPS requirements. Information regarding the Agency's Information Public Scheme Plan is available at www.futurefund.gov.au/About-us/access-to-information/information-publication-scheme.

Advertising and market research

During 2018-19 the Agency undertook recruitment advertising. The total cost of this was $2,235.

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 'How we invest' section of this 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.

A NABERS self-assessment of the Agency's tenancy during the year resulted in a rating of 5 stars. This is due to a number of energy saving initiatives, including recycling office consumables, and using energy saving features on office equipment and lighting.

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 2010–2020, which sets out a 10-year national policy framework to improve the lives of people with disability, promote participation and create a more inclusive society. A high level two-yearly report will track progress against each of the six outcome areas of the Strategy and present a picture of how people with disability are faring. The first of these reports can be found at www.dss.gov.au.

2018-19 annual performance statement

Introductory statement

As required by the *Future Fund Act 2006* and the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), this annual performance statement relates to the Future Fund Management Agency (Agency) and the Future Fund Board of Guardians (Board) as if they were a single Commonwealth entity (collectively referred to as the 'organisation').

As the Accountable Authority of the organisation for this purpose, I present the annual performance statement of the organisation, as required under paragraph 39(1)(a) of the PGPA Act. In my opinion, this annual performance statement is based on properly maintained records, accurately reflects the performance of the organisation, and complies with subsection 39(2) of the PGPA Act.

Hon Peter Costello AC

Accountable Authority, Future Fund Management Agency

Chair, Future Fund Board of Guardians

24 September 2019

Purpose

The organisation is responsible for investing for the benefit of future generations of Australians. Established in 2006 as Australia's sovereign wealth fund, its main objective is to strengthen the Commonwealth's long-term financial position.

The Board has responsibility for investing the assets of special purpose public asset funds including the Future Fund, the Medical Research Future Fund, the DisabilityCare Australia Fund and two Nation-building Funds (the Building Australia Fund and the Education Investment Fund).

In February 2019 the Board also took on management of the Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILS Fund).

Each fund is established by legislation and the risk and return objectives for each of the funds are set by Investment Mandate Directions issued by the Treasurer and Minister for Finance to the Board.

The Agency supports the Board with investing funds for which the Board is responsible in line with the Investment Mandate Directions for each fund.

The Portfolio Budget Statements identify the Outcome as: Make provision for the Commonwealth's unfunded superannuation liabilities, payments for the creation and development of infrastructure and payments from the DisabilityCare Australia Fund and Medical Research Future Fund by managing the investment activities of the Future Fund, Nation-building Funds, DisabilityCare Australia Fund and Medical Research Future Fund, in line with the Government's investment mandates (Outcome 1).

Results

As an investment institution, the achievement of the return and risk objectives set by the Government for each special purpose public fund is the key measure of performance. These expectations are set out in the Investment Mandate Directions issued by the responsible Ministers.

The ATSILS Fund was established in February 2019 and is not reflected in the performance criteria set out in 2018-19 Portfolio Budget Statements or the organisation's Corporate Plan. Noting that the Fund is in an initial transition period, the organisation is developing a long-term strategic asset allocation, and performance results are not discussed in this statement.

Performance criterion one – management of the investment of the Future Fund

Provide assistance and advice to the Board in pursuit of achieving the Investment Mandate target return over the long term (interpreted as rolling 10-year periods) with acceptable but not excessive risk.

The target return set out in the Investment Mandate is an average of at least 4% to 5% above the Consumer Price Index (CPI) over the long term.

Criterion source

2018-19 performance criteria outlined in the 2018-19 Portfolio Budget Statements (Outcome 1, Program 1.1) and the 2018-19 Corporate Plan (Section 3, Performance).

Result against performance criterion

Performance against the Future Fund Investment Mandate Direction is set out in the table below.

Returns: Future Fund

Period to 30 June 2019	Return pa (%)	Target return[1] pa (%) CPI + target return
From May 2006	8.2	6.7
10 years	10.4	6.5
Seven years	11.3	6.3
Five years	9.9	5.9
Three years	9.8	6.0
One year	11.5	5.6

1. The Investment Mandate sets a benchmark target return of at least CPI + 4.5% to 5.5% pa to 30 June 2017 and CPI + 4% to 5% pa thereafter.

Performance criterion two – management of the investment of the Australian Government investment funds

Provide assistance and advice to the Board in pursuit of achieving the Investment Mandate Direction target returns as follows:

- For each of the Nation-building Funds and the DisabilityCare Australia Fund, 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 loss over a 12-month horizon.
- For the Medical Research Future Fund, an average return of at least the Reserve Bank of Australia Cash Rate target +1.5% to 2.0% per annum, net of investment fees, over a rolling 10-year term with acceptable but not excessive risk.

Criterion source

2018-19 performance criteria outlined the 2018-19 Portfolio Budget Statements (Outcome 1, Program 1.2) and the 2018-19 Corporate Plan (Section 3, Performance).

Result against performance criterion

In 2018-19, the Nation-building Funds (the Building Australia Fund and Education Investment Fund) each achieved a return of 2.3%. The target benchmark return for the Nation-building Funds during the period was 2.3%.

In 2018-19 the DisabilityCare Australia Fund generated a return of 2.2%. The target benchmark return for the period was 2.3%.

From inception in September 2015 to 30 June 2019, the Medical Research Future Fund has generated a return of 4.5% pa against a target benchmark return of 3.0% pa. In 2018-19 the Fund achieved a return of 5.2%, exceeding its target benchmark of 3.0%.

Analysis of performance against purpose

The organisation is performing well against its stated purpose.

The Future Fund has exceeded the target benchmark return over each time period since inception adding over $102.1 billion to the value of the Future Fund. These returns have been delivered while avoiding excessive risk.

The Medical Research Future Fund has exceeded its target benchmark return since inception. We have continued to diversify the Fund in line with our investment strategy in 2018-19. The Fund also exceeded its target benchmark over a one-year period, noting that returns are to be assessed over rolling 10-year periods.

The Nation-building Funds also performed well, meeting their target benchmark in 2018-19. The DisabilityCare Australia Fund achieved a return of 2.2%, marginally below its target benchmark of 2.3%.

2018-19 was a challenging year for investors. The first half of the financial year was characterised by volatile markets as concerns regarding geopolitical issues came to the fore. This led to a period of monetary policy easing by central banks which, together with market expectations of further easing and continued global economic growth, supported strong asset returns in the second half of the year.

In the longer term the global economy will face structural challenges including demographic shifts and high levels of debt.

We maintain our view that long-term forward-looking returns are lower relative to history. We will continue to exercise patience and diligence in investing the assets of the funds in line with their relevant Investment Mandate Directions.

08

References and index

Appendix A

Investment managers engaged by the Future Fund Board of Guardians as at 30 June 2019

Table: Investment managers as at 30 June 2019

Asset Class	Manager
Equities	
Australian Equities	Macquarie Investment Management
Developed market equities	Blackstone Alternative Asset Management
	BlackRock Alternative Advisors
	Man GLG
	State Street Global Advisors
Emerging market equities	State Street Global Advisors
Private equity	
Buy out	Advent International Corporation
	American Industrial Partners
	Apax Partners
	Archer Capital
	Bain Capital
	Berkshire Partners
	Charterhouse Capital Partners
	Citic Capital
	GI Partners
	Hellman & Friedman
	Quadrant Private Equity
	RCP Advisors
	Seidler Equity Partners
	Siris Capital
	Southern Cross Management
	The Growth Fund
	Vitruvian Investment Partners

Asset Class	Manager
Venture and growth	Adams Street Partners Bessemer Venture Partners CDH Investments Columbia Capital FountainVest Partners Greenspring Associates Hillhouse Capital Horsley Bridge Partners Lightspeed Venture Partners New Enterprise Associates Playground Global Quilvest Xiang He Capital
Special opportunities	Adams Street Partners HarbourVest Partners Oaktree Capital Management TowerBrook Capital Partners
Property	
Unlisted	Altarea Cogedim Berkshire Property Advisors BlackRock Brookfield Asset Management Columbia Pacific Advisors CorVal Partners Garrison Investment Group LP Harbert Management Corporation Hillwood Investment Properties ICAMAP Advisory Lend Lease Investment Management Morgan Stanley Real Estate Investing PEET Limited The Townsend Group Vicinity Centres
Listed	State Street Global Advisors

Asset Class	Manager
Infrastructure & Timberland	
Unlisted	AMP Capital Investors Campbell Global Corsair Infrastructure Management Global Infrastructure Partners HRL Morrison & Co Morgan Stanley Infrastructure Oaktree Capital Management Starwood Energy
Listed	DWS State Street Global Advisors
Debt	
High grade debt	Colonial First State Global Asset Management Goldman Sachs Asset Management M&G Investment Management Limited Macquarie Investment Management PIMCO Australia
High yield debt	Ares Management Bain Capital Credit BlackRock Investment Management Glen Point Capital Hayfin Asset Management Lazard Asset Management Oak Hill Advisors Oaktree Capital Management PAG Holdings Limited Quadrant Real Estate Advisors Westbourne Credit Management Limited
Distressed and event driven	Bain Capital Credit Centerbridge Partners L.P Oak Hill Advisors Oaktree Capital Management

Asset Class	Manager
Alternatives	
Multi-strategy/relative value	Citadel Advisors Wellington Investment Management
Macro-directional	MAN AHL Partners LLP BlackRock Alternative Advisors Bridgewater Associates, Inc Pendal Group Citadel Advisors Clocktower Group L.P. Goldman Sachs Asset Management L.P. Glen Point Capital GMO Australia Ionic Capital Management Key Square Capital Management LLC QMS Capital Management Athanor Capital L.P.
Alternative risk premia	Atom Investors L.P. Elementum Advisors Hiscox Re Insurance Linked Strategies Ltd MAN FRM Investment Management Ltd SouthPeak Investment Management Wellington Investment Management
Overlay strategies	Ashmore Investment Management Limited Insight Investment Management (Global) Legal & General Investment Management Limited Macquarie Investment Management PIMCO Australia State Street Global Advisors Limited UBS Securities Australia Limited
Cash	Colonial First State Global Asset Management Macquarie Investment Management PIMCO Australia

Appendix B

Investment Mandate Directions

Future Fund Investment Mandate Direction 2017

Part 1 Preliminary

1. Name of Direction

This Direction is the *Future Fund Investment Mandate Direction 2017*.

2. Commencement

This Direction commences on 1 July 2017, or on the 15th day after it is given to the Board, whichever occurs later.

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 sunsetting of legislative instruments) does not apply to this instrument: see section 54 of that Act.

3. Revocation of Previous Direction

The *Future Fund Investment Mandate Direction 2014* is revoked in full.

4. Definitions

In this Direction:

Act means the *Future Fund Act 2006*.

Fund means the Future Fund.

Board means the Future Fund Board of Guardians.

responsible Ministers has the same meaning as in the Act.

5. Object of this Direction

The object of this Direction 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.

This Direction is 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 Direction

6. Benchmark return

The Board is to adopt an average return of at least the Consumer Price Index (CPI) + 4 to + 5 per cent per annum over the long term as the benchmark return on the Fund.

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.

7. 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 84C 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:

(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.

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.

Medical Research Future Fund Investment Mandate Direction 2015

Part 1 Preliminary

1. Name of Direction

This Direction is the *Medical Research Future Fund Investment Mandate Direction 2015*.

2. Commencement

This Direction commences on the 15th day after it is 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 sunsetting of legislative instruments) does not apply to this instrument: see section 54 of that Act.

3. Definitions

In this Direction:

Act means the *Medical Research Future Fund Act 2015*.

Board means the Future Fund Board of Guardians.

Fund means the Medical Research Future Fund.

responsible Ministers has the same meaning as in the Act.

4. Object of this Direction

The Fund has been established to provide grants of financial assistance to support medical research and medical innovation over the long term.

The object of this Direction is to give guidance to the Board in relation to its investment strategy for the Fund. The Board is required under section 40 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
- to enhance the commonwealth's ability to provide grants of financial assistance to support medical research and innovation, subject to its obligations under the Act and any directions given by the responsible Ministers under the Act.

This Direction is given under subsection 39(1) of the Act to articulate the Government's expectations for how the Fund will be invested and managed by the Board.

Part 2 Direction

5. Benchmark return

The Board is to adopt an average return of at least the Reserve Bank of Australia Cash Rate target + 1.5 to 2.0 per cent per annum, net of investment fees, over a rolling 10 year term as the benchmark return on the Fund.

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. In determining the level of risk, the Board must take into account:

- the principle that the nominal value of the credits to the Fund be preserved over the long term; and
- the principle to moderate the volatility of the maximum annual distribution.

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.

7. 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.

Aboriginal and Torres Strait Islander Land and Sea Future Fund Investment Mandate Direction 2019

Part 1 Preliminary

1. Name

This Direction is the *Aboriginal and Torres Strait Islander Land and Sea Future Fund Investment Mandate Direction 2019*.

2. Commencement

This Direction commences on the 15th day after it is given to the Board.

Note 1: Section 42 (disallowance) of the *Legislation Act 2003* does not apply to the direction – see regulations made for the purposes of paragraph 44(2)(b) of that Act.

Note 2: Part 4 of Chapter 3 (sunsetting) of the *Legislation Act 2003* does not apply to the direction – see regulations made for the purposes of paragraph 54(2)(b) of that Act.

3. Authority

This Direction is made under the *Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018*.

4. Definitions

In this Direction:

Act means the *Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018*.

Board means the Future Fund Board of Guardians established by section 34 of the *Future Fund Act 2006*.

Consumer Price Index means the All Groups Consumer Price Index number, being the weighted average of the 8 capital cities, published by the Australian Bureau of Statistics.

Fund means the Aboriginal and Torres Strait Islander Land and Sea Future Fund established by the Act.

Future Fund Act means the *Future Fund Act 2006*.

ILSC means the Indigenous Land and Sea Corporation established by section 191A of the *Aboriginal and Torres Strait Islander Act 2005*.

Responsible Ministers has the same meaning as in the Act.

Part 2 Direction

5. Object

(1) The object of this Direction is to give guidance to the Board in relation to its investment strategy for the Fund.

(2) The Board must seek to maximise the return earned on the Fund over the long term, consistent with international best practice for institutional investment, pursuant to section 33 of the Act, and subject to its obligations under the Act and any directions given by the Responsible Ministers under subsection 32(1) of the Act.

(3) This Direction is given under subsection 32(1) of the Act to articulate the Government's expectations for how the Fund will be invested and managed by the Board. This sets out matters of risk and return for the Fund.

6. Benchmark return and acceptable level of risk

(1) The Board is to adopt an average return over the long term of at least the Consumer Price Index + 2.0 to + 3.0 per cent per annum, net of costs, as the benchmark return on the Fund.

(2) During the initial transition period, as the Board develops a long-term strategic asset allocation, the Government anticipates a return lower than the benchmark return.

Acceptable level of risk

(1) In constructing a portfolio, the Board:

(a) must determine an acceptable but not excessive level of risk for the Fund, including having regard to the plausible capital loss from investment returns over the forward three-year period; and

(b) must have regard to its obligations under section 17 of the Act.

(2) The Government acknowledges that targeting the long-term benchmark return implies accepting the risk of capital losses, in adverse markets, that may be 15-20 per cent of the portfolio over a three-year period.

7. Board must consider impacts from its investment strategy

(1) 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.

8. Corporate governance

(1) 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.

9. Reporting

The Board must publish quarterly portfolio updates on its website showing:

(a) actual returns against benchmark return; and

(b) asset allocations by category.

DisabilityCare Australia Fund Investment Mandate Directions 2014[1]

Part 1 Preliminary

1. Name of Directions

These Directions are the *DisabilityCare Australia Fund Investment Mandate Directions 2014*.

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 sunsetting of legislative instruments) does not apply to this instrument: see section 54 of that Act.

3. Definitions

In these Directions:

Act means the *DisabilityCare Australia Fund Act 2013*.

Board means the Future Fund Board of Guardians.

Fund means the DisabilityCare Australia Fund.

Responsible Ministers has the same meaning as in the Act.

4. Object of these Directions

(1) The DisabilityCare Australia Fund is a financing source to enhance the Commonwealth's ability to reimburse the States and Territories and the Commonwealth for the expenditure incurred in relation to the *National Disability Insurance Scheme Act 2013*.

(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, 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 29(1) of the Act to articulate the Government's expectations for how the Fund will be invested and managed by the Board.

(4) The responsible Ministers may review these Directions, in consultation with the Board, including after any request by the Board in the context of any material changes to either the prevailing investment conditions or the cashflow position of the Fund.

Part 2 Directions

5. Investment Objectives

(1) The Board should invest in such a way as to minimise the probability of capital losses over a 12 month horizon.

(2) Subject to the Board's obligations under section 23 of the Act and to (1) above, 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).

6. The Board must consider impacts from its investment strategy

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

(1) minimises the potential to effect any abnormal change in the volatility or efficient operation of Australian financial markets; and

(2) is unlikely to cause any diminution of the Commonwealth 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 www.frli.gov.au.

Building Australia Fund Investment Mandate Directions 2009[1]

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 sunsetting 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 www.frli.gov.au.

Education Investment Fund Investment Mandate Directions 2009[1]

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 sunsetting 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 www.frli.gov.au.

Appendix C

List of Requirements

This list of requirements is provided as a checklist against the requirements detailed in Resource Management Guide No. 135. 'Annual reports for non-corporate Commonwealth entities', in line with reporting requirements under 17AJ(d) of the PGPA rule.

PGPA Rule Reference	Part of Report	Description	Requirement
17AD(g)	**Letter of transmittal**		
17AI	P03	A copy of the letter of transmittal signed and dated by accountable authority on date final text approved, with statement that the report has been prepared in accordance with section 46 of the Act and any enabling legislation that specifies additional requirements in relation to the annual report.	Mandatory
17AD(h)	**Aids to access**		
17AJ(a)	P01	Table of contents.	Mandatory
17AJ(b)	P188-191	Alphabetical index.	Mandatory
17AJ(c)	P187	Glossary of abbreviations and acronyms.	Mandatory
17AJ(d)	P181-186	List of requirements.	Mandatory
17AJ(e)	Inside front cover	Details of contact officer.	Mandatory
17AJ(f)	Inside front cover	Entity's website address.	Mandatory
17AJ(g)	Inside front cover	Electronic address of report.	Mandatory
17AD(a)	**Review by accountable authority**		
17AD(a)	P06-07	A review by the accountable authority of the entity.	Mandatory
17AD(b)	**Overview of the entity**		
17AE(1)(a)(i)	P10-15	A description of the role and functions of the entity.	Mandatory
17AE(1)(a)(ii)	P70-80	A description of the organisational structure of the entity.	Mandatory
17AE(1)(a)(iii)	P10-15, P32-69	A description of the outcomes and programmes administered by the entity.	Mandatory
17AE(1)(a)(iv)	P10-15, P166-168	A description of the purposes of the entity as included in corporate plan.	Mandatory
17AE(1)(aa)(i)	P77	Name of the accountable authority or each member of the accountable authority.	Mandatory
17AE(1)(aa)(ii)	P77	Position title of the accountable authority or each member of the accountable authority.	Mandatory
17AE(1)(aa)(iii)	P77	Period as the accountable authority or member of the accountable authority within the reporting period.	Mandatory
17AE(1)(b)	Not applicable	An outline of the structure of the portfolio of the entity.	Portfolio departments – mandatory

PGPA Rule Reference	Part of Report	Description	Requirement
17AE(2)	Not applicable	Where the outcomes and programs administered by the entity differ from any Portfolio Budget Statement, Portfolio Additional Estimates Statement or other portfolio estimates statement that was prepared for the entity for the period, include details of variation and reasons for change.	If applicable, Mandatory
17AD(c)	**Report on the Performance of the entity**		
	Annual Performance Statements		
17AD(c)(i); 16F	P166-168	Annual performance statement in accordance with paragraph 39(1)(b) of the Act and section 16F of the Rule.	Mandatory
17AD(c)(ii)	Report on Financial Performance		
17AF(1)(a)	P32-69	A discussion and analysis of the entity's financial performance.	Mandatory
17AF(1)(b)	P164	A table summarising the total resources and total payments of the entity.	Mandatory
17AF(2)	Not applicable	If there may be significant changes in the financial results during or after the previous or current reporting period, information on those changes, including: the cause of any operating loss of the entity; how the entity has responded to the loss and the actions that have been taken in relation to the loss; and any matter or circumstances that it can reasonably be anticipated will have a significant impact on the entity's future operation or financial results.	If applicable, Mandatory
17AD(d)	Management and Accountability		
	Corporate Governance		
17AG(2)(a)	P81	Information on compliance with section 10 (fraud systems).	Mandatory
17AG(2)(b)(i)	P03	A certification by accountable authority that fraud risk assessments and fraud control plans have been prepared.	Mandatory
17AG(2)(b)(ii)	P03	A certification by accountable authority that appropriate mechanisms for preventing, detecting incidents of, investigating or otherwise dealing with, and recording or reporting fraud that meet the specific needs of the entity are in place.	Mandatory
17AG(2)(b)(iii)	P03	A certification by accountable authority that all reasonable measures have been taken to deal appropriately with fraud relating to the entity.	Mandatory

PGPA Rule Reference	Part of Report	Description	Requirement
17AG(2)(c)	P70-81	An outline of structures and processes in place for the entity to implement principles and objectives of corporate governance.	Mandatory
17AG(2)(d) – (e)	Not applicable	A statement of significant issues reported to Minister under paragraph 19(1)(e) of the Act that relates to non compliance with Finance law and action taken to remedy non-compliance.	If applicable, Mandatory
	External Scrutiny		
17AG(3)	P70-81	Information on the most significant developments in external scrutiny and the entity's response to the scrutiny.	Mandatory
17AG(3)(a)	Not applicable	Information on judicial decisions and decisions of administrative tribunals and by the Australian Information Commissioner that may have a significant effect on the operations of the entity.	If applicable, Mandatory
17AG(3)(b)	Not applicable	Information on any reports on operations of the entity by the Auditor General (other than report under section 43 of the Act), a Parliamentary Committee, or the Commonwealth Ombudsman.	If applicable, Mandatory
17AG(3)(c)	Not applicable	Information on any capability reviews on the entity that were released during the period.	If applicable, Mandatory
	Management of Human Resources		
17AG(4)(a)	P82-85	An assessment of the entity's effectiveness in managing and developing employees to achieve entity objectives.	Mandatory
17AG(4)(aa)	P86-89	Statistics on the entity's employees on an ongoing and non ongoing basis, including the following: (a) statistics on full time employees; (b) statistics on part time employees; (c) statistics on gender (d) statistics on staff location	Mandatory
17AG(4)(b)	P86-89	Statistics on the entity's APS employees on an ongoing and non ongoing basis; including the following: › Statistics on staffing classification level; › Statistics on full time employees; › Statistics on part time employees; › Statistics on gender; › Statistics on staff location; › Statistics on employees who identify as Indigenous.	Mandatory

PGPA Rule Reference	Part of Report	Description	Requirement
17AG(4)(c)	P90	Information on any enterprise agreements, individual flexibility arrangements, Australian workplace agreements, common law contracts and determinations under subsection 24(1) of the *Public Service Act 1999*.	Mandatory
17AG(4)(c)(i)	P90	Information on the number of SES and non SES employees covered by agreements etc identified in paragraph 17AG(4)(c).	Mandatory
17AG(4)(c)(ii)	P96	The salary ranges available for APS employees by classification level.	Mandatory
17AG(4)(c)(iii)	P96	A description of non salary benefits provided to employees.	Mandatory
17AG(4)(d)(i)	P97	Information on the number of employees at each classification level who received performance pay.	If applicable, Mandatory
17AG(4)(d)(ii)	P97	Information on aggregate amounts of performance pay at each classification level.	If applicable, Mandatory
17AG(4)(d)(iii)	P97	Information on the average amount of performance payment, and range of such payments, at each classification level.	If applicable, Mandatory
17AG(4)(d)(iv)	P97	Information on aggregate amount of performance payments.	If applicable, Mandatory
	Assets Management		
17AG(5)	Not applicable	An assessment of effectiveness of assets management where asset management is a significant part of the entity's activities.	If applicable, mandatory
	Purchasing		
17AG(6)	P164	An assessment of entity performance against the Commonwealth Procurement Rules.	Mandatory
	Consultants		
17AG(7)(a)	P164	A summary statement detailing the number of new contracts engaging consultants entered into during the period; the total actual expenditure on all new consultancy contracts entered into during the period (inclusive of GST); the number of ongoing consultancy contracts that were entered into during a previous reporting period; and the total actual expenditure in the reporting year on the ongoing consultancy contracts (inclusive of GST).	Mandatory

PGPA Rule Reference	Part of Report	Description	Requirement
17AG(7)(b)	P164	A statement that "*During [reporting period], [specified number] new consultancy contracts were entered into involving total actual expenditure of $[specified million]. In addition, [specified number] ongoing consultancy contracts were active during the period, involving total actual expenditure of $[specified million].*"	Mandatory
17AG(7)(c)	P164	A summary of the policies and procedures for selecting and engaging consultants and the main categories of purposes for which consultants were selected and engaged.	Mandatory
17AG(7)(d)	P164	A statement that "*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.*"	Mandatory
	Australian National Audit Office Access Clauses		
17AG(8)	Not applicable	If an entity entered into a contract with a value of more than $100 000 (inclusive of GST) and the contract did not provide the Auditor General with access to the contractor's premises, the report must include the name of the contractor, purpose and value of the contract, and the reason why a clause allowing access was not included in the contract.	If applicable, Mandatory
	Exempt contracts		
17AG(9)	P164	If an entity entered into a contract or there is a standing offer with a value greater than $10 000 (inclusive of GST) which has been exempted from being published in AusTender because it would disclose exempt matters under the FOI Act, the annual report must include a statement that the contract or standing offer has been exempted, and the value of the contract or standing offer, to the extent that doing so does not disclose the exempt matters.	If applicable, Mandatory
	Small business		
17AG(10)(a)	P164	A statement that "*[Name of entity] supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprises (SME) and Small Enterprise participation statistics are available on the Department of Finance's website.*"	Mandatory

PGPA Rule Reference	Part of Report	Description	Requirement
17AG(10)(b)	P164	An outline of the ways in which the procurement practices of the entity support small and medium enterprises.	Mandatory
17AG(10)(c)	Not applicable	If the entity is considered by the Department administered by the Finance Minister as material in nature—a statement that "*[Name of entity] recognises the importance of ensuring that small businesses are paid on time. The results of the Survey of Australian Government Payments to Small Business are available on the Treasury's website.*"	If applicable, Mandatory
	Financial Statements		
17AD(e)	P98-162	Inclusion of the annual financial statements in accordance with subsection 43(4) of the Act.	Mandatory
	Executive Remuneration		
17AD(da)	P90-95	Information about executive remuneration in accordance with Subdivision C of Division 3A of Part 2-3 of the Rule.	Mandatory
17AD(f)	**Other Mandatory Information**		
17AH(1)(a)(i)	Not applicable	If the entity conducted advertising campaigns, a statement that "*During [reporting period], the [name of entity] conducted the following advertising campaigns: [name of advertising campaigns undertaken]. Further information on those advertising campaigns is available at [address of entity's website] and in the reports on Australian Government advertising prepared by the Department of Finance. Those reports are available on the Department of Finance's website.*"	If applicable, Mandatory
17AH(1)(a)(ii)	P165	If the entity did not conduct advertising campaigns, a statement to that effect.	If applicable, Mandatory
17AH(1)(b)	P165	A statement that "*Information on grants awarded by [name of entity] during [reporting period] is available at [address of entity's website].*"	If applicable, Mandatory
17AH(1)(c)	P165	Outline of mechanisms of disability reporting, including reference to website for further information.	Mandatory
17AH(1)(d)	P165	Website reference to where the entity's Information Publication Scheme statement pursuant to Part II of FOI Act can be found.	Mandatory
17AH(1)(e)	Not applicable	Correction of material errors in previous annual report.	If applicable, mandatory
17AH(2)	P32-67	Information required by other legislation.	Mandatory

Appendix D

Glossary of abbreviations and acronyms

AASB	Australian Accounting Standards Board
AC	Companion of the Order of Australia
ANAO	Australian National Audit Office
AO	Officer of the Order of Australia
APS	Australian Public Service
ATO	Australian Taxation Office
CPI	Consumer Price Index
EEE	Equivalent Equity Exposure
ESG	Environmental, social and governance (risk management)
FFIC	Future Fund Investment Company
FFMA	Future Fund Management Agency
FoI Act	*Freedom of Information Act 1982*
GST	Goods and Services Tax
IFSWF	International Forum of Sovereign Wealth Funds
KMP	Key Management Personnel
MRFFIC	Medical Research Future Fund Investment Company
OECD	Organisation for Economic Co-operation and Development
PGPA Act	*Public Governance, Performance and Accountability Act 2013*
SWF	Sovereign wealth fund

Index

E

F

G

H

I

J

K

L

M

N

O

P

R

S

T

V

W

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