Annual Report 2013/2014

futurefund

Australia's Sovereign Wealth Fund

Contents

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Australian Government

Future Fund

1 October 2014

Senator the Hon. Mathias Cormann
Minister for Finance
Parliament House
Canberra ACT 2600

Dear Minister

I have pleasure in presenting you, as the Minister with nominated responsibility for the Future Fund, Building Australia Fund, Education Investment Fund and Health and Hospitals Fund, the Annual Report of the Future Fund Board of Guardians and the Future Fund Management Agency for the year ended 30 June 2014 for presentation in Parliament.

The report has been prepared in accordance with section 81 of the *Future Fund Act 2006* (the Act).

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

The report has also been prepared with regard to the Requirements for Annual Reports for Departments, Executive Agencies and FMA Act bodies for 2013/14 as approved by the Joint Committee of Public Accounts and Audit under sub-sections 63(2) and 70(2) and the *Public Service Act 1999*.

As Head of the Future Fund Management Agency (Agency) I certify that I am satisfied that:

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

P Costello

Hon Peter Costello AC
Chairman
Future Fund Board of Guardians

About the Funds

The Future Fund Board of Guardians (the Board of Guardians), supported by the Future Fund Management Agency (the Agency), has responsibility for investing the assets of special purpose public funds including the Future Fund and three Nation-building Funds (the Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund). With effect from 1 July 2014, after the end of the financial year, the Board of Guardians and Agency have also been responsible for managing the assets of the DisabilityCare Australia Fund.

The Future Fund is a Sovereign Wealth Fund as defined by the International Forum of Sovereign Wealth Funds (IFSWF), of which the Future Fund is a member.

The IFSWF defines Sovereign Wealth Funds as: special purpose investment funds or arrangements, owned by the general government. Created by the general government for macroeconomic purposes, Sovereign Wealth Funds hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets[1].

Our Mission

The Future Fund invests for the benefit of future generations of Australians. It is focused on delivering high, risk-adjusted returns over the long term on contributions to special purpose public funds. Operating independently from the government, we will tailor the management of each Fund to its unique mandate while delivering efficiency through common infrastructure.

Future Fund

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

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

Expenses associated with the investment and administration of the Future Fund may be drawn from the Future Fund throughout its existence.

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

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

Nation-building Funds

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

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

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

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

Appropriations Bills provide Parliament with a mechanism by which it may review the maximum amounts that can be paid from the three Funds each year. Investment Mandates for the three Funds were issued to the Board on 14 July 2009 and set a benchmark return of the Australian three month bank bill swap rate +0.3% per annum calculated on a rolling 12 month basis while minimising the probability of capital losses over a 12 month horizon.

DisabilityCare Australia Fund

The DisabilityCare Australia Fund was established by the *DisabilityCare Australia Fund Act 2013*. The Fund came into existence on 1 July 2014, after the end of the financial year. The object of the Fund is to enhance the Commonwealth's ability to reimburse States and Territories for expenditure incurred in relation to the *National Disability Insurance Scheme Act 2013* and to reimburse the Commonwealth for expenditure incurred in relation to the *National Disability Insurance Scheme Act 2013*.

Transfers of assets into the DisabilityCare Australia Fund and the implementation of the Board of Guardians' investment strategy will take place during the 2014/15 year.

Medical Research Future Fund and Asset Recycling Fund

In May 2014, the Government announced its intention to establish the Medical Research Future Fund and the Asset Recycling Fund and to discontinue the Building Australia Fund, Education Investment Fund and Health and Hospitals Fund.

These changes are subject to the passage of legislation.

Facts at a glance

Future Fund

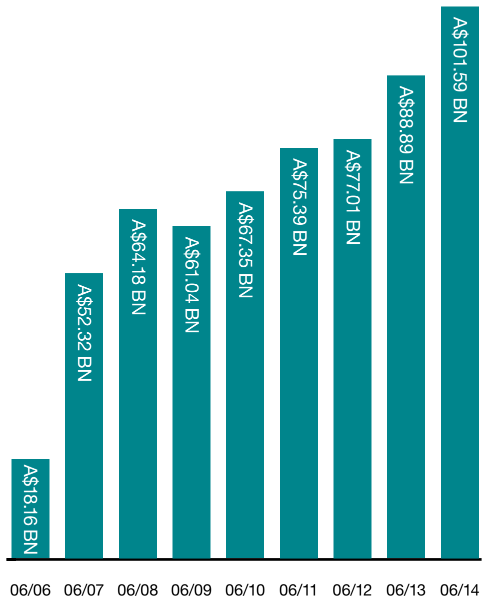
Asset allocation at 30 June 2014

EQUITIES		**50.5%**
AUSTRALIAN LISTED	A$9,565 M	9.4%
DEVELOPED MARKET LISTED	A$23,451 M	23.1%
EMERGING MARKET LISTED	A$9,840 M	9.7%
PRIVATE EQUITY	A$8,481 M	8.3%
TANGIBLES		**13.6%**
PROPERTY	A$5,475 M	5.4%
INFRASTRUCTURE AND TIMBERLAND	A$8,326 M	8.2%
DEBT		**11.2%**
DEBT	A$11,344 M	11.2%
ALTERNATIVE ASSETS		**13.5%**
ALTERNATIVE ASSETS	A$13,729 M	13.5%
CASH		**11.2%**
CASH	A$11,375 M	11.2%
TOTAL	**A$101,587 M**	**100%**

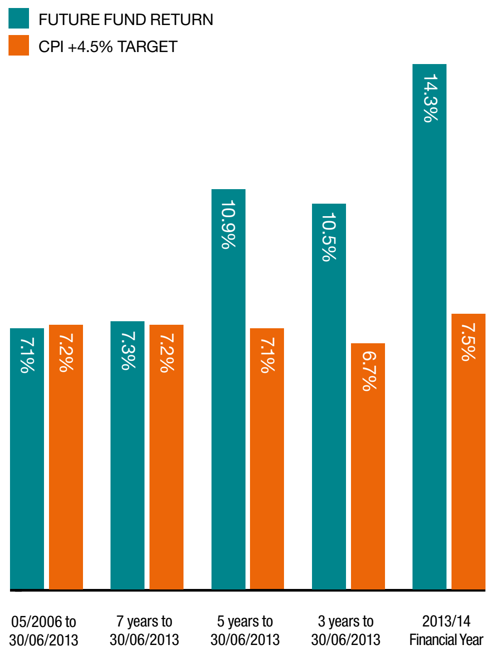
Operating result

Total income/loss	A$13,513 M
Total expenditure	A$551 M
Income tax expense	A$115 M
Other comprehensive income	A$(111) M
Total comprehensive income	**A$12,736 M**

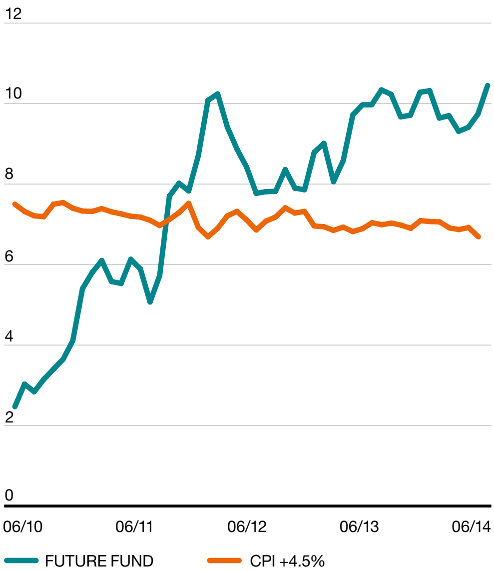
Fund value June 2006 to June 2014



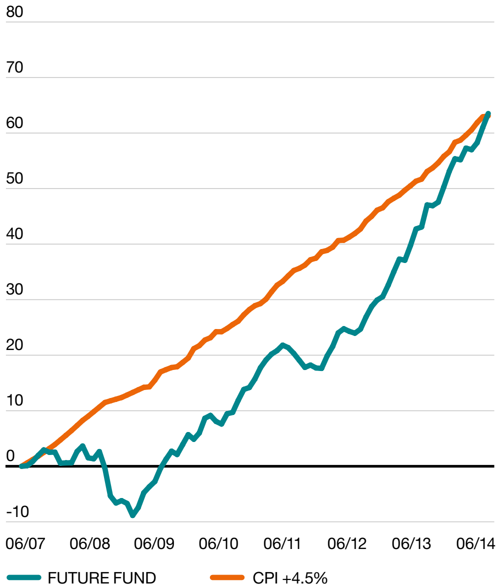
Fund return and CPI +4.5%



Future Fund and CPI +4.5% pa Rolling 3 year returns (%)

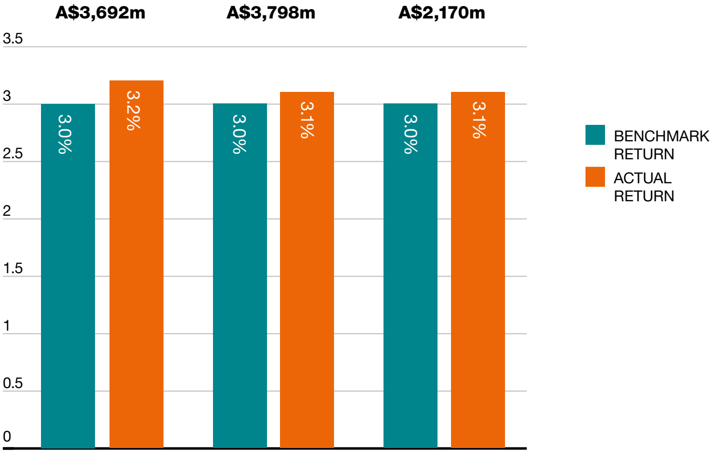


Cumulative Future Fund and CPI +4.5% pa returns (%)



Nation-building Funds

BUILDING AUSTRALIA FUND	EDUCATION INVESTMENT FUND	HEALTH AND HOSPITALS FUND
Balance at 30 June 2014	Balance at 30 June 2014	Balance at 30 June 2014
A$3,692m	**A$3,798m**	**A$2,170m**



Report from the Chairman

The Future Fund was established in May 2006 as a vehicle to help Australia prepare for the ageing of the population and promote intergenerational equity for future Australians.

Since its creation the Board and Agency have been focused on developing its operational and investment activities and implementing a long-term investment strategy through a period of very significant upheaval in investment markets.

It is pleasing to report that over this period the Fund has made strong progress in its objective of generating strong risk-adjusted returns on the original capital provided to it.

The Fund has generated a return of 7.3% per annum over the last seven years during which period its baseline target benchmark was 7.2% per annum. Since its establishment in May 2006 the Fund has achieved a return of 7.1% per annum, just shy of its target for the period of 7.2% per annum.

The Fund was established with cash and shares with a value totalling $60.5 billion at the time of transfer.

In dollar terms, investment returns have added over $41 billion to the value of the Fund taking it to a total value of over $101 billion.

Returns over the medium term show the value of long-term patient investing and a disciplined adherence to clear objectives. The Board of Guardians continues to focus on sustaining this approach in the years ahead.

Governance

The statutory governance arrangements for the Board of Guardians and Agency have been in place unchanged since May 2006. These arrangements provide a robust framework for the organisation to operate and invest at arm's length from Government.

In December 2013 Mr David Gonski AC announced that he would resign as Chairman with effect from 11 January 2014. I was honoured to be appointed as acting Chairman from 11 January 2014 and I was appointed as Chairman for a term of five years from 4 February 2014.

With Mr Gonski's departure from the Board of Guardians, the responsible Ministers appointed Mr John Poynton AM to the Board of Guardians for a five year term. The Board is delighted to welcome Mr Poynton and pleased to be able to add his perspective and experience to its collective expertise.

During the year the Board refined the structure and membership of its committees. Details of the arrangements are provided in the governance section of this report.

In September 2013 the Fund's Managing Director, Mr Mark Burgess, informed the Board of his intention to leave the organisation but agreed to remain in his role for a time while the Board undertook a search process to appoint a successor. Having provided continued leadership over six months, Mr Burgess left the organisation at the end of February and the Chief Financial Officer, Mr Paul Mann, was appointed acting Managing Director whilst the search process was completed.

In June 2014, following a thorough global search, the Board announced the appointment of the Fund's Chief Investment Officer, Mr David Neal, to the position of Managing Director.

Developments

As part of its normal process the Board undertook two formal reviews of its investment strategy during the year. While the strategy has delivered strong returns over the medium term, regularly reviewing and testing the strategy is a critical part of ensuring that the portfolio remains well positioned for the future.

A comprehensive description of the investment strategy and its implementation is provided in the Investment Report.

From 1 July 2014 the Board took on responsibility for investment of the *DisabilityCare Australia Fund*.

In May 2014, the Government announced its intention to establish the Medical Research Future Fund and the Asset Recycling Fund and to discontinue the Building Australia Fund, Education Investment Fund and Health and Hospitals Fund. These changes are subject to the passage of legislation.

The Board appreciates the willingness of successive governments to entrust the organisation with additional responsibilities and believes this reflects the organisation's performance and professionalism since establishment.

Acknowledgements

The Federal election in September 2013 resulted in a change of Government and a change in the Ministerial office holders responsible for the Future Fund. On behalf of the Board I would like to acknowledge the support of both the previous and current responsible Ministers. It is pleasing that successive Governments since the Fund's creation in 2006 have supported the Fund's work.

I thank my predecessor as Chairman, Mr David Gonski AC, for his service to and leadership of the Board of Guardians. I thank my fellow Guardians for their diligence in bringing their expertise and insights to the Fund.

The Board is grateful to Mr Mark Burgess for his service and for his commitment to ensuring a smooth transition to new leadership following his resignation. The Board thanks Mr Paul Mann, the Fund's Chief Financial Officer, for stepping into the role of acting Managing Director so effectively.

Finally, the Board is delighted to have appointed Mr David Neal as Managing Director. David has proved himself as an outstanding leader in his time with the Fund and the Board is confident that he will steer the Agency with great success in the years ahead.

P Costello

Hon Peter Costello AC
Chairman
Future Fund Board of Guardians

Report from the Managing Director

The Fund's investment strategy and process has delivered strong results since its creation with returns in the 2013/14 year tipping the value of the Fund over the $101 billion mark.

Our long-term perspective, emphasis on diversification and dynamic management of the portfolio to reflect the changing market environment, has allowed us to benefit from periods when markets have been strong, while mitigating the impact of weaker periods.

This outcome has been achieved on the back of a great deal of hard work since the organisation was established and is something of which the organisation can be rightly proud.

As investors, however, we must always keep our focus on what the future holds and what the prospective investment environment offers.

With this in mind, our focus remains on optimising the portfolio to achieve the investment mandate and on finding better ways for us to apply our skills and resources. This is particularly important given that around the world economies and markets continue to feel the after-effects of the significant disruption and strong policy responses of the Global Financial Crisis, six years on.

Progress and priorities

The organisation is well positioned to address the challenges, and take advantage of the opportunities, briefly outlined above.

The Board of Guardians has a clear mission, articulated through the legislation and Investment Mandate, and provides strong leadership and the benefit of significant experience to the organisation.

Since inception, we have been careful to ensure that management is tightly aligned to the Board's mission. This degree of alignment, supported by clear investment beliefs, robust governance structures and a high degree of respect and engagement, provides a solid foundation for our decision-making and the ability to adjust as the market environment changes.

Critical to the development and implementation of portfolio and the successful operation of the Agency has been our ability to build and motivate a high quality team.

We have had the opportunity to shape the organisation right from the start and have worked hard to ensure that everything we do supports our investment model and objectives. We have a particular emphasis on constructive engagement and collaboration across the organisation and across asset classes. As such we have prioritised a 'one team, one portfolio' approach that seeks to avoid the silos that can form as investment specialists focus on their asset class areas.

Maintaining this position and developing the talent that we have within our organisation will continue to be an important area of focus.

A further area of focus is on enhancing our internal systems to better support the business. This includes the further development of our IT platform and the introduction of a Human Resources Information System to further drive our efficiency and ability to meet the needs of the portfolio and our people.

More broadly, this is an interesting time for institutional investors. Over recent years, partly as a result of the challenges of the Global Financial Crisis and partly as a result of the greater scale and ambition of institutional investors such as pension funds, sovereign wealth funds and insurance companies, we have begun to see a rebalancing of the financial system in favour of institutional owners.

This takes a variety of forms but broadly is characterised by moves to better align the culture, structures and capabilities of asset owners to their objectives and to ensure that external partners are more closely aligned to the asset owners' interests.

This rebalancing is something that has been a central part of how we have approached our task. It has informed the kinds of relationships we have built with our external managers and partners and our own capabilities and decision-making processes. It has also led to our participation in a range of initiatives and collaborations designed to ensure that the interests of asset owners are advanced.

We continue to see this as a significant opportunity for our organisation and one of my priorities will be to ensure that we both contribute to and gain insights from this shift.

People

The people section of this report provides details of the staffing arrangements for the organisation as at 30 June 2014. Our people combine expertise and high levels of professional capability with a dedication to excellence that delivers significant value to the organisation. Continuing to support this is a priority for me and the senior leadership of the Fund.

Following my appointment as Managing Director, and after the end of the financial year, we announced a revised structure within the investment team. Dr Raphael Arndt was appointed as Chief Investment Officer, while Mr Stephen Gilmore assumed additional responsibilities as Head of Investment Strategy and Risk. Raphael and Stephen will both report to me. I am confident that this new arrangement will further strengthen our ability to interpret the broad investment environment and exploit specific insights from across the investment universe.

Acknowledgements

I would like to thank the Board for placing its confidence in me to lead the organisation.

I also offer my thanks to Paul Mann for stepping so capably into the Acting Managing Director role, and the other members of the Management Committee for their support and leadership.

Most importantly I look forward to the opportunity to work with a remarkable group of Guardians and employees to sustain the success we have enjoyed over the last seven years.

David Neal
Managing Director

Investment Report

Investment beliefs of the Future Fund Board of Guardians

Mission beliefs

The Board believes:

i. that the single measure embodying the goal of the Future Fund and the Nation-building Funds is achieving the mandated returns over rolling 10 year and 12 month periods respectively. For the Future Fund, while the amount of risk taken cannot be captured in one figure, it is best assessed by reference to downside outcomes over rolling three year and 10 year periods. While the activities of peer funds are used to inform our thinking, the Future Fund does not manage against peer group returns but against achieving its Investment Mandate,

ii. the Future Fund Investment Mandate provides an unusually long-term investment horizon and this presents a competitive opportunity to add value;

iii. that in addition to investment risks, liquidity, operational, counterparty and reputational risk need assessment and management.

Governance beliefs

The Board believes:

i. that high-quality governance of the investment process is critical to success. The likelihood of meeting investment goals is directly related to the time, expertise and organisational effectiveness applied to decisions by the Board and management. Within this, the clear identification and separation of the Board's and management's responsibilities is particularly important;

ii. that it should ultimately be responsible for all investment decisions. This leads to decisions being tiered with the Board retaining control over top-tier decisions, passing over responsibility below this tier to management subject to the Board's oversight;

iii. that its role is to act as a principal, acting in complete alignment with the Fund's mission. It has a critical role in managing agency issues, including those of management, and influence over compensation levels and incentives are critical to achieving success in this regard;

iv. that there is value in ensuring adequate time, diversity of view and specialist advice is applied to its deliberations.

Investment strategy beliefs

The Board believes:

i. that our portfolio management should be focused on the specific objectives and risk definitions of the Fund;

ii. that portfolios are most efficiently managed as a whole, rather than as a collection of individual underlying sub-portfolios;

iii. that the assessment and management of risk should emphasise qualitative considerations, through a deep understanding of the investment environment and its potential impact on the portfolio. Quantitative measurement is considered an important tool to both support and test this process;

iv. that 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;

v. that its focus should be on the appropriate level of market-related risk because it is a stronger driver of long-term total portfolio risk and return than skills-related risk;

vi. that a higher expected return per unit risk (investment efficiency) can be obtained from a broadly diversified allocation across different return drivers. In addition, the long time horizon supports a tolerance for illiquid assets;

vii. that markets can be inefficient, albeit that the degree of inefficiency varies across markets and over time. Skilful management can add value after fees, and such added value is uncorrelated to market returns over time and is therefore highly beneficial to the total portfolio investment characteristics. Capturing skill-based returns requires an appropriately resourced and disciplined process;

viii. that the management of costs is very important to maximising returns.

Future Fund

Background

The Future Fund was established by the *Future Fund Act 2006*. Its purpose is to make provision for the unfunded superannuation liabilities of employees of the Commonwealth that will become payable during a period when an ageing population is likely to place significant pressure on the Commonwealth's finances.

Between May 2006 and June 2008 the Government made cash contributions to the Future Fund totalling $51.3 billion. No further cash contributions have since been made.

In association with the sale of the Government's remaining stake in Telstra Corporation Limited, 2,105 million shares in the company were transferred to the Fund in February 2007. A further 57 million shares were transferred during 2007 and 2008. The total value of these shares on their respective transfer dates was $9.21 billion. At an early stage the Board indicated that it intended to rebalance its portfolio by reducing its holding in Telstra in an orderly manner over the long term. This rebalancing was completed in August 2011.

Under the *Future Fund Act 2006* withdrawals may not be made from the Fund (apart from meeting operating costs) until at least 1 July 2020 unless the value of the Fund exceeds the target asset level (TAL). This is the amount that is expected to offset the present value of projected unfunded superannuation liabilities. The Australian Government Actuary, in its 2013 report, specified the TAL for the years to 2016/17. The TAL for the 2013/14 year was $119.4 billion and, at this stage, no withdrawal before 2020 is expected.

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

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

The Directions set out the following obligations:

(i) an objective of achieving an investment return averaging at least the Australian Consumer Price Index (CPI) +4.5% to 5.5% per annum over the long term (the benchmark return);

(ii) in targeting this benchmark return, the Board must determine an acceptable but not excessive level of risk for the Fund measured in terms such as the probability of losses in a particular year;

(iii) a limit for holdings on any listed company in order to prevent triggering the takeover provisions of the *Corporations Act 2001*;

(iv) a restriction on acquiring a direct equity holding of voting shares in Telstra Corporation Limited except as a result of a transfer of financial assets by the responsible Ministers;

(v) a requirement to act in a way that minimises the potential to effect any abnormal change in the volatility or efficient operation of Australian financial markets and is unlikely to cause any diminution of the Australian Government's reputation in Australian and international financial markets; and

(vi) a requirement to have regard to international best practice for institutional investment in determining its approach to corporate governance principles, including in relation to its voting policy.

Interpreting the mandate

The Board has interpreted the requirement to achieve a return of at least CPI +4.5% to 5.5% per annum over the long term as meaning over rolling 10 year periods.

While performance is reported and discussed at a high level each quarter, and in more detail at various points through each year, outcomes over these short periods of time are not appropriate indicators of the likelihood of achieving the outcomes set out in the investment mandate over the long term.

In aiming to achieve the targeted return over the long term, the Board is required to take "an acceptable but not excessive" level of risk. A number of potential indicators of risk in this context can be considered. Importantly the Board explicitly rejects the concept of peer risk (the risk of underperforming other institutional investors over the short term) as being inconsistent with the mission and mandate of the Future Fund. However, the Board appreciates that comparisons of the Fund's return with other funds with similar objectives both locally and globally is a valid exercise over the longer term.

The Board is not charged with ensuring that the Fund fully offsets the pension liabilities of the Commonwealth, nor does it have control or influence over the management of the liabilities, and accordingly it does not frame its investment strategy around the risk of these obligations increasing relative to the asset base.

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

The Board has decided that taking "an acceptable but not excessive" level of risk in aiming to achieve the required investment return means regularly, among other things, reviewing the structure of the portfolio to balance the expected return based on market conditions against the tail risk (the average of the worst 5% of potential outcomes) of a very poor return over the next three years. This recognises that such an outcome could result in real capital loss over the medium term. The Board also recognises that there are many potential future outcomes. As a result scenario analysis forms a key part of the risk assessment.

Based on these considerations the Board, in conjunction with the Agency, develops a Target Asset Allocation which reflects a judgement about the economic and market environment and the expected prospective reward for taking on risk in different asset sectors. This approach is discussed below.

Portfolio design

A principle enshrined very early in the development of the investment program of the Future Fund was the value of maintaining flexibility in order to capture opportunities presented by evolving market conditions. It was recognised that many institutional programs struggle to take advantage of these, in part because their strategic portfolios are very tightly defined. For this reason the Target Asset Allocation of the Future Fund is described in broad categories as detailed on the next page.

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

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

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

In addition to building flexibility into the management of each sector, the Board also believes in the importance of being dynamic with the management of the overall strategy.

The investment process therefore consists of a regular cycle of review for the investment strategy. Within the Agency, the Investment Committee meets at least monthly to consider, among other things, the Fund's strategic investment positioning and portfolio construction in the light of the prevailing macroeconomic, market and policy environment. The Board considers a detailed review of the strategy twice a year, and at any time in between as conditions dictate.

Broad investment categories

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

Target Asset Allocation

The global economy has continued to gradually heal post the 2008/9 financial crisis. The improvement has been supported by unprecedented levels of policy accommodation, particularly from the major developed market central banks.

Despite the considerable policy support, growth rates and inflation have for the most part remained muted with the resultant weak nominal GDP growth doing little to alleviate high or increasing debt burdens in a number of developed market economies.

The combination of the continued need for policy support and persistent imbalances lends an air of fragility to the recovery, particularly as it relates to the system's ability to respond to new adverse shocks.

Nevertheless, the nearer-term outlook has improved to the extent that the United States and the United Kingdom appear set to begin the process of interest rate normalisation in the first half of 2015 – although policymakers will be cognisant that there have been false starts before.

The euro area has also been making progress. Peripheral country current account balances and competitiveness have improved, albeit via a painful process of "internal devaluation" and associated very high unemployment levels. Financial sector fragmentation concerns have also abated somewhat as banks build capital. Despite all this formidable longer-term economic and political challenges remain.

China's ability to manage down credit growth without causing too much of an economic slowdown remains a key risk. While economic policymakers have an enviable track record, they will be tested in maintaining employment growth and rebalancing the economy as they deal with a slowing property sector, overcapacity in certain key industrial sectors, shadow banking and local government borrowing.

Elsewhere in the emerging world countries have to grapple with a changing dynamic. The strong capital inflows of the past have moderated, as have growth prospects, exposing underlying fragilities. The export-led growth model looks less sustainable and countries will have to move toward domestic drivers.

The Australian economy has reached a transition phase as the terms-of-trade-driven mining investment boom peaks and moves to a lower employment intensity export phase. The gap created by the expected fall in mining-related investment, which accounted for almost half of GDP growth in the past couple of years, is being offset by higher exports and the monetary stimulus related boost in domestic demand.

While the global economic backdrop has been and remains complex, the gradual recovery and accommodative policy stance have boosted risk assets (and returns). We are cautious on the extent to which this process can continue absent improvements in the growth outlook and we expect longer-term returns to be lower than in the recent past.

It has been our view that listed equities have offered the most attractive relative risk-adjusted returns of any of the broad market exposures – consistent with our rotation from debt to equities during the past 18 months. Within the listed equity universe we note that after a period of strong outperformance, US equities now appear less attractive than a range of other developed markets and especially the broader emerging market equity universe.

As the prospective returns have declined, our ability to extract rewards from illiquid investments and from manager skill has taken on increasing importance.

In the 2012/13 annual report, we noted that with higher asset prices and declining risk premia investors faced a choice between increasing risk in an attempt to achieve target returns or in keeping risk lower and accepting subdued returns.

Our approach has been to keep overall portfolio market risk levels relatively stable but to ensure that the portfolio is more flexible. That has led us to hold higher levels of liquidity, to increase our use of options, to reduce the extent of our currency hedging and to look for more flexible ways of constructing exposures.

The increase in our developed foreign currency exposure is perhaps the most noteworthy change that we have made over the past year. That has gone from 15% as at the end of last year to 30%.

The Australian dollar tends to be pro-cyclical. That is, it tends (or at least has historically tended) to weaken when risk assets weaken. Given this tendency it is possible to achieve more portfolio diversity by leaving a greater portion of the portfolio unhedged, albeit that we carefully consider the manner in which the increase in currency risk itself increases overall portfolio risk.

The other important benefit, given our desire for portfolio flexibility and liquidity, is that the portfolio is now less sensitive to declining liquidity during periods of Australian dollar weakness. That in turn allows the Fund to behave in a more countercyclical way.

Another change has been the establishment of an interest rate exposure. During the course of the year we added a long Australian rate overlay exposure to the portfolio. Rates also help provide portfolio diversity and are particularly valuable during disinflationary periods.

Actual and target asset allocation

	Actual Portfolio at 30 June 2013		Actual Portfolio at 30 June 2014		Target allocation at 30 June 2015	
Equities		47.9%		50.5%		51.5%
Listed Equities	40.6%		42.2%		42.5%	
Private Equity	7.3%		8.3%		9%	
Tangible Assets		14.1%		13.6%		16%
Debt		15.6%		11.2%		10.5%
Alternative Assets		16.6%		13.5%		12%
Cash		5.8%		11.2%		10%
Total capital allocation		100%		100%		100%
Nominal interest rate overlay		0%		4%		10%
Developed markets foreign currency		15.1%		30.2%		30%
Emerging markets foreign currency		13.5%		13.6%		12.5%

Managing total portfolio risk

As the Fund has matured and its range of underlying investments has become more diverse, the demands on portfolio risk management have necessarily increased. We have developed a set of investment policies to help us with this risk management task by defining acceptable portfolio parameters.

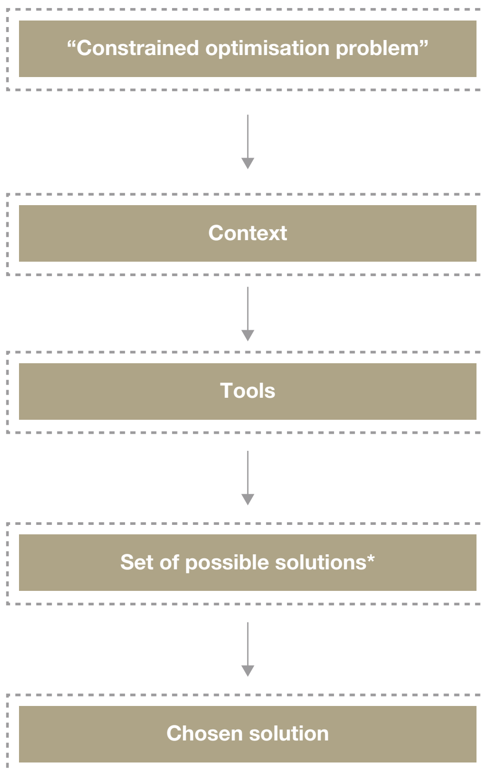
Risk has many dimensions, all of which may vary through time in different ways. As a result, risk is too complex to be defined by a single number and certain risks, like reputational or geopolitical risk for example, are not that easy to quantify at all. We therefore believe that our assessment and management of risk should emphasise qualitative considerations, through a deep understanding of the investment environment and its potential impact on the portfolio. Quantitative measurement is considered an important tool to both support and test this process.

This philosophy underpins our investment risk management framework, which is supported by four primary investment policies that we describe below:

i. Our **Portfolio Risk Exposure Policy** sets an acceptable range for the broad market risk of the Fund. This is measured both by the expected sensitivity of the Fund's performance to equities – our dominant source of market risk – and our expected capital loss in adverse investment conditions over the medium term.

ii. Our **Short-term Liquidity Risk Policy** is designed to ensure that the Fund holds enough cash (and/or other highly liquid securities) to meet our short-term cash flow obligations at all times including under severe market stress. If the level of liquidity in the Fund is insufficient to pass our daily stress test, it must be replenished.

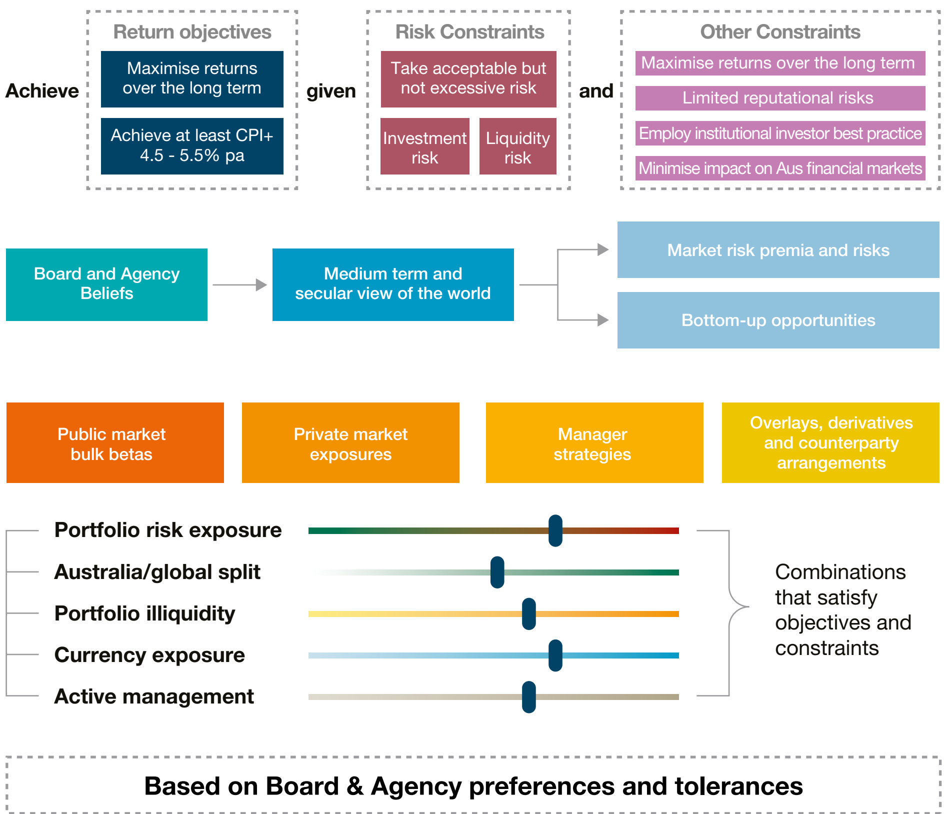
Portfolio construction framework



iii. Our **Portfolio Illiquidity Policy** sets an acceptable upper threshold for the level of illiquid investment in the portfolio. We have arguably a greater tolerance for illiquidity than many other investors and we expect to be rewarded for well-chosen illiquid investments. However, very high levels of portfolio illiquidity may limit our flexibility to make new investments, and we also expect that our appetite for illiquidity will gradually decrease as we approach 2020 and the drawdown phase of the Fund.

iv. Our **Currency Exposure Policy** sets an acceptable range for the currency exposure of the Fund. Along with equities, currency is one of the major drivers of portfolio risk and is an important consideration in liquidity risk management.

These four "pillars" of our investment policy platform are highly interdependent, and their interaction can often be quite complex and challenging to manage. However, we believe we have developed a sufficiently holistic and flexible framework to effectively manage the risk of the portfolio. A diagrammatic representation of our framework and way in which our objectives and constraints, context, tools and policies lead to the development of an investment solution is shown below.



Investment process and decision-making

We have developed a structured and comprehensive methodology for forming our investment strategy which aims at blending qualitative and quantitative inputs from the bottom up and the top down. The diagram on page 19 illustrates the interdependency of the multifaceted approach we employ to portfolio construction.

The strategic process is designed to:

- deliver understanding of the medium-to-long-term macroeconomic, market and policy context that ultimately shapes the level and path of investment cashflows;
- understand the available opportunity set for investment;
- enable the creation of robust portfolio solutions that target our mandate and deal practically with the realities of the investment landscape.

Key elements of the strategic process include:

1. **Foundation inputs**. Our foundation inputs include our fundamental beliefs or investment philosophies as well as our mandate interpretation. We review the basic objectives of the Fund and interpret what the implications are for investing and our resultant appetite for various types of investment risk.
2. **Scenario analysis and planning**. Scenarios form an important component of the strategic risk assessment and management process. Scenario analysis starts with the development of a central case, which is our best estimation for the global macro environment over the next three years. We then develop scenarios around this central case, each with different growth and inflation outcomes. We also supplement this analysis by examining possible future shocks. These shocks help model non-linear outcomes that cut across scenarios.

   We refresh economic scenarios and analytics to:

   a. Test and enhance the robustness of the portfolio. By helping us understand how different assets and risk factors will fare under a range of conditions, we are able

Investment Committee

The Investment Committee provides decision-making and makes recommendations to the Board on total portfolio construction. Left to right: Barry Brakey, (Head of Property and Acting Head of Infrastructure & Timberland), David George (Head of Debt & Alternatives), David Neal (Managing Director), Elspeth Lumsden (Head of Equities), Craig Thorburn (Director, Emerging Markets), Raphael Arndt (Chief Investment Officer), Stephen Gilmore (Head of Investment Strategy and Risk), Hugh Murray (Director, Overlay Management), Steve Byrom (Head of Private Equity).

to design a strategy that is as robust as possible to the uncertain future direction of economies and markets.

b. Create a better environment for portfolio planning and strategic decisions. Framing uncertainties in a more explicit way helps improve the understanding of potential risks facing investors. In addition, the scenarios have facilitated a much higher quality conversation around portfolio planning.

c. Increase preparedness and agility. We are able to consider, ahead of time, contingency plans and preferred activities should we move into each scenario. This assists the Fund's ability to be more nimble in response to changes in the macro environment.

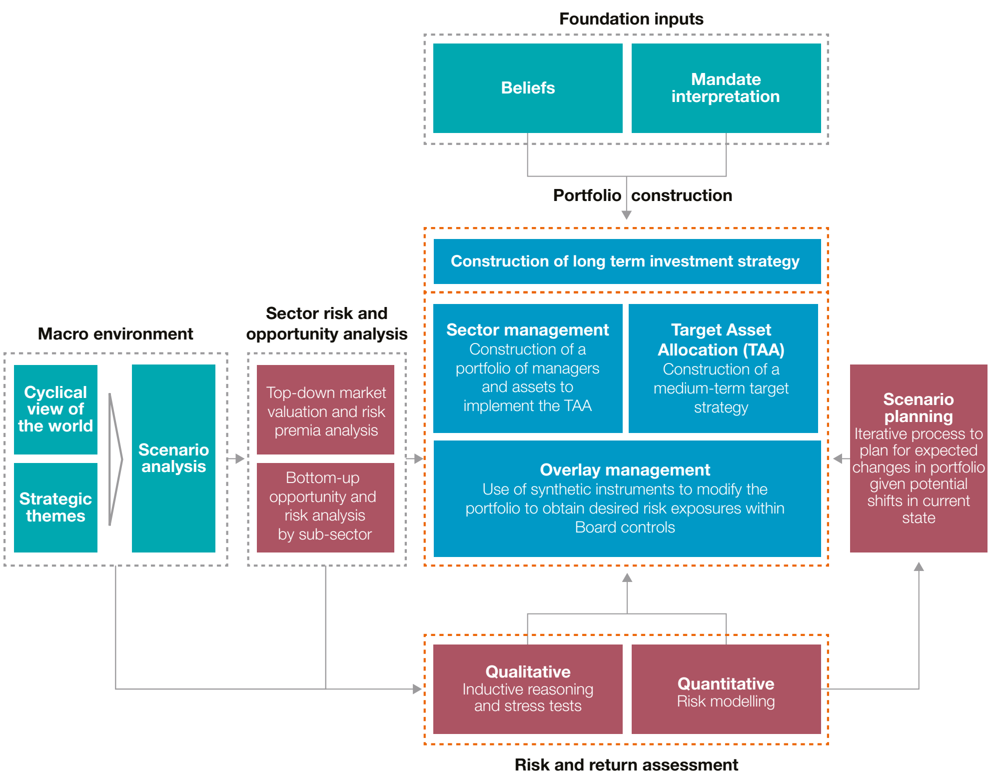
d. Improve awareness of change. By setting out the interplay between drivers and critical uncertainties, as well as a robust set of signposts, it provides a frame of reference for recognising significant changes ahead.

3. **Sector idea generation**. Our dedicated sector teams undertake primary research as well as working closely with our managers and other partners to identify the best investment opportunities available in their sectors, as well as the key risks.

   These ideas form the building blocks for our portfolio construction.

4. **Risk and return assessment**. We have developed a portfolio risk model which seeks to integrate analytics, macro factors and asset class knowledge to: i) provide a more centralised and thorough information set and ii) enable greater clarity on portfolio risk and return drivers. The portfolio risk model is only one part of the strategic process and is not a portfolio optimisation tool.

Investment process



Applying the strategic process

Engaging staff from across the investment team in discussing, developing and testing the strategy is a critical part of the portfolio construction process. Discussion forums and cross-team meetings, together with a focus on building a collaborative and open culture, play an important role in sharing perspectives and feed into the formal decision-making process.

The process incorporates three groups that provide input to the Investment Committee.

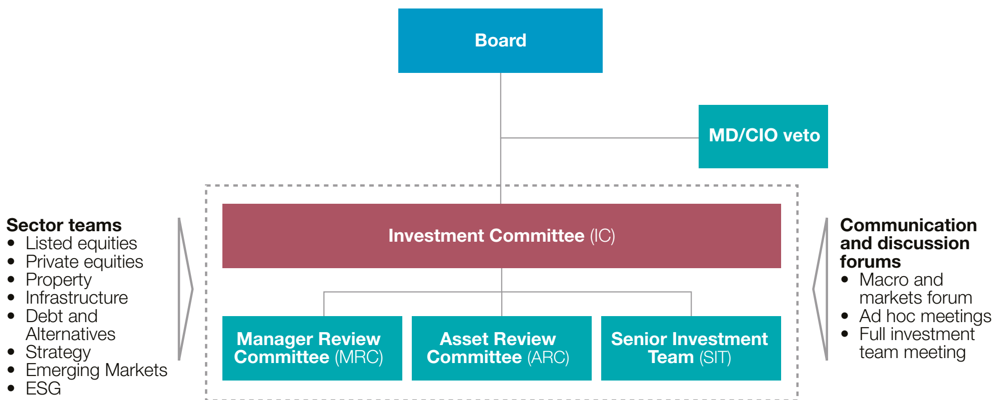
The Manager Review Committee (currently chaired by the Head of Equities) and Asset Review Committee (currently chaired by the Head of Private Equity) comprise senior representatives from across the sector teams.

These Committees consider detailed recommendations from sector teams in relation to investment manager appointments and investment in specific assets and report key findings and views to the Investment Committee.

The Senior Investment Team incorporates all Sector Heads and Directors in each team and provides a peer review of each sector portfolio and strategy every six months.

The Investment Committee provides review and decision-making in respect of the total portfolio construction and brings forward recommendations to the Board for review and approval. The Investment Committee also oversees the management of the portfolio within the delegations agreed by the Board.

Investment decision-making structure



Implementation

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

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

Appropriately experienced investment professionals 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.

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

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

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

The Board will only invest through arrangements and structures that are commonplace and well tested by other public investment institutions and funds in terms of compliance with applicable laws and regulations. The Board does not invest in schemes that contravene the OECD's key principles of transparency and information exchange for tax purposes. It only invests through jurisdictions that are regarded by the OECD as having substantially implemented the internationally agreed tax transparency standard.

Investment monitoring practices have been established that are designed to ensure that the portfolio is managed within predetermined limits set by the Board. These limits relate to the actual and target allocations to sectors and the exposure to individual managers as well as manager and portfolio performance. A regular portfolio report is provided to the Board which tracks performance against these limits.

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

Sector reviews

Listed equity

Strategy

The opportunity set for the listed equity portfolio includes:

- Australia, global, emerging and frontier markets;
- Active and passive long-only mandates, and long/short and other equity-related hedge fund strategies;
- Physical and synthetic investments; and
- Investment through start-up boutiques to large global investment firms.

Our value-add comes in two forms:

- Utilising our long-term orientation to invest in a benchmark-unconstrained approach that generates high long-term total risk-adjusted returns. We seek to do this by identifying long-term themes and various risk premia and biasing the portfolio towards these; and
- Implementing our strategy through deep and insightful manager research and mandate design. We are agnostic as to whether we implement our strategic biases via active or passive management. Instead we target the most effective way of gaining our desired exposure taking into account, amongst other things, risk, return, cost and potential manager added value. We believe that investment decisions over shorter-time horizons are most efficiently implemented via the use of skilled managers who can dive deeply into the markets of their particular expertise. Our active managers assume responsibility for shorter-term geographic sector and stock positioning within their respective mandates.

Report

During the past year, we increased our emerging markets equities allocation to 9.7% of the total Fund at 30 June 2014. Our higher exposure reflects our positive long-term view of the secular forces across emerging markets in aggregate. In particular, we believe that emerging markets will be the globe's growth engine over coming decades and there will be further deepening of emerging market capital markets.

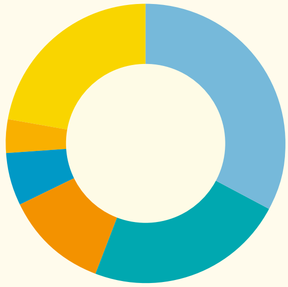
We view the opportunity set in emerging markets as diverse and we recognise that there are individual country risks within emerging markets. We expect some volatility in emerging markets over the shorter term given the macroeconomic, social and political headwinds being experienced by some emerging market countries.

We invest in emerging markets through a combination of traditional emerging market strategies as well as emerging wealth strategies. We expect both approaches to provide exposure to the strong returns from companies benefitting from the likely higher domestic growth emerging countries will have over developed nations. The key difference between the two strategies is that emerging wealth strategies allow for our active managers to move to where they identify the best growth and value opportunities across emerging and developed markets rather than just being focused on emerging market domiciled companies.

Our global developed equities portfolio continues to be our largest sub-sector allocation although we trimmed our exposure to help fund our emerging markets allocation. We have maintained a core exposure to global quality strategies, as we believe that high quality companies will have defensive characteristics in uncertain and weaker market conditions. We also continue to invest in a range of other approaches including value, growth, momentum and broad thematic, agribusiness and long/short equities. We implement these portfolios using physical and synthetic instruments as well as active and passive management.

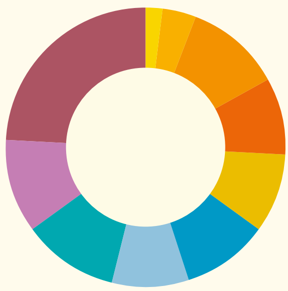
While we are cautious about the outlook for the Australian market, we have retained a sizeable portion of our portfolio in the domestic market. Our Australian equities exposure plays an important role in our portfolio as it provides a reasonable hedge to Australian inflation, which is an important component of the Fund's mandate. Our Australian equities portfolio is implemented through a large indexed portfolio managed to an after-tax benchmark together with some active management.

Listed equity: region exposure at 30 June 2014



NORTH AMERICA	33%
AUSTRALIA	23%
EUROPE (EX UK)	12%
UNITED KINGDOM	6%
JAPAN	4%
REST OF THE WORLD	22%

Listed equity: sector exposure at 30 June 2014



UTILITIES	2%
TELECOMMUNICATIONS	4%
INFORMATION TECHNOLOGY	11%
ENERGY	9%
HEALTHCARE	9%
CONSUMER STAPLES	10%
MATERIALS	9%
CONSUMER DISCRETIONARY	11%
INDUSTRIALS	11%
FINANCIALS	24%

Private equity

Strategy

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

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

Report

As of 30 June 2014 we had $14.3 billion of capital (invested plus committed) with 26 private equity managers. During the year we allocated $1.0 billion to four new managers (two US buyout managers, a European growth equity/buyout manager, and a fund of funds that is building us a portfolio of up-and-coming emerging markets managers) and a further $0.7 billion to our existing managers, including co-investments alongside those managers. Invested capital increased from $6.4 billion to $8.5 billion over the course of the year, reflecting $2.0 billion of capital calls, $1.2 billion of distributions and $1.3 billion of unrealised asset value appreciation. Unfunded commitments decreased slightly from $5.9 billion to $5.8 billion over the course of the year.

Of the capital called, 28% was for buyout opportunities, 36% was for venture capital and growth equity opportunities, 7% was for secondaries, 16% was for co-investments and the remaining 13% was invested in distressed opportunities.

Of the distributions received 21% were from realisations in our buyout portfolio, 33% from the distressed portfolio, 35% from the secondaries portfolio and 11% from the venture capital and growth equity portfolio. As at 30 June 2014 private equity represented 8.3% of the Fund's total assets.

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

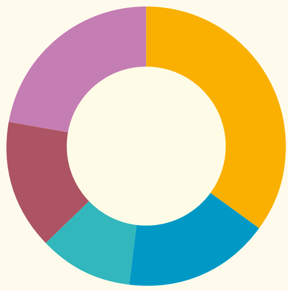
In the second category we would include such themes as exposing the portfolio to innovation (venture), companies in financial difficulty that require capital to undertake financial restructurings and/or operational turnarounds (distressed opportunities), and funding idiosyncratic growth within small companies, particularly in sectors or geographies where alternative funding options are scarce (growth equity).

As we look at the market, we are increasingly concerned with the changing supply and demand dynamics for investors capital and the impact this appears to be having on expected returns. Some parts of the market have become highly unattractive for new investment, and while attractive opportunities for deploying capital can still be found, when one does arise, there can be fierce competition for it.

While 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, we are increasingly looking at alternative, more innovative and less crowded means of getting capital to work in private companies.

Our core area of focus remains the funding of innovation and small company growth across both developed and emerging markets and, in particular, small and rapidly growing companies where bank financing and the public equity markets are not viable funding alternatives.

Private equity: strategy exposure at 30 June 2014



VENTURE CAPITAL & GROWTH	35%
BUYOUT	17%
CO-INVESTMENTS	11%
SECONDARIES	15%
DISTRESSED OPPORTUNITIES	22%

Tangible Assets

Allocations to property, infrastructure and timberlands, together referred to as Tangible Assets, tend to provide long-term consistent income streams which, for the most part, are expected to increase at least in line with inflation.

Property

Strategy

Our opportunity set is global and includes property held directly or in listed form. We primarily take equity positions, but will consider debt if we consider it to be the best point of entry. We are prepared to accept risk where we believe the expected returns are rewarding the risk.

Our value-add derives from:

- targeting sectors in the market and geographies that we believe will outperform over the long term;
- undertaking internal primary research to identify sectors and geographies that, in the context of our medium-to long-term view, offer appropriate risk return trade-off to our total portfolio;
- implementing the strategy with partners and managers where we can influence mandate design and optimise alignment; and
- maintaining a skilled and engaged team seeking close relationships with our partners and managers.

We seek aligned, experienced and disciplined managers with insight and capability in their particular markets to access our identified sub-strategy preferences. We favour mandates, joint ventures, syndicates and funds with active co-investment structures. Our preferred access structures allow us to understand our individual asset positions and to maintain some discretion over strategic decisions across a material proportion of the direct portfolio.

Report

Strong property market momentum has continued this year. A material amount of capital is seeking to be positioned in the sector and securely leased core direct property across most of the major developed markets is keenly sought after. Investors are attracted by the income return which is providing a reasonable premium to bonds and good cash-on-cash returns supported by low cost debt.

The significant liquidity in the market has provided a tailwind for our existing portfolio reflected in a firming of valuations. This leads us to continue to encourage our managers to sell assets once they have completed their business plan for the asset. We expect the steady rotation of assets from our portfolio will continue.

It is a more challenging environment for new investment, but we continue to be presented with a diverse pipeline of opportunities that meet our criteria. We remain disciplined.

There continues to be a reward above core returns for those investors prepared to accept and solve for risk and we are actively seeking to exploit this. This can be through resolving vacancy, good stock selection in idiosyncratic markets, taking advantage of market dislocation, or investing into emerging trends whether driven by demographic changes or shifting user preferences. Good capital management through the use of inexpensive debt can also generate strong cash-on-cash returns.

We maintain a dominant exposure to the US and Australia. Our US portfolio has again generated a strong return driven by investor demand and a return of economic growth leading to improved occupier fundamentals.

Our Australian portfolio has benefited from valuation uplift flowing from strong investor demand. This is despite soft occupier demand. Meanwhile our exposure to Europe is slowly building as we continue to opportunistically search for value in the markets.

Exposure to Asia outside Australia is modest, limited by our ability to find value.

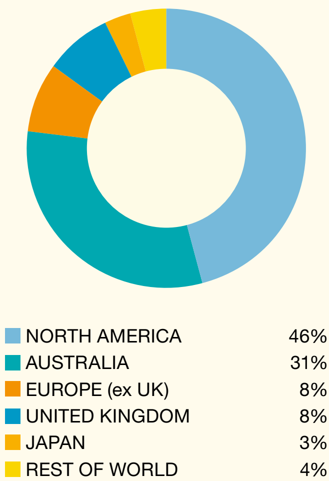
Our listed exposures have performed very well reflecting the general market support for listed equities.

The portfolio is now diversified across several property sectors following a sustained period of being predominantly exposed to retail.

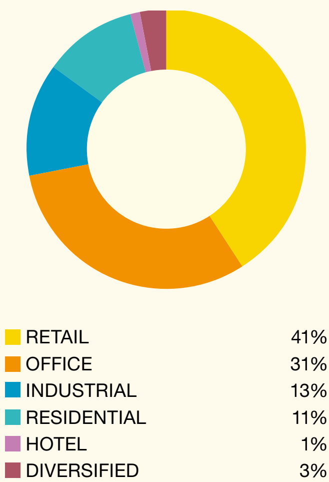
We have selectively added to our portfolio. Recent additions include:

- US multifamily residential portfolio.
- The aggregation of a US logistics portfolio.
- Opportunistic investments in European retail and office.
- Additional office and logistics exposures in Australia.
- Diversified global program.

Property:
region exposure at 30 June 2014



Property:
sector exposure at 30 June 2014



Infrastructure and Timberland

Strategy

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

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

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

Our value-add comes in two forms:

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

Report

The Infrastructure and Timberland exposure was held roughly level, ending the year at $8.3 billion or 8.2% of the Fund. There was significant underlying portfolio activity. We exited relatively expensive core assets and opportunistic assets where growth potential had diminished in favour of less mature, higher returning opportunities. The return from the underlying portfolio was strong, driven by good performance from the listed infrastructure portfolio, the strong market for core assets, especially in Australia, and the maturing of the opportunistic portfolio.

Infrastructure

Global interest in the infrastructure asset class continued to increase during the year. While infrastructure assets exhibit many characteristics which are attractive to the Fund, we remain cautious in respect of deploying additional capital in the current environment. Economic growth remains volatile throughout much of the world while unprecedented monetary policy stimulus has driven down the cost of borrowing and expected returns. We are focused on the impact of the likely exit by the US Federal Reserve from its Quantitative Easing program and the potential impact this could have on the valuation of long duration assets such as core infrastructure.

During the year we reduced our exposure to core infrastructure, selling down part of our UK water exposure. We expect to continue to gradually reduce this exposure if current market prices are maintained.

We concentrated on increasing our commitment to higher returning opportunistic assets, primarily in the US energy sector where our managers found many opportunities for attractive returns. In particular:

- we acquired interests in existing gas fired power generation plants at prices below replacement cost;
- we obtained exposure to renewable generation greenfield opportunities where a development premium can be earned;
- our managers are investing in assets associated with the transportation of shale gas and liquids to market. This included gas gathering and transmission pipelines, gas treatment facilities, rail haulage of natural gas liquids and LNG export operations.

Of note, we sold our significant holding in Access Midstream Partners, a gas gathering and treatment company, at a significant gain compared to our original entry price two years ago.

The listed infrastructure universe rose in value in line with broader equity markets during the period. Following a review, we have included selected Emerging Market companies within our investment universe. This reflects the significant growth opportunities for well positioned companies in fast growing economies, coupled with relatively attractive prices. The exposure was funded by rotating out of companies which had become expensive by historical standards, particularly in Australia.

We spent part of the year consolidating the assets acquired from the Australian Infrastructure Fund (AIX) last year. AviAlliance Capital (formerly HOCHTIEF Airport Capital) exited its interest in Sydney Airport by way of an in-specie distribution. We elected to accept shares in the listed Sydney Airport and integrated the holding into our listed infrastructure portfolio. Our flexible approach which allows us to hold either listed or unlisted assets assisted us in generating an additional return from this decision.

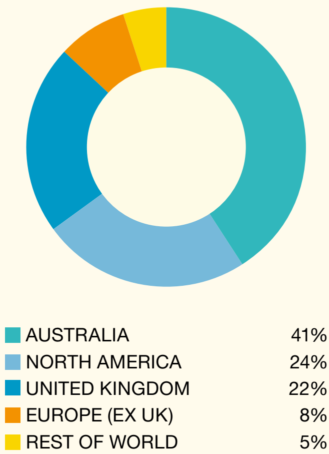
We also restructured the investment management arrangements for the Perth Airport and APAC (Melbourne and Launceston Airports) assets (refer break out box on page 30).

We continue to see core Australian infrastructure assets as a good fit for our mandate due to their long duration, inflation linked cashflows. We participated in a number of sale processes early in the year, but as it became apparent that asset prices were rising to unattractive levels we chose to step out of the market and focus on better value opportunities elsewhere. We are well placed to participate in the upcoming pipeline of state government privatisations should they represent value for the Fund and we continue to monitor the market closely.

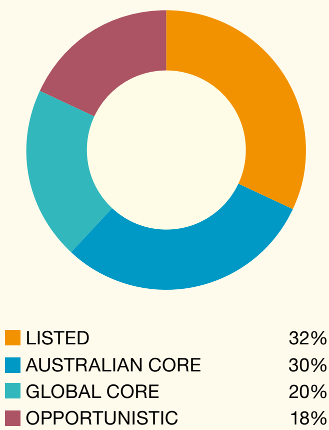
Timberland

We maintain our interest in timberland markets and continue to observe the US sector closely. Asset prices have begun to rise more strongly, supported by the strengthening economy and a recovery in the housing market. As for infrastructure assets, we remain concerned regarding the impact on asset values from the likely rise in interest rates as the economy continues to recover. Our Australian exposure has performed well, supported by strong Asian demand for log exports and a recovery in local housing construction. We continue to seek additional opportunities but remain price disciplined.

Infrastructure: region exposure at 30 June 2014



Infrastructure: strategy exposure at 30 June 2014



A new approach to infrastructure asset management

During the year we restructured the asset management arrangements for our interests in Perth Airport and APAC (owner of Melbourne and Launceston Airports). Rather than paying managers a percentage of asset value and investment returns we focused on their ability to provide operational value-add, while working in harmony with the asset management teams and other shareholders.

Among other things we focused on obtaining access to skill in optimising retail shopping portfolios, car parking products and capital investment. Many infrastructure managers had this expertise in-house, but sitting in a parallel real estate silo. We set out to break down the internal silos through a competitive tender.

We now pay for services on a fixed fee basis which provides a fair but not excessive profit margin through terminable mandates. We have incentivised the managers to provide value-add by setting performance bonuses based on outperformance of specific operational factors such as maximising specific revenue streams and operating margins.

This arrangement ensures that we only pay performance fees for the delivery of outperformance over which our manager has influence rather than investment performance which could be influenced by factors outside the managers' control.

As far as we are aware, management arrangements so clearly focused on specific performance objectives have not been used before in the infrastructure sector. This initiative was part of our focus on achieving value for money for the Fund while continuing to deliver excellent returns.

Debt

Strategy

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

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

Our value-add derives from:

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

We focus on building core relationships with managers that demonstrate multiple, high-quality skill sets. This accumulation of sector capabilities creates points of access through which we can dynamically focus the portfolio toward the most attractive opportunities. Core relationships are complemented with specialist managers where applicable.

Report

The last 12 months has in many ways been a repeat of the previous 12 as credit markets continued to heal and credit spreads have reflected a period of very low defaults by tightening further. This spread tightening meant that once again the total return of most credit indices exceeded the yield component of that return.

As a general statement bottom-up credit fundamentals are seen as reasonable across most segments of the market, although new issuance dynamics within the US and European high yield markets in particular are worth watching. Credit spreads remain wider than their historical lows and, by most estimates, offer compensation for forecast default levels. Total returns on the other hand are at their all-time lows in most liquid market sectors as government bond yields have remained low. Within this context, some level of concern is raised that the environment of low but improving economic growth and low volatility has induced yield-seeking behaviour.

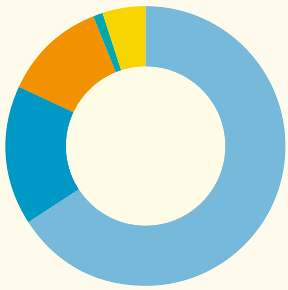
We repositioned and reduced the size of our Debt portfolio through the middle of 2013. Our greater focus on areas such as non-agency mortgages and structured credit, as well as our remaining exposure to the US high yield corporate bond and loan markets, has seen the portfolio realise strong returns from both income and capital gains. Further, our larger allocation to private lending in the middle market corporate and infrastructure debt segments also provided a strong base of income.

In the current environment of low all-in yields, low volatility, low default activity and moderate to low credit spread levels it is imperative that we remain focused on the total return and risk/reward trade-off available within our universe. These considerations, when married to our strategy for the total Future Fund portfolio, saw us further reduce the size of the Debt portfolio through the fiscal year by over A$2.5 billion net of profits and currency effects.

The portfolio itself continues to be largely represented through three themes: a diversified private lending approach; a focus on US non-agency mortgages; and a continued exposure to risk managed, total return approaches across high yield debt sectors. From an investment flow perspective only the private lending strategy grew during the year, with the majority of this growth seen in Europe. Illiquid credit now totals around a third of the Debt portfolio and despite capacity constraints remains an area we continue to emphasise. Net reductions were focused across liquid corporate credit, both within the investment grade and non-investment grade universes.

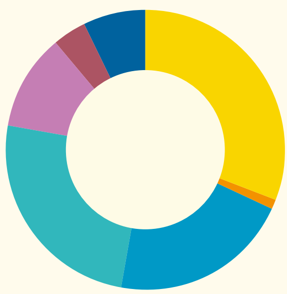
Our strategy is to seek, where possible, exposures with idiosyncratic drivers either at the category level (such as regulatory incentives within middle market lending) or asset level (via an active, event oriented management approach emphasising bottom-up credit selection). In doing this we hope to target the strongest relative value available, which today we see as harvesting premiums linked to illiquidity or complexity rather than increased credit risk exposure.

Debt:
region exposure at 30 June 2014



UNITED STATES OF AMERICA	66%
UNITED KINGDOM	16%
EUROPE (EX UK)	12%
AUSTRALIA	1%
REST OF THE WORLD	5%

Debt:
strategy exposures at 30 June 2014



PRIVATE DEBT	31%
INVESTMENT GRADE CORPORATE	1%
SUB-INVESTMENT GRADE CORPORATE	21%
US NON-AGENCY RMBS	25%
OTHER SECURITISED	11%
EMERGING MARKETS DEBT	4%
CASH AND OTHER	7%

Alternatives

Strategy

The opportunity set includes:

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

Our value-add comes in two forms:

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

We address the complexity and breadth of the Alternatives portfolio by focusing our internal efforts on direct allocations to strategies which we expect will call for relatively consistent exposures (such as macro-directional) as well as more thematic opportunity sets for which exposure may vary significantly over an extended time frame (such as distressed debt).

We supplement this focused direct allocation activity with investment platforms operated by strategic partners, which thus far have taken the form of two bespoke fund of hedge fund relationships. We view these partners as an extension of our team that provides us with operational leverage.

Report

During the fiscal year the Alternatives portfolio weighting within the total Fund reduced from 16.6% to 13.5%. This drop in weighting reflects the maturity of one of the principal themes of the portfolio in recent years, distressed debt, and the elimination of our active fundamental commodity strategy.

Distressed debt has been the largest thematic exposure within the Alternatives portfolio through time, comprising the bulk of early investments in 2008 and 2009 and receiving continued but smaller allocations in subsequent years. Returns to this strategy through time have been strong, with 2014 being no exception. Capital return from our larger, early commitments has been brisk as the initial distress of many corporate situations has evolved through recovery, restructuring or liquidation towards disposition. The relative health of financing markets, particularly in the US, has also helped this process along and provided space for many struggling companies to manage their way clear of trouble.

We continue to see some attractive opportunities in distressed investments, particularly focused on the evolution of the banking sector, although these are somewhat smaller in scale and across a broader geography. On balance, therefore, we would expect new investment activity in 2015, just as in 2014, to be more than fully offset by further disposition and return of capital.

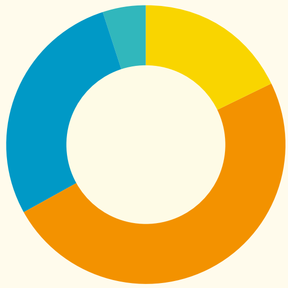
We continue to believe exposure to macro-directional and other active trading strategies can provide meaningful diversification benefits relative to the traditional market betas that are well represented elsewhere in the Fund. This remains the largest strategic exposure within the Alternatives portfolio, comprising nearly 50% on an asset-weighted basis. During the period we made a series of changes within this category, most prominently electing to remove the remaining dedicated active commodity strategies, having reduced this allocation to an extent in the prior year. This decision reflected our reduced conviction in a key element of our original investment thesis, being the ability of a subset of well-placed managers to develop competitive advantage through a differentiated and superior fundamental information set.

The Macro segment remains an active research focus for the investment team. During the year we added two new strategies which served, at the margin, to increase our exposure to fixed income relative value and tactical asset allocation. Further research in this area is focused on increasing the efficiency of our capital, both in achieving desired Fund-level diversification outcomes and in terms of costs through the application of more passive, alternative beta approaches.

Another key area of research in the past year, although thus far not resulting in investment activity, has been within Alternative Risk Premia. Reinsurance for property losses suffered in natural catastrophes such as hurricanes and earthquakes has traditionally been provided by specialist insurers, but in recent years a range of "insurance-linked securities" such as catastrophe bonds have opened the reinsurance market to the institutional investor base.

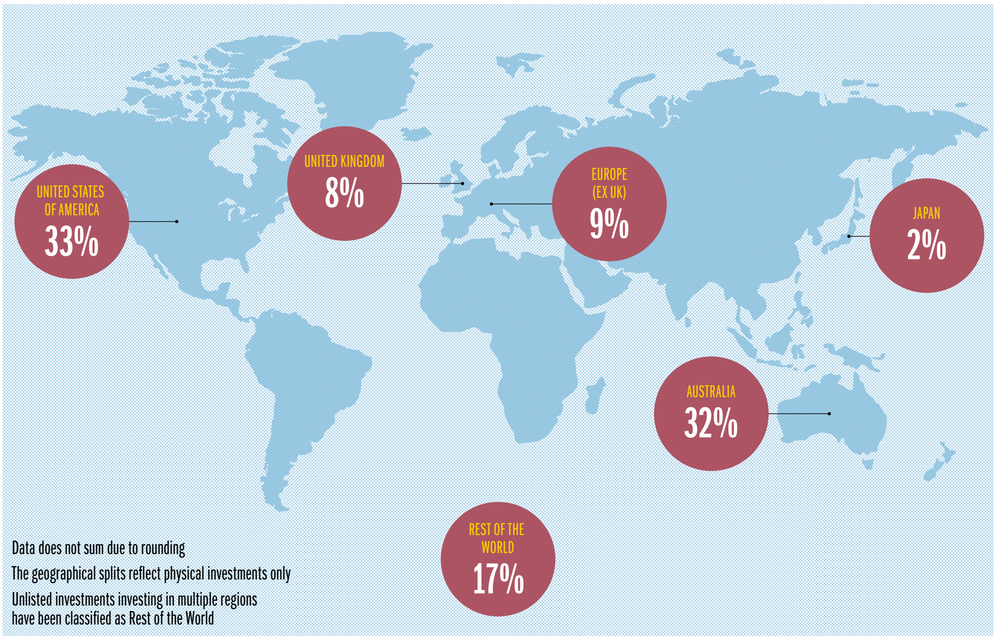
We believe that insurance-based risks are time-varying risk premia akin to, but generally uncorrelated to, risk premia in the equity and fixed income markets, and we continue to analyse the opportunity set with respect to "insurance as an investment". We have also undertaken a preliminary assessment of opportunities in royalty streams created by intellectual property and will continue our research efforts in that area.

Alternatives: strategy exposure at 30 June 2014



MULTI-STRATEGY/ RELATIVE VALUE	18%
MACRO DIRECTIONAL	49%
DISTRESSED AND EVENT DRIVEN	28%
FUNDAMENTAL LONG/SHORT	5%

Future Fund investments by geography at 30 June 2014



Currency

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

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

At the end of the year we held an exposure to foreign developed market currencies equivalent to 30.2% of the total portfolio. We also held a 13.6% exposure to emerging market currencies which not only provides further diversification for the portfolio but also offers a source of additional return from the exposure to fast-growing economies.

We discuss the rationale for the increase in the developed market currency exposure, in comparison to previous years, on page 15.

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

Environmental, Social and Governance risk management

The Board believes that effective management of material financial and reputational risks and opportunities related to environmental, social and governance (ESG) factors will, over the long term, support its requirement to maximise returns earned on the Funds. 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. Beyond its impact on the specific investments of the Fund, sound management of ESG factors contributes to the development of a more efficient and sustainable system, in turn enhancing long-term return outcomes.

The Board focuses on those ESG factors that have the potential to materially impact the performance of our investment portfolio and/or the reputation of the Future Fund. Relevant ESG factors vary by industry and across asset classes, but can include any of the following: environment, climate change, human and labour rights, supply chain, corruption, and corporate governance.

The Board incorporates ESG into its own investment decision-making approach, both at individual investment and portfolio level. The Future Fund's 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. Given its long-term investment approach, the Fund emphasises analysis on the impact of ESG factors and trends on long-term investment value and quality.

In particular, the Board believes that there is a positive relationship between good governance and investment value and acknowledges the value of exercising its ownership rights, including voting rights where relevant, across the broad range of its investments. Ownership rights are essential to ensuring the appointment and retention of fiduciaries of the highest quality, and motivating those agents to manage for value creation over the long term. Further detail on the management of ownership rights in 2013/14 can be found overleaf.

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

With the recent appointment of a new Head of ESG Risk Management, the Future Fund intends to further enhance its ESG risk management approach, contributing to industry best practice while fulfilling its statutory obligations.

Investment decision-making

The Future Fund investment model relies heavily on external investment managers to make investment decisions based on the overall investment strategy determined by the Board. As such, these investment managers play an important role in implementing the ESG risk management strategy developed by the Board. This model requires careful coordination and alignment between the Fund and its managers.

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

Where investment decisions are made directly by the Board, e.g. for direct infrastructure or property investments, a detailed evaluation of ESG and reputational risk factors is undertaken. These assessments are conducted jointly by the relevant sector team and the ESG risk management team, and supported where appropriate by third party research providers.

Given the Future Fund's status as a large, long-term asset owner with a globally diversified portfolio, top-down views on the strategic trends that will dominate outcomes for investors over the medium to long term are a crucial component of the 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 that seek to internalise negative environmental or social externalities).

In addition, the Fund has designed a number of specific investment strategies designed to target the returns associated with ESG related long-term themes, such as the efficient use of scarce resources, increased life expectancy, and growing wealth and improving quality of life in emerging economies.

Exercising ownership rights

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

Voting rights in publicly listed Australian companies are managed directly by the Fund and exercised by the Agency on behalf of the Board. In exercising these voting rights the Agency applies the Board's voting principles, as detailed in its Statement of Investment Policies, while also drawing on the insight of relevant investment managers and research providers. These voting principles are summarised in the call out box opposite.

The way in which the Board exercised the voting rights attached to its holdings in publicly listed Australian companies is reported in aggregate each year. Activity for the 2013/14 financial year is summarised below.

Future Fund voting principles

- Companies should disclose relevant and material information on a timely basis to allow shareholders to make informed decisions.
- Companies should respect shareholder rights and consult shareholders on major decisions.
- All shareholders should be treated equally and have the right to vote in proportion to their economic interest in the company.
- Boards should be fit for purpose.
- Boards of directors should be composed to allow the exercise of objective independent judgement on corporate affairs.
- Companies should establish a sound system of oversight, management and control of business risks.
- Boards should appropriately balance measures to protect the capital adequacy of the company with equitable treatment of shareholders.
- Structures that transfer power from shareholders to management to protect against takeovers are generally undesirable.
- Companies should have appropriate performance evaluation and incentive systems.

Exercise of voting rights in publicly listed Australian companies in 2013/14

Resolution Type	Number of Resolutions	FF WITH company board	FF ABSTAIN	FF AGAINST company board
Elect Director	490	95.3%	0.2%	4.5%
Approve Remuneration Report	193	92.7%	0.0%	7.3%
Approve Remuneration Grant	186	91.9%	0.0%	8.1%
Other Resolutions	234	92.7%	1.7%	5.6%
Total Voted	**1103**	**93.7%**	**0.5%**	**5.8%**
	(209 meetings)			
Not Voted	18 (5 meetings)			
Total Eligible	**1121**			
	(214 meetings)			

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

In 2013/14 the Future Fund's international listed equities managers were eligible to exercise proxy votes in respect of 29,430 resolutions at 2,824 shareholder meetings. Those votes were exercised in 99% of cases at the resolution level. In the cases where the Future Fund's votes were not exercised, generally the manager judged that it was not in the Fund's best interests to vote given structural impediments to shareholder voting (such as share blocking/re-registration or power-of-attorney requirements), or that the Fund was ineligible to vote.

Each investment manager has the discretion to vote with or against the recommendation of the board of directors of the company for each resolution on the ballot. In aggregate the Fund's managers voted against company boards' recommendations in approximately 6% of resolutions voted.

Engagement with investee entities

Engagement with the boards and executive management of the entities in which the Fund invests on a broad range of ESG risks and opportunities is an important tool for protecting our interests. Such contact is fundamental to 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 our analysis and the signalling power of the votes cast. In addition, maintaining open, constructive relationships with investee entities improves fundamental investors' understanding of the quality of management and the long-term drivers of value, including ESG risks and opportunities.

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

The Agency also engages directly with investee entities to better understand risks and opportunities related to ESG factors. This direct engagement is mainly in respect of Australian domiciled companies, given the size and influence of our investments in our local market and practical considerations.

Ownership rights in private markets

In relation to private markets investments, ownership rights generally accrue in three forms: formal voting rights (appurtenant to shareholdings in companies and unitholdings in pooled vehicles), rights to participate on the advisory boards of pooled investment vehicles and rights to appoint directors to the boards of companies and other entities.

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

Many of the private markets pooled vehicles in which the Future Fund invests have advisory boards that give their investors a voice on certain key decisions. The Fund has the right to appoint a representative to the advisory boards of many of the pooled vehicles in which it invests. This right was taken up wherever practical in 2013/14.

One of the most powerful expressions of ownership rights occurs where investors take up seats on the boards of unlisted entities. The Fund has exercised the right to appoint directors to the boards of a number of the entities in which it invests as part of its private markets program. In some cases, such as APAC (Melbourne and Launceston Airports), Gatwick Airport and Perth Airport, Agency staff themselves sit as directors. In other cases, such as Greensands Holdings (Southern Water) and Edinburgh Airport, the Fund has appointed high-quality directors to act on its behalf. Those directors are either employees of the relevant external manager or suitably qualified third parties selected in consultation with the manager.

Collaborations and contributing to a stronger investment system

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

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

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

In a number of cases Agency staff have taken on roles in the leadership of these initiatives. For example, staff sit on the Board of Trustees of the HFSB, and ILPA's Membership Committee.

Portfolio exclusions

Australia has ratified a number of international conventions and treaties that limit certain activities. Where the activities of an entity or funding activity may contravene such a convention or treaty, the Board will consider the exclusion or removal of the investment from the portfolio. Where serious breaches of ESG standards have been identified, the Fund prefers engagement over exclusion, working with the entity to improve ongoing performance where relevant. 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.

On this basis, since 2009 the Fund has restricted all managers of directly held investments from investing in securities issued by companies that may be 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 made a decision to restrict managers of directly held investments from investing in securities issued by entities directly involved in the manufacture of complete tobacco products.

The entities excluded on the basis of Australia's international convention commitments or direct involvement in the manufacture of tobacco products are detailed on the Fund's website.

Performance

We continue to manage the portfolio in line with its target of achieving a return of at least CPI +4.5 to 5.5% per annum over the long term with an acceptable but not excessive level of risk.

The Fund's returns over a range of timeframes are set out in the table below, together with the CPI+4.5% target for each period.

Our dynamic management of the portfolio seeks to extract the best possible return for the level of risk inherent in markets and individual investments. An understanding of the level of risk that has been taken to deliver the returns is therefore important to assessing overall performance.

Capturing risk in a single number is problematic, but the table also 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.

All returns are reported net of costs.

Benchmarking performance

In accordance with the Board's investment beliefs, the Board and management continue to focus on the absolute return objective set by government in the mandate.

This means that investment opportunities must be considered in the context of the contribution to the total portfolio return rather than in the context of the relevant sector. This is an important cultural feature of the organisation.

At the same time, the skills of the management team in implementing the Board's strategy, by producing a return in excess of the policy portfolio implied by the Target Asset Allocation, are measured and rewarded.

A series of benchmarks which approximate the characteristics of each category within the Target Asset Allocation are maintained and provide, in addition to consideration of the absolute returns generated by the portfolio, an opportunity to assess performance against the policy portfolio.

During the financial year to 30 June 2014, the actual portfolio outperformed the policy portfolio by 1.4%. Over the last three years the actual portfolio outperformed the policy portfolio by 0.9% per annum and over five years the actual portfolio outperformed the policy portfolio by 1.5% per annum. The extent to which management is able to produce a return in excess of the policy benchmark over rolling three year periods is incorporated into the organisation's performance-related pay framework

Future Fund returns

Period to 30 June 2014	Return % per annum	Target return (CPI+4.5%) per annum	Volatility %
From May 2006	7.1	7.2	4.3
Seven years	7.3	7.2	4.6
Five years	10.9	7.1	3.5
Three years	10.5	6.7	3.5
One year	14.3	7.5	3.1

Costs

The Future Fund's management costs for 2013/14, as extracted from the audited financial statements, were $501 million compared with $555 million in 2012/13 and $325 million in 2011/12.

The indirect cost ratio, an industry standard measure of costs explained in detail below, fell from 0.670% in 2012/13 to 0.526% in 2013/14. In 2011/12 the indirect cost ratio was 0.433%.

The Board goes beyond the standard industry measure to report investment costs incurred in non-consolidated investment vehicles or where the fund is part of a co-mingled group of funds.

This is done by making additional enquiries of managers of non-consolidated investment vehicles to estimate the underlying costs associated with managing investment via these entities. These costs added around 1.05% to the indirect cost ratio (2012/13: around 0.93%, 2011/12: around 0.68%).

In providing this additional information, the Board seeks to provide a full and complete indication of costs. The Board notes 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.

The Board employs a range of performance fee arrangements, such as the use of high-water marks and claw-back provisions, to ensure that performance fees reflect genuine outperformance over time. It is important to note that the majority of accrued fees are only paid on realisation of an investment and therefore it is possible not all accrued fees will ultimately be paid.

All performance figures reported by the Board are net of all costs.

Cost management

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

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

The Board continues to monitor costs in the asset classes in which it invests closely, reviewing the expected returns and costs of implementing the investment strategy on an ongoing basis. In negotiating fee arrangements, focus is applied to securing arrangements that offer value for money for skill and resources applied, that are competitive relative to other managers in the sector and that provide for strong alignment between manager and the Board.

The organisation continues to work closely with industry bodies and other parties, including academic researchers and industry participants, to ensure that investment management fee practices better reflect alignment between the investor and the investment manager. This continues as an area of ongoing focus for the Fund.

Indirect cost ratio

The indirect cost ratio is a common way of expressing investment management costs in Australia and is derived from the arrangements laid out in Schedule 10 of the *Corporations Act 2001* and further clarified by ASIC through its Information Releases.

The disclosure measures report costs under the following categories:

Management costs: these costs include custody fees (exclusive of settlement costs), amounts paid to external fund managers (including performance fees) and any other investment-related expenses and reimbursements, inclusive of amounts incurred in administering the funds. This also includes all internal operating costs including remuneration of Board and staff.

Transactional and operational costs: these costs include brokerage, stamp duties, custody costs charged for transaction settlement, foreign withholding taxes and other corporate taxes.

The indirect cost ratio describes the management costs as a proportion of assets under management. Details of the indirect cost ratio over the last three years are provided below.

	2011/12	2012/13	2013/14		
			Management costs	Transactional and operational costs	Indirect cost ratio
Future Fund	0.433%	0.670%	$501,145,600	$164,551,400	0.526%

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

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

Purpose	Amount debited 2011/12	Amount debited 2012/13	Amount debited 2013/14
Contracts with investment managers	$281,756,920	$256,807,440	$635,906,819
Board remuneration and allowances	$820,952	$844,583	$860,569
Agency remuneration and allowances	$22,118,350	$24,870,086	$27,868,431
Consultants and advisers to the Board and Agency	$9,543,955	$17,441,105	$13,153,499
Agency operations	$13,129,369	$14,247,126	$15,741,161

Note that all costs reported under section 81 of the *Future Fund Act 2006* are reported on a cash basis, whereas the costs in the table showing the indirect cost ratios include accruals.

Nation-building Funds

Background

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

The Funds came into existence on 1 January 2009.

Between January and June 2009 the Government contributed $10.9 billion into the Building Australia Fund including $2.5 billion from the Communications Fund and $966 million from the Telstra Sale Special Account, with the balance from the 2007/08 budget surplus. Since inception a total of $8.98 billion has been withdrawn from the Building Australia Fund including $1.2 billion during the 2013/14 year. The Building Australia Fund stood at $3.69 billion at 30 June 2014.

On 1 January 2009, the Education Investment Fund was credited with $6.5 billion from the Higher Education Endowment Fund (HEEF) and the HEEF was discontinued. Since inception a total of $3.9 billion has been withdrawn from the Education Investment Fund including $241 million during the 2013/14 year. The Education Investment Fund stood at $3.79 billion at 30 June 2014.

The Health and Hospitals Fund received contributions totalling $5.0 billion from the 2007/08 budget surplus between 20 February and 12 June 2009. Since inception a total of $3.74 billion has been withdrawn from the Health and Hospitals Fund including $625 million during the 2013/14 year. The Health and Hospitals Fund stood at $2.17 billion at 30 June 2014.

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

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

Investment mandate and performance

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

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

The Investment Mandates also require the Board to act in a way that minimises the potential to effect any abnormal change in the volatility or efficient operation of Australian financial markets and is unlikely to cause any diminution of the Australian Government's reputation in Australian and international financial markets.

Consistent with its obligations the Board has invested the assets of each of the Nation-building Funds in combinations of short and medium-term debt instruments that reflect the specific withdrawal and liquidity expectations of each Fund. The Board's Statement of Investment Policies in relation to the Funds is available on its website.

The benchmark return for each Fund in the 2013/14 year was 3.0% (Australian bank bill swap rate + 0.3%). The Building Australia Fund generated a return of 3.2% for the year, while the Education Investment Fund and Health and Hospitals Fund each returned 3.1%.

The management costs of each Fund are met from the assets of that Fund and were $4.3 million for the Building Australia Fund, $4.5 million for the Education Investment Fund and $2.6 million for the Health and Hospitals Fund. These costs include investment manager fees, core custody and portfolio administration charges as well as the costs of the Board and Agency. These costs, as a proportion of assets under management, make up the indirect cost ratio as described in the Investment Report for the Future Fund.

The indirect cost ratio for 2013/14 for the Building Australia Fund was 0.101%, for the Education Investment Fund it was 0.116% and for the Health and Hospitals Fund it was 0.104%. Further detail is provided below.

The legislation also requires that the Board and Agency report on various aspects of the costs incurred in investing the assets of the Funds. These must be reported on a cash basis and are shown on page 44.

Indirect cost ratio

	2011/12	2012/13	2013/14		
			Management costs	Transactional and operational costs	Indirect cost ratio
Building Australia Fund	0.113%	0.108%	$4,345,196	$96,873	0.101%
Education Investment Fund	0.126%	0.120%	$4,528,397	$88,486	0.116%
Health and Hospitals Fund	0.119%	0.113%	$2,631,664	$55,901	0.104%

Disclosure of costs as required by section 81 of the *Future Fund Act 2006* and the relevant provisions of the *Nation-building Funds Act 2008*

Building Australia Fund

Purpose	Amount debited 2011/12	Amount debited 2012/13	Amount debited 2013/14
Contracts with investment managers	$9,276,627	$6,355,908	$4,643,597
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$275,390	$282,677	$284,370

Education Investment Fund

Purpose	Amount debited 2011/12	Amount debited 2012/13	Amount debited 2013/14
Contracts with investment managers	$6,224,975	$5,216,227	$4,535,432
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$275,647	$282,895	$284,549

Health and Hospitals Fund

Purpose	Amount debited 2011/12	Amount debited 2012/13	Amount debited 2013/14
Contracts with investment managers	$5,176,162	$3,796,624	$2,729,234
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$275,340	$282,698	$284,331

Note that all costs reported under Section 81 of the *Future Fund Act 2006* are reported on a cash basis, whereas the costs in the tables showing indirect cost ratios include accruals.

Investment managers appointed by the Future Fund Board of Guardians at 30 June 2014

Asset class	Manager	
Equities		
Australian Equities	• JCP Investment Partners • Macquarie Investment Management	• Perennial Growth Management
Developed market equities	• Altrinsic Global Advisors • Blackstone Alternative Asset Management • Global Thematic Partners • Lazard Asset Management Pacific Co.	• Massachusetts Financial Services • Schroder Investment Management Australia • Southeastern Asset Management • State Street Global Advisors
Emerging market equities	• Arrowstreet Capital • Mondrian Investment Partners • Schroder Investment Management Australia	• State Street Global Advisors • Trilogy Global Advisors
Private equities		
Buyout	• Advent International Corporation • Apax Partners • Archer Capital • Bain Capital • Berkshire Partners • Charterhouse Capital Partners	• GI Partners • Hellman & Friedman • Quadrant Private Equity • RCP Advisors • Southern Cross Management • Vitruvian Partners • Waterland Private Equity Investments
Venture and growth	• Adams Street Partners • Bessemer Venture Partners • CDH Investments • Columbia Capital • FountainVest Partners	• Greenspring Associates • Horsley Bridge Partners • Insight Venture Partners • New Enterprise Associates • Quilvest
Special opportunities	• Adams Street Partners • HarbourVest Partners	• Oaktree Capital Management • TowerBrook Capital Partners

Asset class	Manager	
Property		
Unlisted	• Altarea Cogedim • Berkshire Property Advisors • BlackRock • Brookfield Asset Management • Colonial First State Global Asset Management • CorVal Partners • Dexus Funds Management • Garrison Investment Group LP • Harbert Management Corporation	• Henderson Global Investors • Hillwood Investment Properties • Lend Lease Investment Management • Morgan Stanley Real Estate Investing • PEET Limited • TIAA-CREF • Townsend
Listed	• CBRE Clarion Real Estate Securities	
Infrastructure and Timberlands		
Unlisted	• AMP Capital Investors • Citi Infrastructure Partners • Global Infrastructure Partners • Highstar Capital	• HRL Morrison • Starwood Energy • The Campbell Group • UBS Global Asset Management
Listed	• RARE	
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 • Haymarket Financial • Oak Hill Advisors • Oaktree Capital Management • Pacific Alliance Investment Management Limited	• Quadrant Real Estate Advisors • Sankaty Advisors • Stone Harbor Investment Partners • Westbourne Credit Management Limited

Asset class	Manager	
Alternatives		
Multi-strategy/ relative value	• Arrowgrass Capital Partners • Ionic Capital Management • Makena Capital Management	• Och-Ziff Management • Pacific Alliance Investment Management Limited
Macro-directional	• BlackRock Alternative Advisors • BlueCrest Capital Management LLP • Brevan Howard Asset Management	• Bridgewater Associates • Citadel • GMO
Distressed and event driven	• BlackRock Alternative Advisors • Centerbridge Partners LP	• Oaktree Capital Management • Sankaty Advisors
Overlay strategies	• Ashmore Investment Management Limited • BlackRock Investment Management • Insight Investment Management (Global)	• Macquarie Investment Management • PIMCO Australia • State Street Global Advisors Limited • UBS Securities Australia Limited
Cash	• Colonial First State Global Asset Management	• Macquarie Investment Management

Left to right: Justin Ginnivan and Alyce Werner (Infrastructure & Timberland).

Governance

Statutory framework

The statutory governance arrangements for the Future Fund, the Building Australia Fund, the Education Investment Fund, the Health and Hospitals Fund and the DisabilityCare Australia Fund are set out primarily in the *Future Fund Act 2006*, the *Nation-building Funds Act 2008* and the *DisabilityCare Australia Fund Act 2013*.

This core legislation sets out the roles and responsibilities of the Government and of the Board and the Agency, while to the end of the 2013/14 year the *Financial Management and Accountability Act 1997*, together with other Commonwealth regulations, guidelines, procedures and orders, established arrangements for delegations and authorities, spending and the accounting treatment of costs, liabilities, income and expenses. With effect from 1 July 2014 the *Financial Management and Accountability Act 1997* was replaced by the *Public Governance, Performance and Accountability Act 2013*.

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

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

Withdrawals from the Future Fund may only occur once the Commonwealth's unfunded superannuation liability is fully offset or from 1 July 2020, whichever is earlier, although investment and administration expenses may be drawn from the Future Fund throughout its existence. Withdrawals from the Building Australia Fund, Education Investment Fund and Health and Hospitals Fund are determined by Government, subject to the advice of the relevant advisory board and oversight of the maximum spending from the Funds by Parliament through Appropriation Bills.

The Board of Guardians, meanwhile, is responsible for investing the assets of the Funds in accordance with the legislation.

To assist it in this role, the Board receives recommendations and advice from the Agency which is also responsible for implementing the Board's investment decisions. In undertaking this task, the Board operates independently from Government. This independence is emphasised in a number of ways, including:

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

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

Accountability

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

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

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

The Agency appeared before Estimates hearings of the Senate Committee on Finance and Public Administration in November 2013 and February and May 2014 and provided the Committee with updates on its operations and the performance of the Funds. These public hearings are based upon the Outcome and Output structure detailed in the Portfolio Budget Statements.

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

This breaks down into two programs: management of the investment of the Future Fund and management of the investment of the Building Australia Fund, Education Investment Fund, Health and Hospitals Fund and DisabilityCare Australia Fund. The Agency resource statement and resourcing for outcome table are included on pages 142 and 143.

Left to right: Shikha Gupta (Debt & Alternatives), Johnson Tran (Private Equity).

Board of Guardians

There are seven members of the Board of Guardians, each appointed by the Treasurer and the Minister for Finance, for terms of up to five years. Board members may be reappointed upon the expiry of their term. The Board is accountable to the Government for the safekeeping and performance of the assets of the Funds.

Hon Peter Costello AC, Chairman

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

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, 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 a Director of Nine Entertainment Co and Chairman of ECG Financial Pty Ltd. 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 Carol Austin

Ms Austin was appointed with effect from 3 April 2011 and her current term is due to expire on 2 April 2016. Ms Austin is Investment Services Director for Contango Asset Management, a member of the board of HSBC Bank Australia and of the Advisory Board of the Australian Office of Financial Management. She has held senior positions with Rothschild Australia Asset Management, Commonwealth Funds Management, BHP and the Reserve Bank of Australia.

Ms Susan Doyle

Ms Doyle was first appointed with effect from 3 April 2006 and her current term is due to expire on 2 April 2015. Ms Doyle is Chair of the Board's Audit Committee. Ms Doyle has had an extensive executive career in the funds management industry, particularly in the equities and fixed interest sectors, working with Commonwealth Funds Management, Suncorp Metway and Insurance Australia Group.
Ms Doyle was Chair of the Australian Reward Investment Alliance (ARIA) until July 2009.

Mr Stephen Fitzgerald

Mr Fitzgerald was appointed with effect from 3 April 2011 and his current term is due to expire on 2 April 2016. Until February 2012 Mr Fitzgerald was Chairman of Goldman Sachs Australia and New Zealand and formerly Co-Chief Executive of Goldman Sachs & Partners Australia. He has had a long career with Goldman Sachs including senior roles in London, Tokyo and Hong Kong and has substantial experience in asset management in Australia and internationally.

Hon Peter Costello AC, Chairman

Ms Carol Austin

Ms Susan Doyle

Mr Stephen Fitzgerald

Mr Steven Harker

Mr Harker was appointed with effect from 3 April 2012 and his current term is due to expire on 2 April 2017. Mr Harker has deep understanding of global financial markets and substantial expertise in investment and asset management. He is the Managing Director and Chief Executive Officer of Morgan Stanley Australia and is a Director of Australian Financial Markets Association Ltd and Investa Property Group.

Dr John Mulcahy

Dr Mulcahy was first appointed on 3 April 2006 and his current term is due to expire on 2 April 2015.

Dr Mulcahy has broad corporate experience and expertise in financial services. He was Chief Executive Officer and Managing Director of Suncorp until March 2009 and has held a number of senior roles in the Commonwealth Bank including Group Executive, Investment and Insurance Services. He previously held the positions of Chief Executive of Lend Lease Property Investment Services and Chief Executive of Civil and Civic. Dr Mulcahy is a non-executive director of Mirvac Group, Coffey International, GWA International, ALS Limited and the Great Barrier Reef Foundation.

Mr John Poynton AM

Mr Poynton was appointed with effect from 4 February 2014 for a period of five years.

Mr Poynton is the Chair of Azure Capital and a Director of Crown Perth. Mr Poynton also previously served as a Director of the Export Finance Insurance Corporation, a member of the Higher Education Endowment Fund and served as a member of the Payment Systems Board of the RBA.

Mr David Gonski AC

Mr Gonski resigned from the Board of Guardians and his position as Chairman on 10 January 2014.

Mr Gonski served as Chairman of the Board of Guardians from 3 April 2012 until his resignation. During his time as Chairman of the Future Fund in 2013/14, Mr Gonski also served as Chairman of Investec Bank Australia Limited, Coca-Cola Amatil Limited, the Sydney Theatre Company, Ingeus Limited and Swiss Re Life and Health Australia Limited and as a Director of Singapore Telecommunications Limited and Chancellor of the University of New South Wales.


Mr Steven Harker


Dr John Mulcahy


Mr John Poynton AM


Mr David Gonski AC

Board attendance 2013/14

	Meetings held and eligible to attend	Meetings attended
Hon Peter Costello AC[1]	11	11
Ms Carol Austin	11	11
Ms Susan Doyle	11	11
Mr Stephen Fitzgerald	11	11
Mr Steven Harker	11	11
Dr John Mulcahy	11	11
Mr John Poynton AM[2]	4	4
Mr David Gonski AC[3]	6	6

Board committees

The Board operates a number of committees to assist it in its work. The membership of the Board's committees changed during the year and this is reflected in the tables below.

Committee membership

Committee	Function	Membership	Membership
Governance Committee	*Assists the Board to maintain appropriate governance standards for the organisation including consideration of relevant legislation, review of corporate governance policies and procedures including the Ownership Rights and ESG Risk Management Policy.*	*To 10 February 2014* Hon Peter Costello AC (Chair) Mr David Gonksi AC Ms Carol Austin Ms Susan Doyle Mr Stephen Fitzgerald Mr Steven Harker	On 25 February 2014 the Board resolved to dissolve the Committee with the Committee's responsibilities subsumed by the Board as a whole.
Remuneration and Nominations Committee	Focuses on remuneration and appointment matters for staff and appointments to investment companies and advisory boards.	*To 10 January 2014* Mr David Gonksi AC (Chair) Ms Carol Austin Mr Steven Harker	*From 25 February 2014* Hon Peter Costello AC (Chair) Ms Carol Austin Mr Steven Harker Mr John Poynton AM
Conflicts Committee	Provides oversight of and advises the Board in relation to questions of possible conflicts of interest arising for Board and Board committee members.	*To 10 January 2014* Mr Stephen Fitzgerald (Chair) Ms Susan Doyle Mr David Gonksi AC	*From 25 February 2014* Mr Stephen Fitzgerald (Chair) Ms Susan Doyle Mr John Poynton AM

Committee	Function	Membership	Membership
Audit Committee	Focused on the control framework, external accountability, legislative compliance internal audit and external audit.	*To 25 February 2014* Ms Susan Doyle (Chair) Ms Carol Austin Dr John Mulcahy	With effect from 26 February 2014 the Board resolved to combine the Audit Committee and Risk Committee into a single Audit & Risk Committee.
Risk Committee	Assured the Board that risks are appropriately identified and managed.	*To 25 February 2014* Dr John Mulcahy (Chair) Mr Steven Harker Mr Stephen Fitzgerald	
Audit & Risk Committee	Focused on the control framework, external accountability, legislative compliance, internal and external audit and the appropriate identification and management of risks.	With effect from 26 February 2014 the Board operated a combined Audit and Risk Committee. Ms Susan Doyle (Chair) Dr John Mulcahy Ms Carol Austin Mr Steven Harker Mr Stephen Fitzgerald Mr John Poynton AM	
Market Transaction Committee	To assist the Board in respect of the review and approval of proposed investment transactions as referred to the Committee by the Board from time to time.	*To 10 January 2014* Mr David Gonksi AC (Chair) Mr Stephen Fitzgerald Dr John Mulcahy	*From 24 February 2014* Hon Peter Costello AC (Chair) Mr Stephen Fitzgerald Dr John Mulcahy

Board members who are not members of a Committee are able to attend meetings as Observers. The attendance tables that follow show attendance by Committee members only.

Committee attendance 2013/14

	Audit Committee [4]		Risk Committee[5]		Audit & Risk Committee [6]	
	Meetings held and eligible to attend	Meetings attended	Meetings held and eligible to attend	Meetings attended	Meetings held and eligible to attend	Meetings attended
Hon Peter Costello AC[1]	-	-	-	-	-	-
Ms Carol Austin	4	4	-	-	1	1
Ms Susan Doyle	4	4	-	-	1	1
Mr Stephen Fitzgerald	-	-	3	3	1	1
Mr Steven Harker	-	-	3	3	1	0
Dr John Mulcahy	4	4	3	3	1	1
Mr John Poynton AM[2]	-	-	-	-	1	1
Mr David Gonski AC[3]	-	-	-	-	-	-

	Governance Committee[7]		Remuneration and Nominations Committee[8]		Conflicts Committee[9]	
	Meetings held and eligible to attend	Meetings attended	Meetings held and eligible to attend	Meetings attended	Meetings held and eligible to attend	Meetings attended
Hon Peter Costello AC[1]	1	1	1	1	-	-
Ms Carol Austin	1	1	5	5	-	-
Ms Susan Doyle	1	1	-	-	1	1
Mr Stephen Fitzgerald	1	1	-	-	1	1
Mr Steven Harker	1	1	5	5	-	-
Dr John Mulcahy	-	-	-	-	-	-
Mr John Poynton AM[2]	-	-	1	1	1	1
Mr David Gonski AC[3]	-	-	4	4	-	-

	Market Transaction Committee[10]	
	Meetings held and eligible to attend	Meetings attended
Hon Peter Costello AC[1]	1	1
Ms Carol Austin	-	-
Ms Susan Doyle	-	-
Mr Stephen Fitzgerald	1	1
Mr Steven Harker	-	-
Dr John Mulcahy	1	1
Mr John Poynton AM[2]	-	-
Mr David Gonski AC[3]	-	-

Notes to the Board and Board committee attendance tables

1 Hon Peter Costello was appointed acting Chairman effective 11 January 2014 and Chairman effective 4 February 2014.
2 Mr Poynton was appointed to the Board effective 4 February 2014.
3 Mr Gonski resigned from the Board effective 10 January 2014.
4 The Audit Committee was discontinued from 25 February 2014. The Chairman of the Board was entitled to attend Audit Committee meetings as an Observer and generally did so.
5 The Risk Committee was discontinued from 25 February 2014. The Chairman of the Board was entitled to attend Risk Committee meetings as an Observer and generally did so.
6 The Audit & Risk Committee was established from 26 February 2014. The Chairman of the Board was entitled to attend Audit & Risk Committee meetings as an Observer and generally did so.
7 The Governance Committee was dissolved from 25 February 2014 with the Board as a whole taking on the responsibilities of the committee.
8 The composition of the Remuneration and Nominations Committee was altered from 25 February 2014.
9 The composition of the Conflicts Committee was altered from 25 February 2014.
10 The Market Transaction Committee convenes on an ad hoc basis.

Future Fund Management Agency

The Board is supported and advised by the Future Fund Management Agency in the development and implementation of investment strategies. The Chairman of the Board of Guardians is also the Chief Executive of the Agency, although operational management has been delegated to the Managing Director of the Agency.

The Agency operates a Management Committee comprising the Managing Director, Chief Investment Officer, Chief Operating Officer, Chief Financial Officer, Chief Human Resources Officer and General Counsel.

Mr David Neal
Managing Director

Mr Neal took up his position as Managing Director on 4 August 2014 having previously served as Chief Investment Officer.

Mr Neal joined the Future Fund as Chief Investment Officer in 2007 from Watson Wyatt Australia (now Towers Watson) where he was Head of Investment Consulting. He started his career with Watson Wyatt in the United Kingdom and led the establishment of the firm's investment consulting business in Australia.

Mr Paul Mann
Chief Financial Officer

Mr Mann served as acting Managing Director from 1 March until 4 August 2014. Mr Mann commenced his role as the Future Fund's Chief Financial Officer in 2007. 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 began with the Fund in 2007 and has over 20 years' experience in asset servicing including roles in Edinburgh, New York and Sydney. Previously he was Head of Operations at BNP Paribas Securities Services. He has also held operational and client management roles with Deutsche Bank and Bankers Trust Company.

The Management Committee provides operational leadership for the Agency. Left to right: Gordon McKellar (Chief Operating Officer), Elizabeth McPherson (Chief Human Resources Officer), David Neal (Managing Director), Cameron Price (General Counsel), Paul Mann (Chief Financial Officer), Raphael Arndt (Chief Investment Officer).

Ms Liz McPherson

Chief Human Resources Officer

Joining the Fund in 2010, Ms McPherson is an experienced human resources professional having worked with Suncorp, AAMI, Wesfarmers and CSL in Australia. She also brings extensive and broad experience in Hong Kong, South Africa and New Zealand. Her qualifications include a Masters in Business Leadership and postgraduate studies in change management.

Mr Cameron Price

General Counsel

Mr Price joined the Fund in March 2014. Previously he was a Partner at law firm Allens with a practice focused on corporate and commercial law. He has 25 years of experience in corporations, securities and commercial law, with particular expertise in mergers and acquisitions, private equity, equity capital markets, and corporate governance.

Dr Raphael Arndt

Chief Investment Officer

Dr Arndt was appointed as Chief Investment Officer on 1 September 2014, after year end. Prior to this, he was the Fund's Head of Infrastructure and Timberland.

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. Raphael started his career as an engineer working with Ove Arup & Partners and holds engineering and economics degrees and a PhD from the University of Melbourne.

Mr Mark Burgess

Mr Mark Burgess served as Managing Director for part of the 2013/14 financial year, leaving the organisation on 28 February 2014. Mr Burgess joined the organisation as Managing Director on 1 July 2011. He was previously Chief Executive Officer of ASX-listed company Treasury Group. His career has included roles in London and Australia with Credit Suisse Asset Management, American Express Asset Management International and Colonial First State Investments.

Risk Management

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

Investment risk includes the risk that the Board approved investment strategy fails to achieve the mandated objectives.

This comprises not only the development of an appropriate strategy but also the design and execution of robust processes to select and monitor investment managers and investment opportunities through which to implement the strategy.

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

Strategic risk is the risk that the governance framework, Agency operating structure and organisational culture are not fit to deliver the Board approved investment strategy. The selection of people with the appropriate skills and the ability to successfully motivate and develop these people is a focus of the Agency and the Board. The governance framework and operating structure is described in this Governance Report and the approach to people management is described in the People section.

Operational risk is the risk that processes, controls and systems are poorly designed, not fit for purpose or are not operating as intended to protect the organisation against financial, legal or reputational harm. Examples of the operational risks managed by the Agency include: legal risk, fraud risk, business continuity risk, outsourcing risk, information security risk and compliance risk.

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

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

The Agency Operational Risk and Compliance Committee assists the Board's Audit and Risk Committee in the effective identification and management of operational and compliance risks. The Agency's Operational Risk and Compliance Committee meets on a monthly basis and its responsibilities include: maintenance of the Risk Register, monitoring mandate and portfolio compliance, incident reporting, tracking implementation of internal audit recommendations and oversight of key operational outsourcing arrangements.

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

The Agency seeks out opportunities to identify and share best practice approaches and benchmarks its approach to operational risk and compliance management through engagement with peer organisations. PricewaterhouseCoopers provides internal audit services reporting to the Board's Audit and Risk Committee and has full access to staff and information when conducting its reviews. The Australian National Audit Office undertakes the external audit of the organisation engaging a professional accounting firm to assist in this process.

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

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

The Board's Audit and Risk Committee reviews and approves the Agency's fraud and corruption risk assessment and fraud and corruption control plan at least every two years, or more frequently where material change has occurred. The Board's Audit and Risk Committee reviewed the risk assessment and the control plan during the year.

The Agency Operational Risk and Compliance Committee reviews the fraud and corruption risk assessment and fraud and corruption control plan on an annual basis; no material changes were made as part of the 2014 review.

Fraud and corruption control initiatives are embedded into the Agency's internal control framework. Fraud risks identified include, but are not limited to: deliberate leaking of sensitive information; incorrect or falsified payment instructions; and theft or misuse of Commonwealth assets. Key controls such as segregation of duties, approval hierarchies, dual signatories and third party due diligence form part of the mitigation strategies. The effectiveness of these controls is assessed on a quarterly basis as part of the internal control assessment referred to above.

The Board's Audit and Risk Committee has also reviewed the Agency's business continuity arrangements and insurance cover, which form part of its annual oversight program.

The Board's Audit and Risk Committee has continued to receive reports on the Agency's Over the Counter Derivative Reform project which has been established to consider the impact of the global regulatory changes on the organisation from both an operational and compliance perspective.

People

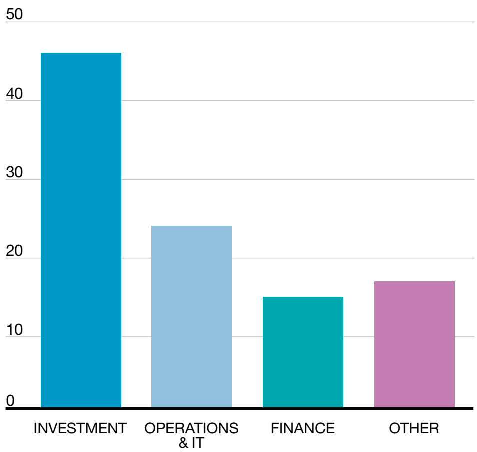
Our people are focused on the challenge of maximising the long-term returns on the Future Fund, while avoiding excessive risk, as well as aiming for a benchmark return on the Nation-building Funds while minimising the probability of capital losses. We aim to hire the best people in Australia and from all over the world and to develop and grow them and their ability to add value to the organisation and the portfolios for which it is responsible.

This philosophy extends into all aspects of our business – investment teams, operations and IT, public affairs, human resources, finance and legal; we are one team working together to achieve exceptional outcomes.

Workforce planning

There were 98 staff members at the end of the year. New starters included local Australians and those returning from working overseas, as well as recruits from around the world with incoming staff from the USA, New Zealand and the United Kingdom.

Headcount by business area

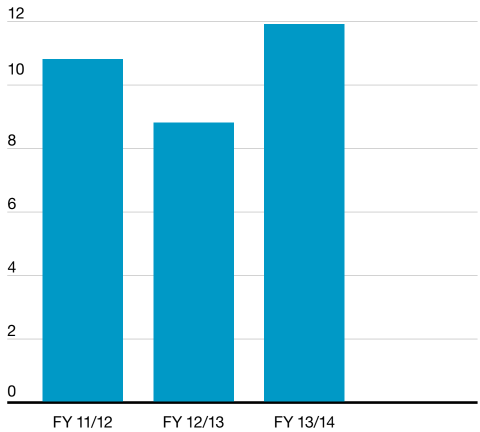


Other includes: Managing Director's Office, Public Affairs, Human Resources, Legal

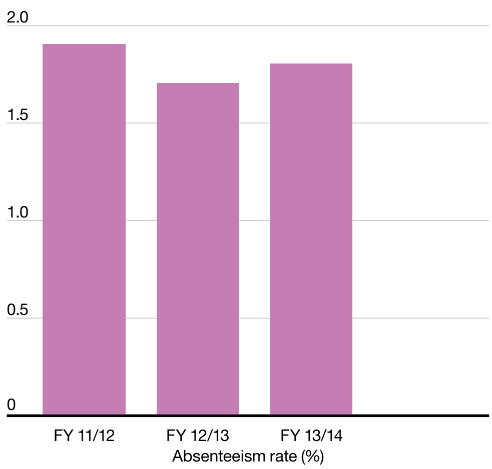
Employee engagement

We continue to have a high level of engagement as the opportunity to make a difference in the wealth of all Australians over time, while working for an organisation that is genuinely interested in its people and their wellbeing makes it easy for people to choose to contribute. That contribution extends beyond normal hours of work to a high level of discretionary effort. The high level of employee satisfaction is reflected in our low turnover and absenteeism rates.

Employee turnover rate (%)



Absenteeism rate (%)



Staffing details

FFMA Classification	Full-time		Part-time		Male		Female	
	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14	2012/13	2013/14
FFMA 1	12	11	2	1	–	–	14	12
FFMA 2	14	14	–	–	7	8	7	6
FFMA 3	13	13	4	3	4	4	13	12
FFMA 4	18	23	–	–	13	15	5	8
FFMA 5	15	18	1	1	9	10	7	9
FFMA 6	10	9	–	–	8	8	2	1
FFMA 7	5	5	–	–	4	4	1	1
Total	**87**	**93**	**7**	**5**	**45**	**49**	**49**	**49**

Note: This reflects the revised levels of work framework that has been introduced to the Agency.
All staff are based in Melbourne aside from one full-time FFMA Band 6 based in Sydney.
15 staff are employed under Australian Workplace Agreements (AWAs) – 3 SES and 12 non-SES.
83 staff are employed under Common Law Contracts (CLCs) – 83 non-SES.

Work Health & Safety

Our work health and safety program continues to be successful with an established Committee that meets regularly and conducts bi-annual audits of the office space. Ergonomic principles are maintained by providing appropriate workspace and equipment; responding to any requests for improvement; and ensuring new staff are informed of the principles of work space management.

This year our focus has been on wellness. We have introduced staff to experts on eating, nutrition, mental health, general wellbeing and exercise through our lunch and learn program which has received very positive feedback from staff.

We had no accidents and no lost time work injuries for this period.

Levels of work framework

The customised levels of work framework developed last year was implemented this year. The framework reflects the increase in accountability, responsibility, judgement required and risk assumed that occurs at each level. The table above utilises the new levels of work to show the construct of our current workforce.

Remuneration strategy

Following an extensive review, the remuneration strategy was signed off by the Remuneration and Nominations Committee in October 2013. The intent of the strategy is captured in the Agency's remuneration philosophy:

The Agency's remuneration approach is an important element of our broader Employee Value Proposition to attract, retain and motivate our diverse workforce. We provide competitive and fair remuneration, which aligns to our 'one team, one portfolio' philosophy. Our remuneration practices and principles support the achievement of our objectives, in a manner consistent with our values, for the good of the Funds.

This philosophy is supported by principles and guidelines with clear structure and governance overseen by the Remuneration and Nominations Committee.

Remuneration arrangements

Remuneration is set at a level which allows for the attraction and retention of appropriately skilled and experienced employees in a marketplace in which there is a high level of demand for the skills of Agency employees.

There are three components to remuneration: fixed salary (which includes superannuation), variable pay based on personal performance and variable pay based on Fund performance. Fixed salary is aligned to the financial services industry market rate as is the determination of maximum variable pay.

Actual "variable pay based on personal performance" reflects performance against key performance indicators and the organisation's values.

Actual "variable pay based on Fund performance" reflects average performance over three year periods and is determined on fixed calculations once Fund performance results are audited and confirmed. It includes assessment against the Fund's absolute return against its mandated target as well as against the performance of the actual portfolio against the policy portfolio implied by the Target Asset Allocation.

The mix of variable pay based on personal performance and variable pay based on Fund performance depends on the individuals' role, with Fund performance generally a higher component of variable pay for investment staff. All staff have some exposure to Fund performance in their variable pay arrangements.

In the three years to 30 June 2014, the portfolio returned 10.5% per annum against its target of 6.7% per annum. Over three years the actual portfolio outperformed the policy portfolio by 0.9% per annum.

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

Left to right: Ashley Albuquerque and Eugene Koutsenko (IT).

Board fees

Fees payable to Board members are determined by the Remuneration Tribunal. The Tribunal's Determination 2013/11, taking effect from 1 July 2013, set the annual fee payable to the Chair at $198,310 and the fee for other members at $99,180. The official travel entitlement for Board members was set at tier 1. Board members are not eligible for performance-related payments.

Performance pay summary

FFMA classification	Employees who received payments	Aggregated performance pay ($)	Minimum performance pay ($)	Maximum performance pay ($)	Average payment ($)
FFMA band 1	10	58,910	1,924	8,404	5,891
FFMA band 2	13	158,209	1,321	21,704	12,170
FFMA Band 3	14	369,996	7,991	56,671	26,428
FFMA Band 4	23	1,162,441	2,214	108,661	50,541
FFMA Band 5	19	2,601,613	7,481	308,539	136,927
FFMA Band 6	9	2,820,186	94,220	463,126	313,354
FFMA Band 7	5	1,258,139	95,643	657,140	251,628
Total	**93**	**8,429,493**	**-**	**-**	**90,640**

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

Consolidated Financial statements

For the financial year ended 30 June 2014

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

Auditor-General for Australia

Australian National
Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance

I have audited the accompanying financial statements of the Future Fund Management Agency and the Board of Guardians (the "Future Fund") for the year ended 30 June 2014, which comprise: the Statement by the Chair of the Future Fund Board of Guardians and Chief Financial Officer; the Consolidated statement of comprehensive income; Consolidated statement of financial position; Consolidated statement of cash flows; Consolidated statement of changes in equity; Consolidated schedule of commitments; and Notes to and forming part of the consolidated financial statements, including a Summary of significant accounting policies. The consolidated entity comprises the Future Fund and the entities it controlled at the year's end or from time to time during the financial year.

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

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Future Fund's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Future Fund's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Chair of the Board of Guardians, as well as evaluating the overall presentation of the financial statements.

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

Independence

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

Opinion

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

(a) have been prepared in accordance with the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, including the Australian Accounting Standards; and

(b) give a true and fair view of the matters required by the Finance Minister's Orders including the consolidated entity's financial position as at 30 June 2014 and of its consolidated financial performance and cash flows for the year then ended.

Australian National Audit Office

Ian McPhee
Auditor-General
Canberra

30 September 2014

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 consolidated financial statements of the Future Fund Management Agency and the Board of Guardians (together the 'Fund') for the year ended 30 June 2014 are based on properly maintained records and give a true and fair view of the financial position and the financial performance of the Fund, in accordance with the matters required by the Finance Minister's Orders, made under the *Financial Management and Accountability Act 1997*, as amended, and are in compliance with Australian Accounting Standards.

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

P Costello

Hon P Costello AC
Chair of the Board of Guardians

30 September 2014

Paul Mann

P Mann
Chief Financial Officer

30 September 2014

Consolidated statement of comprehensive income

for the financial year ended 30 June 2014

	Notes	Year ended 30 June 2014 $'000	Year ended 30 June 2013 $'000
INCOME			
Dividends & imputation credits	4	**1,389,508**	1,304,981
Distributions	4	**988,199**	742,103
Interest income from financial assets not held at fair value through profit or loss	3	**46,352**	36,713
Net gain/(loss) on financial instruments held at fair value through profit or loss	4	**11,062,233**	12,663,293
Net foreign currency gains/(losses)	4	**20,774**	(2,185,627)
Other income	5	**5,950**	2,899
TOTAL INCOME/(LOSS)		**13,513,016**	12,564,362
EXPENSES			
Investment management fees and advisory fees		**257,054**	235,895
Investment manager performance fees		**156,565**	228,544
Custodian's fees		**12,222**	9,858
Brokerage, duties and other statutory charges		**43,658**	40,963
Other investment portfolio expenses		**31,920**	36,105
Agency employees' remuneration	6	**28,770**	27,822
Other expenses	6,7	**20,700**	19,625
TOTAL EXPENSES		**550,889**	598,812
OPERATING RESULT FOR THE YEAR BEFORE TAX		**12,962,127**	11,965,550
Income tax expense	8	**114,808**	67,930
OPERATING RESULT FOR THE YEAR		**12,847,319**	11,897,620
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		**(111,425)**	(39,698)
TOTAL COMPREHENSIVE INCOME/(LOSS)		**12,735,894**	11,857,922

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

Consolidated statement of financial position

as at 30 June 2014

	Notes	Year ended 30 June 2014 $'000	Year ended 30 June 2013 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	17	**3,292,103**	4,109,675
Receivables	10	**1,574,118**	2,819,597
Investments	9	**98,200,277**	87,950,184
Other financial assets		**17,595**	10,892
Total financial assets		**103,084,093**	94,890,348
Non-financial assets			
Plant and equipment	11	**1,072**	1,419
Intangibles	11	**1,762**	1,902
Total non-financial assets		**2,834**	3,321
TOTAL ASSETS		**103,086,927**	94,893,669
LIABILITIES			
Financial liabilities			
Investments	9	**482,218**	4,472,439
Payables	13	**663,746**	1,369,238
Other provisions	14	**-**	49
Total financial liabilities		**1,145,964**	5,841,726
Non-financial liabilities			
Employee provisions	14	**14,019**	13,105
Total non-financial liabilities		**14,019**	13,105
Tax liabilities			
Current tax liabilities		**343,215**	220,345
Deferred tax liabilities	12	**43,537**	14,195
Total tax liabilities		**386,752**	234,540
TOTAL LIABILITIES		**1,546,735**	6,089,371
NET ASSETS		**101,540,192**	88,804,298
EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT			
Contributions by Government	15	**60,536,831**	60,536,831
Retained earnings		**41,328,197**	28,485,083
Foreign currency translation reserve		**(324,836)**	(217,616)
TOTAL EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT		**101,540,192**	88,804,298

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

Consolidated statement of cash flows

for the financial year ended 30 June 2014

	Notes	Year ended 30 June 2014 $'000	Year ended 30 June 2013 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from sale of financial instruments held at fair value through profit or loss		**100,361,062**	70,676,909
Purchase of financial instruments held at fair value through profit or loss		**(98,995,612)**	(71,040,908)
Interest received		**41,212**	32,341
Dividends received		**1,197,792**	1,075,777
Distributions received		**924,595**	691,460
Franking credit refunds received		**243,034**	273,133
Net settlement of foreign exchange contracts		**(3,412,247)**	(68,238)
GST refund received		**11,713**	10,796
Other income received		**250**	10,999
Investment manager and advisory fees paid		**(299,208)**	(203,153)
Investment manager performance fees paid		**(364,352)**	(49,192)
Custodian's fees paid		**(13,819)**	(6,750)
Transaction fees paid		**(78,364)**	(63,969)
Taxes paid		**(263,381)**	(83,706)
Other expenses paid		**(66,908)**	(59,430)
Net cash provided by/(used by) operating activities	17	**(714,233)**	1,196,069
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment and software		**(892)**	(1,137)
Net cash (used in)/provided by investing activities		**(892)**	(1,137)
CASH FLOWS FROM FINANCING ACTIVITIES			
Amounts contributed by Government		**-**	-
Net cash received from financing activities		**-**	-
Net increase/(decrease) in cash held		**(715,125)**	1,194,932
Cash at the beginning of the reporting period		**4,109,675**	2,807,313
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(102,447)**	107,430
Cash at the end of the reporting period	17	**3,292,103**	4,109,675

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

Consolidated statement of changes in equity

	Year ended 30 June 2014			
	Contributed equity $'000	Retained earnings $'000	Foreign currency translation reserve $'000	Total Equity $'000
Opening balance	**60,536,831**	**28,485,083**	**(217,616)**	**88,804,298**
Net operating result	**-**	**12,847,319**	**-**	**12,847,319**
Other comprehensive income	**-**	**-**	**-**	**-**
Foreign currency translation of controlled entities	**-**	**-**	**(111,425)**	**(111,425)**
Transfer between retained earnings and foreign currency translation reserve	**-**	**(4,205)**	**4,205**	**-**
Total comprehensive income	**-**	**12,843,114**	**(107,220)**	**12,735,894**
Contributions made by Government	**-**	**-**	**-**	**-**
Closing balance	**60,536,831**	**41,328,197**	**(324,836)**	**101,540,192**

	Year ended 30 June 2013			
	Contributed equity $'000	Retained earnings $'000	Foreign currency translation reserve $'000	Total Equity $'000
Opening balance	60,536,831	16,587,189	(177,644)	76,946,376
Net operating result	-	11,897,620	-	11,897,620
Other comprehensive income	-	-	-	-
Foreign currency translation of controlled entities	-	-	(39,698)	(39,698)
Transfer between retained earnings and foreign currency translation reserve	-	274	(274)	-
Total comprehensive income	-	11,897,894	(39,972)	11,857,922
Contributions made by Government	-	-	-	-
Closing balance	60,536,831	28,485,083	(217,616)	88,804,298

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

Consolidated schedule of commitments

as at 30 June 2014

	Notes	30 June 2014 $'000	30 June 2013 $'000
BY TYPE			
CAPITAL COMMITMENTS			
Collective investment vehicles	9	**11,852,972**	10,189,971
Corporate Credit (bank loans)	9	**-**	4,327
Total capital commitments		**11,852,972**	10,194,298
OTHER COMMITMENTS			
Operating leases[(a)]		**2,481**	3,683
Other commitments[(b)]		**4,598**	4,394
Total other commitments		**7,079**	8,077
BY MATURITY			
CAPITAL COMMITMENTS			
One year or less		**11,852,972**	10,194,298
Total capital commitments by maturity		**11,852,972**	10,194,298
OTHER COMMITMENTS			
Operating lease commitments			
One year or less		**1,244**	1,202
From one to five years		**1,237**	2,481
Total operating lease commitments by maturity		**2,481**	3,683
Other commitments			
One year or less		**3,652**	2,575
From one to five years		**946**	1,819
Total other commitments by maturity		**4,598**	4,394

Note: Commitments are GST inclusive.

(a) Operating lease commitments relate to rental commitments for the lease of property and for office equipment. Lease terms have 2 years remaining. The Fund has no option to purchase any leased items at the conclusion of the lease term.

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

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

Notes to and forming part of the consolidated financial statements

for the financial year ended 30 June 2014

Note 1

Objectives of the Future Fund and the responsibilities of the Agency and the Board

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

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

Future Fund Management Agency (the Agency)

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

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

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

Future Fund Board of Guardians (the Board)

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

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

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

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

Note 1

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

Future Fund Investment Mandate Directions 2006

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

Note 2

Summary of significant accounting policies

2.1 Basis of preparation of the consolidated financial statements

These consolidated financial statements comprise the Agency and the Board, collectively referred to as the Future Fund (the Fund), prepared in accordance with Section 80 of the Act.

The financial statements are required by section 49 of the FMA Act, and are general purpose financial statements prepared on a going concern basis.

The financial statements have been prepared in accordance with:

- Finance Minister's Orders (FMOs) (being the *Financial Management and Accountability Orders (Financial Statements for reporting periods ended on or after 1 July 2013)*);
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

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

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

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

- investments in financial assets and liabilities. 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.

Note 2

Summary of significant accounting policies (continued)

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

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

Liabilities and assets which are unrecognised in the statement of financial position are reported as appropriate in the schedule of commitments or as contingencies (Note 18 to the financial statements).

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

Significant Accounting Judgements and Estimates

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 judgments and estimates used to value these investments are disclosed in Note 20F & 20G.

2.2 Statement of compliance

The financial report complies with Australian Accounting Standards as applicable to the Future Fund in accordance with the Finance Minister's Orders for the year ended 30 June 2014 made under the *Financial Management and Accountability Act 1997*.

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 and revised accounting standards in the current reporting period

There are no new standards nor amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2013 which affected any of the amounts recognised in the current period or prior period nor are they likely to affect future periods.

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 30 June 2014 reporting periods 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.

(i) *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 Fund does not expect this to have a significant impact on the recognition and measurement of the Fund's financial instruments as they are currently carried at fair value through profit or loss.

Note 2

Summary of significant accounting policies (continued)

2.2 Statement of compliance (continued)

(ii) *AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements, AASB 128 Investments in Associates and Joint Ventures, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards and AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments (effective 1 January 2014 for not for profit entities)*

In August 2011, the AASB issued a suite of six new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. AASB 10 replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements, and Interpretation 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. The Fund is still assessing the full impact of the revised standard however expects the number of subsidiaries to reduce under the revised definition of control.

In August 2013 the AASB released AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities which allows an entity that meets the definition of an Investment Entity to measure and account for subsidiaries at fair value through profit or loss in accordance with AASB 9. The Fund has assessed that it meets the definition of an Investment Entity under the standard and therefore will not consolidate subsidiaries.

There are no other standards that are not yet effective and that are expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

2.3 Principles of consolidation

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Fund as at 30 June 2014 and the results of all subsidiaries for the year then ended.

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

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

The Fund presently has no allocation to minority interests as all subsidiaries are 100% owned. The list of all subsidiaries as at 30 June 2014 is disclosed at Note 16.

Note 2

Summary of significant accounting policies (continued)

2.3 Principles of consolidation (continued)

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

Associates

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

2.4 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.

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

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

Investments

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

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

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

- Listed securities, exchange traded futures and options and investments in listed managed investment schemes are recorded at the quoted 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.

  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.

Note 2

Summary of significant accounting policies (continued)

2.4 Financial assets and liabilities (continued)

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

- Derivative instruments including forward foreign exchange contracts, swaps, swaptions, futures, forward contracts on mortgage backed securities and options are recorded at their fair value on the date the contract is entered into and are subsequently re-measured to their fair values at each reporting date. The Fund does not designate any derivatives as hedges in a hedging relationship.
- Asset backed securities, bank bills, negotiable certificates of deposit and corporate debt securities which are traded in active markets are valued at the quoted market 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.
- Investments sold but not yet purchased represent transactions in which the Fund sells a security it does not own and is obligated to deliver such security at a future date. The Fund is liable to pay dividends declared during the period the short sale is open. The short sale is recorded as an asset or liability being the difference between the proceeds received and the value of the open position.

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 market inputs and relying as little as possible on entity-specific inputs. Note 20F has further information surrounding the determination of fair values for investments.

2.5 Revenue

Dividends, franking credits and distribution income are recognised when the right to receive payment is established. Dividend income is recognised gross of foreign withholding tax with any related foreign withholding tax recorded as income tax expense.

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

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

Note 2

Summary of significant accounting policies (continued)

2.6 Other income

Services and resources received free of charge

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

Other income

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

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

2.7 Transactions with the Government as owner

2.7.1 Credits to the Fund Account

From time to time the responsible Ministers may determine that additional amounts are to be credited to the Fund Account. In addition, the responsible Ministers may transfer Commonwealth-owned financial assets to the account. These amounts are shown as Contributions by Government in Note 15.

2.7.2 Debits to the Fund Account

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

2.8 Employee entitlements

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

2.8.1 Leave

The liability for employee entitlements includes provisions for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting.

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 2014. Liabilities for short-term employee benefits (i.e. wages and salaries, annual leave, performance payments, expected to be settled within 12 months from the reporting date) are measured at their nominal amounts.

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

Note 2

Summary of significant accounting policies (continued)

2.8 Employee entitlements (continued)

2.8.2 Superannuation

Staff of the Fund are variously eligible to contribute to the Commonwealth Superannuation Scheme (Defined Benefit), Public Sector Superannuation Scheme (Defined Benefit) or the Public Sector Superannuation Scheme (Accumulation Plan). Staff may join any other 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 an actuary to be sufficient to meet the cost to the government of the superannuation entitlements of its employees. The liability for superannuation benefits payable to an employee upon termination is recognised in the financial statements of the Australian Government.

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

2.8.3 Performance Related Payments

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

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

2.9 Leases

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

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

Note 2

Summary of significant accounting policies (continued)

2.10 Cash and cash equivalents

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

2.11 Financial Risk Management

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

2.12 Trade Creditors

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

2.13 Acquisition of Non Financial Assets

Non financial assets are recorded at cost of acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Non financial assets are initially measured at their fair value plus transaction costs where appropriate.

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

2.14 Plant and equipment – non financial assets

2.14.1 Asset recognition threshold on acquisition

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

The initial cost of an asset includes an estimate of the cost of dismantling and removing the item and restoring the site on which it is located.

2.14.2 Impairment of non-financial assets

All non-financial assets which are not held at fair value were assessed for impairment at 30 June 2014. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

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

Note 2

Summary of significant accounting policies (continued)

2.14 Plant and equipment – non financial assets (continued)

2.14.3 Depreciation and amortisation

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

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

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

Class of depreciable asset	2013 & 2014
Leasehold improvements	5 years
Computers, plant and equipment	3–5 years
Office equipment	5 years
Furniture	5 years

The aggregate amount of depreciation and amortisation allocated for each class of asset during the reporting period is disclosed at Note 11.

2.15 Intangibles

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

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

2.16 Taxation

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

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

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

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

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

Note 2

Summary of significant accounting policies (continued)

2.16 Taxation (continued)

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

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

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.

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.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income.

Note 2

Summary of significant accounting policies (continued)

2.17 Foreign currency

(i) **Functional and presentation currency**

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

(ii) **Transactions and balances**

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

(iii) **Foreign subsidiaries**

Assets and liabilities of foreign subsidiaries are translated into Australian dollars at the exchange rate at reporting date. Income and expense transactions are translated into Australian dollars at the exchange rate at the date of the transaction or the average exchange rate for the period if this is not obtainable. Net differences in exchange rates are recognised in other comprehensive income. The cumulative amount is reclassified to profit or loss when the subsidiary is disposed of.

2.18 Derivative financial instruments

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

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

2.19 Rounding of amounts

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

Note 3

Investment income

	2014 $'000	2013 $'000
Interest income		
Interest income	**46,352**	36,713
Total interest income	**46,352**	36,713

Note 4

Other gains and losses

	2014 $'000	2013 $'000
Dividend income		
Dividend income – domestic equities and listed managed investment scheme distributions	**497,127**	504,130
Imputation credits refunded or refundable under Section 30 of the *Future Fund Act 2006*	**174,897**	162,477
Dividend income – international equities	**717,484**	638,374
Total dividend and imputation credit income	**1,389,508**	1,304,981
Distribution income		
Distributions – collective investment vehicles	**988,199**	742,103
Total distribution income	**988,199**	742,103
Net gain/(loss) on financial instruments held at fair value through profit or loss		
Net gain/(loss) on financial assets held at fair value through profit or loss	**11,121,210**	13,540,915
Net gain/(loss) on financial liabilities held at fair value through profit or loss	**(58,977)**	(877,622)
Total net gain/(loss) on financial instruments held at fair value through profit or loss*	**11,062,233**	12,663,293
Net gain/(loss) arising on foreign currency#	**20,774**	(2,185,627)

* This total includes the foreign currency impact from translating financial assets and liabilities from their local currency amounts into Australian dollars.

\# Net foreign currency gains of $20,774,000 (2013: loss $2,185,627,000) arise mainly as a result of the implementation of the Board's foreign currency hedging policy. Offsetting currency losses/(gains) are included in the total net gain on financial instruments held at fair value through profit and loss of $11,062,233,000.

Note 5

Other income

	2014 $'000	2013 $'000
Other income		
Fee income for services provided (Note 25B)	**759**	753
Other income	**5,041**	1,999
Resources received free of charge (ANAO)	**150**	147
Total other income	**5,950**	2,899

Note 6:

Expenses

	2014 $'000	2013 $'000
Agency employees' remuneration		
Wages and salaries	**26,879**	25,958
Superannuation	**1,441**	1,333
Leave and other entitlements payable	**450**	531
Total Agency employees' remuneration	**28,770**	27,822
Board members' remuneration		
Wages and salaries	**788**	772
Superannuation	**73**	70
Total Board members' remuneration	**861**	842
Other expenses	**15,746**	15,425
Total other expenses	**15,746**	15,425
Depreciation		
Depreciation of infrastructure, plant and equipment	**768**	729
Total depreciation	**768**	729
Amortisation		
Amortisation of intangibles – computer software	**611**	535
Total amortisation	**611**	535
Total depreciation and amortisation	**1,379**	1,264

Note 7

Remuneration of Auditors[1]

Financial statement audit services provided to the Fund totaled $150,000 (2013: $146,700). These services were provided free of charge. The fair value of all audit services provided by the Australian National Audit Office (ANAO) was:

	2014 $	2013 $
Auditing the financial statements – Future Fund and subsidiaries	**246,720**	196,420
Other non-audit services[2]	**-**	5,500

No other services were provided by the ANAO.

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

	2014 $	2013 $
Auditing the financial statements – subsidiary entities[3]	**2,467,280**	1,892,080

(1) The Fund's auditor is the Australian National Audit Office who has retained Deloitte Touche Tohmatsu, (Australia) to assist with the assignment.
(2) Non-audit services provided by Deloitte Touche Tohmatsu, (Australia).
(3) Various audit firms globally including Deloitte.

Note 8

Income Tax Expense

The Fund is exempt from all forms of federal Australian taxation, except for Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST). Tax expense reflects foreign withholding tax on income and other corporate taxes where imposed by certain countries. Accordingly, the Australian tax rate for the Fund is 0% (2013: 0%).

	Note	2014 $'000	2013 $'000
(a) **Income tax expense**			
Current tax		**83,549**	57,087
Deferred tax		**30,581**	10,843
Adjustments for current tax of prior periods		**-**	-
		114,130	67,930
Deferred income tax (revenue)/expense included in income			
tax expense comprises:			
Decrease/(increase) in deferred tax assets		**-**	-
(Decrease)/increase in deferred tax liabilities	12	**30,581**	10,843
		30,581	10,843
(b) **Numerical reconciliation of income tax expense to prima facie tax payable**			
Profit before income tax		**12,962,127**	11,965,550
Tax at the applicable Australian tax rate of 0% (2013: 0%)		**-**	-
Tax effect of items which are not deductible/(taxable) in calculating taxable income:			
Imputation credits for Australian subsidiaries		**578,638**	308,300
Difference in tax rates for Australian subsidiaries		**(578,638)**	(308,300)
Withholding tax		**78,231**	45,329
Other foreign corporate tax expense		**36,577**	22,601
Total income tax expense		**114,808**	67,930

Note 9

Investments

	2014 $'000	2013 $'000
Investment Summary		
Financial assets at fair value:		
Interest bearing securities	**25,131,809**	23,562,959
Listed equities and listed managed investment schemes	**38,414,646**	32,883,353
Collective investment vehicles	**32,293,244**	29,498,435
Derivatives	**1,884,113**	1,215,393
Restricted cash	**476,465**	790,044
Total financial asset investments	**98,200,277**	87,950,184
Financial liabilities at fair value:		
Derivatives	**(469,254)**	(4,459,235)
Investments sold, not yet purchased	**(12,964)**	(13,204)
Total financial liability investments	**(482,218)**	(4,472,439)

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

	2014 $'000	2013 $'000
Interest bearing securities		
At fair value:		
Bank bills – domestic	**274,844**	186,516
Bank bills – international	**38,443**	3,385
Negotiable certificates of deposit – domestic	**14,180,950**	10,943,901
Corporate debt securities – domestic	**16,680**	768,565
Corporate debt securities – international	**1,751,489**	2,909,445
Mortgage backed securities – international	**2,499,492**	2,822,819
Asset backed securities – international	**1,323,048**	1,438,932
Corporate credit (bank loans) – domestic	**334,203**	48,300
Corporate credit (bank loans) – international	**3,458,352**	2,786,497
Government debt securities – international	**343,814**	459,599
Other interest bearing securities – domestic	**454,459**	468,563
Other interest bearing securities – international	**456,035**	726,437
Total interest bearing securities	**25,131,809**	23,562,959

Note 9

Investments (continued)

	2014 $'000	2013 $'000
Listed equities and listed managed investment schemes		
At fair value:		
Domestic listed equities and listed managed investment schemes	**11,189,979**	10,669,850
International listed equities and listed managed investment schemes	**27,224,667**	22,213,503
Total listed equities and listed managed investment schemes	**38,414,646**	32,883,353
Collective investment vehicles		
At fair value:		
Unlisted investments	**28,407,125**	26,373,127
Unlisted shares	**3,886,119**	3,125,308
Total collective investment vehicles	**32,293,244**	29,498,435
Derivatives		
At fair value: – financial assets		
Currency contracts	**953,708**	555,098
Interest rate swap agreements and total return swaps	**43,297**	8,038
Interest rate options and swaptions	**1,631**	1,564
Interest rate futures	**89,824**	28,321
Equity swaps	**7**	-
Equity options and warrants	**552,025**	400,652
Equity futures	**57,098**	43,715
Credit default swaps	**70,981**	23,331
Currency swaps	**104,567**	-
Currency options	**9,755**	154,660
Forward contracts on mortgage backed securities	**1,220**	14
Total derivative financial assets	**1,884,113**	1,215,393

Note 9

Investments (continued)

	2014 $'000	2013 $'000
Derivatives		
At fair value: – financial liabilities		
Currency contracts	**(301,615)**	(3,808,650)
Interest rate swap agreements	**(43,633)**	(6,799)
Interest rate options and swaptions	**-**	(2,023)
Interest rate futures	**(46)**	(509)
Equity futures	**(19,712)**	(85,126)
Credit default swaps	**(104,248)**	(16,225)
Currency swaps	**-**	(538,574)
Forward contracts on mortgage backed securities	**-**	(1,329)
Total derivative financial liabilities	**(469,254)**	(4,459,235)
Total derivatives	**1,414,859**	(3,243,842)

The Fund enters into derivative transactions under 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 tables below. The fourth column in the tables below shows the amounts which could be offset at the counterparty level. 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. As the Fund does not presently have a legally enforceable right of set-off, these amounts have not been offset in the balance sheet, but have been presented separately in the table below.

Note 9

Investments (continued)

Financial assets	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts of financial assets	Gross amounts set off in the balance sheet	Net amount of financial assets presented in the balance sheet	Amounts subject to master netting arrangements	Net amount
	$'000	$'000	$'000	$'000	$'000
2014					
Derivative financial instruments	**1,473,449**	**-**	**1,473,449**	**(265,891)**	**1,207,558**
Total	**1,473,449**	**-**	**1,473,449**	**(265,891)**	**1,207,558**
2013					
Derivative financial instruments	917,836	-	917,836	(917,836)	-
Total	917,836	-	917,836	(917,836)	-

Financial liabilities	Effect of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts of financial liabilities	Gross amounts set off in the balance sheet	Net amount of financial liabilities presented in the balance sheet	Amounts subject to master netting arrangements	Net amount
	$'000	$'000	$'000	$'000	$'000
2014					
Derivative financial instruments	**265,891**	**-**	**265,891**	**(265,891)**	**-**
Total	**265,891**	**-**	**265,891**	**(265,891)**	**-**
2013					
Derivative financial instruments	4,353,127	-	4,353,127	(917,836)	3,435,291
Total	4,353,127	-	4,353,127	(917,836)	3,435,291

Note 9

Investments (continued)

Restrictions on investments – cash

Cash provided and received as collateral

The Fund has entered into various derivative contracts which require the Fund to post or receive collateral with counterparties under certain circumstances based on minimum transfer limits. The Fund provides cash as collateral when legally required and the counterparties also post collateral when legally required. Any cash provided as collateral remains a financial asset of the Fund, however any alternate use of this cash is restricted as it is held by the counterparty. Any cash received by the Fund from counterparties is not included in the net assets of the Fund. As at 30 June 2014, the Fund has $nil in cash which has been posted as collateral with counterparties, (2013: $398,312,575) and has received $1,029,033,817 in cash and $118,884,139 in US Treasury Bills (2013: $33,200,000 in cash and $11,734,511 in US Treasury Bills).

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 2014, the Fund had posted $450,223,950 (2013: $388,898,470) 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 2014, the Fund had posted $18,984,392 (2013: nil) 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 deposited with brokers

The Fund has posted cash with brokers to cover open futures, forward and option contracts. As at 30 June 2014, the Fund had posted $nil (2013: $2,833,000) to cover open positions. This cash also remains a financial asset of the Fund, however any alternate use of this cash is also restricted.

Restrictions on investments – listed equities

The Fund has in place an automatic contractual lien over the Funds' listed equities with a counterparty when the Funds' exposure to that counterparty exceeds the base unsecured threshold. At 30 June 2014 no assets are subject to the lien.

This agreement is instead of posting cash collateral, and provides the Fund with greater efficiency in managing its liquidity.

Note 9

Investments (continued)

Collective investment vehicles

30 June 2014

As at 30 June 2014, the Fund and its subsidiaries had made commitments to a number of collective investment vehicles. Capital commitments (local currency), the net cost of the current investments (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2014 are shown in the table below.

Description of underlying strategy	Capital Committed as at 30 June 2014 Local Currency	Outstanding commitment as at 30 June 2014 AUD equivalent $'000	Net capital cost as at 30 June 2014 AUD equivalent $'000	Fair value as at 30 June 2014 AUD equivalent $'000
Private equity	EUR €955,939,067	196,727	906,158	1,157,313
Private equity	GBP £100,000,000	178,582	2,677	39
Private equity	USD $8,760,640,728	4,356,097	4,144,563	5,708,706
Debt	EUR €124,600,000	67,250	113,835	135,339
Debt	USD $195,038,810	88,625	104,365	112,792
Global property	AUD $1,637,514,387	436,157	1,041,754	1,175,142
Global property	EUR €423,996,859	294,123	306,128	325,410
Global property	GBP £321,690,000	450,980	113,909	165,607
Global property	USD $1,475,098,442	736,181	752,304	927,942
Global infrastructure	AUD $1,583,194,351	-	1,582,636	1,883,595
Global infrastructure	GBP £530,028,692	-	771,526	1,269,581
Global infrastructure	USD $1,650,095,881	694,721	1,146,572	1,457,524
Alternative strategies	AUD $1,007,123,092	-	961,649	1,021,694
Alternative strategies	JPY ¥55,626,295,644	-	644,605	694,512
Alternative strategies	USD $8,240,855,661	709,896	5,798,665	7,541,068
Timberland	AUD $131,944,825	-	86,068	138,081
Consolidated by parent:				
Private equity	AUD $510,000,000	297,069	203,801	78,301*
Private equity	EUR €375,000,000	282,867	237,921	306,756*
Private equity	USD $1,300,000,000	435,765	711,028	594,144*
Debt	EUR €1,000,000,000	998,086	443,381	-*
Debt	USD $3,135,000,000	1,145,593	1,891,795	785,128*
Global property	USD $867,230,931	79,459	1,120,709	48,103*
Global infrastructure	AUD $298,660,392	-	271,231	259,386*
Global infrastructure	USD $500,000,000	353,655	177,706	273,504*
Alternative strategies	USD $7,357,028,443	51,139	3,466,448	3,893,788*
Listed equities	USD $2,326,560,000	-	1,537,901	2,339,789*
Timberland	USD $0	-	16,076	-*
Total		**11,852,972**		**32,293,244**

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

Note 9

Investments (continued)

Collective investment vehicles

30 June 2013

As at 30 June 2013, the Fund and its subsidiaries had made commitments to a number of collective investment vehicles. Capital commitments (local currency), the net cost of the current investments (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2013 are shown in the table below.

Description of underlying strategy	Capital Committed as at 30 June 2013 Local Currency	Outstanding commitment as at 30 June 2013 AUD equivalent $'000	Net capital cost as at 30 June 2013 AUD equivalent $'000	Fair value as at 30 June 2013 AUD equivalent $'000
Private equity	EUR €955,939,067	238,312	1,034,273	1,135,238
Private equity	USD $7,983,341,593	4,523,505	3,270,378	4,376,138
Debt	EUR €214,787,479	62,668	206,902	220,484
Global property	AUD $1,162,627,413	55,452	1,108,001	1,190,825
Global property	EUR €337,021,859	227,211	251,195	242,043
Global property	GBP £71,690,000	10,803	99,647	117,439
Global property	USD $1,541,992,311	1,114,754	479,940	620,320
Global infrastructure	AUD $1,584,980,352	-	1,582,795	1,688,506
Global infrastructure	GBP £530,156,381	-	838,084	1,006,335
Global infrastructure	USD $1,147,431,114	288,272	1,012,593	1,122,585
Alternative strategies	USD$9,785,447,240	980,583	8,241,448	9,830,512
Timberland	AUD $86,067,750	-	86,068	96,605
Consolidated by parent:				
Private equity	AUD $350,000,000	248,578	101,442	39,288*
Private equity	EUR €375,000,000	304,146	191,551	228,401*
Private equity	USD $800,000,000	396,458	398,077	591,357*
Debt	EUR €500,000,000	254,198	441,496	-*
Debt	USD $2,000,000,000	567,368	1,338,995	155,371*
Global property	USD $821,170,960	273,408	538,803	-*
Global infrastructure	AUD $298,660,392	-	282,445	317,626*
Global infrastructure	USD $500,000,000	369,874	151,824	208,273*
Alternative strategies	USD $4,263,440,920	274,381	3,863,931	4,290,377*
Listed equities	USD $1,792,500,000	-	1,783,577	2,020,712*
Timberland	USD $0	-	16,076	-*
Total		10,189,971		29,498,435

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

Note 9

Investments (continued)

Collective investment vehicles

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

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

Commitments made to collective investment vehicles as at 30 June 2014

As disclosed in the schedule of commitments and in the tables above, the Fund has committed to provide capital to various collective investment vehicles. The total of these commitments at balance date is $11,853 million (2013: $10,190 million). The Fund's commitment obligations, being capital calls, are set out in the various underlying subscription documents. Whilst the actual timing of the capital calls to be made by the managers of these vehicles is uncertain, as it is dependent on the managers sourcing suitable investment opportunities, the Fund has recorded the commitments as being current in accordance with the underlying legal documents (see the consolidated schedule of commitments). The Fund has appropriate liquidity planning in place to ensure a suitable allocation of resources will be available to cover these future commitments of capital.

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 (eg, to between 10–25% of total distributions received) and liability period (eg, for no longer than 2 years after the distributions are received). The Fund is not aware of any giveback obligations at 30 June 2014.

Note 10

Receivables

	2014 $'000	2013 $'000
Receivables		
Imputation credits refundable	**764,325**	488,904
Interest receivable	**17,508**	12,250
Dividends & distributions receivable	**183,049**	200,466
Unsettled sales	**567,439**	2,087,017
Other receivables	**41,797**	30,960
Total Receivables	**1,574,118**	2,819,597

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

Note 11

Non-financial assets

	2014 $'000	2013 $'000
Plant and equipment		
Computers, plant and equipment – at cost	**6,166**	5,939
Accumulated depreciation	**(5,094)**	(4,520)
Total plant and equipment	**1,072**	1,419
Intangibles – software licenses		
Computer software purchased – cost	**3,205**	2,734
Accumulated amortisation	**(1,443)**	(832)
Total intangibles – software licences	**1,762**	1,902

Note 11

Non-financial assets (continued)

Analysis of Plant and equipment, and Intangibles – software licenses	Year Ending 30 June 2014 Plant & equipment $'000	Computer software $'000	Total $'000
Opening balance as at 1 July 2013			
Gross book value	**5,939**	**2,734**	**8,673**
Accumulated depreciation/amortisation	**(4,520)**	**(832)**	**(5,352)**
Net book value as 1 July 2013	**1,419**	**1,902**	**3,321**
Additions:			
by purchase	**421**	**471**	**892**
Disposals:			
Gross value of disposals	**194**	**-**	**194**
Accumulated depreciation/amortisation	**(194)**	**-**	**(194)**
Depreciation/amortisation charge for the period	**(768)**	**(611)**	**(1,379)**
Net book value as of 30 June 2014	**1,072**	**1,762**	**2,834**
Represented by:			
Gross book value	**6,166**	**3,205**	**9,371**
Accumulated depreciation/amortisation	**(5,094)**	**(1,443)**	**(6,537)**
	1,072	**1,762**	**2,834**

Analysis of Plant and equipment, and Intangibles – software licenses	Year Ending 30 June 2013 Plant & equipment $'000	Computer software $'000	Total $'000
Opening balance as at 1 July 2012			
Gross book value	5,185	2,351	7,536
Accumulated depreciation/amortisation	(3,791)	(297)	(4,088)
Net book value as 1 July 2012	1,394	2,054	3,448
Additions:			
by purchase	754	383	1,137
Disposals:			
Gross value of disposals			
Accumulated depreciation/amortisation			
Depreciation/amortisation charge for the period	(729)	(535)	(1,264)
Net book value as of 30 June 2013	1,419	1,902	3,321
Represented by:			
Gross book value	5,939	2,734	8,673
Accumulated depreciation/amortisation	(4,520)	(832)	(5,352)
	1,419	**1,902**	**3,321**

Note 12

Deferred tax liabilities

	2014 $'000	2013 $'000
The balance comprises temporary differences attributable to:		
Investments in collective investment vehicles	**43,537**	14,195
Total deferred tax liabilities	**43,537**	14,195
Deferred tax liabilities expected to be recovered within 12 months	**-**	-
Deferred tax liabilities expected to be recovered after 12 months	**43,537**	14,195

Movements	Investments in collective investment vehicles $'000
At 1 July 2012	1,812
Charged/(credited) to profit and loss	10,843
Foreign currency translation (gain)/loss	1,540
At 30 June 2013	14,195
Charged/(credited) to profit and loss	**30,581**
Foreign currency translation (gain)/loss	**(1,239)**
At 30 June 2014	**43,537**

Note 13

Payables

	2014 $'000	2013 $'000
Payables		
Unsettled purchases*	**347,398**	811,027
Other accrued expenses including management and performance fees payable	**316,348**	558,211
Total Payables	**663,746**	1,369,238

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

Note 14

Provisions

	2014 $'000	2013 $'000
Employee provisions		
Annual leave	**1,290**	1,231
Long service leave	**2,033**	1,643
Other employee liabilities	**10,696**	10,231
Total Employee provisions	**14,019**	13,105
Other provisions		
Prepaid income distributions	**-**	49
Total Other provisions	**-**	49

Note 15

Contributions by Government

	2014 $'000	2013 $'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 16

Subsidiaries

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

Name of entity	Country of incorporation/ domicile	Equity holding	
		30 June 2014 %	30 June 2013 %
Future Fund Investment Company No.1 Pty Ltd^	Australia	**100**	100
Secondary Overflow Cayman Fund, L.P.*	Cayman Islands	**100**	100
– Dover Street 2011 Overflow Fund L.P.*	United States	**100**	100
Quadrant Private Equity No.3C	Australia	**100**	100
Quadrant Private Equity No.4C	Australia	**100**	-
Future Fund Investment Company No.2 Pty Ltd^	Australia	**100**	100
Sankaty Middle Market Opportunities Fund (Offshore II), Ltd*	Cayman Islands	**100**	100
– Sankaty Middle Market Opportunities Fund (Offshore Master II), L.P.*	Cayman Islands	**100**	100
Global Hedged Strategies Fund Ltd	Cayman Islands	**100**	100
– Archer Capital Offshore Fund II, Ltd.*	Cayman Islands	**-**	100
– Archer Capital Mini-Master II, L.P.*	Cayman Islands	**-**	100
– Dover Offshore Fund II, Ltd.*	Cayman Islands	**100**	100
– Dover Master Fund II, LP*	Cayman Islands	**100**	100
– Fairchild Offshore Fund II L.P.*	Cayman Islands	**100**	100
– Fairchild Offshore Master Fund II L.P.*	Cayman Islands	**100**	100
– Kitty Hawk Offshore Fund II Ltd.*	Cayman Islands	**100**	100
– Kitty Hawk Master Fund II Ltd.*	Cayman Islands	**100**	100
– Worden Fund, LP*	Cayman Islands	**100**	100
– Worden Master Fund L.P.*	Cayman Islands	**100**	100
– Worden Fund Corp*	United States	**100**	100
– Worden Investment Limited*	Ireland	**100**	100
– Palisades Real Estate II, Ltd. (A)*	Cayman Islands	**-**	100
– Palisades Real Estate II, Ltd. (B)*	Cayman Islands	**-**	100
– Palisades Real Estate II (Cayman), L.P.*	Cayman Islands	**-**	100
– Stratus Feeder LP*	Cayman Islands	**-**	100
– G Capital Fund II, Ltd*	Cayman Islands	**-**	100
– Lantau Master Fund II*	Cayman Islands	**100**	100
– Lantau Overseas Fund II, L.P.*	Cayman Islands	**100**	100
– Lantau Onshore Intermediate II LLC*	United States	**100**	100
– Lantau (Ireland) II Limited*	Ireland	**100**	100

Note 16

Subsidiaries (continued)

Name of entity	Country of incorporation/ domicile	Equity holding 30 June 2014 %	30 June 2013 %
Horsley Bridge Strategic Fund, L.P.*	United States	**100**	100
Hayfin Opal Holdings Limited	Cayman Island	**100**	100
– Hayfin Opal Luxco 1 SARL	Luxembourg	**100**	100
– Hayfin Opal Luxco 2 SARL	Luxembourg	**100**	100
– Hayfin Opal Luxco 3 SARL	Luxembourg	**100**	100
Future Fund Investment Company No.3 Pty Ltd^	Australia	**100**	100
Pacific Alliance-FF Feeder Fund LP	Cayman Islands	**100**	100
– Pacific Alliance-FF Asia Special Situations Fund LP	Cayman Islands	**100**	100
Ares Credit Strategies Feeder Fund III LP	Cayman Islands	**100**	100
– Ares Credit Strategies Fund III, LP	Cayman Islands	**100**	100
– Ares CSF III Luxembourg SARL	Luxembourg	**100**	100
– Ares Private Debt Strategies Fund III, LP	United States	**100**	100
Metropolitan Fund LP	Cayman Islands	**100**	100
Highstar Capital IV-A LP*	United States	**100**	100
– SWG Arlington IV-A FIV Sub, LLC*	United States	**100**	100
– SWG Griffith IV-A FIV Sub, LLC*	United States	**100**	100
– SWG IV-A Interco LLC*	United States	**100**	100
– Caiman IV-A FIV Sub LLC*	United States	**100**	100
– Highstar Caiman IV-V Interco LLC*	United States	**100**	100
SWG Arlington CIV B, LLC*	United States	**100**	100
SWG Griffith CIV B, LLC*	United States	**100**	100
Global Infrastructure Partners - Co-Invest IV LP*	Cayman Islands	**100**	100
Global Infrastructure Partners II-D1, L.P.*	Scotland	**100**	100
– GIP II – D1 Holding I, L.P.*	Guernsey	**100**	100
– GIP II - D1 Intermediate (Scot), L.P.*	Scotland	**100**	100
– GIP II - D3 Holding 1 (Eagle US) LLC*	United States	**100**	100
– GIP II - D1 Intermediate Eagle AIV 1 L.P.*	United States	**100**	100
Newcastle Fund LP	Cayman Islands	**100**	100
RCP FF Small Buyout Co-Investment Fund, LP*	United States	**100**	100
CIP Unit Trust No. 2*	Australia	**100**	100
Garrison Real Estate Fund II A LP*	United States	**100**	100

Note 16

Subsidiaries (continued)

Name of entity	Country of incorporation/ domicile	Equity holding 30 June 2014 %	Equity holding 30 June 2013 %
– GREF II A REO LLC*	United States	**100**	100
– GREF II A Holdings LLC*	United States	**100**	100
GPE VI-A OT Co-Investment LP*	Cayman Islands	**100**	100
Archer Capital Trust 5C	Australia	**100**	100
Archer Capital GF Trust 2C	Australia	**100**	100
BlackRock Co-Investment Fund III (Parallel) LP	United States	**100**	100
Advent International GPE VII–F LP*	United States	**100**	100
FF Holdings 1 Pty Ltd	Australia	**100**	100
– FF Holdings Trust 1^	Australia	**100**	100
– FF Holdings 2 Pty Ltd^	Australia	**100**	100
QS FF Emerging Markets Feeder L.P.	Cayman Islands	**100**	-
– QS FF Emerging Markets L.P.	Cayman Islands	**100**	-
Sankaty Middle Market Opportunities Fund II-F, L.P.	United States	**100**	-
Future Fund Investment Company No.4 Pty Ltd^	Australia	**100**	100
ASP Offshore Company Limited – Global Opportunities Secondary Fund II-A*	Cayman Islands	**100**	100
– Adams Street Global Opportunities Secondary Fund II-A, LP*	United States	**100**	100
ASP Offshore Company Limited – 2009 Non-US Emerging Markets Fund-A*	Cayman Islands	**100**	100
– Adams Street Partnership Fund – 2009 Non-US Emerging Markets Fund-A, LP*	United States	**100**	100
Greenspring GE (Offshore) , L.P.*	Cayman Islands	**100**	100
– Greenspring Growth Equity, L.P.*	United States	**100**	100
Greenspring GE II (Offshore), LP*	Cayman Islands	**100**	100
– Greenspring Growth Equity II, LP*	United States	**100**	100
Oaktree FF Investment Fund, L.P.*	Cayman Islands	**100**	100
– Oaktree FF-A (Cayman) 1 CTB Ltd.*	Cayman Islands	**100**	100
– Melbourne Holdings 1, L.P.*	United States	**100**	100
– Melbourne Holdings 2, L.P.*	United States	**100**	100
– Melbourne Holdings 8, L.P.*	United States	**100**	100
– Oaktree FF Leisure Investments Ltd.*	Cayman Islands	**-**	100
– Oaktree FF Investment Fund Class E Holdings, L.P.*	Cayman Islands	**100**	100

Note 16

Subsidiaries (continued)

Name of entity	Country of incorporation/ domicile	Equity holding 30 June 2014 %	Equity holding 30 June 2013 %
– Oaktree FF Investment Fund Class F Holdings, L.P.*	United States	**100**	100
– OCM FFF Holdings Ltd.*	Cayman Islands	**100**	100
– OCM FFF Holdings CTB, LLC*	United States	**100**	100
– OCM Luxembourg OPPS FFF SARL*	Luxemburg	**100**	100
– Oaktree FF Investment Fund AIF (Delaware), L.P.*	United States	**100**	100
Future Fund Investment Company No.5 Pty Ltd^	Australia	**100**	100
Future Fund Investment Company No.6 Pty Ltd^	Australia	**100**	100
Future Fund Investment Trust No.1	Australia	**100**	100
Future Fund Investment Trust No.2	Jersey	**-**	100
Brookfield Real Estate Partners F L.P.	United States	**100**	100
Brookfield Retail Holdings II LLC	United States	**100**	100
Madison Timber, Inc.	United States	**-**	100
Madison Timber REIT, Inc.	United States	**-**	100
– Timber LLC	United States	**-**	100
– LogCo	United States	**-**	100
HERE Co-Investment Feeder Fund I, LP	Canada	**100**	100
– HERE Co-Investment Fund I, LP	Canada	**100**	100
Global Infrastructure Partners II-D2, L.P.*	Scotland	**100**	100
Berkshire FF Multifamily Co-Investment Fund, L.P.	United States	**100**	100
– Berkshire FF Multifamily Co-Investment REIT	United States	**100**	100
Lake Constance L.P.	Guernsey	**100**	-
SEIF II Co-Invest FF, LLC	United States	**100**	-

^ Audited by the Australian National Audit Office.

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

Note 16

Subsidiaries (continued)

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

Note 17

Cash flow reconciliation

	2014 $'000	2013 $'000
(a) Reconciliation of operating result to net cash from operating activities:		
Operating result	**12,735,894**	11,857,922
Depreciation and amortisation	**1,379**	1,264
Purchase of investments	**(98,995,612)**	(71,040,908)
Proceeds from sale of investments	**100,361,062**	70,676,909
Net gain on revaluation of investments	**(11,062,233)**	(12,663,293)
Unrealised (gain)/loss on foreign currency	**(3,385,135)**	2,090,304
Increase in accrued income	**(274,099)**	(140,246)
(Increase)/decrease in other assets	**(6,703)**	9,203
Increase in employee provisions	**914**	2,504
(Decrease)/increase in other payables	**(241,912)**	223,222
Increase in current tax liability	**122,870**	166,805
Increase in deferred tax liability	**29,342**	12,383
Net cash (used by)/provided by operating activities	**(714,233)**	1,196,069

(b) Reconciliation of cash and cash equivalents

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

	2014 $'000	2013 $'000
Cash and cash equivalents	**3,292,103**	4,109,675

Note 18

Contingent liabilities and assets

Contingencies

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

Remote contingencies

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

Note 19

Senior executive remuneration

Remuneration of the Board members

Remuneration of the Board members is independently determined by the Australian Government Remuneration Tribunal. The Chair of the Board is also the statutory Chief Executive Officer of the Agency and is therefore deemed a senior executive for the purposes of disclosing remuneration in the tables presented in notes 19A and 19B below. No member of the Board nor the statutory Chief Executive Officer receive any entitlement to performance related payments in undertaking their roles.

19A Senior executive remuneration expense for the reporting period

	2014 $	2013 $
Short-term employee benefits:		
Salary (including payment for leave taken)	**5,128,672**	5,117,026
Performance related payments	**3,758,872**	3,823,681
Total short-term employee benefits	**8,887,544**	8,940,707
Post-employment benefits:		
Superannuation	**267,663**	283,702
Total post-employment benefits	**267,663**	283,702
Other long-term benefits:		
Movement in long service provisions	**68,901**	97,156
Movement in annual leave provisions	**(51,792)**	45,735
Total other long-term employee benefits	**17,109**	142,891
Total	**9,172,316**	9,367,300

Notes:

1 Note 19A was prepared on an accruals basis. As a result, the performance related payment expense disclosed above differs from the cash 'Bonus paid' in Note 19B. The Bonus paid in Note 19B relates to the performance payments for previous financial years.

2 Note 19A excludes acting arrangements and part-year service where remuneration expensed for a senior executive was less than $195,000 but includes remuneration paid to senior executives who resigned from the Fund and earned above $195,000 for the period served prior to resignation.

Note 19

Senior executive remuneration (continued)

19B Average annual reportable remuneration paid to substantive senior executives during the reporting period[1]

Average annual reportable remuneration	Senior Executives	Reportable salary[2]	Contributed superannuation[3]	Bonus paid 2012/13 year[4]	Bonus paid prior years[5]	Total reportable remuneration
	2014					
	No.	$	$	$	$	$
Total reportable remuneration						
Below $195,000	3	101,309	7,950	-	-	109,259
$375,000 to $404,999	1	291,724	25,000	71,319	-	388,043
$555,000 to $584,999	1	389,669	14,615	151,916	-	556,200
$705,000 to $734,999	2	488,298	21,387	213,271	-	722,956
$735,000 to $764,999	1	409,304	25,000	253,784	61,630	749,718
$795,000 to $824,999	1	374,684	25,000	399,379	-	799,063
$825,000 to $854,999	1	354,655	25,000	257,469	212,898	850,022
$855,000 to 884,999	1	404,007	25,000	453,556	-	882,563
$885,000 to $914,999	1	474,080	17,500	408,307	-	899,887
$975,000 to $1,004,999	2	444,695	21,387	516,404	-	982,486
$1,245,000 to $1,274,999	1	567,308	25,000	676,667	-	1,268,975
Total	15					

Notes:

1. This table reports substantive senior executives who received remuneration during the reporting period. Each row is an averaged figure based on headcount for individuals in the band.
2. Reportable salary includes the following:
   a. Gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
   b. Reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits);
   c. Reportable employer superannuation contributions; and
   d. Exempt foreign employment income.
3. The 'contributed superannuation' amount is the average actual superannuation contributions paid to senior executives in that reportable remuneration band during the reporting period.
4. 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year.
5. Executives have the option of deferring performance payments to future years (see Note 2.8.3).

Note 19

Senior executive remuneration (continued)

19B Average annual reportable remuneration paid to substantive senior executives during the reporting period[1] (continued)

			2013			
Average annual reportable remuneration	Senior Executives	Reportable salary[2]	Contributed superannuation[3]	Bonus paid 2011/12 year[4]	Bonus paid prior years[5]	Total reportable remuneration
	No.	$	$	$	$	$
Total reportable remuneration:						
Below $195,000	1	58,456	4,985	-	-	63,441
$195,000 to $224,999	1	193,673	17,360	-	-	211,033
$375,000 to $404,999	1	284,646	25,000	81,761	-	391,407
$465,000 to $494,999	1	354,766	25,000	91,560	-	471,326
$615,000 to $644,999	1	445,080	16,484	182,700	-	644,264
$645,000 to $674,999	2	428,631	25,000	217,026	-	670,657
$675,000 to $704,999	1	265,959	8,369	424,744	-	699,072
$705,000 to $734,999	1	362,057	25,000	319,676	-	706,733
$765,000 to $794,999	1	394,420	25,000	346,404	-	765,824
$855,000 to $884,999	2	434,924	20,742	416,232	-	871,898
$885,000 to $914,999	1	575,650	25,000	313,283	-	913,933
$1,095,000 to $1,124,999	1	548,595	25,000	536,760	-	1,110,355
Total	14					

Notes:

1. This table reports substantive senior executives who received remuneration during the reporting period. Each row is an averaged figure based on headcount for individuals in the band.
2. Reportable salary includes the following:
   a. Gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
   b. Reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits);
   c. Reportable employer superannuation contributions; and
   d. Exempt foreign employment income.
3. The 'contributed superannuation' amount is the average actual superannuation contributions paid to senior executives in that reportable remuneration band during the reporting period.
4. 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year.
5. Executives have the option of deferring performance payments to future years (see Note 2.8.3). No deferred amounts were paid during the year.

Note 19

Senior executive remuneration (continued)

19C Other staff remuneration[1]

	2014				
Average annual reportable remuneration	Other Executives	Reportable salary[2]	Contributed superannuation[3]	Bonus paid 2012/13[4]	Total reportable remuneration
	No.	$	$	$	$
Total reportable remuneration:					
$195,000 to $224,999	6	162,684	18,370	35,911	216,965
$255,000 to $284,999	4	200,008	22,438	46,698	269,144
$285,000 to $314,999	6	191,874	22,419	85,852	300,145
$345,000 to $374,999	2	254,013	21,387	77,607	353,007
$405,000 to $434,999	1	283,899	54,629	70,834	409,362
$435,000 to $464,999	2	305,197	17,775	121,219	444,191
$465,000 to $494,999	1	335,509	25,000	122,653	483,162
$495,000 to $524,999	2	276,934	25,000	209,488	511,422
$525,000 to $554,999	1	270,093	46,110	229,947	546,150
$555,000 to $584,999	2	327,255	21,387	213,060	561,702
$615,000 to $644,999	1	315,089	25,000	275,360	615,449
$675,000 to $704,999	1	358,129	25,000	314,006	697,135
Total	29				

Notes:

1. This table reports staff who were employed by the entity during the reporting period whose reportable remuneration was $195,000 or more for the financial period and were not required to be disclosed in tables 19A or 19B above. Each row is an averaged figure based on headcount for individuals in the band.
2. Reportable salary includes the following:
   a. Gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
   b. Reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits);
   c. Reportable employer superannuation contributions; and
   d. Exempt foreign employment income.
3. The 'contributed superannuation' amount is the average actual superannuation contributions paid to staff in that reportable remuneration band during the reporting period.
4. 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year.

Note 19

Senior executive remuneration (continued)

19C Other staff remuneration[1] (continued)

Average annual reportable remuneration	Other Executives	Reportable salary[2]	2013 Contributed superannuation[3]	Bonus paid 2011/12[4]	Total reportable remuneration
	No.	$	$	$	$
Total reportable remuneration:					
$195,000 to $224,999	3	168,285	16,637	16,575	201,500
$225,000 to $254,999	4	179,740	20,132	41,712	241,588
$255,000 to $284,999	5	193,180	19,096	50,523	262,804
$285,000 to $314,999	3	194,508	24,238	74,350	293,099
$315,000 to $344,999	2	241,285	20,742	62,922	324,951
$345,000 to $374,999	2	258,768	16,484	82,440	357,694
$375,000 to $404,999	1	272,676	50,023	72,275	394,975
$405,000 to $434,999	1	261,291	25,000	137,313	423,605
$435,000 to $464,999	1	320,922	25,000	92,379	438,302
$465,000 to $494,999	3	283,533	32,074	166,841	482,451
$495,000 to $524,999	1	289,721	16,484	195,637	501,843
$555,000 to $584,999	2	317,447	16,484	227,513	561,446
$615,000 to $644,999	1	354,587	16,484	245,552	616,624
Total	29				

Notes:

1. This table reports staff who were employed by the entity during the reporting period whose reportable remuneration was $195,000 or more for the financial period and were not required to be disclosed in tables 19A or 19B above. Each row is an averaged figure based on headcount for individuals in the band.
2. Reportable salary includes the following:
   a. Gross payments (less any bonuses paid, which are separated out and disclosed in the 'bonus paid' column);
   b. Reportable fringe benefits (at the net amount prior to 'grossing up' to account for tax benefits);
   c. Reportable employer superannuation contributions: and
   d. Exempt foreign employment income.
3. The 'contributed superannuation' amount is the average actual superannuation contributions paid to staff in that reportable remuneration band during the reporting period.
4. 'Bonus paid' represents average actual bonuses paid during the reporting period in that reportable remuneration band. The 'bonus paid' within a particular band may vary between financial years due to various factors such as individuals commencing with or leaving the entity during the financial year.

Note 20

Financial instruments and financial risk management

20A Risk management framework

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

20B Financial risk management objectives

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

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

20C Market risk

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

Note 20

Financial instruments and financial risk management (continued)

20C(i) Interest rate risk

Interest rate exposure tables

The Fund's exposure to interest rates as at 30 June 2014 is set out below.

Financial asset	Floating Interest Rate 2014 $'000	Fixed Interest Rate 2014 $'000	Non–interest Bearing 2014 $'000	Total 2014 $'000
Cash and cash equivalents	3,292,103	-	-	3,292,103
Bank bills	-	313,287	-	313,287
Negotiable certificates of deposit	-	14,180,950	-	14,180,950
Corporate debt securities	224,132	1,544,037	-	1,768,169
Mortgage backed securities	2,201,878	297,614	-	2,499,492
Asset backed securities	1,237,433	85,615	-	1,323,048
Corporate credit (bank loans)	3,646,051	146,504	-	3,792,555
Government debt securities	76,913	266,901	-	343,814
Other interest bearing securities	358,292	552,202	-	910,494
Other financial assets	-	-	74,660,181	74,660,181
Total financial assets	**11,036,802**	**17,387,110**	**74,660,181**	**103,084,093**
Interest rate swaps (notional amount) – pay	(1,609,704)	(1,151,248)	-	
Interest rate swaps (notional amount) – receive	1,151,248	1,609,704	-	
Equity index swaps (notional amount) – pay	(32)	-	-	
Equity index swaps (notional amount) – receive	53	-	-	
Currency swaps (notional amount) – pay	(5,955,137)	-	-	
Currency swaps (notional amount) – receive	6,010,000	-	-	

As at the reporting date the Fund's debt portfolio had an effective interest rate duration of 2.16 (2013: 0.93).

Note 20

Financial instruments and financial risk management (continued)

20C(i) Interest rate risk (continued)

The Fund's exposure to interest rates as at 30 June 2013 is set out below.

Financial asset	Floating Interest Rate 2013 $'000	Fixed Interest Rate 2013 $'000	Non–interest Bearing 2013 $'000	Total 2013 $'000
Cash and cash equivalents	4,108,001	-	1,674	4,109,675
Bank bills	-	189,901	-	189,901
Negotiable certificates of deposit	-	10,943,901	-	10,943,901
Corporate debt securities	938,888	2,737,691	1,431	3,678,010
Mortgage backed securities	2,418,757	404,062	-	2,822,819
Asset backed securities	1,342,562	96,370	-	1,438,932
Corporate credit (bank loans)	2,232,866	601,931	-	2,834,797
Government debt securities	74,855	383,621	1,123	459,599
Other interest bearing securities	251,367	943,633	-	1,195,000
Other financial assets	-	-	67,217,714	67,217,714
Total financial assets	11,367,296	16,301,110	67,221,942	94,890,348
Interest rate swaps (notional amount) – pay	(246,470)	(290,103)	-	
Interest rate swaps (notional amount) – receive	290,103	246,470	-	
Currency swaps (notional amount) – pay	(6,621,264)	-	-	
Currency swaps (notional amount) – receive	6,010,000	-	-	

As at the reporting date the Fund's debt portfolio had an effective interest rate duration of 0.93 (2012: 0.98).

Note 20

Financial instruments and financial risk management (continued)

20C(i) Interest rate risk (continued)

Interest rate derivative contracts

The Fund had open positions in exchange traded interest rate futures contracts, interest rate swap agreements, forward contracts on mortgage backed securities and interest rate option agreements as at 30 June 2014. The Act governs the use of financial derivatives.

Interest rate derivatives are used by the Fund's investment managers to manage the exposure to interest rates and to ensure it remains within approved limits.

The Fund 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 and bond futures contracts are cash margined daily with the relevant futures clearing exchange. The notional value of the open positions, impact on fixed interest exposure and their fair value are set out below:

	Notional Value 2014 $'000	Fair Market Value 2014 $'000	Notional Value 2013 $'000	Fair Market Value 2013 $'000
Buy domestic interest rate futures contracts	**8,190,202**	**89,569**	2,367,800	15,495
Buy international interest rate futures contracts	**113,464**	**232**	41,378	(503)
Sell international interest rate futures contracts	**(135,551)**	**(23)**	(605,840)	12,820
Receiver (fixed) interest rate swap agreements	**1,609,704**	**40,922**	246,470	(3,814)
Payer (fixed) interest rate swap agreements	**(1,151,248)**	**(41,258)**	(290,103)	5,053
Buy forward contracts on mortgage backed securities	**327,628**	**1,768**	254,984	(2,363)
Sell forward contracts on mortgage backed securities	**(197,863)**	**(548)**	(96,738)	1,048
Interest rate options – call swaptions	**252,468**	**1,631**	(9,614)	1,385
Interest rate options – put swaptions	**(26,487)**	**-**	(97,553)	(1,815)
Interest rate options	**-**	**-**	(13,984)	(29)
Total		**92,293**		27,277

Note 20

Financial instruments and financial risk management (continued)

20C(i) Interest rate risk (continued)

Interest rate sensitivity analysis

The following table demonstrates the impact on the operating result of the consolidated entity for a 60 basis point (2013: 120 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 2014 and 30 June 2013) and there are concurrent movements in interest rates and parallel shifts in the yield curves. A 60 basis point (2013: 120 basis point) movement would result in the following impact on the debt portfolios (including interest rate derivatives) contribution to the Fund's consolidated operating result. The impact on the operating result includes the increase/(decrease) in interest income on floating rate securities from the basis point change.

	30 June 2014 Impact on operating result $'000
+ 60 basis points	**(307,872)**
- 60 basis points	**327,651**

	30 June 2013 Impact on operating result $'000
+ 120 basis points	(442,995)
- 120 basis points	492,510

20C(ii) Foreign currency risk management

The Fund undertakes certain transactions denominated in foreign currencies and accordingly, is exposed to the effects of exchange rate fluctuations. The Board sets a target exposure to foreign currency risk and this is managed utilising forward foreign exchange contracts 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 Fund's counterparties for foreign exchange contracts include major banking firms and their affiliates. The Fund diversifies its exposure by utilising multiple counterparties, by considering each counterparty's credit rating, and by executing such contracts pursuant to master netting agreements. All transactions (other than spot trades) are undertaken using ISDAs.

Note 20

Financial instruments and financial risk management (continued)

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

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

30 June 2014	USD AUD $'000	EUR AUD $'000	GBP AUD $'000	JPY AUD $'000	Other[1] AUD $'000	Total AUD $'000
Cash & cash equivalents	1,763,236	133,477	131,849	13,937	29,965	2,072,464
Listed equities and listed managed investment schemes	13,034,058	3,050,383	1,889,022	948,801	8,311,928	27,234,192
Interest bearing securities	7,398,208	831,577	1,515,898	-	425,025	10,170,708
Collective investment vehicles	23,208,803	1,951,218	1,456,205	780,382	47,622	27,444,230
Other investments	657,437	106,613	31,843	39,644	48,650	884,187
Receivables	568,815	55,058	9,725	1,394	44,886	679,878
Payables	(411,535)	(109,961)	(10,890)	(8)	(7,989)	(540,383)
Total physical exposure	46,219,022	6,018,365	5,023,652	1,784,150	8,900,087	67,945,276
Forward exchange contracts						
- buy foreign currency	7,770,570	1,657,327	769,924	5,846,913	7,189,432	23,234,166
- sell foreign currency	(27,973,311)	(7,582,344)	(5,414,099)	(1,619,147)	(3,773,093)	(46,361,994)
Currency options	24,000	-	-	-	-	24,000
Total derivative exposure	(20,178,741)	(5,925,017)	(4,644,175)	4,227,766	3,416,339	(23,103,828)
Total net exposure	26,040,281	93,348	379,477	6,011,916	12,316,426	44,841,448

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

Note 20

Financial instruments and financial risk management (continued)

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

The Fund's exposure in Australian equivalents to foreign currency risk at 30 June 2013 was as follows:

30 June 2013	USD AUD $'000	EUR AUD $'000	GBP AUD $'000	JPY AUD $'000	Other[1] AUD $'000	Total AUD $'000
Cash & cash equivalents	1,923,566	447,187	8,233	1,797	6,298	2,387,081
Listed equities and listed managed investment schemes	11,026,055	2,589,489	1,500,924	967,528	6,117,068	22,201,064
Interest bearing securities	8,555,778	858,580	1,025,431	-	646,408	11,086,197
Collective investment vehicles	23,067,424	1,847,371	1,130,191	49,684	43,683	26,138,353
Other investments	171,614	(17,039)	(2,001)	20,614	(1,641)	171,547
Receivables	1,991,104	39,997	42,929	16,874	100,673	2,191,577
Payables	(1,059,235)	(34,606)	(34,758)	(282)	(55,301)	(1,184,182)
Total physical exposure	45,676,306	5,730,979	3,670,949	1,056,215	6,857,188	62,991,637
Forward exchange contracts						
- buy foreign currency	14,622,631	2,276,039	1,761,247	5,986,618	11,454,604	36,101,139
- sell foreign currency	(48,389,701)	(8,627,207)	(6,216,169)	(2,229,682)	(8,505,948)	(73,968,707)
Currency futures	-	-	-	-	-	-
Currency options	(2,212,274)	-	-	-	-	(2,212,274)
Total derivative exposure	(35,979,344)	(6,351,168)	(4,454,922)	3,756,936	2,948,656	(40,079,842)
Total net exposure	9,696,962	(620,189)	(783,973)	4,813,151	9,805,844	22,911,795

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

Note 20

Financial instruments and financial risk management (continued)

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

Foreign currency sensitivity analysis

The following table demonstrates the impact on the consolidated entity's operating result of a 11.5% (2013: 15.7%) movement in exchange rates relative to the Australian dollar at 30 June 2014, with all other variables held constant. It is assumed that the relevant change occurs as at the reporting date and the results presented are shown after taking into account the implementation of the Board's foreign currency exposure policy (that is, the sensitivity is calculated on the net exposure presented in the tables on the two previous pages).

	30 June 2014 Impact on operating result $'000
+ 11.5% movement	**5,459,892**
- 11.5% movement	**(5,410,627)**

	30 June 2013 Impact on operating result $'000
+ 15.7% movement	4,572,467
- 15.7% movement	(4,244,964)

Note 20

Financial instruments and financial risk management (continued)

20C(iii) Equity price risk

Public markets equity price risk

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

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

	30 June 2014 $'000	30 June 2013 $'000
Domestic listed equities and listed managed investment schemes	**11,189,979**	10,669,850
International listed equities and listed managed investment schemes	**27,224,667**	22,213,503
Total equity price risk exposure	**38,414,646**	32,883,353

Note 20

Financial instruments and financial risk management (continued)

20C(iii) 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 2014. The Act governs the use of financial derivatives. Equity futures, swaps and options are used to manage market exposures to equity price risk and to ensure that asset allocations remain within approved limits. The Fund's counterparties for over the counter equity options and swaps include major banking firms and their affiliates. The Fund diversifies its exposure by utilising multiple counterparties, by considering each counterparty's credit rating, and by executing such contracts pursuant to master netting agreements. All transactions are undertaken using ISDAs. The Fund's equity futures contracts are cash margined daily with the relevant futures clearing exchange. The notional value of the open contracts and their fair value are set out below:

	Notional Value 2014 $'000	Fair Market Value 2014 $'000	Notional Value 2013 $'000	Fair Market Value 2013 $'000
Buy domestic equity futures contracts	**99,584**	**31**	160,477	322
Sell domestic equity futures contracts	**(496,851)**	**(79)**	(455,797)	(860)
Buy international equity futures contracts	**7,115,233**	**37,434**	5,997,619	(40,873)
Equity index swap agreements	**32**	**7**	-	-
Equity index swap agreements	**(53)**	**-**	-	-
Exchange traded international volatility index call options	**845**	**134**	634	69
Over the counter domestic equity index put options	**(8,417)**	**277**	(49,049)	2,908
Over the counter domestic equity index call options	**214,231**	**16,474**	137,145	13,678
Over the counter international equity index put options	**(420,038)**	**25,966**	(478,551)	29,321
Over the counter international equity index call options	**2,815,063**	**350,085**	1,245,567	164,595
Exchange traded warrants	**94,812**	**159,089**	138,066	190,081
Total		**589,418**		359,241

Note 20

Financial instruments and financial risk management (continued)

20C(iii) Equity price risk (continued)

Equity price sensitivity analysis

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

+/- 20% on Australian equities

+/- 15% on International equities

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

	30 June 2014 Impact on operating result $'000	30 June 2013 Impact on operating result $'000
20% increase in Australian equities	**3,045,247**	3,190,054
15% increase in International equities	**8,327,481**	6,757,896
Total	**11,372,728**	9,947,950
20% decrease in Australian equities	**(2,986,191)**	(3,156,823)
15% decrease in International equities	**(7,915,574)**	(6,436,952)
Total	**(10,901,765)**	(9,593,775)

Note 20

Financial instruments and financial risk management (continued)

20C(iv) Other price risk (collective investment vehicles)

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

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

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

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

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

Infrastructure proxy
The Fund utilises an appropriate index of publicly traded infrastructure companies in the appropriate geography and sector as a proxy.

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

Other price risk sensitivity analysis

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

Note 20

Financial instruments and financial risk management (continued)

20D Liquidity risk management

Liquidity risk is the vulnerability of portfolio cashflow 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 Short-term Liquidity Risk Policy is one of four main investment policies that support the investment process and help to ensure that the Fund takes "acceptable but not excessive" risk.

The implementation of the Short-term Liquidity Risk Policy relies upon the following primary inputs:

- A daily stress test that is designed to ensure that the Fund holds enough at-call liquidity to meet our short-term obligations at all times. If the level of at-call liquidity in the Fund is insufficient to pass this test, it must be replenished;
- A portfolio projection model that forecasts the prospective build of the Fund based on cashflow 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's financial liabilities, net and gross settled derivative financial liability instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The tables have been drawn up based on the contractual discounted cash flows. As the majority of payments occur within 1 year, the difference between discounted and undiscounted cashflows is immaterial.

Note 20

Financial instruments and financial risk management (continued)

20D Liquidity risk management (continued)

As at 30 June 2014:

	Less than 3 months	3 months to 1 year	1 to 5 Years	> 5 Years	Total contractual cashflows	Carrying amount (assets)/ liabilities
	$'000	$'000	$'000	$'000	$'000	$'000
2014						
Non-derivatives						
Unsettled purchases	347,398	-	-	-	347,398	347,398
Other payables	316,348	-	-	-	316,348	316,348
Total non-derivatives	663,746	-	-	-	663,746	663,746
Derivatives						
Net settled (interest rate swaps, credit default swaps, interest rate options)	125,499	42,002	138	-	167,639	167,639
Gross settled (forward foreign exchange contracts, cross currency swaps)						
– (inflow)	(13,873,404)	(3,994,543)	(127,312)	(40,616)	(18,035,875)	(18,035,875)
– outflow	14,136,733	4,026,249	133,716	40,792	18,337,490	18,337,490
Total derivatives	388,828	73,708	6,542	176	469,254	469,254

The Fund may be required to provide cash as collateral to counterparties under legal agreements when derivatives are in a net liability position. Refer to Note 9 for details on cash provided as collateral.

Note 20

Financial instruments and financial risk management (continued)

20D Liquidity risk management (continued)

As at 30 June 2013:

	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
2013						
Non-derivatives						
Unsettled purchases	811,027	-	-	-	811,027	811,027
Other payables	571,415	-	-	-	571,415	571,415
Total non-derivatives	1,382,442	-	-	-	1,382,442	1,382,442
Derivatives						
Net settled (interest rate swaps, credit default swaps, interest rate options)	87,149	1,936	18,053	4,873	112,011	112,011
Gross settled (forward foreign exchange contracts, cross currency swaps)						
– (inflow)	(39,560,069)	(14,746,528)	(6,087,288)	(29,070)	(60,422,955)	(60,422,955)
– outflow	42,366,051	15,748,550	6,625,885	29,693	64,770,179	64,770,179
Total derivatives	2,893,131	1,003,958	556,650	5,496	4,459,235	4,459,235

Note 20

Financial instruments and financial risk management (continued)

20E Credit risk

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

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

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

The Fund had, at 30 June 2014, an exposure of 14.2% (2013: 13.4%) of its net assets to interest bearing securities issued by domestic banks. Exposures to individual counterparties are separately identified in the table below.

Domestic interest bearing securities issued by:	$'000
Commonwealth Bank of Australia	**3,538,574**
Westpac Banking Corporation	**3,646,757**
National Australia Bank Limited	**3,489,064**
Australia and New Zealand Banking Group Limited	**3,668,566**
Other domestic banks	**119,552**
Non-bank issued	**9,961**
Total	**14,472,474**

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

Domestic interest bearing securities issued by:	$'000
Bank bills - domestic	**274,844**
Negotiable certificates of deposit - domestic	**14,180,950**
Corporate debt securities - domestic	**16,680**
Total	**14,472,474**

Note 20

Financial instruments and financial risk management (continued)

20E Credit risk (continued)

Exposures as at 30 June 2013:

Domestic interest bearing securities issued by:	$'000
Commonwealth Bank of Australia	3,247,358
Westpac Banking Corporation	3,033,128
National Australia Bank Limited	2,629,210
Australia and New Zealand Banking Group Limited	2,969,265
Non-bank issued	20,021
Total	11,898,982

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

Domestic interest bearing securities issued by:	$'000
Bank bills - domestic	186,516
Negotiable certificates of deposit - domestic	10,943,901
Corporate debt securities - domestic	768,565
Total	11,898,982

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

Note 20

Financial instruments and financial risk management (continued)

20E Credit risk (continued)

Credit risk derivatives

The Fund's managers utilise credit default swaps to gain exposure to, and to hedge, credit risk.

The fund 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.

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 2014 $'000	Fair Market Value 2014 $'000	Notional Value 2013 $'000	Fair Market Value 2013 $'000
Buy Credit Protection	**1,519,398**	**(103,595)**	879,312	5,790
Sell Credit Protection	**(937,060)**	**70,328**	(25,412)	1,316
Total		**(33,267)**		7,106

Note 20

Financial instruments and financial risk management (continued)

20E Credit risk (continued)

Credit exposure by credit rating

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

	2014 $'000	2013 $'000
Long term rated securities		
AAA	**302,610**	395,652
AA	**3,327,617**	4,795,420
A	**203,576**	1,024,076
BBB	**267,322**	666,498
Below Investment grade / not rated#	**9,799,723**	9,595,767
Short term rated securities		
A-1+/A-3/P-1	**14,455,794**	11,130,418
Other		
US Government Guaranteed	**67,270**	64,803
Total debt securities and cash held	**28,423,912**	27,672,634
Other non-debt financial assets	**74,660,181**	67,217,714
Total financial assets	**103,084,093**	94,890,348

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

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

There are no overdue contractual receipts due from counterparties as at 30 June 2014 (30 June 2013: nil).

Note 20

Financial instruments and financial risk management (continued)

20F Fair values of financial assets and liabilities

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

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

(i) Fair value in an active market

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

The Fund values its investments in accordance with the accounting policies set out in Note 2. For the majority of its 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.

(ii) Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques employed by the managers the Board has engaged or by the Fund directly. These include the use of recent transactions to the extent these are available and are not distressed transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models, 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 20

Financial instruments and financial risk management (continued)

20G 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 20C (iv) 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.

Note 20

Financial Instruments and Financial Risk Management (continued)

20G Fair value hierarchy (continued)

As at 30 June 2014:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Financial assets at fair value through profit or loss:				
Interest bearing securities	42,515	21,035,168	4,054,126	25,131,809
Listed equities and listed managed investment schemes	38,150,962	10,622	253,062	38,414,646
Collective investment vehicles	-	273,064	32,020,180	32,293,244
Derivatives	146,801	1,577,195	160,117	1,884,113
Restricted Cash	476,465	-	-	476,465
Total	38,816,743	22,896,049	36,487,485	98,200,277
Financial liabilities at fair value through profit or loss:				
Derivatives	19,712	441,126	8,416	469,254
Investments sold, not yet purchased	12,964	-	-	12,964
Total	32,676	441,126	8,416	482,218

The following table presents the transfers between levels for the year ended 30 June 2014:

	Level 1 $'000	Level 2 $'000	Level 3 $'000
Transfers between levels 1 and 2	(20,038)	20,038	-
Transfers between levels 1 and 3	85,496	-	(85,496)
Transfers between levels 2 and 3	-	151,222	(151,222)

Note 20

Financial Instruments and Financial Risk Management (continued)

20G Fair value hierarchy (continued)

The following table presents the movement in level 3 instruments for the year ended 30 June 2014 by class of financial instrument.

	Interest bearing securities	Equities and listed managed investment schemes	Collective investment vehicles	Derivatives	Total
	$'000	$'000	$'000	$'000	$'000
Financial assets at fair value through profit or loss:					
Opening balance	**3,993,525**	**420,020**	**28,954,122**	**202,956**	**33,570,623**
Purchases	**1,847,382**	**106,757**	**8,034,090**	**6**	**9,988,235**
Sales	**(1,651,195)**	**(216,531)**	**(7,718,381)**	**(83,060)**	**(9,669,167)**
Transfers into level 3	**339,723**	**63,576**	**-**	**-**	**403,299**
Gains and losses recognised in the statement of comprehensive income	**15,636**	**28,312**	**2,750,349**	**40,215**	**2,834,512**
Transfers out of level 3	**(490,945)**	**(149,072)**	**-**	**-**	**(640,017)**
Closing balance	**4,054,126**	**253,062**	**32,020,180**	**160,117**	**36,487,485**

Note 20

Financial Instruments and Financial Risk Management (continued)

20G Fair value hierarchy (continued)

	Interest bearing securities $'000	Equities and listed managed investment schemes $'000	Collective investment vehicles $'000	Derivatives $'000	Total $'000
Financial liabilities at fair value through profit or loss:					
Opening balance	-	-	-	(966)	(966)
Purchases	-	-	-	299	299
Sales	-	-	-	(7,656)	(7,656)
Transfers into level 3	-	-	-	-	-
Gains and losses recognised in the statement of comprehensive income	-	-	-	(93)	(93)
Transfers out of level 3	-	-	-	-	-
Closing balance	-	-	-	(8,416)	(8,416)

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

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Collective investment vehicles	3,624,734	5,840,561	22,827,949	32,293,244

Note 20

Financial Instruments and Financial Risk Management (continued)

20G 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 2014:

	Fair Value $'000	Valuation Technique	Unobservable Inputs
Recurring fair value measurements			
Financial assets at fair value through profit or loss:			
Interest bearing securities	**25,089,294**	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	**263,684**	Discounted cash flow	Discount Rate
schemes		Market Approach	Earnings Multiple
			Price to book ratio
		Recent Transaction	N/A
		Recovery Value	Recovery Rate
Collective investment vehicles	**32,293,244**	Market Approach	Earnings Multiple
			Net Asset Value
		Discounted cash flow	Discount Rate
Derivatives	**1,737,312**	Independent Pricing Services	N/A
		Broker Quotations	N/A
Total	**59,383,534**		
Financial liabilities at fair value through profit or loss:			
Derivatives	**449,542**	Independent Pricing Services	N/A
		Broker Quotations	N/A
Total	**449,542**		

Note 20

Financial Instruments and Financial Risk Management (continued)

20G Fair value hierarchy (continued)

As at 30 June 2013:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Financial assets at fair value through profit or loss:				
Interest bearing securities	-	19,569,434	3,993,525	23,562,959
Listed equities and listed managed investment schemes	32,424,456	38,877	420,020	32,883,353
Collective investment vehicles	-	544,313	28,954,122	29,498,435
Derivatives	56,610	955,827	202,956	1,215,393
Restricted Cash	790,044	-	-	790,044
Investments sold, not yet purchased	-	-	-	-
Total	33,271,110	21,108,451	33,570,623	87,950,184
Financial liabilities at fair value through profit or loss:				
Derivatives	85,635	4,372,634	966	4,459,235
Investments sold, not yet purchased	13,204	-	-	13,204
Total	98,839	4,372,634	966	4,472,439

The following table presents the transfers between levels for the year ended 30 June 2013:

	Level 1 $'000	Level 2 $'000	Level 3 $'000
Transfers between levels 1 and 2	-	-	-
Transfers between levels 1 and 3	(1,842)	-	1,842
Transfers between levels 2 and 3	-	(130,607)	130,607

Note 20

Financial Instruments and Financial Risk Management (continued)

20G Fair value hierarchy (continued)

The following table presents the movement in level 3 instruments for the year ended 30 June 2013 by class of financial instrument.

	Interest bearing securities $'000	Listed equities and listed managed investment schemes $'000	Collective investment vehicles $'000	Derivatives $'000	Total $'000
Financial assets at fair value through profit or loss:					
Opening balance	2,581,161	635,837	24,274,514	159,448	27,650,960
Purchases	2,188,891	157,749	5,915,650	12,875	8,275,165
Sales	(1,438,472)	(440,157)	(5,915,386)	-	(7,794,015)
Transfers into level 3	130,607	1,842	-	-	132,449
Gains and losses recognised in the statement of comprehensive income	531,338	64,749	4,679,344	30,633	5,306,064
Transfers out of level 3	-	-	-	-	-
Closing balance	3,993,525	420,020	28,954,122	202,956	33,570,623

Note 20

Financial Instruments and Financial Risk Management (continued)

20G Fair value hierarchy (continued)

	Interest bearing securities $'000	Listed equities and listed managed investment schemes $'000	Collective investment vehicles $'000	Derivatives $'000	Total $'000
Financial liabilities at fair value through profit or loss:					
Opening balance	-	-	-	(16)	(16)
Purchases	-	-	-	187	187
Sales	-	-	-	(918)	(918)
Transfers into level 3	-	-	-	-	-
Gains and losses recognised in the statement of comprehensive income	-	-	-	(219)	(219)
Transfers out of level 3	-	-	-	-	-
Closing balance	-	-	-	(966)	(966)

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

30 June 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Collective investment vehicles	2,833,478	5,981,677	20,683,280	29,498,435

Note 21

Events occurring after reporting date

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

Note 22

Parent Entity

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

	30 June 2014 $'000	30 June 2013 $'000
Total assets	**102,610,124**	94,255,423
Total liabilities	**1,069,932**	5,451,125
Total equity and amount attributable to the Government	**101,540,192**	88,804,298
Profit/(loss)	**12,735,894**	11,857,922
Total comprehensive income	**12,735,894**	11,857,922

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

Note 23

Compensation and debt relief disclosures

No 'Act of Grace' payments were made during the reporting period (2013: nil).

No waivers of amounts owing to the government were made pursuant to subsection 34(1) of the *Financial Management and Accountability Act 1997* during the reporting period (2013: nil).

No payments were made under the 'Defective Administration Scheme' during the reporting period (2013: nil).

No payments were made under section 73 of the *Public Service Act 1999* during the reporting period (2013: nil).

No payments were made under ex-gratia programs during the reporting period (2013: nil).

Note 24

Special Accounts

24A Special Accounts: Future Fund Special Account

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

Appropriation authority – section 21 of the FMA Act

Purpose — establishment and ongoing operation of the Fund.

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

Future Fund Special Account	Period from 1 July 2013 to 30 June 2014 $'000	Period from 1 July 2012 to 30 June 2013 $'000
Balance carried from previous period	**-**	-
Bank interest amounts credited	**-**	-
Appropriations for reporting period	**-**	-
Other Receipts:		
GST credits	**11,713**	10,796
Amounts transferred from investment account (a)	**682,710**	367,566
Amounts credited to the special account	**-**	-
Total Credits	**694,423**	378,362
Available for payments	**694,423**	378,362
Payments made:		
Investments debited from the Special Account (FFA s17)	**-**	-
Payments made		
- Remuneration of Agency staff	**27,868**	24,870
- Remuneration of Board members	**860**	845
- Suppliers	**38,180**	39,431
- Investment expenses	**626,623**	312,079
- Purchase of capital equipment and software	**892**	1,137
Total Debits	**694,423**	378,362
Balance carried forward to next year (b)	**-**	-

(a) The operations of the Fund are funded via the investment revenue generated.
(b) Excluding investments balances, see Note 24B

Note 24

Special Accounts (continued)

24A Special Accounts: Future Fund Special Account (continued)

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

During 2012-13 additional legal advice was received that indicated there could be breaches of Section 83 under certain circumstances with payments for long service leave, goods and services tax and payments under determinations of the Remuneration Tribunal. The Fund undertook a risk assessment for the 2013-14 financial year. No breaches of Section 83 were identified and the overall risk of a breach was considered low.

24B 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 2013 to 30 June 2014 $'000**	**Period from 1 July 2012 to 30 June 2013 $'000**
Opening balance	**82,292,516**	78,329,202
Investments made on transfer of funds from the Special Account	**-**	-
Realised investments reinvested	**105,823,972**	71,991,616
Interest earned reinvested	**530,185**	1,001,456
Dividends received reinvested	**2,236,854**	1,964,353
Franking credits received reinvested	**243,034**	273,133
Foreign currency realised reinvested	**(3,412,247)**	(68,238)
Amounts transferred to operations [(a)]	**(682,710)**	(367,566)
Investments realised	**(99,818,120)**	(70,831,440)
Closing Balance	**87,213,484**	82,292,516

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

Note 25

Reporting of outcomes

25A Net cost of outcome delivery

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

	Outcome 1 2014 $'000	Outcome 1 2013 $'000
Expenses		
Investment related expenses	**501,419**	551,987
Depreciation and amortisation	**1,379**	1,264
Agency and Board remuneration expenses	**29,631**	28,664
Other expenses	**18,460**	16,897
Income tax expense	**114,808**	67,930
Total expenses	**665,697**	666,742
Costs recovered from provision of goods and services to the non-government sector		
Income		
Interest	**46,352**	36,713
Dividends, distributions and imputation credits	**2,377,707**	2,047,084
Realised and unrealised investment gains and losses	**11,083,007**	10,477,666
Other income	**5,950**	2,899
Total income	**13,513,016**	12,564,362
Net cost (contribution) of outcome	**(12,847,319)**	(11,897,620)

Note 25

Reporting of outcomes (continued)

25B Net cost of outcome delivery – Programs

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

Program 1.1 Management of the investment of the Future Fund.

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

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

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

Resource statement and other mandatory reports

Resource statement

As an Agency under the *Financial Management and Accountability Act 1997* the Agency makes a number of mandatory disclosures through its website and the annual report. Starting in the 2014/15 year the Agency will be a non-corporate Commonwealth Entity under the *Public Governance, Performance and Accountability Act 2013*.

All costs for investment activity and the operations of the Board and Agency are met from the assets of the Funds rather than from appropriations though Parliament. The Board monitors the annual operating budget of the Agency to ensure the appropriate use of resources consistent with the organisation's objectives.

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

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

Agency resource statement

	Actual available appropriations for 2013/14 $'000	Payments made 2013/14 $'000	Balance remaining
Special Accounts			
Opening balance	–	–	–
Non-appropriation receipts to Special Accounts	694,423	694,423	–
Total Resourcing and Payments	**694,423**	**694,423**	**–**

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

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

Resources for outcome

	Budget 2013/14 $'000	Actual expenses 2013/14 $'000	Variation $'000
Program 1.1 Management of the investment of the Future Fund			
Advances from the Special Account	39,562	39,878	(316)
Total for Program 1.1	**39,562**	**39,878**	**(316)**
Program 1.2 Management of the investment of the Building Australia Fund, Education Investment Fund and Health and Hospitals Fund			
Advances from Special Account	774	759	15
Total for Program 1.2	**774**	**759**	**15**
Total for Outcome 1	**40,336**	**40,637**	**(301)**

Procurement

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

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

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

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

During 2013/14, eight new consultancy contracts were entered into involving total actual expenditure of $407,639. In addition four ongoing consultancy contracts were active during the 2013/14 year, involving total actual expenditure of $629,928.

Freedom of Information

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

Advertising and market research

During the 2013/14 year the Agency undertook recruitment advertising. The total cost of this was $5,862 (ex GST). No campaign advertising was undertaken.

Grant programs

The organisation does not administer any grant programs.

Ecologically sustainable development and environmental performance

The *Environment Protection and Biodiversity Conservation Act 1999* requires the Agency to report on how its activities accord with ecologically sustainable development and on its environmental performance.

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

As a small tenant in a large multi-tenancy office building it is difficult to establish meaningful metrics for energy and water use or to establish appropriate benchmarking and monitoring arrangements. The building from which the Agency operates has a NABERS 3 star rating.

Building management continues to implement a range of energy, waste recycling and water initiatives throughout the building including the Agency's tenancy.

Disability reporting mechanisms

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

The Commonwealth Disability Strategy has been overtaken by a new National Disability Strategy 2010/20, 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 will be available in late 2014, and can be found at www.dss.gov.au.

Appendices

Future Fund Investment Mandate Directions

Part 1 – Preliminary

1. Name of Directions

These Directions are the *Future Fund Investment Mandate Directions 2006*.

2. Commencement

These Directions commence on 22 May 2006.

3. Definitions

In these Directions:
Act means the *Future Fund Act 2006*.
Fund means the Future Fund.
Board means the Future Fund Board of Guardians.

4. Objective of these Directions

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

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

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

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

Part 2 – Directions

5. Benchmark return

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

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

In targeting the benchmark return, the Board must determine an acceptable but not excessive level of risk for the Fund measured in terms such as the probability of losses in a particular year.

6. Limits for holdings of listed companies

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

7. Telstra Corporation

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

8. Board must consider impacts from its investment strategy

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

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

9. Corporate Governance

The Board must have regard to international best practice for institutional investment in determining its approach to corporate governance principles, including in relation to its voting policy.

Future Fund Ministerial Directions – Telstra holding

1. Definitions

For the purposes of this direction:

ASX means the Australian Stock Exchange Limited;

Board means the Future Fund Board of Guardians;

Dispose of a Telstra Share means:

(a) sell, transfer, create a trust over or interest (including any legal, beneficial or relevant interest (as defined in the *Corporations Act 2001*)) in, or alienate any right or power attached to, a Telstra Share or create, issue or sell a financial product convertible into, exchangeable for or representing the right to receive a Telstra Share; or

(b) agree or undertake to do any of the foregoing, whether conditionally or unconditionally; or

(c) do anything having the economic effect of any of the foregoing including entering into a derivative (as defined in the *Corporations Act 2001*) over Telstra Shares;

Telstra means Telstra Corporation Limited;

Telstra 3 Instalment Receipts means instalment receipts that:

(a) relate to ordinary shares in Telstra; and

(b) are issued in connection with the Telstra 3 Share Offer.

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

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

2. Ministerial Direction

2.1 Disposal of Telstra shares

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

2.2 Exceptions

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

(a) only if requested by Telstra and agreed by the Board, as part of any Telstra initiated dividend reinvestment plan or share top-up plan; and

(b) only if requested by Telstra and agreed by the Board, as part of any Telstra initiated capital management initiative, such as a buy-back or capital reduction (whether selective or based on equal access or of any other nature – for the avoidance of doubt, if any such initiative is based on equal access, Telstra will be taken to have requested the Board’s participation); and

(c) to a single investor, provided that:

(A) the parcel of Telstra Shares to which the Disposal relates is greater than 3% of Telstra’s issued ordinary shares at the time of the Disposal; and

(B) the investor provides an enforceable undertaking on terms acceptable to the Board and the Commonwealth to be bound by similar lock-up provisions to those contained in this direction for at least the balance of the Lock-up Period (except that the undertaking will not contain an exception equivalent to this clause 2.2(c) but may contain an exception for a Disposal as a result of a bona fide exercise of security by financiers to the investor); and

(C) Telstra is advised prior to such Disposal; and

(D) the price per Telstra Share is no less than the Telstra 3 Share Offer institutional offer price; and

(E) the date of the disposal is at least six months following the initial listing of Telstra 3 Instalment Receipts on the ASX.

Building Australia Fund Investment Mandate Directions 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 http://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 http://www.frli.gov.au.

Health and Hospitals Fund Investment Mandate Directions 2009[1]

Part 1 – Preliminary

1. Name of Directions

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

2. Commencement

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

Note: Section 42 of the *Legislative Instruments Act 2003* (which deals with the disallowance of legislative instruments) does not apply to this instrument: see section 44 of that Act. Part 6 of that Act (which deals with the 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 Health and Hospitals Fund.
responsible Ministers has the same meaning as in the Act.

4. Object of these Directions

(1) The Health and Hospitals Fund is a financing source to enhance the Commonwealth's ability to make payments in relation to the creation or development of health infrastructure.

(2) The object of these Directions is to give guidance to the Board in relation to its investment strategy for the Fund. The Board is required by the Act to seek to maximise the return earned on the Fund, consistent with international best practice for institutional investment and subject to its obligations under the Act and any directions given by the responsible Ministers under the Act.

(3) These Directions are given under subsection 229 (1) of the Act to articulate the Australian Government's expectations of how the Fund will be invested and managed by the Board.

(4) The responsible Ministers may review these Directions, including the benchmark return, in consultation with the Board. The first review is expected to occur before 1 July 2010.

Part 2 – Directions

5. Benchmark return

(1) The Board is to adopt a benchmark return on the Fund of the Australian three month bank bill swap rate + 0.3 per cent per annum, calculated on a rolling 12 month basis (net of fees).

(2) In targeting this benchmark return, the Board should invest in such a way as to minimise the probability of capital losses over a 12 month horizon.

6. Board must consider impacts from its investment strategy

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

(a) minimises the potential to effect any abnormal change in the volatility or efficient operation of Australian financial markets; and

(b) is unlikely to cause any diminution of the Australian Government's reputation in Australian and international financial markets.

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

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 http://http://www.comlaw.gov.au.

Implementation of the Santiago Principles

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

The International Forum of Sovereign Wealth Funds (IFSWF) has subsequently been formed as a voluntary group of SWFs, which will meet, exchange views on issues of common interest, and facilitate an understanding of the Santiago Principles and SWF activities. This document focuses primarily on the implementation of the Santiago Principles in the context of the Future Fund. This reflects the fact that the Nation-building Funds and the DisabilityCare Australia Fund draw on the legal, institutional and investment and risk management framework of the Future Fund and that their principle distinguishing characteristic is their shorter-term focus.

Principle	Implementation and reference material
1 The legal framework should be sound and support the SWF's effective operation and the achievement of its stated objectives 1.1 The legal framework should ensure the legal soundness of the SWF and its transactions. 1.2 The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.	The legal framework for the Board of Guardians and the Agency, together with arrangements for the governance and operation of the public asset funds for which the Board of Guardians is responsible, are detailed in the *Future Fund Act 2006* and *Nation-building Funds Act 2008*. The framework is designed specifically to establish the sound and effective operation of the Fund and achievement of its objectives. The legal basis and structure and the legal relationships between the Board, Agency and Government are detailed in the legislation which is publicly available. Additional detail and discussion of the basis and operation of the Board, Agency and the Funds themselves are available from the Board's annual report and website. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.futurefund.gov.au/investment/investment_mandate*

Principle	Implementation and reference material
2. The SWF's policy purpose should be being clearly defined and publicly disclosed.	The Future Fund was established to meet unfunded superannuation liabilities that will become payable during a period when an ageing population is likely to place significant pressure on Commonwealth finances. The Nation-building Funds were established to provide financing resources to meet the Australian Government's commitment to Australia's future through investment in critical areas of infrastructure such as transport, communications, energy, water, education, research and health. The DisablityCare Australia Fund was established by legislation with the object of reimbursing States, Territories and the Commonwealth for expenditure incurred in relation to the *National Disability Insurance Scheme Act 2013* and to fund implementation of the *National Disability Insurance Scheme Act 2013* in its initial period of operation. The Board of Guardians is responsible for the investment of the assets in each of the funds, not for disbursements or other policy issues. Detail on the policy purpose for each of the Funds is provided in the relevant legislation, annual reports and the organisation's website. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.futurefund.gov.au/investment/investment_mandate* *www.futurefund.gov.au/annual_reports*

Principle	Implementation and reference material
3 Where the SWF has significant direct domestic macroeconomic implications, those activities should be closely coordinated with domestic fiscal and monetary authorities so as to ensure consistency with the overall macroeconomic policies.	The Australian Government is responsible for determining the timing and extent of withdrawals from the Future Fund, Nation-building Funds and DisabilityCare Australia Fund, subject to legislative constraints. The Commonwealth's financial position, including the assets of the Future Fund, the Commonwealth's unfunded superannuation liabilities and the assets held in other Funds invested by the Board of Guardians, is a matter for Government. Full details are published annually in the Australian Government Budget Papers and other related documents. The Board of Guardians does not have control or influence over management of the liabilities and frames its investment strategy around the Investment Mandate Directions issued by the responsible Ministers under the legislation. The Investment Mandate does not direct the Board to invest in particular sectors or asset classes domestically or internationally. Based on its mandate the Board manages a diversified global portfolio seeking to maximise returns with an acceptable but not excessive level of risk. In establishing the Nation-building Funds the Australian Government made a commitment that spending proposals would be delivered in line with prevailing macroeconomic conditions. Spending from the Nation-building Funds is undertaken consistent with the legislated process and as part of the usual Budget process within the limits of the legislated General Drawing Rights Limit. Coordination with all relevant fiscal and monetary authorities, and relevant departments, is undertaken as part of this process. Withdrawals from the DisabilityCare Australia Fund will be made in accordance with the governing legislation. *www.futurefund.gov.au/about_the_future_fund/legislation* *http://www.budget.gov.au/2014-15/content/bp1/download/BP1_BS7.pdf*
4 There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's approach to funding, withdrawal and spending operations. 4.1 The source of SWF funding should be publicly disclosed. 4.2 The general approach to withdrawals from the SWF and spending on behalf of the government should be disclosed.	The legislation publicly sets out the funding, withdrawal and spending arrangements and procedures for the Funds, including arrangements for Parliamentary oversight and public disclosure of funding, withdrawals and spending. The source of funding is publicly disclosed together with the approach to withdrawals and spending of monies. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.finance.gov.au/investment-funds/future-fund/transfers.html* *www.finance.gov.au/investment-funds/NBF/NBF_transfers.html*

Principle	Implementation and reference material
5 The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or otherwise as required, for inclusion where appropriate in macroeconomic data sets.	Statistical data is consolidated in national financial accounts, government financial statistics, the balance of payments and international investment position by the Australian Bureau of Statistics in accordance with its regular data collection and reporting arrangements. Data is also incorporated into the Government's budget statements. Audited annual financial statements are tabled in Parliament and quarterly updates on the portfolio are released publicly. *www.abs.gov.au* *http://www.futurefund.gov.au/investment/portfolio_updates*
6 The governance framework for the SWF should be sound and establish clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.	The roles and responsibilities of the Government, as asset owner, and the Board (supported by the Agency), as asset manager are detailed in the legislation. Further detail is provided by the Investment Mandates and the Statement of Expectations and Statement of Intent exchanged between the Government and the Board and the Agency. Internal policies, procedures and protocols have been established to further delineate roles and responsibilities at the operational level. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.futurefund.gov.au/__data/assets/pdf_file/0016/3571/SoE_-_Final.pdf* *www.futurefund.gov.au/__data/assets/pdf_file/0017/3572/SoI_Final_300909.pdf*
7 The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.	The objective for each Fund, the procedures for the appointment of the Board of Guardians by Government and arrangements for the exercise of oversight are detailed in the legislation. *www.futurefund.gov.au/about_the_future_fund/legislation*
8 The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.	The Board is bound by the legislation and Investment Mandates set by Government to pursue the investment objectives detailed in the legislation and to act in good faith. The legislation also provides the Board with the necessary powers to undertake its mandated activities and sets out the experience, expertise and credibility required of appointees to the Board. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.futurefund.gov.au/investment/investment_mandate*

Principle	Implementation and reference material
9 The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.	The Board is responsible for investing the assets of the Funds in accordance with the legislation and makes decisions independently of Government. The legislation establishes the Agency to provide support and advice to the Board and to assist in giving effect to the Board's decisions. Clear internal policies, procedures and protocols have been established to further delineate roles and responsibilities at the operational level. *www.futurefund.gov.au/about_the_future_fund/legislation*
10 The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.	Accountability arrangements, including the requirement for publication of an annual report and arrangements for the provision of reports and information to the responsible Minister, are detailed in the legislation. Board members are held accountable through the requirements imposed on them through the legislation with civil and criminal penalties applying for breach of specific duties and obligations Further accountability is also provided through the operation of the *Public Governance, Performance and Accountability Act 2013* governing the establishment and operation of Special Accounts for each Fund. *www.futurefund.gov.au/about_the_future_fund/legislation*
11 An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognised internal or national accounting standards in a consistent manner.	The annual report and financial statements are prepared in accordance with the Finance Minister's Orders and the Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board (AASB). The legislation requires that the annual report and audited financial statements are presented to the responsible Minister as soon as practicable after the end of each financial year and tabled in Parliament within 15 sitting days of each House of Parliament. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.futurefund.gov.au/annual_reports*
12 The SWF's operations and financial statements should be audited annually in accordance with recognised international or national auditing standards in a consistent manner.	Internal audit services are provided by an external firm reporting to the Board's Audit Committee. The Australian National Audit Office is responsible for an annual independent external audit conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate and Australian Auditing Standards. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.anao.gov.au*

Principle	Implementation and reference material
13 Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management and staff.	The duties and obligations of members of the Board of Guardians are detailed in the legislation together with arrangements for the management of conflicts of interest. The legislation also includes details of the civil and criminal penalties applying for breach of specific duties and obligations. Persons are eligible for appointment to the Board only if the responsible Ministers are satisfied the person has substantial experience or expertise and professional credibility and significant standing in investing in financial assets, managing investments in financial assets or corporate governance. Staff of the Agency are employed under the *Public Service Act 1999* and are bound by the Australian Public Service Values and Code of Conduct. Details of these obligations are included in internal policies and training activities. *www.futurefund.gov.au/about_the_future_fund/legislation* *http://www.apsc.gov.au/aps-employment-policy-and-advice/aps-values-and-code-of-conduct*
14 Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.	The Board's approach to the engagement of third parties, including advisers and investment managers, is outlined in its Statement of Investment Policies available on the internet. Engagement of third parties is based on economic and financial grounds. The purchase of goods and services by the Agency is consistent with the Commonwealth Procurement Guidelines and governed by clear internal policies and procedures to encourage value for money, open and effective competition and fair dealing and ethics. *www.futurefund.gov.au/investment/investment_policies*
15 SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.	The Board of Guardians requires that all investment activities are undertaken in accordance with applicable regulatory and disclosure requirements. Detailed due diligence and reporting is in place to monitor compliance. The legislation requires the Board of Guardians to act in a way that is unlikely to cause any diminution of the Australian Government's reputation in international financial markets. *www.futurefund.gov.au/about_the_future_fund/legislation*
16 The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.	The governance framework and objectives of the Board and the Agency are set out in the legislation and in public annual reports. The framework clearly establishes the independence and accountability arrangements for the Fund, the Board and the Agency. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.futurefund.gov.au/annual_reports*

Principle	Implementation and reference material
17 Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in internal financial markets and enhance trust in recipient countries.	An annual report and audited annual financial statements are tabled in Parliament and published via the website. The Board also issues public quarterly updates on performance and asset allocation. *www.futurefund.gov.au/annual_reports* *www.futurefund.gov.au/investment/portfolio_updates*
18 The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner of the governing body(ies), and be based on sound portfolio management principles. 18.1 The investment policy should guide the SWF's financial risk exposures and possible use of leverage. 18.2 The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored. 18.3 A description of the investment policy of the SWF should be publicly disclosed.	The Board's Statement of Investment Policies, published on the internet as required by legislation, details its investment strategy and risk tolerance and its application of portfolio investment principles. Annual reports provide additional insight and discussion of the investment strategy. These documents address matters relating to financial risk, leverage, the use of and extent of the activities and authority of internal/external managers as well as the process for their appointment and monitoring of their performance. The policies and practices detailed by these documents are consistent with the obligations contained in the legislation. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.futurefund.gov.au/investment/investment_policies* *www.futurefund.gov.au/annual_reports*
19 The SWF's investment decisions should aim to maximise risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds. 19.1 If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed. 19.2 The management of the SWF's assets should be consistent with what is generally accepted as sound asset management principles.	The Board's obligation to seek to maximise risk-adjusted financial returns is established in the legislation with return and risk parameters detailed through investment mandates created under the legislation. The Board is required to operate in a manner consistent with international best practice for institutional investment. The limited set of restrictions on the Board's investment activities, such as limits on the size of stakes in Australian and foreign listed companies, are clearly expressed in the legislation. The Board's approach to consideration of environmental, social and governance matters in its investments, and to the universe of investments it considers, is detailed in its Statement of Investment policies and reflects the Board's focus on acting as a prudent investor seeking to maximise risk-adjusted returns. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.futurefund.gov.au/investment/investment_policies*

Principle	Implementation and reference material
20 The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.	The Board does not seek or have a right of access to privileged information from, or inappropriate influence by, the Government in competing with private entities. Under the statutory governance framework the Board operates and makes decisions independently of Government. Policies and processes are in place to restrict and coordinate engagement with the Government in relation to Board and Agency matters. Board members are not permitted to be employees of the Commonwealth or to be a holder of a full-time office under a law of the Commonwealth. Agency staff are bound by the Australian Public Service Code of Conduct. The Future Fund investment mandate also requires the Board, when undertaking its investment activities, to act in a way that is unlikely to cause any diminution of the Government's reputation in Australian and international financial markets. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.futurefund.gov.au/investment/investment_mandate*
21 SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.	The Board is required to have regard to international best practice for institutional investment in determining its approach to corporate governance principles, including in relation to its voting policy. The Board's approach to the exercise of ownership and voting rights is detailed in its Statement of Investment Policies. The annual report discusses the application of the Board's policy including reporting in aggregate of how voting rights have been exercised. *www.futurefund.gov.au/investment/investment_policies* *www.futurefund.gov.au/investment/investment_mandate*

Principle	Implementation and reference material
22 The SWF should have a framework that identifies, assesses, and manages the risks of its operations. 22.1 The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function. 22.2 The general approach to the SWF's risk management framework should be publicly disclosed.	Consistent with the legislation, investment mandates and obligation to have regard to international best practice for institutional investment, the Board and Agency have established a framework for the identification, assessment and management of the risks of its operations, including appropriate reporting and monitoring arrangements. Policies and procedures are in place to support the risk management framework. The approach to risk management is detailed in the Statement of Investment Policies and the annual report. *www.futurefund.gov.au/investment/investment_policies* *www.futurefund.gov.au/annual_reports*
23 The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.	The assets and investment performance of the Funds, including performance against the benchmarks established in the Investment Mandate are reported to the responsible Ministers and publicly through the annual report and audited financial statements. *www.futurefund.gov.au/annual_reports*
24 A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.	The Board undertook its first review of its implementation of the Santiago Principles in June 2010 and has repeated the review annually. The Board contributed to the IFSWF's report "Members' Experiences in the Application of the Santiago Principles" published in July 2011 and in 2014 has provided a case study, for publication by the IFSWF, on the Future Fund's application of the Santiago Principles. *www.futurefund.gov.au/about_the_future_fund/governance* *www.ifswf.org/pst/stp070711.pdf*

List of Requirements

This list of requirements is provided as a checklist against the requirements detailed in the Requirements for Annual Reports for Departments, Executive Agencies and FMA Act bodies as approved by the Joint Committee of Public Accounts and Audit.

Ref*	Part of report	Description	Requirement	Location in annual report
8(3) & A.4		Letter of transmittal	Mandatory	p1
A.5		Table of contents	Mandatory	inside front cover
A.5		Index	Mandatory	p166
A.5		Glossary	Mandatory	p165
A.5		Contact officer(s)	Mandatory	inside front cover
A.5		Internet home page address and Internet address for report	Mandatory	inside front cover
9	**Review by Secretary**			
9(1)		Review by departmental secretary	Mandatory	p6-9
9(2)		Summary of significant issues and developments	Suggested	p6-9
9(2)		Overview of department's performance and financial results	Suggested	p4-9
9(2)		Outlook for following year	Suggested	p6-9
9(3)		Significant issues and developments – portfolio	Portfolio departments – suggested	p6-9
10	**Departmental Overview**			
10(1)		Role and functions	Mandatory	p2-3
10(1)		Organisational structure	Mandatory	p48-56
10(1)		Outcome and program structure	Mandatory	p142-143
10(2)		Where outcome and program structures differ from PB Statements/PAES or other portfolio statements accompanying any other additional appropriation bills (other portfolio statements), details of variation and reasons for change	Mandatory	not applicable
10(3)		Portfolio structure	Portfolio departments – mandatory	not applicable
11	**Report on Performance**			
11(1)		Review of performance during the year in relation to programs and contribution to outcomes	Mandatory	p10-47
11(2)		Actual performance in relation to deliverables and KPIs set out in PB Statements/ PAES or other portfolio statements	Mandatory	p10-47

Ref*	Part of report	Description	Requirement	Location in annual report
11(2)		Where performance targets differ from the PBS/ PAES, details of both former and new targets, and reasons for the change	Mandatory	not applicable
11(2)		Narrative discussion and analysis of performance	Mandatory	p10-47
11(2)		Trend information	Mandatory	p10-47
11(3)		Significant changes in nature of principal functions/ services	Suggested	not applicable
11(3)		Performance of purchaser/provider arrangements	If applicable, suggested	not applicable
11(3)		Factors, events or trends influencing departmental performance	Suggested	p10-47
11(3)		Contribution of risk management in achieving objectives	Suggested	p10-47
11(4)		Social inclusion outcomes	If applicable, mandatory	not applicable
11(5)		Performance against service charter customer service standards, complaints data, and the department's response to complaints	If applicable, mandatory	not applicable
11(6)		Discussion and analysis of the department's financial performance	Mandatory	p10-47
11(7)		Discussion of any significant changes from the prior year, from budget or anticipated to have a significant impact on future operations	Mandatory	p10-47
11(8)		Agency resource statement and summary resource tables by outcomes	Mandatory	p142-143
12	**Management and Accountability**			
	Corporate Governance			
12(1)		Agency heads are required to certify that their agency comply with the Commonwealth Fraud Control Guidelines.	Mandatory	p1
12(2)		Statement of the main corporate governance practices in place	Mandatory	p48-60
12(3)		Names of the senior executive and their responsibilities	Suggested	p50-56
12(3)		Senior management committees and their roles	Suggested	p50-56
12(3)		Corporate and operational planning and associated performance reporting and review	Suggested	p10-47
12(3)		Approach adopted to identifying areas of significant financial or operational risk	Suggested	p10-47
12(3)		Policy and practices on the establishment and maintenance of appropriate ethical standards	Suggested	p10-47

Ref*	Part of report	Description	Requirement	Location in annual report
12(3)		How nature and amount of remuneration for SES officers is determined	Suggested	p59-60
	External Scrutiny			
12(4)		Significant developments in external scrutiny	Mandatory	p49
12(4)		Judicial decisions and decisions of administrative tribunals	Mandatory	not applicable
12(4)		Reports by the Auditor-General, a Parliamentary Committee or the Commonwealth Ombudsman	Mandatory	not applicable
	Management of Human Resources			
12(5)		Assessment of effectiveness in managing and developing human resources to achieve departmental objectives	Mandatory	p58-60
12(6)		Workforce planning, staff turnover and retention	Suggested	p58
12(6)		Impact and features of enterprise or collective agreements, individual flexibility arrangements (IFAs), determinations, common law contracts and AWAs	Suggested	p59
12(6)		Training and development undertaken and its impact	Suggested	p58-60
12(6)		Work health and safety performance	Suggested	p59
12(6)		Productivity gains	Suggested	–
12(7)		Statistics on staffing	Mandatory	p59
12(8)		Enterprise or collective agreements, IFAs, determinations, common law contracts and AWAs	Mandatory	p59
12(9) & B		Performance pay	Mandatory	p59-60
12(10)-(11)	Assets management	Assessment of effectiveness of assets management	If applicable, mandatory	not applicable
12(12)	Purchasing	Assessment of purchasing against core policies and principles	Mandatory	p143

Ref*	Part of report	Description	Requirement	Location in annual report
12(13)-(24)	Consultants	The annual report must include a summary statement detailing the number of new consultancy services contracts let during the year; the total actual expenditure on all new consultancy contracts let during the year (inclusive of GST); the number of ongoing consultancy contracts that were active in the reporting year; and the total actual expenditure in the reporting year on the ongoing consultancy contracts (inclusive of GST). The annual report must include a statement noting that information on contracts and consultancies is available through the AusTender website.	Mandatory	p143
12(25)	Australian National Audit Office Access Clauses	Absence of provisions in contracts allowing access by the Auditor-General	Mandatory	not applicable
12(26)	Exempt contracts	Contracts exempt from the AusTender	Mandatory	not applicable
13	Financial Statements	Financial Statements	Mandatory	p61
	Other Mandatory Information			
14(1) & C.1		Work health and safety (Schedule 2, Part 4 of the *Work Health and Safety Act 2011)*	Mandatory	p59
14(1) & C.2		Advertising and Market Research (Section 311A of the *Commonwealth Electoral Act 1918)* and statement on advertising campaigns	Mandatory	p144
14(1) & C.3		Ecologically sustainable development and environmental performance (Section 516A of the *Environment Protection and Biodiversity Conservation Act 1999)*	Mandatory	p144
14(1)		Compliance with the agency's obligations under the *Carer Recognition Act 2010*	If applicable, mandatory	not applicable
14(2) & D.1		Grant programs	Mandatory	p144
14(3) & D.2		Disability reporting – explicit and transparent reference to agency level information available through other reporting mechanisms	Mandatory	p144
14(4) & D.3		Information Publication Scheme statement	Mandatory	p143
14(5) & D.4		Spatial reporting – expenditure by program between regional and non regional Australia	If applicable, mandatory	not applicable

Ref*	Part of report	Description	Requirement	Location in annual report
14(6)		Correction of material errors in previous annual report	If applicable, mandatory	not applicable
E		Agency Resource Statements and Resources for Outcomes	Mandatory	p142-143
F		List of Requirements	Mandatory	p160

* The reference is to the location of the item in the Requirements for Annual Reports for Departments, Executive Agencies and FMA Act bodies as approved by the Joint Committee of Public Accounts and Audit – e.g., 'A.4' refers to the fourth item in Attachment A.

Abbreviations

AASB	Australian Accounting Standards Board
AC	Companion of the Order of Australia
AM	Member of the Order of Australia
AO	Officer of the Order of Australia
ANAO	Australian National Audit Office
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
CPGs	Commonwealth Procurement Guidelines
CPI	Consumer Price Index
FFMA	Future Fund Management Agency
FMA Act	*Financial Management and Accountability Act 1997*
FMOs	Finance Minister's Orders
FoI Act	*Freedom of Information Act 1982*
GST	Goods and Services Tax
HEEF	Higher Education Endowment Fund
PGPA	*Public Governance, Performance and Accountability Act 2013.*

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