Australian Government
Future Fund

futurefund
Australia's Sovereign Wealth Fund

ANNUAL REPORT 2016–2017

INVESTING FOR THE BENEFIT OF FUTURE GENERATIONS OF AUSTRALIANS

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Guide to reading this report

This report describes the governance, operations and performance of the Future Fund Board of Guardians and the Future Fund Management Agency over the 2016–17 financial year. Additional information, including periodic investment and operational updates, policies and plans, is available at www.futurefund.gov.au.

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

Data in this report may not sum due to rounding.

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

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

Material used 'as supplied'

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Feedback

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

THROUGH OUR TIMBERLAND PROGRAM WE ARE INVESTED IN ONEFORTYONE PLANTATIONS, A SOUTH AUSTRALIAN BUSINESS WHICH INVESTS IN FOREST PLANTATIONS AND TIMBER OPERATIONS.

CONTENTS

LETTER OF TRANSMITTAL

Australian Government

Future Fund

26 September 2017

Dear Minister

I am pleased to present the Annual Report of the Future Fund Board of Guardians (Board) and the Future Fund Management Agency (Agency) for the 2016–17 financial year.

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

The report includes the Board and Agency's audited financial statements as required by section 34(1) of the Public Governance, Performance and Accountability (Financial Reporting) Rule 2015.

The report also includes the annual performance statement as required by section 39 of the PGPA Act. In my opinion, this annual performance statement is based on properly maintained records, accurately reflects the performance of the Board and Agency, and complies with subsection 39(2) of the PGPA Act.

As Accountable Authority of the Agency, I certify that:

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

Yours sincerely

P Costello

Hon Peter Costello AC
Chairman
Future Fund Board of Guardians

2016–2017 AT A GLANCE

FUTURE FUND **$133.5 BILLION** BALANCE AT 30 JUNE 2017

8.7% RETURN FOR 2016–2017 **$10.7 BILLION** EARNINGS FOR 2016–2017

7.8% PA RETURN SINCE INCEPTION **$73 BILLION** VALUE ADDED

MEDICAL RESEARCH FUTURE FUND

$4.6 BILLION BALANCE AT 30 JUNE 2017

4.8% RETURN FOR 2016–2017

DISABILITYCARE AUSTRALIA FUND

$10.4 BILLION BALANCE AT 30 JUNE 2017

2.4% RETURN FOR 2016–2017

EDUCATION INVESTMENT FUND

$3.8 BILLION BALANCE AT 30 JUNE 2017

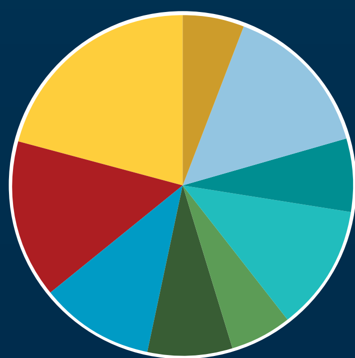
2.4% RETURN FOR 2016–2017

BUILDING AUSTRALIA FUND

$3.8 BILLION BALANCE AT 30 JUNE 2017

2.4% RETURN FOR 2016–2017

FUTURE FUND ASSET ALLOCATION
AT 30 JUNE 2017*



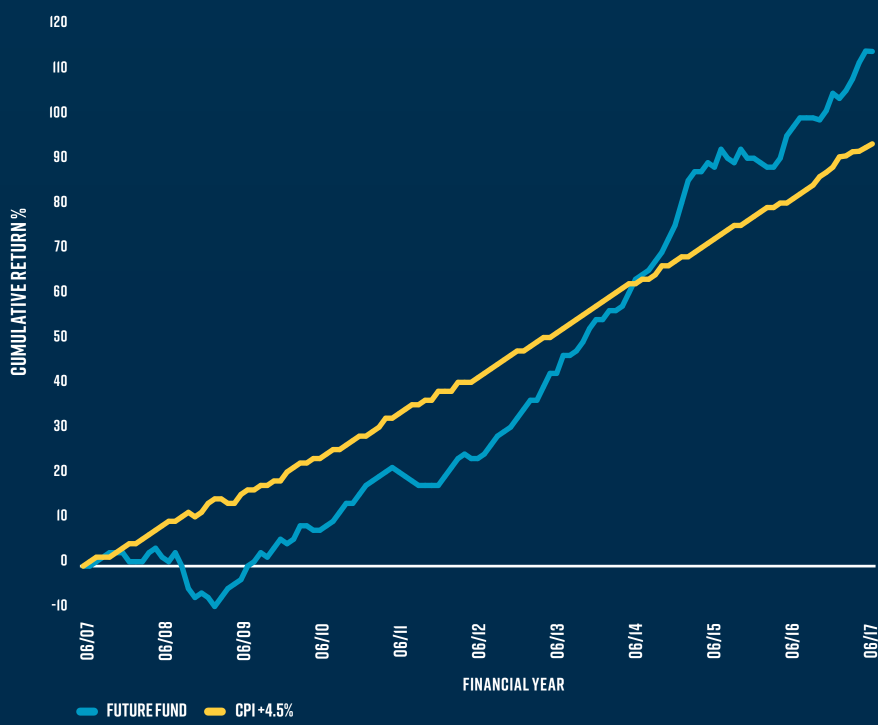
- 6% AUSTRALIAN EQUITIES
- 15% DEVELOPED MARKET EQUITIES
- 7% EMERGING MARKET EQUITIES
- 12% PRIVATE EQUITY
- 6% PROPERTY
- 8% INFRASTRUCTURE AND TIMBERLAND
- 11% DEBT SECURITIES
- 15% ALTERNATIVE ASSETS
- 21% CASH

* DATA MAY NOT SUM DUE TO ROUNDING

CASH FLOW HISTORY OF THE FUNDS IN A$ AT 30 JUNE 2017

	CONTRIBUTIONS		EARNINGS		WITHDRAWALS		BALANCE
FUTURE FUND	60.5 BN	+	73 BN	−	0 BN	=	133.5 BN
MEDICAL RESEARCH FUTURE FUND	4.4BN	+	0.3 BN	−	0.1 BN	=	4.6 BN
DISABILITYCARE AUSTRALIA FUND	10.1 BN	+	0.3 BN	−	0 BN	=	10.4 BN
EDUCATION INVESTMENT FUND	6.5 BN	+	1.5 BN	−	4.2 BN	=	3.8 BN
BUILDING AUSTRALIA FUND	10.9 BN	+	2.1 BN	−	9.2 BN	=	3.8 BN
ALL FUNDS							**156.1 BILLION**

CUMULATIVE FUTURE FUND AND CPI +4.5% PA RETURNS (%)



REPORT FROM THE CHAIRMAN

THE FUTURE FUND IS DELIVERING ITS MAIN OBJECTIVE WHICH IS TO STRENGTHEN THE COMMONWEALTH'S LONG-TERM FINANCIAL POSITION.

At 30 June 2017 the Future Fund stood at over $133 billion. Returns have exceeded the target benchmark return over each time period since inception and investment returns have added over $73 billion to the original contributions from government of $60.5 billion.

In 2016–17 the Fund delivered a return of 8.7%, adding $10.7 billion in earnings for the year.

A highlight in the investment program during the year was the acquisition of a 20% stake in the Port of Melbourne which added significantly to the infrastructure portfolio. Through our private equity and venture capital program, the Fund also continued to gain exposure to successful companies of the future.

In addition to the Future Fund, the Board of Guardians is responsible for a further $23 billion in four other investment funds. These funds also performed well over the year, delivering returns above their target benchmarks.

Taking these other portfolios together with the Future Fund, the Board of Guardians now invests over $155 billion across the five public asset funds.

Looking back over its first decade, the strong track record of returns validates the structure of the Future Fund and its management. We believe this will carry the Fund successfully into its second decade.

Since inception the Future Fund has achieved a return rate of 7.8% per annum, beating its return target and comparing strongly to the performance of leading investors in Australia and indeed around the world. Furthermore, these exceptional returns have been generated whilst carefully managing the risk of loss. In an uncertain world, the Board continues to believe that focus and attention on the level of risk being taken in the search for returns is critical to future success.

The quality of the Fund's institutional framework and the delivery and the discipline of its process is highly regarded among the sovereign wealth funds of the world. Again, this year the Future Fund was awarded recognition for excellence as one of the leading sovereign wealth funds of the world.

All of these achievements have been built on the strong foundations of a clear statutory governance framework and well defined roles for the responsible Ministers, the Board and staff.

THE ROLE OF THE FUTURE FUND

During the year the Australian Government made two important decisions that set the framework for the Future Fund for the next 10 years.

In May 2017 the Government announced that it would not draw on the Fund in 2020–21, and intends to defer withdrawals until at least 2026–27. Delaying withdrawals will allow the Fund to grow to a size that will match the Commonwealth's full superannuation liability. On current projections it means the Fund will continue to the end of the Century.

The Government also announced a change to the benchmark return in the Investment Mandate for the Future Fund. The revised Mandate, effective from 1 July 2017, sets a benchmark return of Consumer Price Index plus 4% to 5% per annum over the long term.

Although it is still a challenging target, lowering the Fund's return target by half a percentage point provides the Board with a clearer sense of the Government's view of the balance it wants between risk and return going forward.

The Board of Guardians welcomes these important decisions.

LOOKING FORWARD

Looking at the investment environment, we maintain our long-held view that we are facing elevated risks and lower prospective returns.

Markets have been buoyant over the last year on the back of an improvement in economic conditions across many of the major economies. Key to this has been the continued accommodative monetary policy settings. Central bankers are still grappling with the timing of moves to adjust rates upwards. This, along with risks such as international political tensions, is a significant uncertainty in the climate looking forward.

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

ACKNOWLEDGEMENTS

In December 2016 the Prime Minister attended, as guest of honour, a public dinner to mark the first decade of the Fund's existence.

Steven Harker, who retired from the Board at the conclusion of his five-year term, brought tremendous experience and understanding of global financial markets and investment management, and played a pivotal role in shaping our investment portfolio. I thank him for his service.

On behalf of the Board I thank the responsible Ministers for their continued support during the year.

I also thank the staff of the Future Fund Management Agency, led by David Neal and his management team, for their ongoing commitment and hard work.

Hon Peter Costello AC
Chairman
Future Fund Board of Guardians

REPORT FROM THE CEO OF THE FUTURE FUND MANAGEMENT AGENCY

THE FUTURE FUND MANAGEMENT AGENCY CONTINUES TO PERFORM WELL AND SUPPORT THE BOARD IN DELIVERING STRONG RISK-ADJUSTED RETURNS.

The shape and nature of the Future Fund portfolio has been broadly unchanged over the last year. Reflecting our view of the prevailing environment, and the rewards available for taking investment risk, we have kept the investment risk profile just below that which we consider to be a typical level. At the same time we have been managing the portfolio to ensure it offers the Board sufficient flexibility to respond and adapt as conditions change.

While the overall positioning of the Future Fund investment portfolio has been consistent throughout the year, there was considerable activity within the sectors. We continued to refresh our listed equities strategy, further developed our private equity co-investment program, and continued to grow and develop our Australian infrastructure portfolio, including an investment in the Port of Melbourne.

2016–17 PROGRESS

Delivering and sustaining a consistently high level of investment performance requires a strong organisation that is flexible and nimble, while also benefiting from robust governance and risk management processes.

During the year we continued our focus on developing the organisation's capabilities and ensuring it is well positioned for the decade ahead.

This work includes enhancements to our investment data, systems and analytics capabilities, initiatives to improve efficiency and productivity, and a continued focus on building the skills and capabilities of our staff. We added additional resources in the areas of investment, operations, technology and program management, and collectively these new functions will help deliver on these core initiatives.

Upgrading our investment data and analytics is our highest priority initiative. During the year we laid down the foundations for this, building a team of investment technology professionals who will drive the implementation of our strategy. While this is a multi-year program of work, we have already begun to deliver tangible technology developments to the investment teams.

As we have grown our team, it has been important to develop and train a new layer of leadership, and this has been a focus through the past year. We have also been working on a number of initiatives to attract, motivate and develop a high quality and productive team. We have been building our understanding of an inclusive culture that values difference and diversity, which we believe will ultimately contribute to stronger and more robust decision-making. We recognise that work is best seen as an activity, rather than a place, and so have launched a strategy to provide the flexibility to our staff to more effectively manage the interaction between their work and personal commitments. Finally, we have been building the technology required to support greater mobility and collaboration.

To support all this activity, and ensure the resources committed to it are efficiently and effectively deployed and managed, we put considerable effort into developing our program and change management capabilities.

LOOKING AHEAD

We are excited about the work that has been completed and is underway, and expect it to deliver sustainable and lasting benefits that will ultimately lead to better portfolio decisions, sharper risk management and stronger long-term returns for the Australian people.

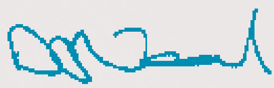
The investment challenge never abates. The global economy and markets continue to be faced with a series of daunting long-term structural concerns, such as high debt levels, aging populations, social inequalities and their associated tensions, and the transition from investment to consumption in China. At the same time we are living through an age of extraordinary technological progress, which is changing the way we live our lives and, importantly from an investor's perspective, disrupting business models apace.

Our team, supported by a fabulous network of partners in Australia and around the globe, is excited and humbled by the task of delivering returns on behalf of future generations of Australians.

ACKNOWLEDGEMENTS

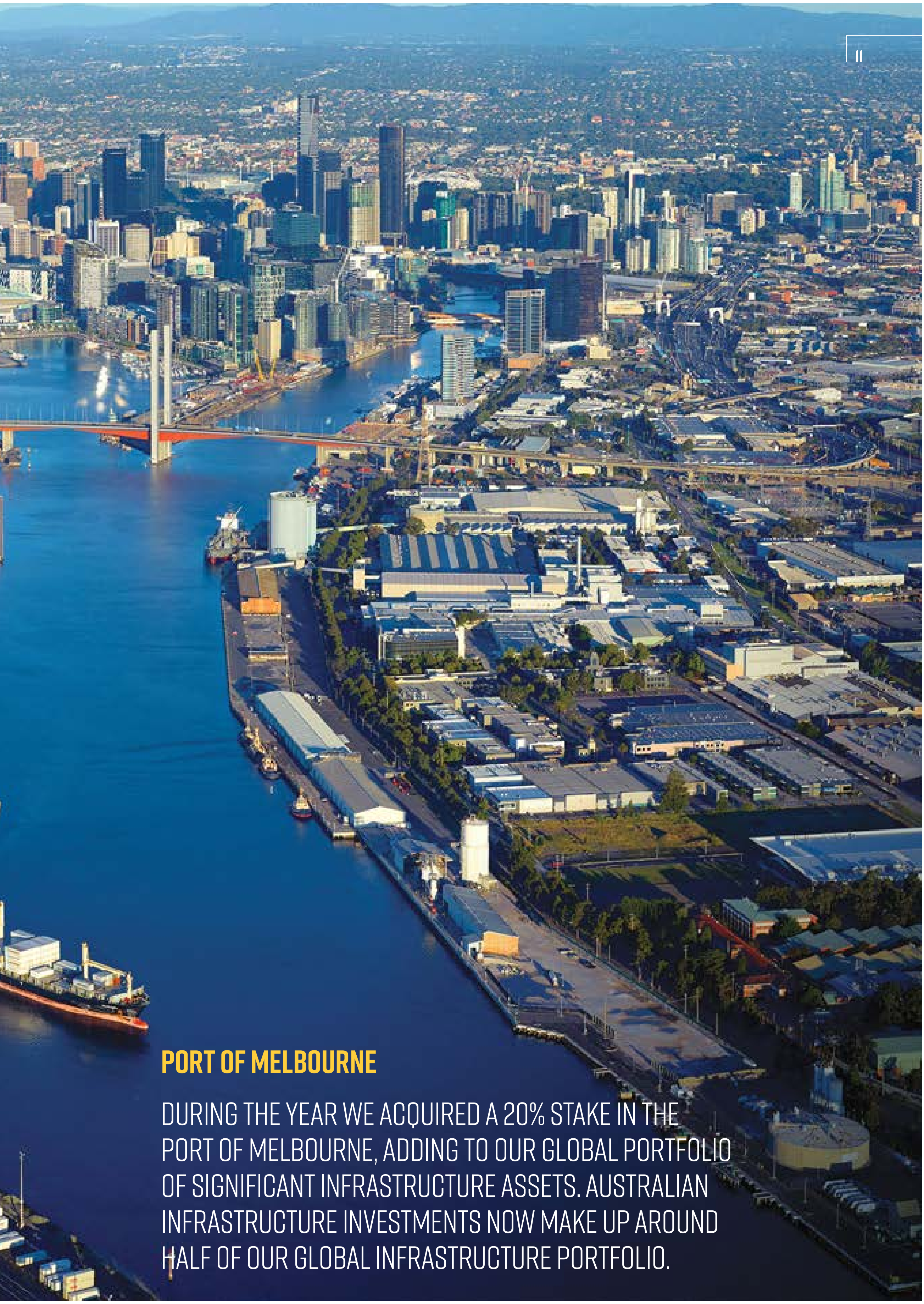
I thank the Chairman and the Board of Guardians for their continued support and guidance.

My sincere thanks to my colleagues throughout the organisation for the passion and commitment they bring to work every day, and the contribution they have made to another successful and productive year.



David Neal
Chief Executive Officer
Future Fund Management Agency

ORGANISATION OVERVIEW



PORT OF MELBOURNE

DURING THE YEAR WE ACQUIRED A 20% STAKE IN THE PORT OF MELBOURNE, ADDING TO OUR GLOBAL PORTFOLIO OF SIGNIFICANT INFRASTRUCTURE ASSETS. AUSTRALIAN INFRASTRUCTURE INVESTMENTS NOW MAKE UP AROUND HALF OF OUR GLOBAL INFRASTRUCTURE PORTFOLIO.

WE ARE AUSTRALIA'S SOVEREIGN WEALTH FUND, INVESTING FOR THE BENEFIT OF FUTURE GENERATIONS OF AUSTRALIANS. EVERY DOLLAR THAT WE MAKE IS A DOLLAR THAT ADDS TO AUSTRALIA'S WEALTH AND CONTRIBUTES TO ITS FUTURE.

OUR ORGANISATION

Established in 2006, we invest the assets of five special purpose public asset funds: the Future Fund, the Medical Research Future Fund, the DisabilityCare Australia Fund and two Nation-building Funds.

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

We operate independently from government, and balance the risk and return aspects of each Fund's Investment Mandate to maximise returns.

OUR FUNDS

Each Fund we manage has an Investment Mandate that is determined by the Australian Government under legislation.

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

FUTURE FUND

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

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

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

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

While legislation permits drawdowns from the Future Fund from 1 July 2020, the Government has indicated that it does not intend to make these withdrawals and has further indicated its intent to refrain from doing so until at least 2026–27.

Withdrawals from the Future Fund, when they are made, will help the Australian Government meet its unfunded superannuation liability and ease pressure on its finances.

MEDICAL RESEARCH FUTURE FUND

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

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

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

DISABILITYCARE AUSTRALIA FUND

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

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

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

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

NATION-BUILDING FUNDS

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

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

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

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

BUILDING AUSTRALIA FUND

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

EDUCATION INVESTMENT FUND

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

OUR BUSINESS STRATEGY

We have a clearly defined purpose: investing for the benefit of future generations of Australians.

Everything we do is aligned to achieving our purpose. Together with the Investment Mandate Directions for each Fund, our purpose provides a focus for our people, their efforts and our priorities.

The governing legislation requires that we use external investment managers. This is consistent with our preference to operate a modestly sized organisation with internal resources concentrated on key issues of determining the most efficient allocation of risk across investment markets, and working closely with our external partners to most effectively implement the desired exposures.

Our investment beliefs define the core principles we apply to investment, including aspects such as risk management, governance, the opportunities available to us as a long-term investor, and our perspective on investment skill and costs. These beliefs are set out on page 19.

Our purpose is supported by the three key pillars of our business strategy:

- Our '**one team, one portfolio**' approach – we work as one team, striving to find the best possible solutions.
- A focus on **leveraging the best** available skills globally – we have access to the best investment thinkers in the world through our peers and partners. We leverage the best in the world, building strong and enduring partnerships.
- A belief that being **flexible, nimble and opportunity-driven** will add substantial value.

To deliver our business strategy we are focused on three priorities. These priorities reflect the growth in the number of funds being managed and the value of these funds, the growing level of competition for attractive investment opportunities, the opportunities offered by technology to better manage and analyse data to deliver investment insights, and the continued desire to combine robust risk management with the ability to be flexible and nimble.

As a result our priority areas of focus are:

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

Additional information is provided in our 2017–18 Corporate Plan, available on our website at www.futurefund.gov.au

OUR PURPOSE PROVIDES A FOCUS FOR OUR PEOPLE, THEIR EFFORTS AND OUR PRIORITIES

INVESTING FOR THE BENEFIT OF **FUTURE GENERATIONS** OF AUSTRALIANS

ONE TEAM, ONE PORTFOLIO

COMBINING A BREADTH OF EXPERIENCE AND SKILLS INTO A COLLABORATIVE WHOLE CREATES A MEANINGFUL COMPETITIVE ADVANTAGE.

FOR THIS REASON WE KEEP OUR TEAM ALL IN ONE PLACE AND MODEST IN SIZE.

LEVERAGING THE BEST IN THE WORLD

WE FOCUS OUR INTERNAL SKILLS AND RESOURCES WHERE THEY ADD THE MOST VALUE OR WHERE IT IS IMPRACTICAL OR INEFFICIENT TO OUTSOURCE.

OTHERWISE WE PUT CONSIDERABLE EFFORT AND FOCUS INTO STRATEGICALLY AND PROACTIVELY WORKING WITH THE BEST EXTERNAL CAPABILITIES WE CAN FIND, IN MANY CASES BUILDING STRONG AND ENDURING PARTNERSHIPS.

FLEXIBLE, NIMBLE AND OPPORTUNITY-DRIVEN

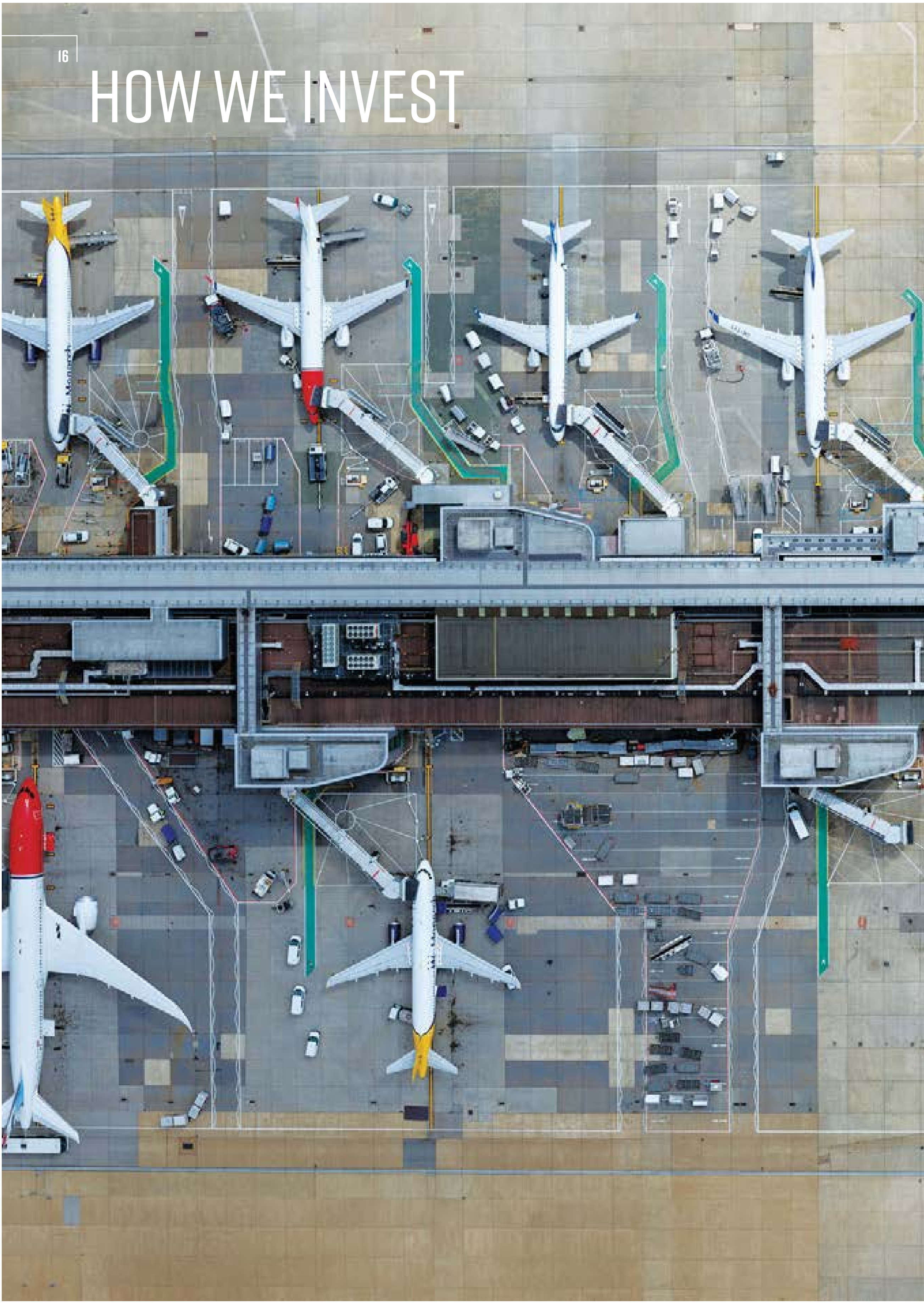
WE ARE BROAD AND CREATIVE IN OUR SEARCH FOR OPPORTUNITIES TO IMPROVE THE PORTFOLIO, THE ORGANISATION AND OURSELVES.

WITHOUT COMPROMISING GOOD GOVERNANCE, WE RESPOND TO THESE OPPORTUNITIES AS FLEXIBLY AND NIMBLY AS POSSIBLE, AIMING TO AVOID THE CONSTRAINTS AND BARRIERS TO THIS THAT INSTITUTIONS OFTEN CONSTRUCT.

WE EXCEL BY

- ACHIEVING HIGH RISK ADJUSTED RETURNS IN ACCORDANCE WITH OUR INVESTMENT MANDATES THROUGH INVESTMENT EXCELLENCE.
- ACHIEVING WORLD-CLASS IMPLEMENTATION THROUGH OPERATIONAL EXCELLENCE.
- ATTRACTING AND RETAINING A HIGH PERFORMING TEAM THAT IS ENGAGED, MOTIVATED, SUPPORTED AND EFFECTIVELY MANAGED.
- ACQUIRING AND MAINTAINING INFORMATION ASSETS AND TOOLS THAT EMPOWER OUR PEOPLE AND ADD VALUE TO OUR PROCESSES WHILE BEING SECURE, RESILIENT AND TRUSTED.
- BUILDING AND MAINTAINING ACTIVE AND CONSTRUCTIVE RELATIONSHIPS WITH OUR KEY STAKEHOLDERS IN AUSTRALIA AND GLOBALLY.

HOW WE INVEST



GATWICK AIRPORT

WE HAVE INVESTED IN AIRPORTS IN AUSTRALIA AND AROUND THE WORLD, INCLUDING MELBOURNE, LAUNCESTON AND PERTH AIRPORTS, AND EDINBURGH AND GATWICK AIRPORTS IN THE UNITED KINGDOM.

HOW WE INVEST

We manage five Funds, each with discrete Investment Mandates, on behalf of the Australian Government. While each Fund has different objectives, our core investment beliefs inform our interpretation of each Mandate and we apply a consistent investment process across the Funds.

We first seek to understand the investment environment, with a strong focus on the linkages between the economy and markets and what is 'in the price' at any given time. Subject to the risk appetite set by each Mandate, this informs a dynamic approach to portfolio construction and risk-taking in each of the Funds. All else equal, we expect to increase risk levels when the expected reward for taking risk is high and to reduce risk levels when the expected reward for taking risk is low.

We also believe that our ongoing assessment of the investment environment provides us with insight into the behaviour of the investments we make and how they interact with each other in portfolio construction. Once we have determined the level of risk we wish to target in a given Fund, this insight helps us to identify the best investment opportunities for the entire portfolio.

We expect to be rewarded for well-chosen illiquid investments, but we also value portfolio flexibility that enables us to take advantage of opportunities presented by evolving market conditions. We aim to build portfolios that are as resilient to the investment environment as is practicable and efficient, so we strive for genuine diversification that achieves greater balance in portfolio construction.

We invest in the broad categories shown in the table below. Within each category we develop a fine-grained investment strategy that is consistent with our core objectives and approach to total portfolio construction. We look through these exposures to monitor and manage the common drivers of risk and return in the portfolio, like real and nominal interest rate risk, equity risk, credit risk and illiquidity.

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 markets	Venture capital, growth capital, buyout, distressed debt for control
Tangible assets	Exposure to investment where the return over the very long term is expected to come 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 through 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 very short duration fixed interest with tightly managed credit risk	Treasury bills, bank bills and deposits
Portfolio overlays	Synthetic management of exposures to various investment risks	Listed equities, developed market currency, emerging market currency, domestic and global interest rates, and portfolio protection strategies

INVESTMENT BELIEFS

WE BELIEVE THAT…

SUCCESS FOR THE FUTURE FUND AND THE MEDICAL RESEARCH FUTURE FUND IS ACHIEVING RETURNS OVER ROLLING 10-YEAR PERIODS IN ACCORDANCE WITH THE BENCHMARK RETURN OF THE RESPECTIVE MANDATES, WHILE AVOIDING EXCESSIVE DOWNSIDE RISK.

SUCCESS FOR THE NATION-BUILDING FUNDS AND THE DISABILITYCARE AUSTRALIA FUND IS ACHIEVING RETURNS OVER ROLLING 12-MONTH PERIODS IN ACCORDANCE WITH THE BENCHMARK RETURN OF THE RESPECTIVE MANDATES, WHILE MINIMISING THE PROBABILITY OF CAPITAL LOSSES OVER A 12-MONTH HORIZON.

THE BOARD IS ULTIMATELY RESPONSIBLE FOR ALL INVESTMENT DECISIONS. THE BOARD'S ROLE IS TO ACT AS IF IT IS THE OWNER OF THE FUNDS WHICH BELONG TO THE GOVERNMENT ON BEHALF OF THE AUSTRALIAN PEOPLE.

THE BOARD MUST ENSURE ALL PARTIES INVOLVED IN THE MANAGEMENT OF THE FUNDS, BOTH INTERNAL MANAGEMENT AND EXTERNAL SERVICE PROVIDERS, ARE AS ALIGNED AS POSSIBLE TO DELIVERY OF SUCCESS AS DEFINED IN THE FIRST TWO POINTS ABOVE.

THE LIKELIHOOD OF MEETING INVESTMENT GOALS IS DIRECTLY RELATED TO THE TIME, EXPERTISE AND ORGANISATIONAL EFFECTIVENESS APPLIED TO DECISIONS. MOREOVER, IT IS CRITICAL THAT A HIGH QUALITY AND CLEAR GOVERNANCE FRAMEWORK, INCORPORATING ADEQUATE TIME AND DIVERSITY OF VIEW, IS IN PLACE.

PORTFOLIOS ARE MOST EFFICIENTLY MANAGED AS A WHOLE, RATHER THAN A COLLECTION OF SUB-PORTFOLIOS.

RISK MANAGEMENT SHOULD EMPHASISE QUALITATIVE CONSIDERATIONS, INCLUDING A DEEP UNDERSTANDING OF THE INVESTMENT ENVIRONMENT. QUANTITATIVE MEASUREMENT IS IMPORTANT IN SUPPORTING AND TESTING THIS PROCESS.

INVESTMENT RISK IS NOT WELL CAPTURED BY A SINGLE METRIC, AND THERE ARE ADDITIONAL RISKS THAT MUST BE ASSESSED AND MANAGED, SUCH AS LIQUIDITY, OPERATIONAL, COUNTERPARTY AND REPUTATIONAL RISK.

FOCUS SHOULD BE ON APPROPRIATE EXPOSURE TO MARKET RISK FACTORS BECAUSE THESE ARE A STRONGER DRIVER OF LONG-TERM TOTAL PORTFOLIO RISK AND RETURN THAN SKILL-RELATED RISK.

A HIGHER EXPECTED RETURN PER UNIT RISK (INVESTMENT EFFICIENCY) CAN BE OBTAINED FROM A BROADLY DIVERSIFIED ALLOCATION ACROSS DIFFERENT RETURN DRIVERS.

PROSPECTIVE RETURNS AND RISKS VARY MATERIALLY OVER TIME IN A WAY THAT IS AT LEAST PARTIALLY OBSERVABLE AND HENCE EXPLOITABLE. THE AMOUNT OF RISK TAKEN SHOULD THEREFORE BE MANAGED DYNAMICALLY AS CONDITIONS CHANGE.

BEING LONG-TERM FUNDS, THE FUTURE FUND AND THE MEDICAL RESEARCH FUTURE FUND CAN INVEST IN ILLIQUID ASSETS WHERE ILLIQUIDITY IS APPROPRIATELY REWARDED, PROVIDING OPPORTUNITIES TO INCREASE RETURNS.

MARKETS CAN BE INEFFICIENT TO AN EXTENT THAT SKILFUL MANAGEMENT CAN ADD VALUE AFTER FEES. SUCH 'NET ALPHA', BEING UNCORRELATED WITH OTHER RETURN STREAMS, IS EXTREMELY VALUABLE TO THE TOTAL PORTFOLIO.

THE MANAGEMENT OF COSTS IS VERY IMPORTANT TO MAXIMISING RETURNS. THE BOARD WILL SEEK TO LEVER THE FUND'S SCALE AND MARKET STANDING TO REDUCE COSTS.

INVESTMENT PROCESS

Based on our experience managing the Funds and understanding of the operating environment, our investment process has been adapted over time to enhance the development of our investment strategies and our approach to portfolio construction.

We do not set a fixed strategic asset allocation from the top and then require those allocations to be filled across each of the investment sectors. Rather, we aim to continuously integrate our top-down outlook on the global economy and markets with the opportunities and risks we identify from the bottom up so that we can build the best total portfolio for each Mandate. This approach results in dynamic management and allocation of risk in each of the Funds, with the holistic objective of targeting the best opportunities for the entire portfolio regardless of sector.

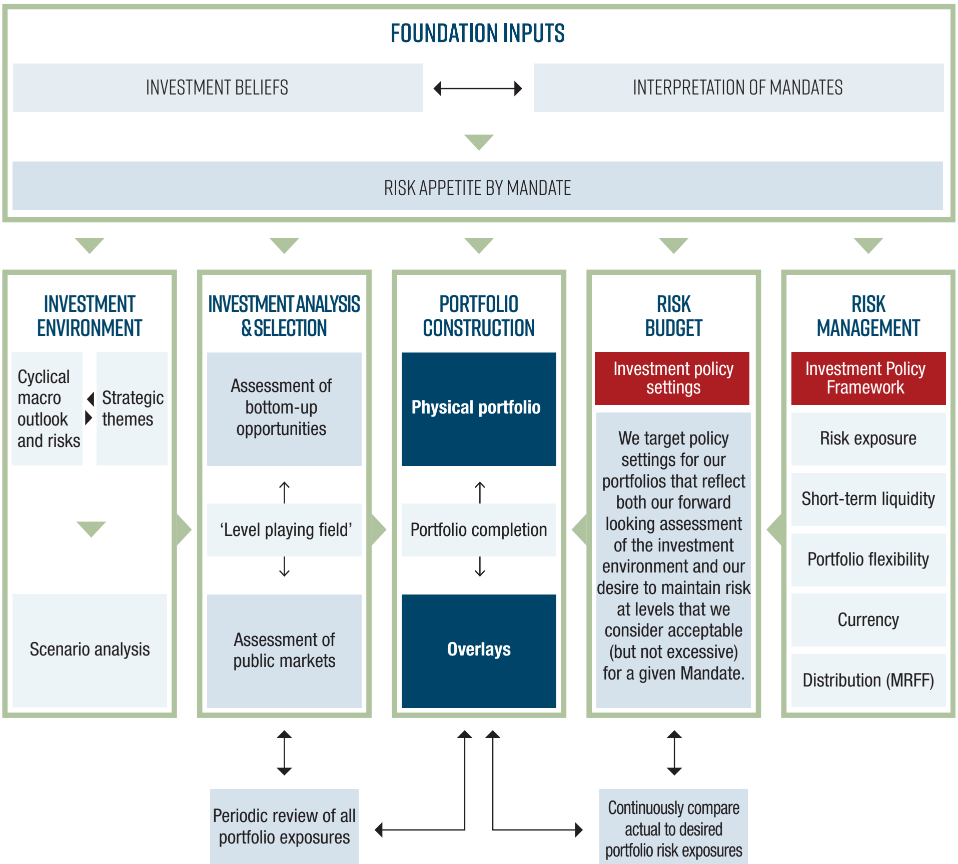
This approach of joining up the top-down and bottom-up elements is the cornerstone of our investment philosophy, and we further consider it a key comparative advantage that significantly improves our prospects of meeting our Mandates.

Discussion forums and cross-team meetings, together with a focus on building a collaborative and open culture, play an important role in sharing perspectives that feed into the formal decision-making process.

The stylised diagram on the following page illustrates the investment process that drives our approach to portfolio construction. Key elements of this process include:

1. **Foundation inputs:** As described above, our core investment beliefs inform our interpretation of each Mandate and its objectives. We are then able to infer an appetite for the types and levels of risk we are prepared to take in each of the Funds.
2. **Analysis of the investment environment:** Given current conditions, our cyclical outlook and the expected impact of secular themes and dynamics, we consider a range of plausible economic scenarios over multiple time horizons. This scenario analysis is an integral part of our investment process that is regularly reviewed and refreshed. We maintain a particular focus on the linkages between economic conditions and investment outcomes, so that we can better understand how the investments we make behave and interact in different regimes. We believe this facilitates rich discussions about investment strategy and risk management that help us to build more balanced and resilient portfolios.
3. **Risk management:** Our investment policy framework helps us to clearly and effectively manage the risk of our Funds at what we consider to be acceptable – rather than excessive – levels. In developing and reviewing the framework, we first seek to identify a concise set of investment risks that adequately captures the total risk exposure of each of our Funds, and to then formalise our tolerance for each of these risks in the context of the whole framework. In our assessment, this set of risks should include market risk exposure, short-term liquidity risk, portfolio flexibility, currency risk and distribution risk. The framework relies heavily upon the quality of our judgement, both with regard to the choice of primary risks and some of the trade-offs that we are required to make in the expression and implementation of our risk appetite.
4. **Risk budgeting:** Given our assessment of the investment environment and the parameters of acceptable risk-taking established under our policy framework by Mandate, we then choose appropriate and mutually consistent risk settings for each of our portfolios. These risk budgets are dynamically managed.
5. **Investment analysis and selection:** Once we have decided on an appropriate risk budget for a given Fund, we allocate and implement that budget through underlying investment activity. To a greater or lesser extent, we believe that the investments we make are exposed to a number of common economic and financial factors – growth, inflation, real interest rates and risk premia – that explain most of the risk and return of our Funds at the portfolio level. For this reason, we try to assess our existing and prospective investments on as consistent a basis as possible – that is, on a 'level playing field' – so that we are able to align our decisions to buy or sell individual investments with the requirements of efficient risk budgeting and total portfolio construction in each of the Funds. The investment team supports this process through domain expertise and due diligence from the bottom up, complemented by economic and capital market research from the top down.

INVESTMENT PROCESS



The success of our investment process relies crucially on the quality of our communication and collaboration. It is also highly iterative, and we formally review each investment strategy twice a year and at any time in-between as conditions dictate.

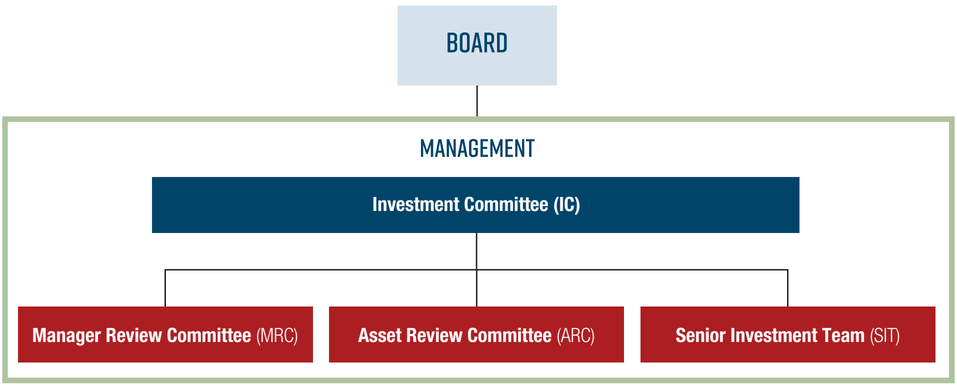
DECISION-MAKING

The Agency's Investment Committee meets at least twice a month to consider strategic investment positioning in light of the prevailing investment environment. 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 Committee also oversees the management of the portfolio within the delegations agreed by the Board.

The Investment Committee is supported by the Manager Review Committee and the Asset Review Committee. Both of these Committees comprise senior representatives from across the Agency and have delegated authority from the Investment Committee to assess manager and asset due diligence. The Committees consider detailed recommendations in relation to investment manager appointments and investment in specific assets.

Senior members of the Investment Team also provide a peer review of each sector portfolio and strategy every six months. These reviews are then presented to the Board.

INVESTMENT DECISION-MAKING STRUCTURE



INVESTMENT COMMITTEE

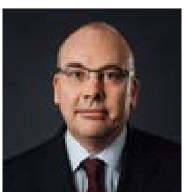

MR DAVID NEAL

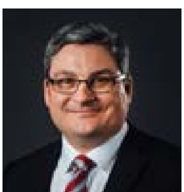

MR BARRY BRAKEY


MR CRAIG THORBURN

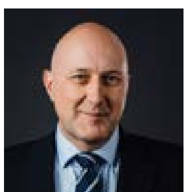

MS WENDY NORRIS


MR DAVID GEORGE


MR HUGH MURRAY


DR RAPHAEL ARNDT


MR BJÖRN KVARNSKOG


MR STEPHEN GILMORE


MR STEVE BYROM

INVESTMENT RISK

Our dynamic investment process seeks to extract the best possible return adjusted for the level of risk in markets and individual investments. As described earlier, all else being equal, we expect to increase risk levels when the expected reward for taking risk is high and to reduce risk levels when the expected reward for taking risk is low.

We 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.

Across the five Funds we consider investment risk in the following categories:

Macro risk – the risk of macroeconomic variables changing, particularly differently from general market expectations, and the impact this has on the portfolio and achieving objectives.

Market risk – the risk of being exposed to all investment markets, including equity risk, credit risk, currency risk, interest rate risk and the risk of price movement in supply-constrained resources.

Liquidity risk – the potential inability to meet near-term cash flow obligations.

Inflexibility risk – the potential loss of control over the strategic composition of the portfolio.

Specific risk – the risk that arises from the specific idiosyncratic risk of individual investments, or groups of related investments.

Investment manager risk – the risk that the external investment managers selected to implement the desired market exposures may deliver results that are materially lower than expectations.

Counterparty risk – the risk that a counterparty fails to deliver on their contractual obligations, resulting in a loss to a Fund.

CURRENCY

In managing currency risk for the Future Fund and the Medical Research Future Fund we conceptually consider offshore investments on a fully hedged basis and then separately evaluate to what extent we wish to hold an exposure to foreign currencies. We explicitly manage the size and nature of the foreign currency exposures rather than allowing them to be shaped by the underlying investments.

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

In the case of the DisabilityCare Australia Fund and the Nation-building Funds, given their higher domestic weighting and the conservative nature of these investment programs, we require our investment managers to fully hedge all foreign currency exposures back to Australian dollars at the individual account level.

Currency exposure for the Future Fund and the Medical Research Future Fund in 2016–17 is discussed in the Investment Performance section of this report.

STRATEGY IMPLEMENTATION

Our legislation requires us to use external investment managers to execute investment strategies on our behalf. We work closely with our managers to ensure they are aligned to our strategy and to identify the best opportunities around the globe.

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

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, site visits and interviews.

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

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

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

Nonetheless, properly structuring our investments can be essential to maintaining our rights and entitlements, including the benefit of sovereign immunity for tax purposes in certain jurisdictions. Failure to manage these matters can have a material impact on performance and would be inconsistent with our mandated objective to maximise returns while not causing any diminution of the Australian Government's reputation in financial markets.

We will only invest through arrangements and structures that are commonplace and well tested by other public investment institutions and funds in terms of compliance with applicable laws and regulations. We do not invest in schemes that contravene the OECD's key principles of transparency and information exchange for tax purposes. In making investments we assess whether the jurisdictions through which we invest are regarded by the OECD as having substantially implemented the internationally agreed tax transparency standard.

Investment monitoring practices have been established that are designed to ensure that the portfolio is managed within our predetermined limits. 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.

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

A list of our external managers at 30 June 2017 is available at Appendix A.

MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES

OUR APPROACH

We believe that effective management of material financial and reputational risks and opportunities related to environmental, social and governance (ESG) factors will support our requirement to maximise returns earned on our 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 Funds, sound management of ESG factors contributes to the development of more efficient and sustainable capital markets, in turn enhancing long-term return outcomes.

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

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

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

In particular, we believe that there is a positive relationship between good governance and investment value and acknowledge the value of exercising our ownership rights, including voting rights where relevant, across the broad range of our investments. Ownership rights are essential to ensuring the appointment and retention of fiduciaries of the highest quality, and motivating those agents to manage value creation over the long term.

Our overall framework for managing the complex financial and reputational risks and opportunities related to ESG factors is articulated in our Statement of Investment Policies, which is available on our website.

INTEGRATING ESG INTO THE INVESTMENT PROCESS

PARTNERING WITH OUR MANAGERS

Our 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 our ESG management strategy.

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

TRANSACTIONAL DUE DILIGENCE

We have structurally integrated ESG into the due diligence for transactions going through our Investment Committee as well as those committees overseeing manager appointments and asset-specific investments. Moreover, the transaction tools and delegation authorities that support the investment process guide our investment teams in the treatment of relevant ESG factors.

Where we make direct investments – such as for direct infrastructure or property investments – or for any other investment decisions that fall outside the investment mandates with our external managers, an evaluation of ESG and reputational risk factors is undertaken internally. These assessments are conducted by the relevant sector team, and supported by a dedicated ESG team with line of sight over all investment activities. Where appropriate, third party research providers are engaged to enhance our due diligence activities.

INVESTMENT IN LONG-TERM THEMES

Given our status as a large, long-term asset owner with a globally diversified portfolio, top-down views on the strategic trends that will influence outcomes for investors over the medium to long term are an important component in 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, we partner with a number of investment managers 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. As part of this we have invested in a range of clean technologies such as wind, solar and energy efficiency technologies as part of our diversified investment portfolios, where expected returns over an appropriate time horizon are attractive on a risk-adjusted basis.

As with other ESG risks, we incorporate climate risks, where these could pose a material risk to investment performance, into our investment decision-making. This means understanding the risks that cash flows associated with our investments might be impaired due to regulatory, policy or technological initiatives, or changes in the natural environment. We also engage with our investment managers, with the support of third party research, to ensure they do the same on our behalf. We view these risks from a risk-adjusted returns perspective.

We also consider the ability of the companies we invest in to manage these and other issues through direct engagement and voting our shares at shareholder meetings. This has included voting for shareholder resolutions seeking better disclosure of a company's exposure to climate risk where the current disclosure is lacking.

EXERCISING OWNERSHIP RIGHTS

Exercising the voting rights attached to the securities in which we have an ownership position is a key means by which to encourage good governance in investee entities.

This reflects our view that good governance (that is, how an organisation is structured, operated and controlled and how it manages environmental, social and regulatory risks and opportunities) protects and creates investment value.

DISRUPTIVE INNOVATION: THE RISKS AND OPPORTUNITIES OF THE FUTURE

We are living through an age of extraordinary technological progress and innovation, which is changing the way we live our lives. It is also changing the way investors operate and disrupting the business models of the companies in which they invest.

These developments will deliver opportunities and challenges to investors like the Future Fund.

Advances in technology are enabling a better understanding of our investment portfolio. Increasingly, we have the ability to gather and analyse the wealth of information at our disposal and use this information to inform our investment strategies and decision-making.

We are also benefiting from disruptive innovation as active investors in companies of the future. Our multi-billion dollar venture capital program gives us access to innovative, high potential companies as well as insight into the disruption trends that are impacting the way societies and economies operate, and how those trends may play out in our portfolio.

While we aim to harness the opportunities disruptive innovation offers, we are equally cognisant of the risks it might pose to our portfolio.

For example, the introduction of autonomous vehicles may have implications for our infrastructure investments, just as the increasing influence of online commerce may impact our retail property assets.

Accordingly, we are considering how we incorporate the current innovation wave and risk of technological disruption into our investment decision-making and portfolio construction decisions.

The work we are undertaking is designed to allow us to better capture these insights and better understand the risk that disruptive innovation poses to assets already in our portfolio.

As an organisation, we are well positioned to do this, given our long-term, whole-of-portfolio approach, and access to the unique investment insights of our investment managers.

WHILE WE AIM TO HARNESS THE OPPORTUNITIES DISRUPTIVE INNOVATION OFFERS, WE ARE EQUALLY COGNISANT OF THE RISKS IT MIGHT POSE TO OUR PORTFOLIO.

VOTING OUR AUSTRALIAN EQUITIES SHARES

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

In exercising these voting rights we apply our voting principles, as detailed on page 30, while also drawing on the insight of our investment managers and research providers.

The way in which we exercise the voting rights attached to our holdings in publicly listed Australian companies is reported in aggregate each year. Activity for the 2016–17 financial year is summarised below.

Where a company resolution is found in conflict with our corporate governance principles or does not align with our best interests, we will consider voting against the company board. In total in Australia in 2016–17, we voted against company boards in approximately 6.7% of all resolutions.

EXERCISE OF VOTING RIGHTS IN PUBLICLY LISTED AUSTRALIAN COMPANIES IN 2016-17

RESOLUTION TYPE	NUMBER OF RESOLUTIONS	FF WITH COMPANY BOARD	FF ABSTAIN	FF AGAINST COMPANY BOARD
Elect Director	509	97.1%	0.0%	2.9%
Approve Remuneration Report	203	90.1%	0.0%	9.9%
Approve Remuneration Grant	202	87.6%	0.0%	12.4%
Other Remuneration	50	92.0%	0.0%	8.0%
Capital Management	61	85.2%	8.2%	6.6%
Fees For Directors	41	90.2%	0.0%	9.8%
Mergers & Acquisitions	10	100.0%	0.0%	0.0%
Other	110	92.7%	0.0%	7.3%
Total Resolutions Voted	**1,186**	**92.8%**	**0.4%**	**6.7%**
Total Meetings Participated	**217**			
Not Voted	**0/0** (Meetings/Resolutions)			
Total Eligible (Resolutions)	**1,186**			
Total Eligible (Meetings)	**217**			

Note: Percentages may not add to 100% due to rounding.

VOTING OUR INTERNATIONAL LISTED EQUITIES SHARES

Given the scope and complexity of exercising voting rights in multiple international markets, we delegate the proxy voting of the international listed equities portfolio to our external investment managers. These managers, responsible for managing investments on our behalf, are well placed to promote good corporate governance in investee entities. We exercise oversight by reviewing their ownership policies and practices and retain the right in all cases to override managers and determine voting decisions directly.

In 2016–17 our international listed equities managers were eligible to exercise proxy votes in respect of 38,583 resolutions at 3,401 shareholder meetings. In the cases where our votes were not exercised, generally the manager judged that it was not in our best interests to vote given structural impediments to shareholder voting (such as share blocking/re-registration or power-of-attorney requirements), or that we were ineligible to vote.

In aggregate our managers voted against company boards' recommendations in approximately 9.8% of international resolutions voted.

EXERCISE OF VOTING RIGHTS IN PUBLICLY LISTED OVERSEAS COMPANIES IN 2016–17

RESOLUTION TYPE	NUMBER OF RESOLUTIONS	FF WITH COMPANY BOARD	FF ABSTAIN	FF AGAINST COMPANY BOARD
Elect Director	17,851	89.8%	1.1%	9.1%
Remuneration	4,480	88.4%	0.3%	11.2%
Capital Management	3,275	78.7%	0.2%	21.0%
Mergers & Acquisitions	525	94.5%	0.0%	5.5%
Other	12,292	87.7%	4.9%	7.3%
Total Resolutions Voted	**38,423**	**88.1%**	**2.2%**	**9.8%**
Total Meetings Participated	**3,383**			
Not Voted	**18/160** (Meetings/Resolutions)			
Total Eligible (Resolutions)	**38,583**	**Resolutions**		
Total Eligible (Meetings)	**3,401**			

Note: Percentages may not add to 100% due to rounding.

ENGAGEMENT WITH INVESTEE ENTITIES

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

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

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

We leverage the engagement activities of our investment managers. These managers are the front line of engagement, given their in-depth company knowledge and contacts.

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

Each engagement is tailored to the particular company and may include board and executive management quality, remuneration, strategic priorities, ethics and culture and long-term value creation. Over the last two years, we have engaged with board representatives from across the ASX20 listed companies in Australia.

We partner with investment managers to coordinate engagement activities with investee entities to ensure we communicate a consistent and mutually reinforcing message. We consider this ‘one-face to the investee entity’ approach essential in driving positive outcomes.

OWNERSHIP RIGHTS IN PRIVATE MARKETS

In relation to private markets investments, ownership rights generally accrue in three forms: formal voting rights (connected to shareholdings in companies and unit holdings 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.

OUR VOTING PRINCIPLES

COMPANIES SHOULD DISCLOSE ACCURATE AND MATERIAL INFORMATION ON A TIMELY BASIS TO ALLOW SHAREHOLDERS TO MAKE INFORMED DECISIONS.

COMPANIES SHOULD RESPECT SHAREHOLDER RIGHTS AND THEIR DIRECTORS SHOULD ENGAGE SHAREHOLDERS, PARTICULARLY ON MAJOR DECISIONS.

ALL SHAREHOLDERS SHOULD BE TREATED EQUALLY AND HAVE THE RIGHT TO VOTE IN PROPORTION TO THEIR ECONOMIC INTEREST IN THE COMPANY.

COMPANIES SHOULD COMPOSE HIGH CALIBRE, COMMERCIALLY EXPERIENCED AND DIVERSE BOARDS OF DIRECTORS TO PROVIDE SUPERIOR BUSINESS LEADERSHIP AND INTEGRITY.

BOARDS SHOULD APPROPRIATELY BALANCE MEASURES TO PROTECT THE CAPITAL ADEQUACY OF THE COMPANY WITH EQUITABLE TREATMENT OF SHAREHOLDERS.

COMPANIES SHOULD ESTABLISH A SOUND SYSTEM OF OVERSIGHT, MANAGEMENT AND CONTROL OF BUSINESS RISKS.

STRUCTURES THAT TRANSFER POWER FROM SHAREHOLDERS TO MANAGEMENT OR THIRD PARTIES TO PROTECT AGAINST TAKEOVERS ARE GENERALLY UNDESIRABLE.

BOARDS OF DIRECTORS SHOULD BE COMPOSED TO ENSURE THE EXERCISE OF OBJECTIVE INDEPENDENT JUDGEMENT ON CORPORATE AFFAIRS.

COMPANIES SHOULD HAVE APPROPRIATE PERFORMANCE EVALUATION AND INCENTIVE SYSTEMS THAT ALIGN EXECUTIVES WITH LONG-TERM SHAREHOLDER INTERESTS AND COMPANY STRATEGY.

Where shareholder voting rights accrue to pooled vehicles from the underlying investments, the external managers of those vehicles analyse and exercise the voting rights on behalf of our organisation. Likewise, rights arising from co-investments alongside external managers are exercised by those managers.

Shareholder votes resulting from direct holdings in assets and unitholder votes from the Board's interests in pooled vehicles are managed directly by our private markets teams.

Many of the private markets' pooled vehicles in which we invest have advisory boards that give investors a voice on certain key decisions. We have the right to appoint a representative to the advisory boards of many of the pooled vehicles in which we invest. This right was taken up wherever practical in 2016–17.

One of the most powerful expressions of ownership rights occurs where investors take up seats on the boards of unlisted entities. We have exercised the right to appoint directors to the boards of a number of the entities.

In some cases, such as APAC (Melbourne and Launceston Airports), the Port of Melbourne, Gatwick Airport and Perth Airport, our staff sit as directors. In other cases, such as Edinburgh Airport, we have appointed high-quality directors to act on our behalf. Those directors are either employees of the relevant external manager or suitably qualified third parties selected in consultation with the manager.

COLLABORATION AND CONTRIBUTING TO A STRONGER INVESTMENT SYSTEM

We have 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.

We are an active participant in a number of investor collaborations that address some of the systemic challenges related to ESG factors, including ESG Research Australia, and the International Corporate Governance Network. These structured multi-stakeholder initiatives are complemented by ongoing informal engagement with leading domestic and international asset owners in identifying and promoting best practice in ESG investment integration.

More broadly, we are involved in industry networks that aim to improve system integrity, build new markets, and advance best practice for institutional investment. The initiatives supported include the Standards Board for Alternative Investments (SBAI), the Institutional Limited Partners Association (ILPA), the International Forum of Sovereign Wealth Funds, the Institutional Investors Roundtable (IIR), the Thinking Ahead Institute and Focusing Capital on the Long Term (FCLT).

In a number of cases our staff have taken on roles in the leadership of these initiatives. For example, staff sit on the Board of Trustees of the SBAI, the Board of the IIR, 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 Board 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.

Since 2009 we have 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.

A list of entities excluded on the basis of Australia's international convention commitments or direct involvement in the manufacture of tobacco products is on our website.

INVESTMENT PERFORMANCE

DESKTOP METAL

OUR VENTURE CAPITAL CO-INVESTMENT STRATEGY GIVES US EXPOSURE TO INNOVATIVE COMPANIES SUCH AS DESKTOP METAL, WHO DEVELOPED THE FIRST HIGH-SPEED, SAFE, AFFORDABLE METAL 3D PRINTERS FOR OFFICE, PROFESSIONAL, AND COMMERCIAL ENVIRONMENTS.

MACRO-ECONOMIC OUTLOOK AND MARKET ANALYSIS FOR 2016–17

THE PAST FINANCIAL YEAR WAS MARKED BY SEVERAL NOTEWORTHY SHIFTS IN THE GLOBAL MACROECONOMIC, POLICY, POLITICAL AND INVESTMENT ENVIRONMENTS.

Entering the year, growth in the global economy was patchy and slowing with few identifiable drivers for an upturn. With weak economic growth and deflationary fears still present, the US monetary policy tightening cycle had stalled and debate turned to how central banks could ease further. The Brexit vote had just occurred and marked a decided turn towards populism and possible protectionism. A heightened risk environment and weak growth prospects impacted financial markets in 2015–16 with risk assets such as global equities falling and bond yields declining to or near historic lows.

However, over the course of the year a strong, synchronised uplift in global economic growth emerged with Chinese fiscal stimulus, a stabilisation in the oil price, currency shifts and past monetary stimulus all playing a role.

The US economy continued to record modestly above trend growth rates and the current expansion is now the third longest since World War II. An uptick in oil prices that has stimulated shale oil production and an easing in financial conditions over the course of the year have helped encourage economic activity. Strong employment growth has driven the US labour market beyond what is generally considered to be full employment, providing a modest level of support for household consumption. The election of President Trump with a platform of tax reform and infrastructure spending raised hopes of a meaningful spur to growth in 2017 although this has yet to materialise.

In Europe, a competitive exchange rate in the context of improving global growth, a shift from austerity, and supportive monetary policy were key factors in the continuation of solid above-trend economic growth. An extended span of economic growth has helped to significantly reduce unemployment in the Euro area and quell populist support in the region. Nevertheless, significant spare capacity remains in some parts of Europe which should allow it to continue to grow at above trend rates for some time.

China's Central Government introduced a raft of measures to stabilise the economy and the financial system ahead of an important political year that culminates with the 19th National Congress of the Communist Party of China in late 2017. So far measures aimed at tempering credit growth, addressing capital outflow concerns and reducing excess capacity in the economy without triggering significant adverse macroeconomic reactions, have been successful. Looking ahead, China continues to face the challenge of managing its transition to a domestic consumer-driven economy while addressing debt issues. A series of reforms are expected to help facilitate this transition.

Locally, Australia reached an economic milestone, matching and exceeding the Netherlands' developed economy record of 103 quarters without a recession. A recovery in commodity prices, in part driven by brightening global growth prospects, has helped boost the terms of trade, and strong residential construction activity continued to pick up the slack from declines in mining investment. Confidence in the business sector continues to improve and is near a post financial crisis high. This is at odds with the consumer sector which is contending with low wages growth, high levels of indebtedness and higher energy costs. Reconciliation of these two positions will play an important part in the outlook for the year ahead, as will the strengthening Australian dollar.

In emerging markets, a rebound in commodity prices, easier financing conditions and a depreciating US dollar all helped to aid growth. Meanwhile, reflecting the synchronised upturn in global growth, Japan recorded its first six-quarter run of positive growth in 11 years.

With an upturn in global economic activity, global monetary policy generally shifted from an easing to a tightening bias. This was most noticeable in the US where continued employment growth and expectations of this leading to wages growth and a rise in inflation saw the US Federal Reserve raise its Federal Funds rate three times during the year in a shift away from the 'extraordinary accommodation' put in place in the aftermath of the financial crisis. This saw a reappraisal in the bond market globally with yields on the benchmark US 10-year bond yield increasing by over one percentage point at one point in time during the year and around half this in other major markets over the course of the year.

The political and geopolitical backdrop evolved significantly over the course of the year. Beginning with Brexit and then the election of President Trump on a protectionist platform the world looked to be taking a marked turn towards unwinding globalisation. This would be a material negative for financial markets. However, the US election possibly marked a high watermark for this tilt. While the prospect of protectionism has not fully receded, recent developments, including elections in The Netherlands and France, were noticeable victories for centrist candidates who were pro Europe.

Despite the back-up in bond yields, the improvement in the global economic and corporate earnings backdrop, a reassessment of the risk outlook, most noticeably the fear of protectionism, and ongoing central bank stimulus at the global level all contributed to a very positive year for risk assets. After experiencing a small decline in the 2015–16 financial year, global equities recorded another very strong year with returns of almost 20% on a local currency basis. This is the fifth year of double digit returns in the post financial crisis period reflecting decreased long-run expectations for bond yields, risk premia, and consequently for long-run portfolio returns. Credit markets also benefitted from the brightening global outlook, with spreads across both investment grade and high yield credit compressing materially to levels modestly above those in 2007.

Looking ahead, the near-term macroeconomic outlook appears relatively benign, with sufficient spare capacity supporting global growth momentum and few apparent near-term catalysts for a material slowdown in the global economy. In particular, inflationary pressures are not signalling potential excesses building in the major global economies. Indeed, amidst the global upswing in activity and employment, a key conundrum for policymakers over the year has been the absence of a sustained increase in the rate of inflation and even a run of disinflation in the US in the latter part of the financial year. Normally, this would suggest a moderation in future monetary policy tightening prospects and moderation in the risk of excessive tightening by central banks.

However, so far, recent weak inflation readings in the US have been ascribed to temporary and one-off factors and the US Federal Reserve continues to project further normalisation of monetary policy in terms of both its key Federal Funds rate and the size of its balance sheet. Meanwhile, the European Central Bank has also signalled that it may look to taper its quantitative easing program in the near future despite being below its target inflation rate. Several other major central banks have also either tightened policy or flagged a bias to do so. The impetus for this apparent change in tack is likely a combination of concerns that the potential costs of financial instability outweigh the potential benefits from current settings, a desire to rebuild policy flexibility to help offset potential future economic weakness and concerns that declining spare capacity will eventually lead to wage gains and inflation.

The gradual reduction in the pace of central bank asset purchases and eventual reduction in balance sheets pose an unknown risk to financial markets given the lack of historical precedent. Just as financial markets were well supported by the injection of liquidity by central banks post financial crisis, the gradual slowing and eventual withdrawal of this liquidity may have significant and unforeseen implications for financial assets although this is far from consensus.

In terms of risks, beyond central bank policy, some structural issues remain, including high levels of debt and demographic trends that continue to weigh on potential growth. A heightened political and geopolitical risk environment further clouds the forward outlook and the protectionist risk remains even if diminished. In addition, there is limited scope for existing policy tools (whether monetary or fiscal) to deal with a downturn or shock. On balance, these factors widen the distribution of potential outcomes, and suggest that investors should demand a greater than typical reward for taking on investment risk. There is also the risk that recent low inflation readings in the US are temporary and that diminishing spare capacity globally does eventually transmit into higher inflation readings. With an extended period of low inflation outcomes this is likely an outcome that many financial market participants are not well placed to manage.

Given this assessment of the risk environment and the compression in forward-looking returns, a moderate level of portfolio risk is considered appropriate for the year ahead.

THE CONTRIBUTION OF THE FUTURE FUND TO AUSTRALIA'S FINANCIAL POSITION

The Future Fund was established in 2006 with the objective of strengthening the Commonwealth's long-term financial position.

With the creation of the Future Fund, the Australian Government hoped to relieve the Budget of the cost of unfunded public sector retirement liabilities, freeing up billions of dollars per year for other purposes.

The Fund was given the mandate to earn Consumer Price Index (CPI) + 4.5% to 5.5% per annum while taking 'acceptable but not excessive risk'.

The Future Fund has performed strongly. Over the last 10 years it has exceeded its baseline target rate of return, delivering a return of 7.9% per annum. This has more than doubled the value of the Fund.

But the world is a different place today to the way it was in May 2006.

Government bonds provide the foundation from which other assets are priced. Historically low yields on 10 and 30-year bonds mean that investors face lower returns across other asset classes.

This means investors will have to accept lower returns or decide to increase levels of risk to chase returns.

The Board of Guardians has felt increasingly uncomfortable that the return target of CPI + 4.5% to 5.5% per annum over the next 10 years would run contrary to the risk requirement which is to avoid taking excessive risk.

Recognising this, the Board asked the Government to reconsider the return objective.

In May 2017, the Government announced it would reduce the objective to CPI + 4% to 5% per annum, effective from 1 July 2017. The requirement that the Board should not take excessive risk remains.

> THE FUTURE FUND WAS ESTABLISHED IN 2006 WITH THE OBJECTIVE OF STRENGTHENING THE COMMONWEALTH'S LONG-TERM FINANCIAL POSITION

The Board welcomes this decision. It is still a challenging target, but it provides a realistic objective and a clearer sense of the Government's view of the balance it wants between risk and return.

The other welcome announcement as part of the Budget announcement in May 2017 was that the Government will delay drawing down from the Fund until at least 2026–27.

Contrary to what was intended when the Future Fund was established in 2006, no further money has been contributed to the Fund since 2007. At the same time, unfunded pension liabilities have continued to grow.

If the Government drew the full amount of the annual liabilities from the Future Fund from 2020 until the Fund was exhausted, the net superannuation liability remaining would still be around $275 billion in 2046 when the Fund was projected to be exhausted.

Deferring drawdowns to a later date will allow the Future Fund to grow to meet all of the unfunded liabilities and strengthen the Government's long-term financial position.

In the meantime the earnings of the Future Fund will contribute to the bottom line of the Budget. Earnings are included in the underlying cash balance from 2020 onwards.

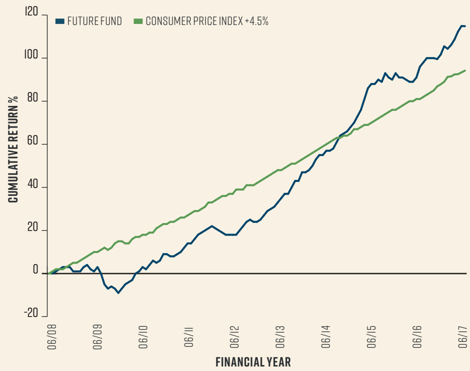
The Government's decision will allow the Future Fund to do what it was intended to do and benefit future generations of Australians.

For further information, refer to the Chairman's speech to the Australian Shareholders' Association National Conference titled 'The role of the Future Fund and its contribution to Australia's financial position', available on our website at www.futurefund.gov.au

FUTURE FUND

FUTURE FUND PERFORMANCE 2016–2017

MANDATE:
CONSUMER PRICE INDEX PLUS 4.5% TO 5.5% PER ANNUM OVER THE LONG TERM WITH AN ACCEPTABLE BUT NOT EXCESSIVE LEVEL OF RISK.



8.7% RETURN FOR 2016–2017

7.8% PA RETURN SINCE INCEPTION

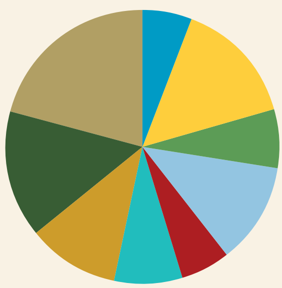
$10.7 BILLION EARNINGS FOR 2016–2017

$73 BILLION EARNINGS SINCE INCEPTION

CASH FLOW HISTORY IN A$ AT 30 JUNE 2017

CONTRIBUTIONS		EARNINGS		WITHDRAWALS		BALANCE
60.5 BN	+	73 BN	–	0 BN	=	**133.5 BN**

FUTURE FUND ASSET ALLOCATION AT 30 JUNE 2017



- 6% AUSTRALIAN EQUITIES
- 15% DEVELOPED MARKETS
- 7% EMERGING MARKETS
- 12% PRIVATE EQUITY
- 6% PROPERTY
- 8% INFRASTRUCTURE & TIMBERLAND
- 11% DEBT SECURITIES
- 15% ALTERNATIVE ASSETS
- 21% CASH

INTERPRETING THE INVESTMENT MANDATE

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

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

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

Performance information reported in this report reflects the Investment Mandate as it stood until 30 June 2017. The Mandate is at Appendix B. The revised Mandate, effective from 1 July 2017, is also available at Appendix B.

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

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

Early in the life of the Fund, we spent a considerable amount of time interpreting the Mandate and qualifying the distinction between *acceptable* and *excessive risk*.

In simple terms, we ultimately concluded that we should try to:

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

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

While we report and discuss the performance of the Future Fund 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 Mandate over the long term.

We explicitly reject the concept of 'peer risk' (the risk of underperforming other institutional investors over the short term) as being inconsistent with the mission and Mandate of the Fund. However, we appreciate that comparisons between the Fund's return and the returns of other funds with similar objectives, both locally and globally, are valid over the longer term.

We do not have control or influence over the management of the liabilities. Accordingly, we do not frame our investment strategy around the risk of these obligations increasing relative to the asset base.

DRIVERS OF PORTFOLIO PERFORMANCE

The chart on page 40 provides a real return and risk attribution for the Future Fund over the last 10 years relative to a number of simple, liquid and investable portfolios that attempt to proxy the risk exposures of the Fund throughout its history.

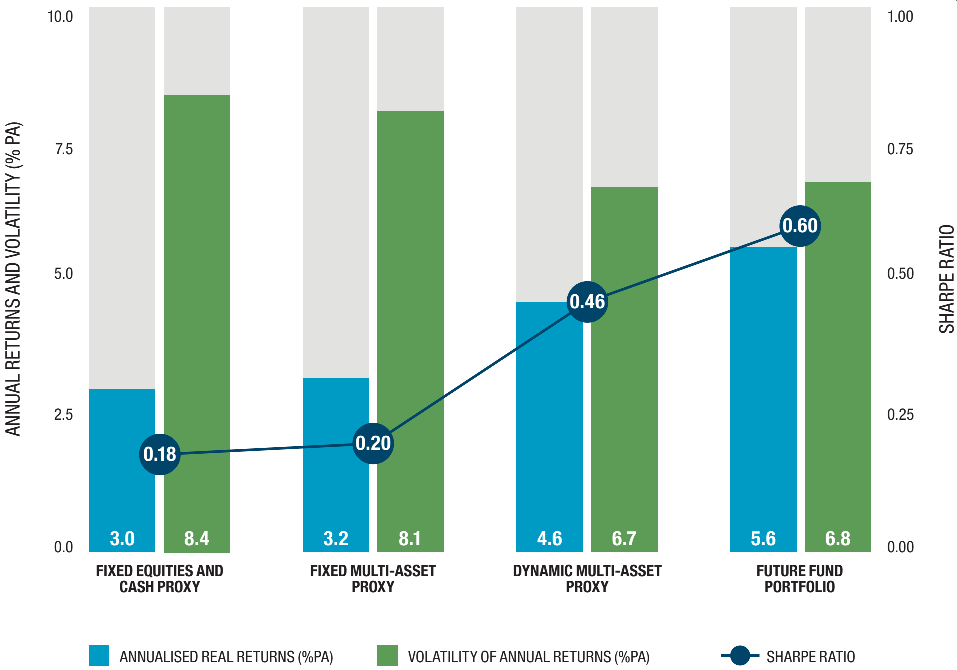
Since the Fund does not have a fixed strategic asset allocation or 'reference portfolio' like many of our peer investors, we believe that a reasonable starting point is to compare the performance of the actual portfolio to that of a fixed allocation to listed equities and cash that reflects its average level of risk over time.

From this starting point, we then examine the cumulative impact of the following distinct portfolio construction activities:

i. Diversifying away from listed equities and cash. This effect is proxied by the relative performance of a portfolio with fixed allocations to a wider range of liquid markets that reflects our average exposure levels in the portfolio over time.
ii. Dynamically managing portfolio exposures. This effect is proxied by the relative performance of a portfolio with allocations to this wider range of liquid markets that vary away from average levels in line with our actual positioning over time.
iii. Harvesting additional returns from illiquidity and skilful investment management. This effect is captured by the residual performance of the actual portfolio relative to the previously described proxy portfolios.

Our analysis suggests that significant value has been added, both in terms of additional returns and also in reducing volatility. Furthermore, it shows that this value has been added both from the dynamic management of the underlying market exposures and from the way that those exposures have been deployed, making use of skilful managers and the Fund's ability to accept a certain amount of illiquidity. This has resulted in a more efficient approach to portfolio construction, which is illustrated in the chart below by its enhanced Sharpe ratio – a measure of the excess return generated above cash per unit of return volatility.

PERFORMANCE OF THE FUTURE FUND RELATIVE TO LIQUID PROXY PORTFOLIOS FROM 1 JULY 2007 TO 30 JUNE 2017



RISK POSITIONING

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

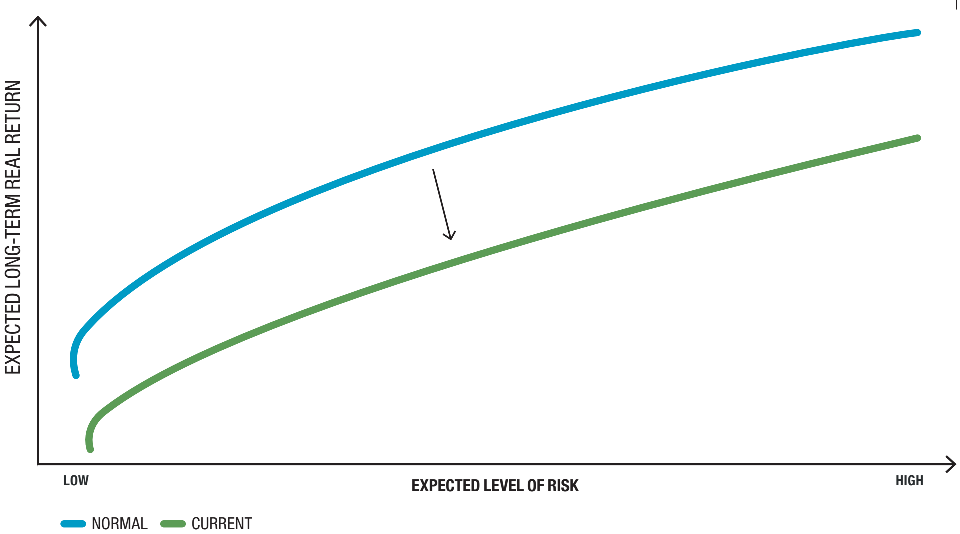
Returns on risk assets were generally strong in 2016–17 as sentiment improved and global growth exceeded expectations, while inflationary pressures remained subdued despite ongoing monetary accommodation. Our outlook on the global economy and markets is explored in more detail in our macro-economic outlook and market analysis on pages 34–36.

The broad focus of our portfolio construction activity in 2016–17 has been to:

- **Maintain lower than average portfolio risk exposure** since we expect the likelihood of being adequately rewarded for assuming higher levels of risk is lower than normal.
- **Retain high levels of portfolio flexibility** to both withstand – and potentially take advantage of – any market dislocations that might arise.
- **Be opportunistic and skill-based**. Internally, and through our external investment managers, we aim to add additional return, or reduce risk, through the application of skill. Strategies that have low correlation with risk assets are particularly attractive (such as hedge funds, private equity and alternative risk premia).

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

CURRENT RISK/REWARD TRADE-OFF VERSUS 'NORMAL'



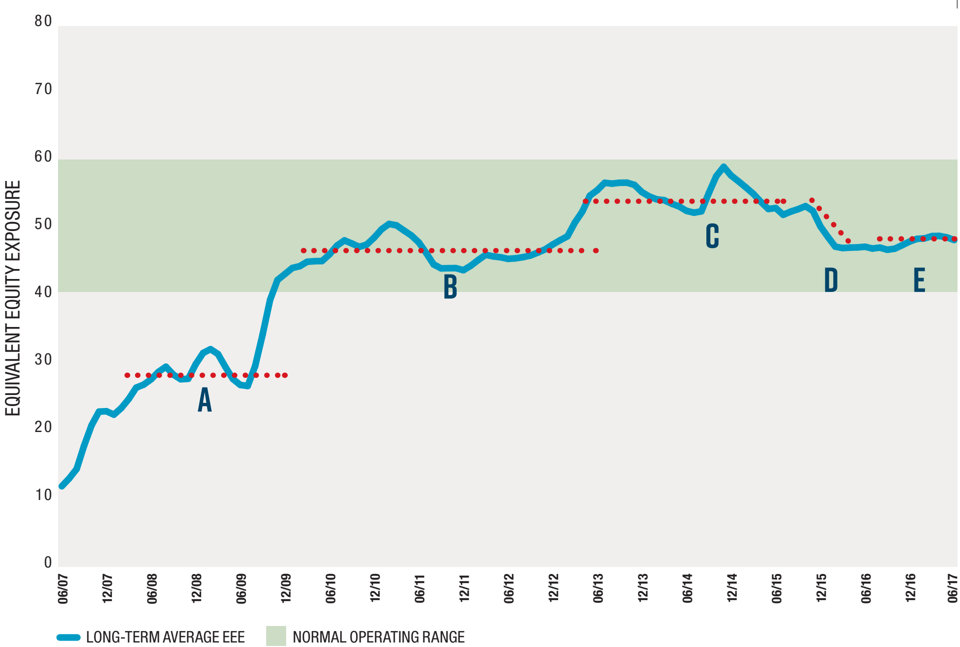
One of the primary metrics we use to understand and manage the broad market risk exposure of the Future Fund is Equivalent Equity Exposure (EEE).

EEE estimates the 'look-through' sensitivity of the portfolio to price movements in global equity markets. A simple proxy for an investment portfolio with a EEE of 50 is one comprised of 50% Australian cash and 50% global equities (hedged back to the Australian dollar).*

Our expected EEE range for the Future Fund is 40 to 60. The average EEE in 2016–17 was 48 and at 30 June 2017 the EEE stood at 48, consistent with a moderately lower than average risk exposure that reflects our cautious outlook on the investment environment.

*__Note:__ Equivalently, a portfolio that comprised 57% global equities (hedged back to the Australian dollar) and 43% nominal sovereign bonds (hedged back to the Australian dollar) would also have an EEE of 50 because sovereign bonds are defensive and reduce its EEE.

FUTURE FUND EQUIVALENT EQUITY EXPOSURE SINCE INCEPTION



The chart above demonstrates how the EEE of the Future Fund has changed through time. We are currently in the fifth distinct risk-taking regime for the portfolio over the last 10 years:

- **A** Soon after inception in 2006, the build of the Future Fund portfolio was suspended in late 2007 due to concerns over financial stability and the sustainability of high asset prices, and a very low risk profile was maintained into the global financial crisis.
- **B** Portfolio risk exposure was increased as extraordinary and globally coordinated economic policies were implemented to fight the crisis.
- **C** Risk levels were raised further as the European crisis subsided and the President of the European Central Bank, Mario Draghi, committed to "do whatever it takes" to underwrite the integrity of the Euro.
- **D** As expected returns declined (given strong market performance supported by low interest rates), portfolio risk was gradually reduced to moderately below normal levels.
- **E** Risk levels have been maintained at just below normal levels as improving economic conditions are offset by higher market valuations.

INVESTMENT REVIEWS

LISTED EQUITY

STRATEGY

The opportunity set for the listed equity portfolio includes all listed equity-related strategies:

- Australian, developed, emerging and frontier markets
- active and passive long-only managers, long/short and other equity-related hedge fund strategies which may be undertaken in partnership with a broad range of investment organisations from start-up boutiques through to large and long established global firms
- physical and synthetic investments.

As flagged in the 2015–16 annual report, we have been refining our approach to listed equities.

We have redefined the objectives of the program, which are now:

1. capturing equity market risk premium over the long term (beta)
2. harvesting long-term equity factor premias (alternative beta)
3. delivering good risk-adjusted, skill-based returns with low correlation to market returns over the long term (alpha)
4. allowing us to access desired exposures from a whole of Future Fund perspective.

These objectives have resulted in the following sub-strategies being developed: Global Beta, Global Alternative Beta, Australian Equities, Emerging Markets Equities, and Global Alpha.

We are at a different stage of implementation for each sub-strategy.

Further information is available in a speech from Dr Raphael Arndt, Chief Investment Officer, titled ‘The role of listed equities in the Future Fund portfolio’. The speech is available on our website at www.futurefund.gov.au

REPORT

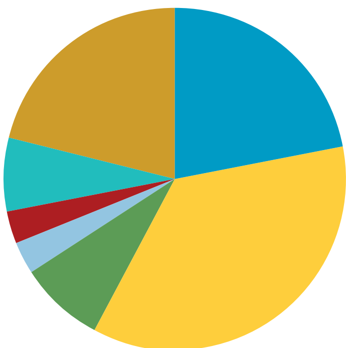
The listed equity portfolio is valued at $37.1 billion as at 30 June 2017. The portfolio, as a percentage of the total Future Fund, has been slightly reduced from 28.8% at 30 June 2016 to 27.8% at 30 June 2017. We implemented reductions across all of our major regions. Separately, we have rebalanced our investment manager allocations to achieve a better balance of investment exposures given the market environment.

Our portfolio remains concentrated in developed markets while we continue to hold sizeable but smaller exposures to Australia and emerging markets. We maintained a large defensive, high quality core through our exposure to quality stocks and emerging wealth strategies (which allow investment in developed companies with underlying emerging markets exposure).

During the year we also revised our long/short developed markets portfolio to reduce the exposure to market risk and increase the emphasis on stock picking skill. Our expectation is that prospective listed equities returns remain positive but lower than average.

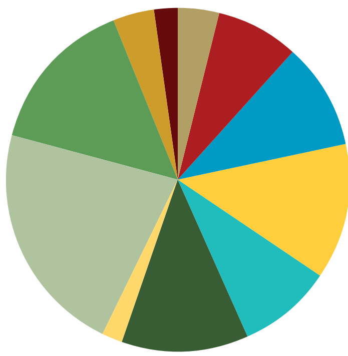
EXPOSURE AT 30 JUNE 2017

REGION



- 22% AUSTRALIA
- 36% UNITED STATES OF AMERICA
- 8% EUROPE (EX UK)
- 3% UNITED KINGDOM
- 3% JAPAN
- 7% DEVELOPED (OTHER)
- 21% EMERGING

SECTOR



- 4% ENERGY
- 8% MATERIALS
- 10% INDUSTRIALS
- 13% CONSUMER DISCRETIONARY
- 9% CONSUMER STAPLES
- 12% HEALTH CARE
- 2% REAL ESTATE
- 22% FINANCIALS
- 15% INFORMATION TECHNOLOGY
- 4% TELECOMMUNICATION SERVICES
- 2% UTILITIES

PRIVATE EQUITY

STRATEGY

Our private equity strategy reflects our view that the asset class fulfils two functions within the Future Fund's investment portfolio.

The first is to invest in high 'alpha' opportunities, where we believe we can earn a significant premium over similar but more liquid 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 innovative and disruptive companies (venture and growth), companies in financial difficulty that require capital to undertake financial restructurings and/or operational turnarounds (distressed opportunities), and funding idiosyncratic growth within small companies, particularly in sectors or geographies where alternative funding options are scarce (venture growth equity).

The opportunity set for the private equity portfolio covers 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.

REPORT

As of 30 June 2017 the Future Fund had $22.9 billion of capital (invested plus committed) with 30 private equity managers. During the year we allocated $100 million to one new manager and a further $2.1 billion to our existing managers, including co-investments alongside those managers. Invested capital increased from $12.8 billion to $15.5 billion over the course of the year, reflecting $3.5 billion of capital calls, $2.1 billion of distributions and $1.3 billion of unrealised asset value appreciation. In line with managing the level of outstanding unfunded commitments, our unfunded commitments decreased from $7.7 billion to $7.4 billion over the course of the year.

Of the capital called, 41% was for co-investments, 34% was for venture capital and growth equity opportunities, 22% was for buyout opportunities, 2% was for secondaries and the remaining 1% was invested in distressed opportunities.

Of the distributions received, 28% were from realisations in our co-investment portfolio, 30% from the venture capital and growth equity portfolio, 24% from the buyout portfolio, 10% from the secondaries portfolio and 8% from the distressed portfolio. At 30 June 2017 private equity represented 11.6% of the Future Fund's total assets.

Private equity markets are not immune to the low return environment we are experiencing, which is being compounded by investors' capital looking for high returning opportunities. We continue to believe that many segments of the market are not offering sufficient return for the risks we are expected to take, which is leading us to look for more idiosyncratic return opportunities.

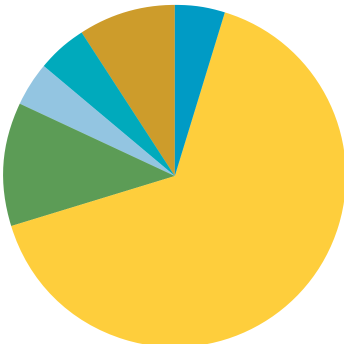
Our core area of focus remains the funding of innovation, disruptive business models and small company growth across both developed and emerging markets.

For a perspective on private equity and venture capital refer to a speech by Dr Raphael Arndt, Chief Investment Officer, titled 'Future Fund perspectives on private equity and venture', available on our website at www.futurefund.gov.au

We continue to look for highly disciplined managers with (among other attributes) experience in generating strong returns in volatile economic environments and who provide good access to co-investment opportunities but in doing so are focused on alternative, more innovative and less crowded means of getting capital to work in private companies.

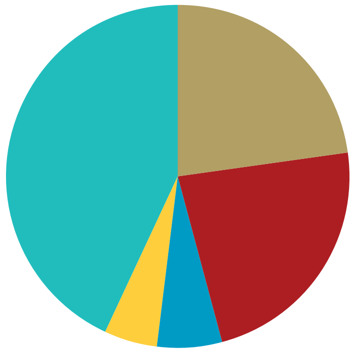
EXPOSURE AT 30 JUNE 2017

REGION



5% AUSTRALIA
66% UNITED STATES OF AMERICA
12% EUROPE (EX UK)
4% UNITED KINGDOM
5% DEVELOPED (OTHER)
9% EMERGING

STRATEGY



23% BUYOUT
23% CO-INVEST
6% DISTRESSED
5% SECONDARIES
43% VENTURE AND GROWTH

PROPERTY

STRATEGY

We invest globally in both direct and listed property. We primarily take equity positions, but will consider debt if we believe it is the best point of entry.

We seek aligned, experienced and disciplined managers and partners 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. These structures provide a high level of visibility to our individual asset positions and allow us to maintain some discretion over strategic decisions across a material proportion of the portfolio.

REPORT

Stronger growth in the US is leading to a gradual unwinding of accommodative monetary policy and a modest increase in interest rates. There are muted prospects of similar rises elsewhere in the developed world with Europe, the UK and Japan still adopting accommodative stances. There are divergences in emerging markets, but we only have modest property exposures in these markets.

There has been a reduction in transaction volumes in the global direct property markets as buyers adopt a more cautious stance on the expectation that prospective returns from property will be more modest, driven primarily by income and income growth as we near the top of the capital cycle.

Property markets have continued to experience consistent occupier demand, with reasonable rental growth in the US and emerging rental growth in Europe. Development activity is increasing, but it is mostly synchronised with demand.

Retail is under some pressure driven by demographic shifts, a cyclical rotation of retail concepts and the increasing penetration of e-commerce. Conversely the industrial sector has been in strong demand supported by the evolution of e-commerce.

Listed market volatility has been elevated for much of the year. In the US, rising interest rates post the election have created a headwind to the sector and a rotation from the traditional retail and office sectors to technology storage centres has created a significant dispersion across the sector. Political uncertainty has weighed heavily on the European and UK listed property markets.

Investors searching for yield continue to provide a tailwind for our existing portfolio. We continue to encourage our managers and partners to sell assets once they have executed their plan to take advantage of the positive market conditions. This is demonstrated by the successful sale of assets in the UK, Europe, US and Australia over the year, at prices mostly above our valuations.

Our portfolio remains diversified across sectors, with exposures primarily in the US and Australia. Our direct US portfolio has again generated a strong return driven by positive economic growth leading to improving occupier fundamentals. Our Australian portfolio has also benefited from a valuation uplift flowing from strong investor demand and the successful execution of asset business plans.

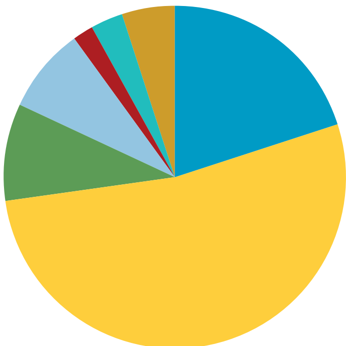
In 2016–17 we continued to reduce our exposure to the retail sector.

We are cautiously considering new investments, focusing on sectors with strong demographic and demand drivers. During the year we made new investments in US, European and Australian logistics, and US residential. We are also establishing a significant position in US senior housing.

We continue to be focused on managing our entry cost, such that we can generate attractive returns, even in an environment where interest rates rise. There continues to be a reward above core returns for those investors prepared to accept and solve for risk, for example through identifying and accepting development risk, and we are opportunistically seeking to exploit this.

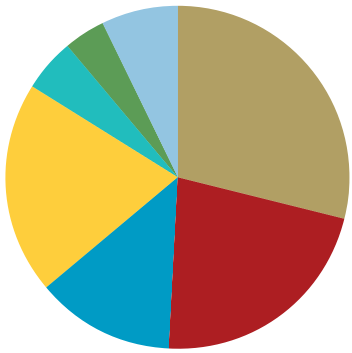
EXPOSURE AT 30 JUNE 2017

REGION



20% AUSTRALIA
53% UNITED STATES OF AMERICA
9% EUROPE (EX UK)
8% UNITED KINGDOM
2% JAPAN
3% DEVELOPED (OTHER)
5% EMERGING

SECTOR



29% RETAIL
22% OFFICE
13% INDUSTRIAL
20% RESIDENTIAL
5% DIVERSIFIED
4% HOTEL
7% OTHER

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 our investments 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
- co-investments with pooled funds
- multi-asset separate mandates
- direct investments with single asset managers
- listed infrastructure mandates.

REPORT

As at 30 June 2017 we had $10.7 billion of capital invested in infrastructure and timberland, representing 8% of the Future Fund. The strong market for core infrastructure and timberland assets has continued to drive returns, reflected particularly in the performance of our Australian assets which represent 49% of the portfolio.

During the year we invested over $2 billion in infrastructure and timberland including purchasing a 20% holding in the Port of Melbourne, a mature forestry asset in the United States and a renewable energy development portfolio in Australia. We also made further investments in our opportunistic infrastructure portfolio. In addition, we had $1.2 billion of undrawn capital committed to infrastructure funds, and a further $1 billion of available capacity in separate accounts.

Following the successful acquisition of an interest in the Port of Melbourne we, alongside our manager, have been working closely with management on transition plan implementation.

During the year we made investments in two solar farms and a wind farm development in Australia through our partnership with AGL and QIC, the Powering Australian Renewables Fund (PARF). PARF is targeting more than 1,000MW of large-scale renewable energy projects to support Australia's renewable energy capacity.

INFRASTRUCTURE

The global economy has continued to grow steadily during the year, and our transport-related infrastructure assets (such as airports, roads and ports) have seen reasonable growth. In particular, air passenger traffic growth has been robust globally, which is reflected in the strong performance of our airport investments in Australia and the United Kingdom.

Despite interest rates rising off all-time lows during the year, global demand for infrastructure assets continued to grow. In the 2011–2015 period this inflow of capital was focused primarily on assets with stable cash flow profiles and strong yields, steadily pushing down prospective returns from core assets such as regulated utilities. This trend led us to focus our new investment activity on more complex infrastructure opportunities and energy infrastructure where our managers could earn an attractive return through active management. At the same time we selectively reduced our exposure to core infrastructure where we could capture strong pricing on exit.

In the last year these pricing pressures have continued to build and spread further through the infrastructure market, and as a result we have seen our pace of investment in value add parts of the market slow as it becomes harder for our managers to find attractive opportunities.

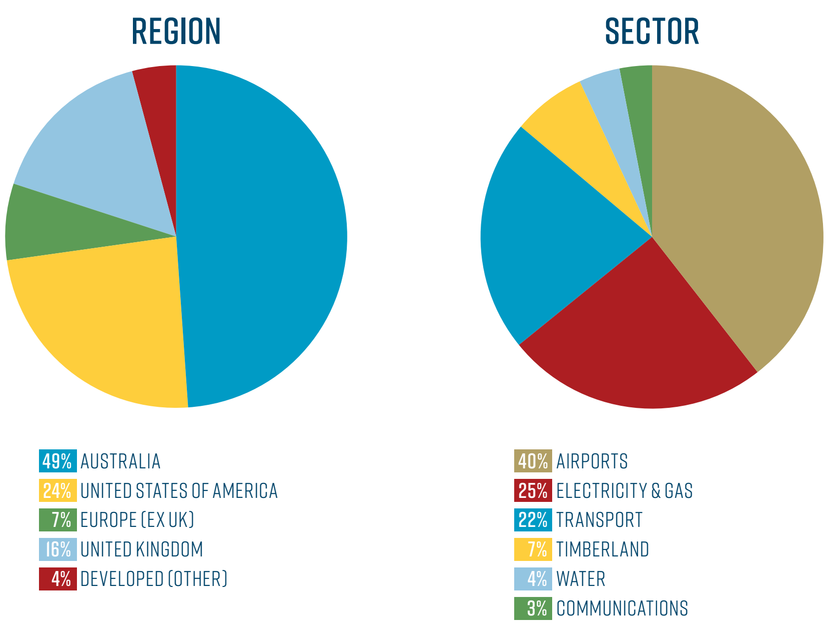
We see Australian infrastructure assets as a good fit for our mandate due to their Australian dollar denominated, inflation-linked cash flows, and this market will continue to be a focus for us for those reasons. Similar to the trends observed offshore, there is an influx of capital into Australian infrastructure that means competition for new investments remains keen. However, there has been a steady stream of large infrastructure asset privatisations that has helped balance demand and supply.

TIMBERLAND

We maintain our interest in timberland markets and continue to observe the US, Australia and New Zealand markets closely. Asset prices have remained full, supported by the strengthening economy and a recovery in the housing market, although we continue to observe less competition for larger-scale assets. The US timberland asset we acquired this year was of a scale that allowed our manager to make the investment in a high quality asset with an attractive risk-adjusted return.

Our Australian timberland investment has performed well, supported by Asian demand for log exports and continued strength in local housing construction. We continue to seek additional opportunities but remain price disciplined.

EXPOSURE AT 30 JUNE 2017



DEBT

STRATEGY

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

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

The breadth and complexity of the sectors within credit mean that our strategy will, with few exceptions, be implemented through discretionary mandates. These may be broad and multi-sector in nature or with specific thematic, regional or sector specialisation. The accumulation of a range of these capabilities creates access points through which we can dynamically orientate the portfolio to the most attractive opportunities.

Interest rate positioning is a total Fund risk consideration and is managed outside of the debt portfolio. The portfolio is therefore a return-seeking one which seeks to deliver attractive returns within a narrower range of outcomes (particularly to the downside) than equity-oriented investments.

REPORT

2016–17 was a strong year for credit assets around the world. Economic growth was steady, defaults low, and virtually every credit sub-sector, from investment grade to the riskiest classes of high yield, saw coupon income supplemented by strong capital gains. In this environment the debt portfolio performed well, paced by our substantial weightings to liquid sub-investment grade corporate and US securitised credit.

However, in the context of a debt portfolio, strong returns today mean reduced expected returns in the future. Last year we reported on our cautious optimism that some pockets of value had appeared within a somewhat expensive broader market. Our optimism has since weakened. While we appreciate that the somewhat slow but steady economic growth evident in many geographies is a good environment to be a lender, we have seen increased evidence that we are late in the credit cycle. This appears the case both in relevant metrics such as leverage and interest cover but also increasingly in anecdotes of competitive markets and reduced discipline. There remains a push among a broad range of investors to find what yield that remains in further reaches of the risk curve.

Our strategy is therefore one of caution and patience. We have reduced exposures which move beyond our assessment of fair risk/reward. Over the year we were net sellers, and the debt portfolio reduced from 11.6% of Fund assets to 10.6% as at 30 June 2017. Sales activity was relatively broad based, as we trimmed within investment grade and sub-investment grade corporate securities, as well as US securitised assets.

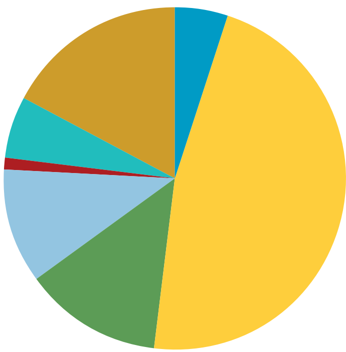
In 2016–17 we expanded our investments in emerging markets debt, adding a third dedicated manager to this space and increasing capital from 8% of debt to 17% over the year. Apart from the diversification that emerging markets sovereign and corporate bonds can provide to our portfolio, we continue to see improvement in the growth trajectory and policy environment of many emerging market nations. While flows to these sectors have been strong, we believe there is still sufficient fundamental value.

We continue to maintain a significant private debt program, predominantly invested in Europe and the US. During the year we made some minor changes to our US program, supplementing the subordinated debt focus with an investment in a private business development company which makes mainly senior loans in the US middle market. We also expanded our domestic lending as the program established in 2015–16 gained traction. Updates to banking and prudential regulation, in a similar fashion to other geographies, continue to influence how local banks interact with their corporate clients, with our capital targeting lending opportunities which may arise from these changes.

We continue to see realisations from our prior vintage of distressed debt investments and, while we do not believe it is imminent, have been positioning our portfolio to take advantage of a broader credit default cycle should one arise.

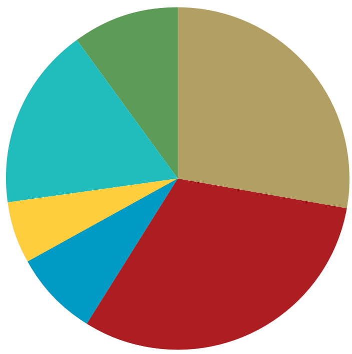
EXPOSURE AT 30 JUNE 2017

REGION



- 5% AUSTRALIA
- 47% UNITED STATES OF AMERICA
- 13% EUROPE (EX UK)
- 11% UNITED KINGDOM
- 1% JAPAN
- 6% DEVELOPED (OTHER)
- 17% EMERGING

STRATEGY



- 28% PRIVATE DEBT
- 31% SUB-INVESTMENT GRADE CORPORATE
- 8% MORTGAGE BACKED SECURITIES
- 6% OTHER SECURITISED
- 17% EMERGING MARKETS DEBT
- 10% CASH AND OTHER

ALTERNATIVES

STRATEGY

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

The opportunity set includes:

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

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

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

REPORT

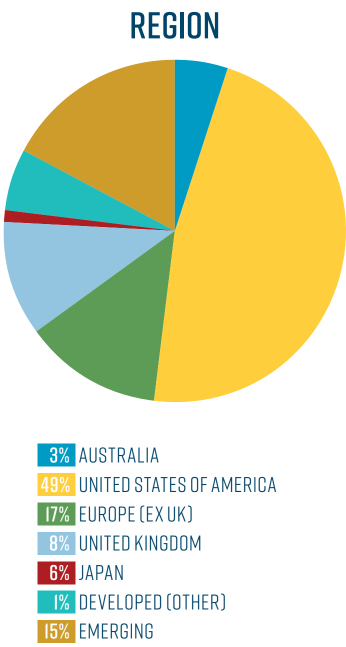
During 2016–17 the alternatives portfolio increased in size from 13.7% of Future Fund in 2015–16 to 14.8%. This growth included new manager appointments, although it mainly reflected additional allocations within our existing roster of strategies. Apart from the increase in capital, the strategic imperative was to maximise potential diversification at the total Fund level as efficiently as possible. The portfolio largely delivered on its objective, providing positive returns while displaying a slightly negative beta sensitivity to global equity markets, which rose strongly.

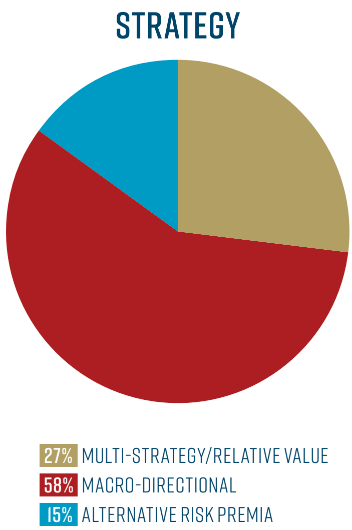
Our focus remains on adding to strategies where we have the strongest expectations for independent return streams: macro-directional and alternative risk premia. The alternative risk premia sub-sector expanded from a 10% to 15% weight within the alternatives portfolio, reflecting capital additions to existing programs implemented in prior years. Our goal is to identify and capture scalable risks where there is a clear economic rationale to expect a return for bearing such risks, be they within traditional asset markets (for example, various 'style premia' within equity markets) or non-traditional markets (such as reinsurance premia or royalty streams).

Activity within the largest sub-sector, macro-directional strategies, was also aimed at diversification. Our belief is that the forward environment for financial asset markets is potentially more volatile and the growth and monetary paths of regional economies more divergent than in the past. During the year our focus was primarily on additions to our discretionary macro program, where we believe managers and processes can profit under these conditions. Our program focused on new and early stage macro managers yielded another new allocation, while several other discretionary and systematic managers saw additional allocations.

The multi-strategy sub-sector saw a handful of changes, including the addition of a new manager as well as an expanded allocation to one added in the prior year. Both of these strategies offer a diverse collection of active management approaches, with strong capital and fee efficiency. We expect they will operate with very low levels of market exposure, aligned to our desire that the alternatives portfolio is diversifying to key risks embedded in the wider Fund.

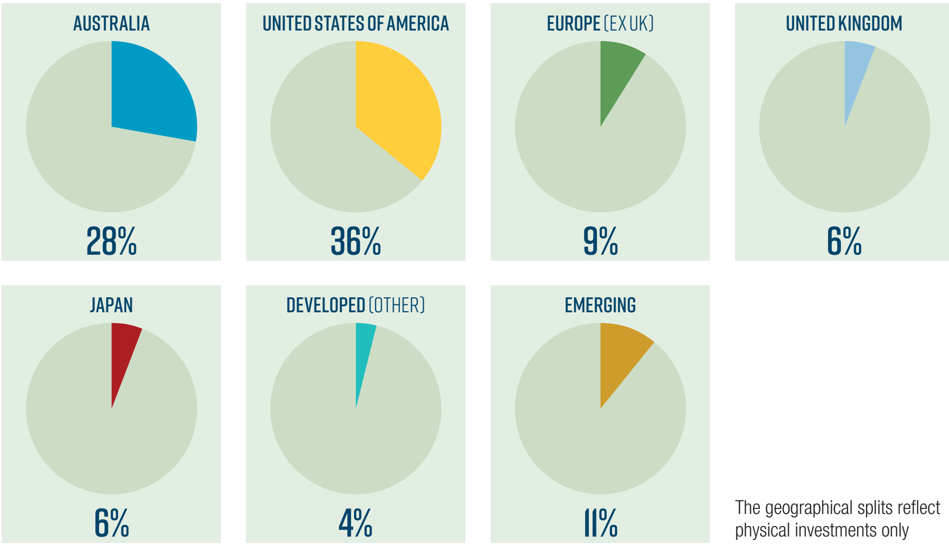
EXPOSURE AT 30 JUNE 2017





INVESTMENTS BY GEOGRAPHY

TOTAL INVESTMENTS BY GEOGRAPHY AT 30 JUNE 2017



The geographical splits reflect physical investments only

CURRENCY

As discussed on page 23, we explicitly manage the size and composition of the foreign currency exposures in the portfolio rather than allowing them to be shaped by our underlying investments.

At 30 June 2017, we held an exposure to foreign developed market currencies equivalent to 24.9% of the total Future Fund. We expect our basket of developed market currencies to diversify the portfolio against broad market risk and generate liquidity in adverse conditions.

We also held an exposure of 15.1% to emerging market currencies in the Future Fund on 30 June 2017. We expect a diversified exposure to emerging market currencies to deliver a modest excess return through some combination of gradual real effective exchange rate appreciation and/or positive real interest rate differentials relative to the Australian dollar. Given that we expect its performance to be uncorrelated with broad market risk over the long term, we consider our basket of emerging market currencies to be an attractive risk-adjusted exposure at portfolio level.

PERFORMANCE

The Future Fund generated investment returns of 8.7% in 2016–17, bringing the value of the Fund to $133.5 billion at 30 June 2017.

The Fund's investment returns to 30 June 2017 are shown below, together with the target benchmark return set by the Investment Mandate.

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.

THE FUTURE FUND'S RETURNS OVER VARIOUS TIMEFRAMES TOGETHER WITH THE BENCHMARK TARGET FOR EACH PERIOD

PERIOD TO 30 JUNE 2017	RETURN	BASELINE TARGET RETURN (CPI+4.5%)	VOLATILITY
May 2006	7.8% pa	6.9% pa	4.2%
Ten years	7.9% pa	6.9% pa	4.4%
Seven years	10.4% pa	6.6% pa	3.5%
Five years	11.6% pa	6.5% pa	3.5%
Three years	9.5% pa	6.0% pa	3.8%
2016–17 financial year	8.7% pa	6.4% pa	2.9%

BENCHMARKING PERFORMANCE

In accordance with our investment beliefs, we continue to focus on the risk-adjusted return objective set by the Investment Mandate.

This means that investment opportunities must be considered in the context of the contribution to the total portfolio risk-adjusted return rather than in the context of the relevant sector or asset class. This is an important feature of our investment approach.

At the same time, the skills of the management team in implementing the investment strategy, by producing a return in excess of the policy portfolio implied by the Target Asset Allocation, are measured and rewarded based on performance over three-year periods.

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.

Over the past three years the portfolio has returned 9.5% per annum, exceeding its mandated target return of 6.0% per annum. Over the same period, the actual portfolio outperformed the policy portfolio by +0.3% per annum.

COSTS

COST MANAGEMENT

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

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

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

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

DIRECT COSTS

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

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

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

SUMMARY OF DIRECT COSTS AND DIRECT COST RATIO

	2014–15	2015–16	2016–17
Direct costs	$367.9 million	$350.1 million	$383.1 million
Direct cost ratio	0.334%	0.295%	0.301%

LOOK-THROUGH COSTS

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

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

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

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

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

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

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

SUMMARY OF LOOK-THROUGH COSTS

2014–15	2015–16	2016–17
1.11%	0.90%	1.31%

DISCLOSURES UNDER THE *FUTURE FUND ACT 2006*

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

PURPOSE	AMOUNT DEBITED 2014–15	AMOUNT DEBITED 2015–16	AMOUNT DEBITED 2016–17
Contracts with investment managers	$306,448,408	$251,506,695	$254,382,038
Board remuneration and allowances	$851,573	$894,571	$908,032
Agency remuneration and allowances	$29,063,578	$34,988,290	$38,842,944
Consultants and advisers to the Board and Agency	$15,242,158	$24,475,120	$16,064,403
Agency operations	$22,463,821	$20,126,715	$23,646,429

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

MEDICAL RESEARCH FUTURE FUND

MEDICAL RESEARCH FUTURE FUND PERFORMANCE 2016–2017

MANDATE:

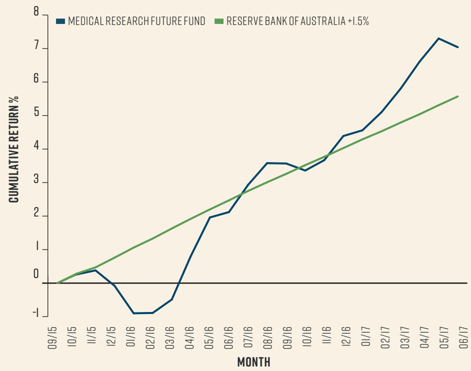
RESERVE BANK OF AUSTRALIA CASH RATE PLUS 1.5% TO 2.0% PER ANNUM OVER ROLLING 10-YEAR PERIODS WITH AN ACCEPTABLE BUT NOT EXCESSIVE LEVEL OF RISK.

4.8% RETURN FOR 2016–2017

3.9% PA RETURN SINCE INCEPTION

$0.2 BILLION EARNINGS FOR 2016–2017

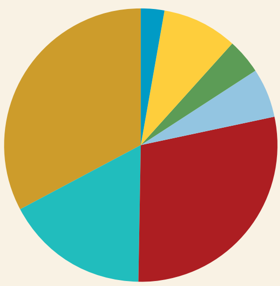
$0.3 BILLION EARNINGS SINCE INCEPTION



CASH FLOW HISTORY IN A$ AT 30 JUNE 2017

CONTRIBUTIONS		EARNINGS		WITHDRAWALS		BALANCE
4.4 BN	+	0.3 BN	–	0.1 BN	=	**4.6 BN**

MEDICAL RESEARCH FUTURE FUND ASSET ALLOCATION AT 30 JUNE 2017



- 3% AUSTRALIAN EQUITIES
- 9% DEVELOPED MARKETS
- 4% EMERGING MARKETS
- 6% PRIVATE EQUITY
- 29% DEBT SECURITIES
- 17% ALTERNATIVES
- 33% CASH

INTERPRETING THE INVESTMENT MANDATE

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

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

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

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

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

Early in the life of the Fund, we identified a suitable risk appetite and our intended approach to declaring Maximum Annual Distribution Amounts. In simple terms, we concluded that we should try to:

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

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

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

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

We understand that there is a strong desire to facilitate stability in distributions, and therefore achieving above benchmark returns with low levels of investment risk is attractive. This suggests that an ideal solution would be the construction of a well-diversified portfolio that is not overexposed to any one macroeconomic factor, asset class or region – except to the extent that the Australian dollar denomination of the Mandate indicates a preference for Australian-domiciled investments.

RISK POSITIONING

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

Given that we expect to receive further capital contributions from the Australian Government, it is important to note that the Medical Research Future Fund remains in a building phase and we expect that its portfolio construction will be further refined over time.

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

EEE estimates the 'look-through' sensitivity of the portfolio to price movements in global equity markets. A simple proxy for an investment portfolio with a EEE of 50 is one comprised of 50% Australian cash and 50% global equities (hedged back to the Australian dollar).

Our expected EEE range for the Medical Research Future Fund is 20 to 35. The average EEE in 2016–17 was 25 and at 30 June 2017 the EEE stood at 25, consistent with a moderately lower than average risk exposure that reflects our cautious outlook on the investment environment.

***Note:** Equivalently, a portfolio that comprised 57% global equities (hedged back to the Australian dollar) and 43% nominal sovereign bonds (hedged back to the Australian dollar) would also have an EEE of 50 because sovereign bonds are defensive and reduce its EEE.

INVESTMENT REVIEWS

LISTED EQUITY

STRATEGY

The opportunity set for the listed equity portfolio includes all listed equity-related strategies:

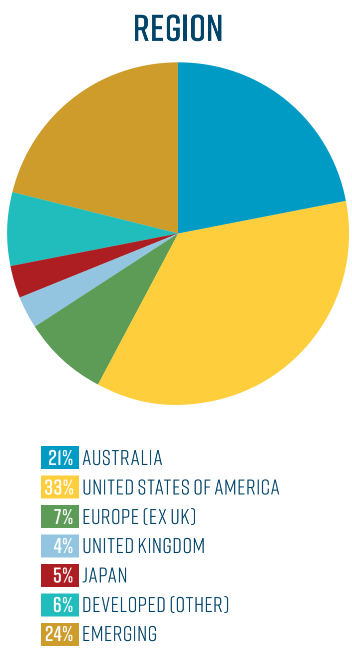
- Australian, developed, emerging and frontier markets
- active and passive long-only managers, long/short and other equity-related hedge fund strategies which may be undertaken in partnership with a broad range of investment organisations from start-up boutiques through to large and long established global firms
- physical and synthetic investments.

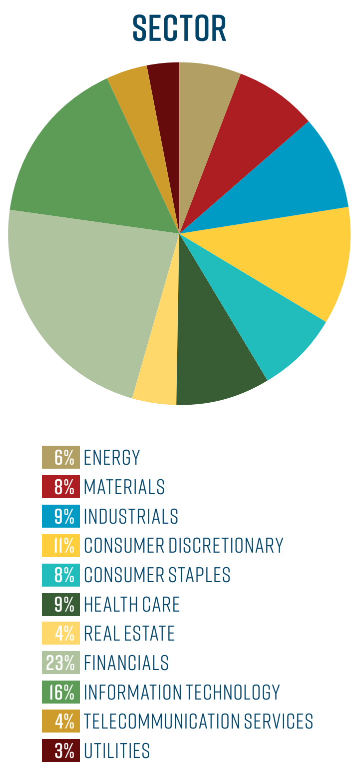
REPORT

The listed equity portfolio is valued at $729 million as at 30 June 2017. The portfolio, as a percentage of the total Medical Research Future Fund, has increased from 11.3% at 30 June 2016 to 15.8% at 30 June 2017. This change reflects a combination of strong equity market returns plus a cash inflow from the Government in August 2016 which was partially invested in listed equities.

Reflecting its differing Investment Mandate, the Listed Equity portfolio is structured differently to that of the Future Fund. The Medical Research Future Fund's portfolio is concentrated in developed markets. The Australian equities portfolio is passively managed and is comprised of physical assets. We believe that it is important to be cost efficient and flexible, particularly while the Fund is relatively small and the strategy is still being built. For this reason we have decided to fully replicate the market beta and we have achieved this in offshore markets through the use of both physical assets and futures. We may seek in the future to invest in active management including both long-only and long/short strategies.

EXPOSURE AT 30 JUNE 2017





PRIVATE EQUITY

STRATEGY

In 2015–16 the Fund purchased $233 million of mature private equity positions (plus $194 million of unfunded commitments) from Future Fund, as part of a broader rebalancing sale process conducted by Future Fund.

Following the acquisition in 2015–16, we are building a highly concentrated portfolio of private equity exposures, the majority of which will come from a subset of the Future Fund relationships.

REPORT

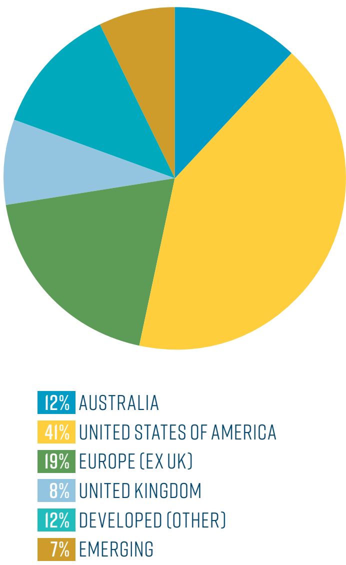
As of 30 June 2017 the Medical Research Future Fund had $296 million of capital (invested plus committed) with 12 private equity managers. During the year we allocated $30 million to one new manager. Invested capital increased from $240 million to $256 million over the course of the year, reflecting $22 million of capital calls, $38 million of distributions and $32 million of unrealised asset value appreciation. Unfunded commitments increased from $40 million to $50 million over the course of the year.

Of the capital called, 66% was for buyout opportunities, and 34% was for secondaries. 99% of the distributions received were from the secondaries portfolio.

As at 30 June 2017 private equity represented 6% of the Medical Research Future Fund's total assets.

EXPOSURE AT 30 JUNE 2017

REGION



DEBT

STRATEGY

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

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

The breadth and complexity of the sectors within credit mean that our strategy will, with few exceptions, be implemented through discretionary mandates. These may be broad and multi-sector in nature or with specific thematic, regional or sector specialisation. The accumulation of a range of these capabilities creates access points through which we can dynamically orientate the portfolio to the most attractive opportunities.

Interest rate positioning is a total Fund risk consideration and is managed outside of the debt portfolio. The portfolio is therefore a return-seeking one which seeks to deliver attractive returns within a narrower range of outcomes (particularly to the downside) than equity-oriented investments.

The debt allocation also serves as a placeholder and funding source as other asset class portfolios are established and developed.

REPORT

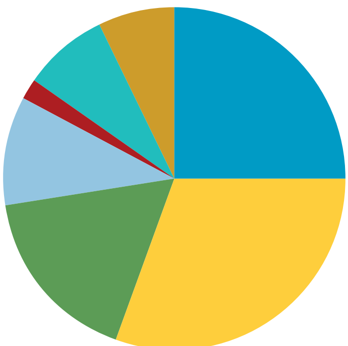
Taking account of the Investment Mandate of the Medical Research Future Fund, which has a lower risk profile than the Future Fund, our focus has been to build the portfolio with an emphasis on domestic and global investment grade credit. This establishes a base of attractive yield around which a longer-term portfolio may be constructed.

During 2016–17, this was supplemented and diversified with initial allocations to each of private lending and emerging markets debt.

The Fund's debt portfolio is maturing, with exposures established to the majority of sub-sectors that we expect will feature over time. We expect to add a mandate featuring liquid, sub-investment grade credit in the coming year.

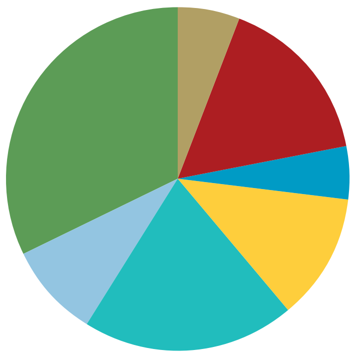
EXPOSURE AT 30 JUNE 2017

REGION



25% AUSTRALIA
30% UNITED STATES OF AMERICA
17% EUROPE (EX UK)
10% UNITED KINGDOM
2% JAPAN
8% DEVELOPED (OTHER)
7% EMERGING

STRATEGY



6% PRIVATE DEBT
16% INVESTMENT GRADE CORPORATE
5% SUB-INVESTMENT GRADE CORPORATE
12% MORTGAGE BACKED SECURITIES
20% OTHER SECURITISED
9% EMERGING MARKETS DEBT
32% CASH AND OTHER

ALTERNATIVES

STRATEGY

The opportunity set includes:

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

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

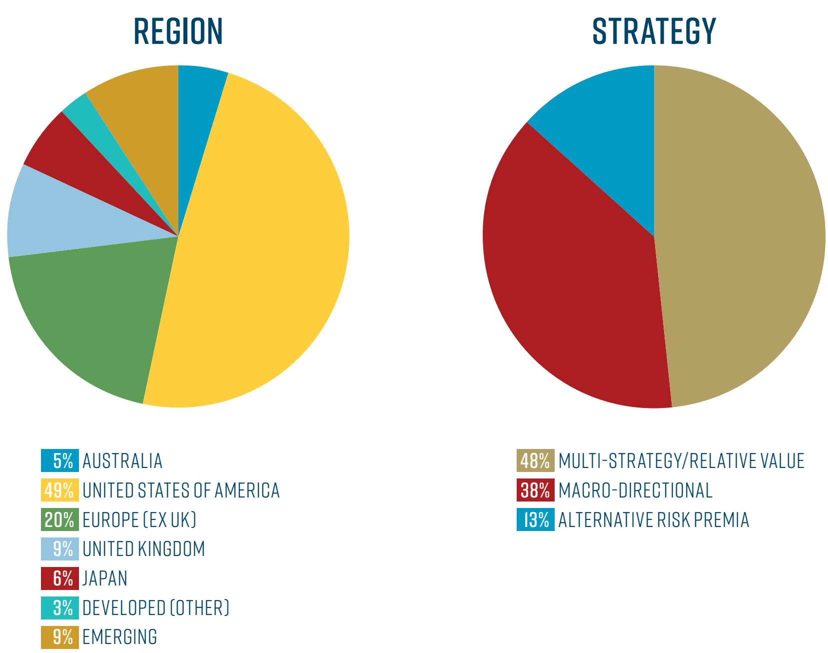
We recognise that active manager skill is scarce, but also valuable as the ability to capture skill helps maximise the risk-adjusted performance of the total Fund. We take a value based approach to evaluating the costs of acquisition of such return streams – that is, management and performance fees.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

REPORT

The alternatives allocation in the Medical Research Future Fund fulfils a similar role to that of the Future Fund, which is the provision of a return stream which offers a diversification benefit at the total Fund level.

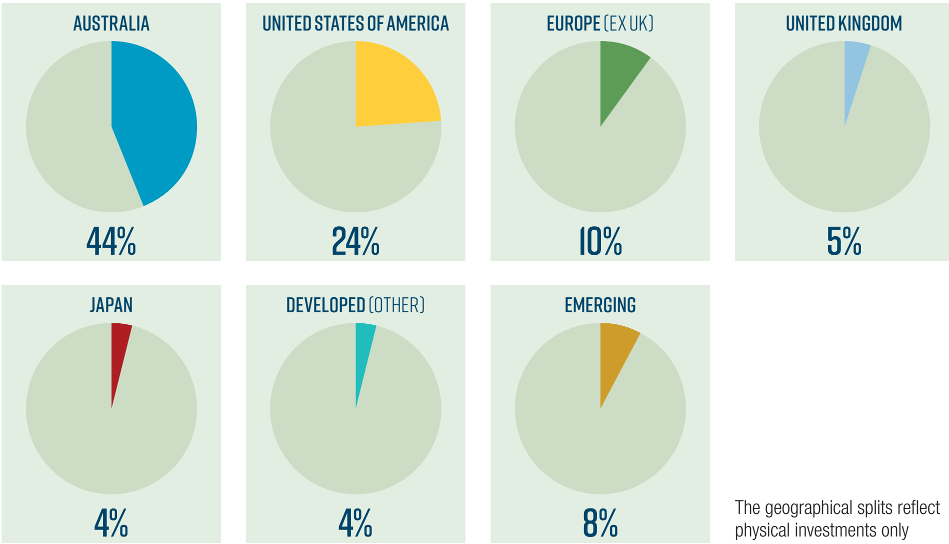
2016–17 saw the alternatives allocation expanded in scale and diversified through new allocations across all sectors. Two additional macro managers were added, as was a new manager in the multi-strategy sub-sector, all of which are existing managers in the Future Fund. We have now established an initial exposure to a reinsurance manager, part of the alternative risk premia sub-sector that will be expanded in the coming year. The overall objective remains to provide stable, diversifying earnings which can support regular distributions.

EXPOSURE AT 30 JUNE 2017



INVESTMENT BY GEOGRAPHY

TOTAL INVESTMENTS BY GEOGRAPHY AT 30 JUNE 2017



The geographical splits reflect physical investments only

CURRENCY

As discussed on page 23, we explicitly manage the size and composition of the foreign currency exposures in the portfolio rather than allowing them to be shaped by our underlying investments.

At 30 June 2017, we held an exposure to foreign developed market currencies equivalent to 12.8% of the total Medical Research Future Fund. We expect our basket of developed market currencies to diversify the portfolio against broad market risk and generate liquidity in adverse conditions.

We also held an exposure of 4.6% to emerging market currencies in the Medical Research Future Fund at 30 June 2017. We expect a diversified exposure to emerging market currencies to deliver a modest excess return through some combination of gradual (but incremental) real effective exchange rate appreciation and/or positive real interest rate differentials relative to the Australian dollar. Given that we expect its performance to be uncorrelated with market risk over the long term, we therefore consider our basket of emerging market currencies to be an attractive risk-adjusted exposure at portfolio level.

PERFORMANCE

In 2016–17 the Medical Research Future Fund generated an investment return of 4.8%, exceeding its target benchmark of 3.0%.

The Fund received a contribution of $1.3 billion from the Government in August 2016, and at 30 June 2017 was valued at $4.62 billion.

COSTS

COST MANAGEMENT

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

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

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

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

DIRECT COSTS

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

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

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

We began building out and diversifying the Fund's portfolio during the year, including increasing its exposure to private equity and alternatives.

SUMMARY OF DIRECT COSTS AND DIRECT COST RATIO

	2015–16 (22 SEPTEMBER TO 30 JUNE 2016)	2016–17
Direct costs	\$3.3 million	\$10.1 million
Direct cost ratio	0.160%	0.231%

LOOK-THROUGH COSTS

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

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

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

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

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

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

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

SUMMARY OF LOOK-THROUGH COSTS

	2015–16 (22 SEPTEMBER TO 30 JUNE 2016)	2016–17
	0.03%	0.56%

DISCLOSURES UNDER THE *FUTURE FUND ACT 2006*

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

PURPOSE	AMOUNT DEBITED 2015–16	AMOUNT DEBITED 2016–17
Contracts with investment managers	$1,408,635	$7,532,456
Board remuneration and allowances	-	-
Agency remuneration and allowances	-	-
Consultants and advisers to the Board and Agency	-	-
Agency operations	$141,833	$2,017,154

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

DISABILITYCARE AUSTRALIA FUND

DISABILITYCARE AUSTRALIA FUND PERFORMANCE 2016–2017

MANDATE:

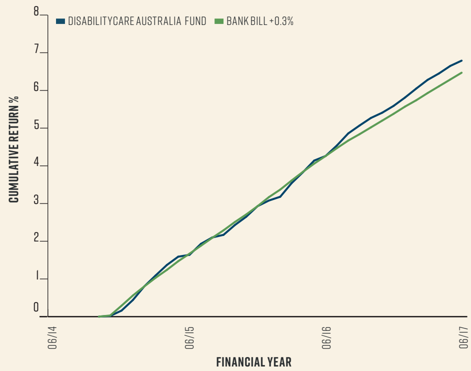
AUSTRALIAN BANK BILL SWAP RATE PLUS 0.3% PER ANNUM CALCULATED ON A ROLLING 12-MONTH BASIS WHILE MINIMISING THE PROBABILITY OF CAPITAL LOSS.

2.4% RETURN FOR 2016–2017

2.6% PA RETURN SINCE INCEPTION

$0.1 BILLION EARNINGS FOR 2016–2017

$0.3 BILLION EARNINGS SINCE INCEPTION



CASH FLOW HISTORY IN A$ AT 30 JUNE 2017

CONTRIBUTIONS		EARNINGS		WITHDRAWALS		BALANCE
10.1 BN	+	0.3 BN	-	0 BN	=	**10.4 BN**

INTERPRETING THE INVESTMENT MANDATE

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

In summary, the Mandate:

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

RISK POSITIONING

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

Consistent with these obligations we invest the assets of the Fund in combinations of short and medium-term debt instruments that reflect the specific withdrawal and liquidity expectations of the Fund.

INVESTMENT REVIEW

STRATEGY

To date the DisabilityCare Australia Fund has received contributions of $10.1 billion from the Government. From 2016–17 the Fund has been expected to be called upon to fund cash flows related to National Disability Insurance Scheme spending. Accordingly, we invest the Fund to provide an ample liquidity buffer to support these outflows.

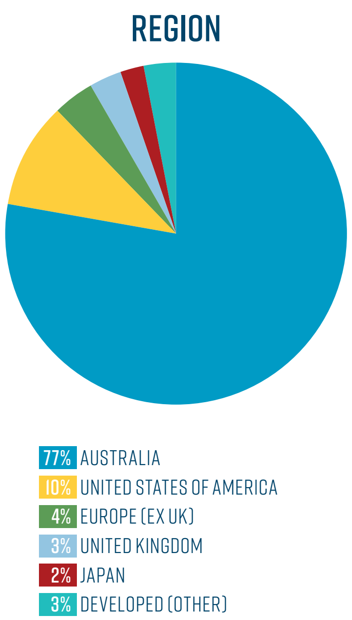
Our core strategy is to invest in a combination of short and medium-term domestic and global debt instruments, providing some yield above the base cash rates while maintaining a high quality, liquid and defensive profile.

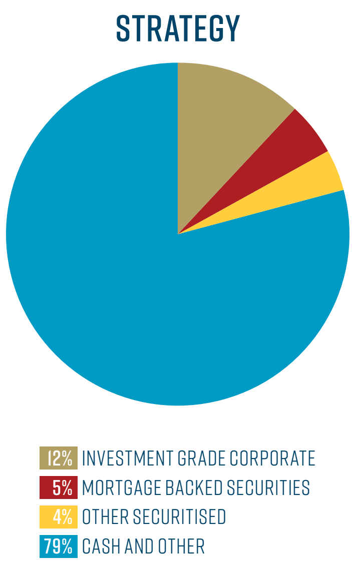
REPORT

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

The Fund received a single inflow during the year, in June 2017, which was invested in accordance with our strategy.

EXPOSURE AT 30 JUNE 2017





PERFORMANCE

In 2016–17 the DisabilityCare Australia Fund generated an investment return of 2.4%, exceeding its benchmark of 2.1%.

The Fund received a capital contribution of $4.2 billion from the Government on 27 June 2017. The value of the Fund was $10.40 billion at 30 June 2017.

COSTS

COST MANAGEMENT

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

All returns reported are net of costs.

DIRECT COSTS

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

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

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

SUMMARY OF DIRECT COSTS AND DIRECT COST RATIO

	2014–15 (1 DECEMBER 2014 TO 30 JUNE 2015)	2015–16	2016–17
Direct costs	$1.1 million	$3.9 million	$4.7 million
Direct cost ratio	0.058%	0.083%	0.072%

DISCLOSURES UNDER THE *FUTURE FUND ACT 2006*

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

PURPOSE	AMOUNT DEBITED 2014–15	AMOUNT DEBITED 2015–16	AMOUNT DEBITED 2016–17
Contracts with investment managers	$449,454	$2,984,313	$4,664,201
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$118	$1,670	$868,195

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

NATION-BUILDING FUNDS

BUILDING AUSTRALIA FUND PERFORMANCE 2016–2017

MANDATE:

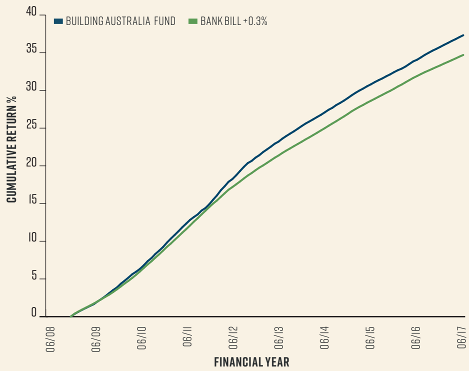
AUSTRALIAN BANK BILL SWAP RATE PLUS 0.3% PER ANNUM OVER ROLLING 12-MONTH PERIODS WHILE MINIMISING THE PROBABILITY OF CAPITAL LOSS.

2.4% RETURN FOR 2016–2017

3.8% PA RETURN SINCE INCEPTION

$0.1 BILLION EARNINGS FOR 2016–2017

$2.1 BILLION EARNINGS SINCE INCEPTION



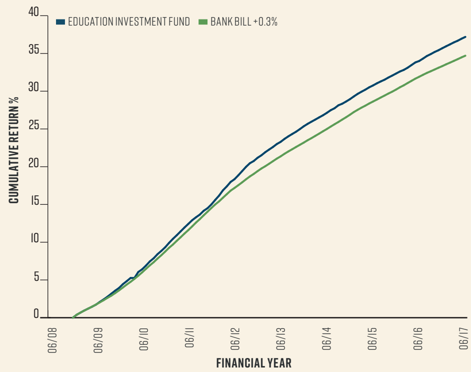
CASH FLOW HISTORY IN A$ AT 30 JUNE 2017

CONTRIBUTIONS		EARNINGS		WITHDRAWALS		BALANCE
10.9 BN	+	2.1 BN	-	9.2 BN	=	**3.8 BN**

EDUCATION INVESTMENT FUND PERFORMANCE 2016–2017

MANDATE:

AUSTRALIAN BANK BILL SWAP RATE PLUS 0.3% PER ANNUM OVER ROLLING 12-MONTH PERIODS WHILE MINIMISING THE PROBABILITY OF CAPITAL LOSS.



2.4% RETURN FOR 2016–2017

3.8% PA RETURN SINCE INCEPTION

$0.1 BILLION EARNINGS FOR 2016–2017

$1.5 BILLION EARNINGS SINCE INCEPTION

CASH FLOW HISTORY IN A$ AT 30 JUNE 2017

CONTRIBUTIONS		EARNINGS		WITHDRAWALS		BALANCE
6.5 BN	+	1.5 BN	–	4.2 BN	=	**3.8 BN**

INTERPRETING THE INVESTMENT MANDATE

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

In summary, each Mandate:

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

RISK PROFILE

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

Consistent with these obligations we invest the assets of each of the Funds in combinations of short and medium-term debt instruments that reflect the specific withdrawal and liquidity expectations of each Fund.

INVESTMENT REVIEW

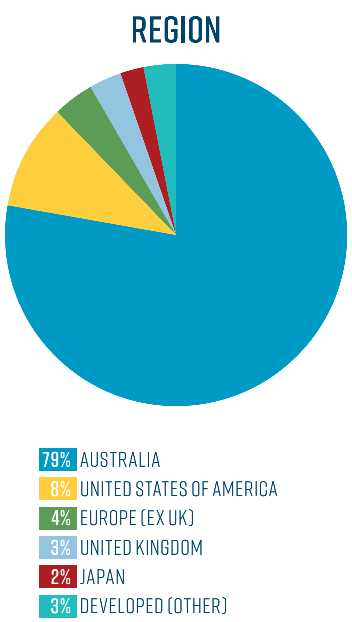
STRATEGY

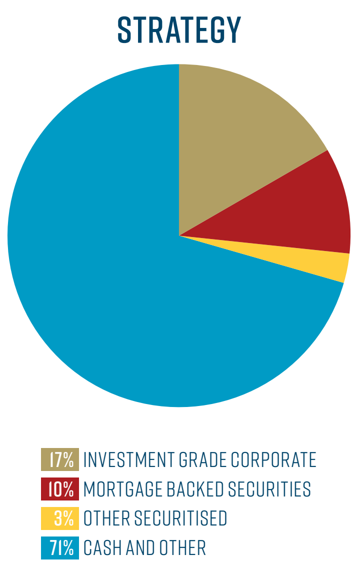
Our core strategy is to invest in a combination of short and medium-term domestic and global debt instruments, providing some yield above the base cash rates while maintaining a high quality, liquid and defensive profile. This profile facilitates periodic withdrawals in accordance with program spending.

REPORT

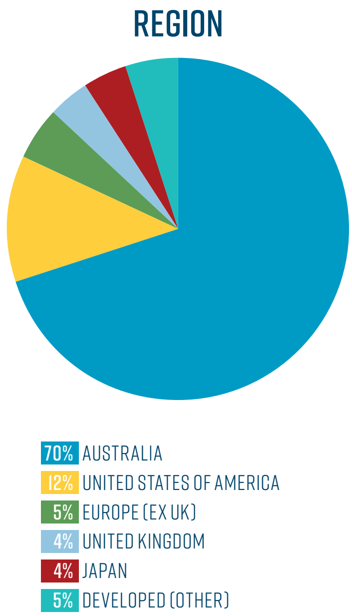
We continue to manage the Funds in accordance with their Mandates, with little activity during the period. Outflows from the Funds have slowed, although the portfolios continue to be positioned in a highly liquid manner.

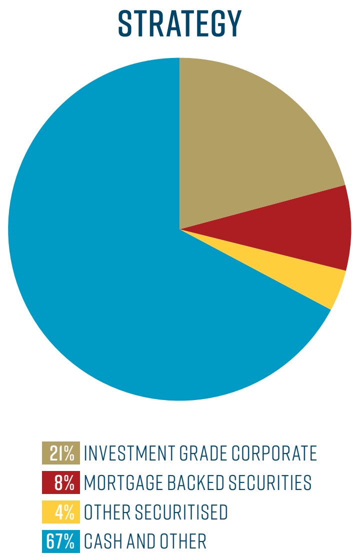
BUILDING AUSTRALIA FUND EXPOSURE AT 30 JUNE 2017





EDUCATION INVESTMENT FUND EXPOSURE AT 30 JUNE 2017





PERFORMANCE

The benchmark return for each of the Nation-building Funds in 2016–17 was 2.1%. Both Funds met this benchmark, each achieving a return of 2.4%.

The value of the Building Australia Fund was $3.79 billion at 30 June 2017.

The value of the Education Investment Fund was $3.79 billion at 30 June 2017.

COSTS

COST MANAGEMENT

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

All returns reported are net of costs.

DIRECT COSTS

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

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

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

SUMMARY OF DIRECT COSTS AND DIRECT COST RATIO

BUILDING AUSTRALIA FUND

	2014–15	2015–16	2016–17
Direct costs	$3.5 million	$3.6 million	$3.6 million
Direct cost ratio	0.104%	0.097%	0.097%

EDUCATION INVESTMENT FUND

	2014–15	2015–16	2016–17
Direct costs	$4.4 million	$3.9 million	$3.8 million
Direct cost ratio	0.117%	0.106%	0.102%

DISCLOSURES UNDER THE *FUTURE FUND ACT 2006*

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

BUILDING AUSTRALIA FUND

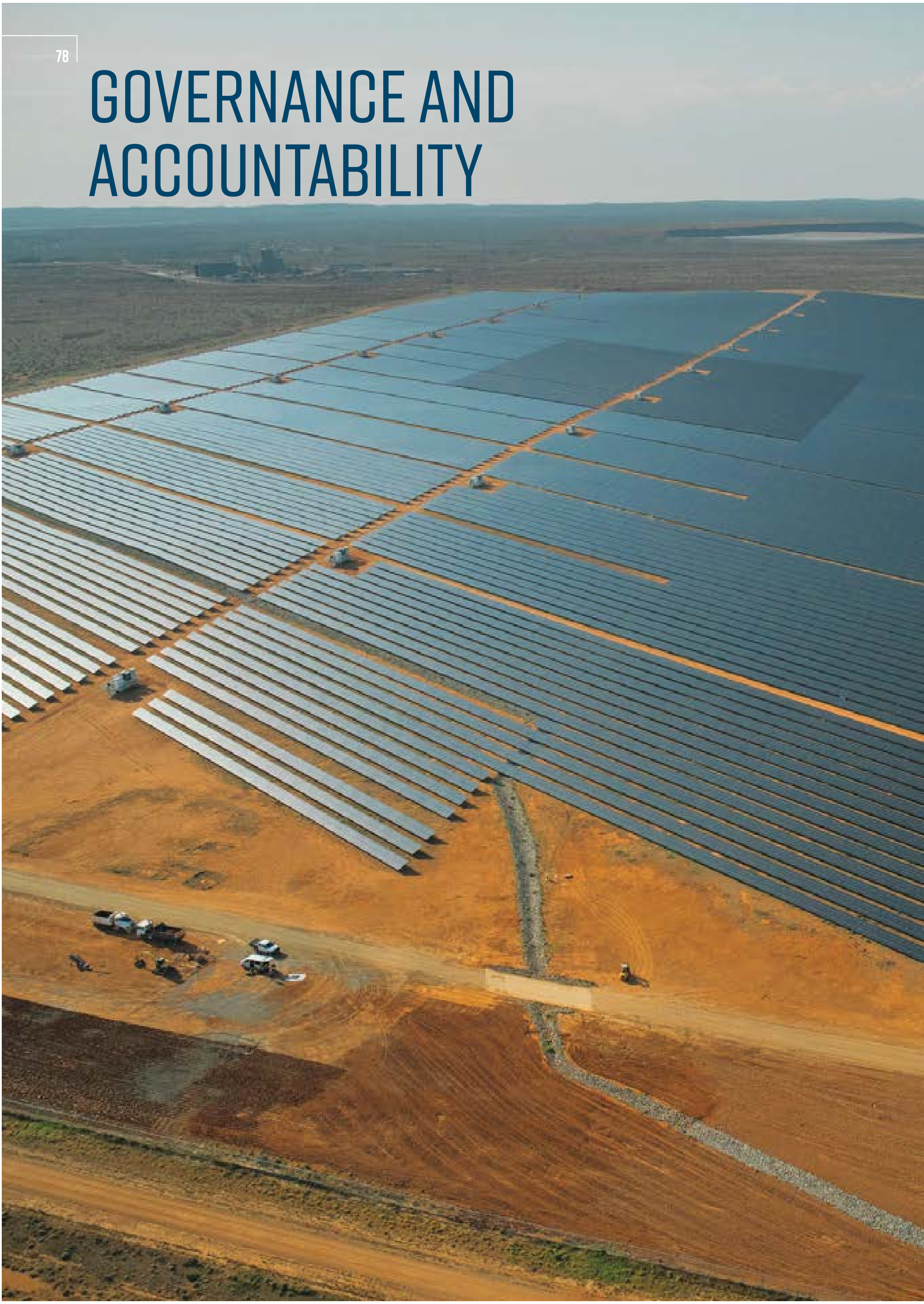
PURPOSE	AMOUNT DEBITED 2014–15	AMOUNT DEBITED 2015–16	AMOUNT DEBITED 2016–17
Contracts with investment managers	$3,669,988	$3,522,928	$3,486,610
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$270,629	$208,781	$358,894

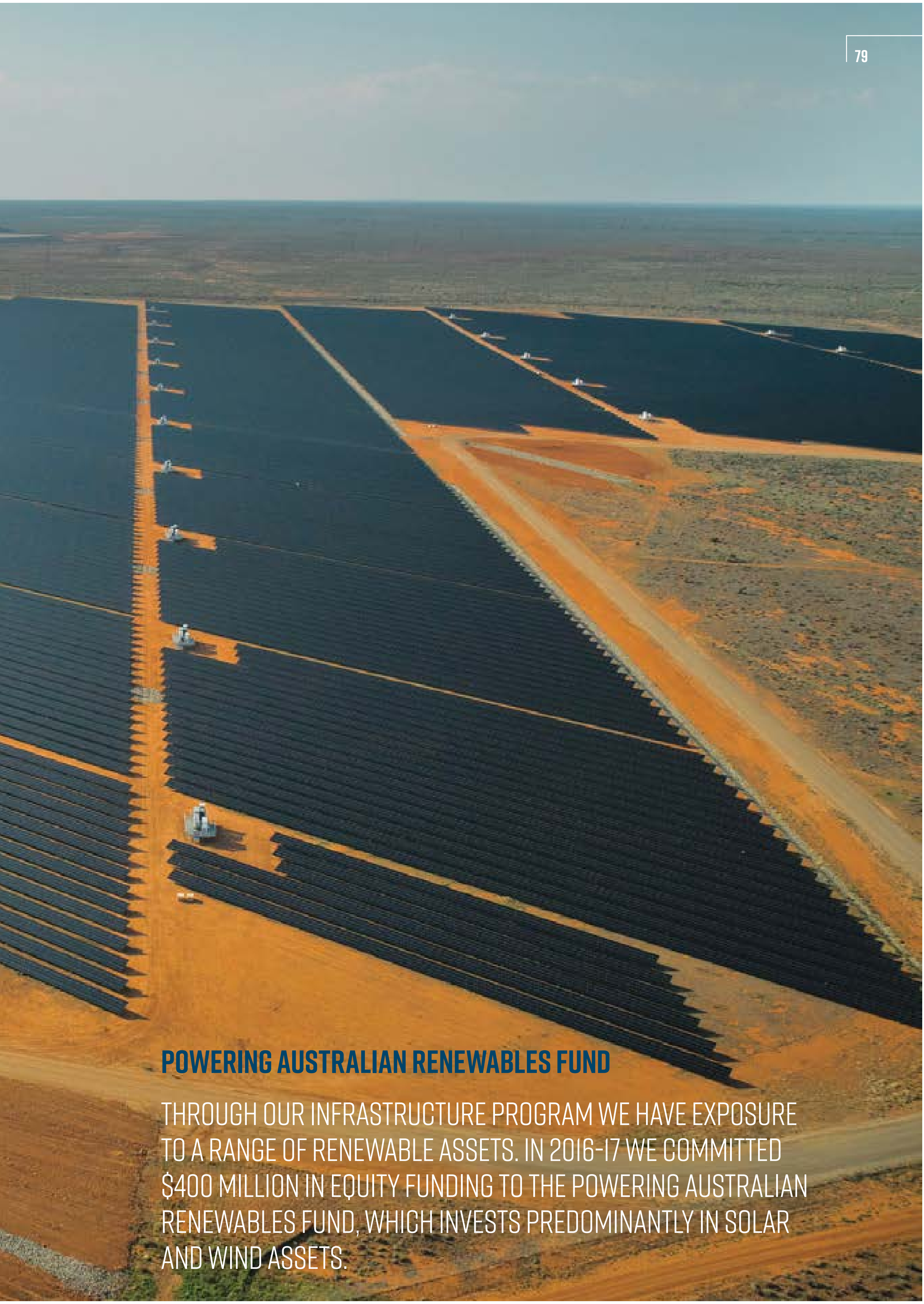
EDUCATION INVESTMENT FUND

PURPOSE	AMOUNT DEBITED 2014–15	AMOUNT DEBITED 2015–16	AMOUNT DEBITED 2016–17
Contracts with investment managers	$4,587,586	$3,923,777	$3,693,845
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$284,549	$270,836	$361,726

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

GOVERNANCE AND ACCOUNTABILITY





POWERING AUSTRALIAN RENEWABLES FUND

THROUGH OUR INFRASTRUCTURE PROGRAM WE HAVE EXPOSURE TO A RANGE OF RENEWABLE ASSETS. IN 2016-17 WE COMMITTED $400 MILLION IN EQUITY FUNDING TO THE POWERING AUSTRALIAN RENEWABLES FUND, WHICH INVESTS PREDOMINANTLY IN SOLAR AND WIND ASSETS.

GOVERNANCE

THE STATUTORY GOVERNANCE ARRANGEMENTS FOR THE FUNDS ARE SET OUT PRIMARILY IN THE *FUTURE FUND ACT 2006*, THE *MEDICAL RESEARCH FUTURE FUND ACT 2015*, THE *DISABILITYCARE AUSTRALIA FUND ACT 2013* AND THE *NATION-BUILDING FUNDS ACT 2008*.

This core legislation sets out the roles and responsibilities of the government and of the Board and the Agency. From 1 July 2014, the *Public Governance, Performance and Accountability Act 2013* applied to the Board and Agency and together with Commonwealth regulations, guidelines, procedures and orders established arrangements for delegations and authorities, spending and the accounting treatment of costs, liabilities, income and expenses. The *Public Governance, Performance and Accountability Act 2013* replaced the *Financial Management and Accountability Act 1997*.

The core 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 sets out the arrangements for contributions to the various Funds.

The Board is responsible for investing the assets of the Funds in accordance with the legislation. To assist it in this role, the Board receives recommendations and advice from the Agency which is also responsible for implementing the Board's investment decisions.

The Board operates independently from 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.

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.

More broadly, we are a founding member of the International Forum of Sovereign Wealth Funds (IFSWF) and fully implement the Santiago Principles. The Santiago Principles provide a framework of generally accepted principles and practices for sovereign funds that properly reflect the appropriate governance and accountability arrangements as well as the conduct of investment practices on a prudent and sound basis.

ACCOUNTABILITY

The legislation provides accountability arrangements for the organisation, including the tabling in Parliament of an Annual Report and audited financial statements. We also publish quarterly portfolio updates to provide details of the investment activity and performance of our Funds. Other public updates are provided in the form of published speeches and comment to the media. We are required to keep the responsible Ministers informed of the operations of the organisation. The nominated Minister may also, by written notice, require us to prepare reports or provide information on specified matters relating to the performance of our functions and have these published.

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 our organisation. These documents further delineate the responsibilities and communication arrangements between the parties and are available on our website.

We routinely appear before public Estimates Hearings of the Senate Committee on Finance and Public Administration to provide the Committee with updates on our operations and the performance of the Funds. During the 2016–17 financial year, we appeared at hearings in October 2016, February 2017 and May 2017. These public hearings are based upon the Outcome and Output structure detailed in the Portfolio Budget Statements.

BOARD OF GUARDIANS

As at 30 June 2017 the Board consisted of a Chair and five other members. Mr Steven Harker served as a member of the Board during the 2016–17 year, with his term ending on 2 April 2017.

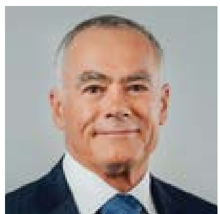
Members are appointed by the Treasurer and the Minister for Finance and selected for their expertise in investing in financial assets, managing investments and corporate governance.

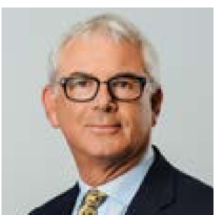
Board members are appointed on a part-time basis for a term of up to five years and are eligible to be reappointed.


HON PETER COSTELLO AC


MS ERIN FLAHERTY


MS CAROLYN KAY


MR JOHN POYNTON AO


MR MICHAEL WACHTEL


DR JANE WILSON


MR STEVEN HARKER

HON PETER COSTELLO AC
CHAIRMAN

Mr Costello was first appointed to the Board with effect from 18 December 2009. He was appointed acting Chair 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 Council, the APEC Finance Ministers, and a Governor of the IMF, World Bank and Asian Development Bank.

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

Mr Costello is the Chairman of Nine Entertainment Co. and 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 ERIN FLAHERTY

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

Ms Flaherty has extensive experience in corporate governance, finance, infrastructure and law, including most recently as Deputy Chief Executive at Reliance Rail and Executive Director at Infrastructure NSW. Ms Flaherty is a member of the advisory boards for North West Rail and Sydney Metro. Her current appointments include National Chair, Professional Scholarship Selection Committee of the Australian-American Fulbright Commission and Non-Executive Director of the Australian Youth Orchestra and PCYC NSW.

MS CAROLYN KAY

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

Ms Kay has more than 30 years' experience in the finance sector both in executive and non-executive roles, including working as a banker and as a lawyer at Morgan Stanley, JP Morgan and Linklaters & Paines in London, New York and Australia. Most recently she was a Director of the Commonwealth Bank of Australia and Infrastructure NSW. Ms Kay is currently a Director of Allens Linklaters, Brambles, John Swire & Sons P/L, Scentre Group, the Australia-China Council and a number of not-for-profit organisations. She was awarded a Centenary Medal for services to business.

MR JOHN POYNTON AO

Mr Poynton was appointed with effect from 4 February 2014 for a five-year term.

Mr Poynton is Chair of Jindalee Partners, Strike Energy Limited and SC8 Limited. He is also the Chairman of Council of Christ Church Grammar School and Giving West and has previously served as the Chairman, Deputy Chairman or Non-Executive Director of a number of ASX listed companies, Federal Government boards, education institutions and not-for-profit enterprises. Mr Poynton is an Officer in the General Division of the Order of Australia and is a past recipient of a WA Citizen of the Year award in the industry and commerce category. He holds a Bachelor of Commerce and an honorary Doctor of Commerce from the University of Western Australia.

MR MICHAEL WACHTEL

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

Mr Wachtel's primary business experience is global in nature and predominately in the area of large complex international business. Through various leadership roles in the professional services industry he has extensive experience in organisational leadership, finance, risk management and governance, including as a former Chair (Asia Pacific & Oceania) of Ernst & Young (EY) and a member of the EY Global Governance Council & Global Risk Executive Committee. He is currently retained as a Senior Advisor to Credit Suisse (Australia). He is a board member of the Australian Centre for the Moving Image (ACMI) and the St Vincent's Medical Research Institute, and a past President of the International Fiscal Association (IFA Australia).

DR JANE WILSON

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

Dr Wilson has had a distinguished career as an independent Director with a background in finance, banking and medicine. Dr Wilson is a non-executive Director of Transurban and an independent Director of Sonic Healthcare Ltd, Opal Aged Care Ltd and the General Sir John Monash Foundation. She was Deputy Chancellor of the University of Queensland and has previously served on boards of ASX-listed companies, Government-owned Corporations and not-for-profit companies. Dr Wilson was awarded the 2016 Australian Institute of Company Directors Queensland Gold Medal Award for contribution to business and the wider community.

MR STEVEN HARKER

Mr Harker was appointed with effect from 3 April 2012 for a five-year term. His term concluded on 2 April 2017.

Mr Harker has a deep understanding of global financial markets and substantial expertise in investment banking and asset management. Mr Harker is Vice Chairman of Morgan Stanley Australia.

Details of the membership of the Board and of Board Committees, which the Board operates to assist it in its work, are shown below.

BOARD AND BOARD COMMITTEE MEMBERSHIP 2016–17

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

1. Board term expired on 2 April 2017.
2. Hon Peter Costello AC attends meetings as an observer.
3. Committee membership ceased as at 2 April 2017 due to Board term expiring.

BOARD AND BOARD COMMITTEE ATTENDANCE 2016–17

MEMBER	FUTURE FUND BOARD OF GUARDIANS		AUDIT & RISK COMMITTEE		REMUNERATION & NOMINATIONS COMMITTEE	
	MEETINGS HELD AND ELIGIBLE TO ATTEND AS A MEMBER	ATTENDED	MEETINGS HELD AND ELIGIBLE TO ATTEND AS A MEMBER	ATTENDED	MEETINGS HELD AND ELIGIBLE TO ATTEND AS A MEMBER	ATTENDED
Hon Peter Costello AC	10	10	0	5	1	1
Mr Steven Harker[1]	8	8	5	5	1	1
Ms Carolyn Kay	10	9	5	5	1	1
Ms Erin Flaherty	10	9	5	4	0	0
Mr John Poynton AO	10	10	5	5	0	0
Mr Michael Wachtel	10	9	5	5	1	1
Dr Jane Wilson	10	10	5	5	0	0

Note:
The Conflicts Committee and the Transaction Committee are ad-hoc Committees. The Committees meet on an as needs basis and did not formally convene during the year.
Board members are able to attend meetings of Committees of which they are not a member.

1. Board term expired on 2 April 2017 and therefore Committee membership also ceased as at that date.

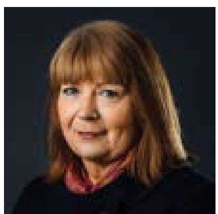
FUTURE FUND MANAGEMENT AGENCY

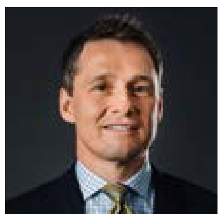
The Board is supported by the Future Fund Management Agency. Employed under the *Public Service Act 1999*, the Agency comprises professionals from a range of sectors including finance, investment, legal and corporate services, who are responsible for making recommendations to the Board on the most appropriate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

The Chair of the Board is the accountable authority for the Agency, although operational management has been delegated to the Chief Executive Officer.

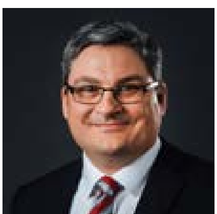

MR DAVID NEAL

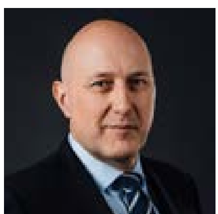

MR CAMERON PRICE


MS ELIZABETH MCPHERSON


MR GORDON MCKELLAR


MR PAUL MANN


DR RAPHAEL ARNDT


MR STEPHEN GILMORE

The Agency's management leadership team, led by the Chief Executive Officer, is accountable for the operations of the Agency. The leadership team comprises the Chief Executive Officer, Chief Investment Officer, Chief Investment Strategist, Chief Operating Officer, Chief Financial Officer, Chief Culture Officer and General Counsel.

MR DAVID NEAL
CHIEF EXECUTIVE OFFICER

Mr Neal took up his position as Chief Executive Officer 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 Willis 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 CAMERON PRICE
GENERAL COUNSEL

Mr Price joined the Future Fund in March 2014. Previously he was a Partner and Board member at law firm Allens Linklaters, where he had 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.

MS ELIZABETH MCPHERSON
CHIEF CULTURE OFFICER

Ms McPherson joined the Future Fund in 2010 and 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.

MR GORDON MCKELLAR
CHIEF OPERATING OFFICER

Mr McKellar began with the Future 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.

MR PAUL MANN
CHIEF FINANCIAL OFFICER

Mr Mann commenced his role as Chief Financial Officer in 2007. He served as acting Managing Director between 1 March and 4 August 2014. He is a CFA Charterholder and a Chartered Accountant with an extensive audit background in financial services gained at PricewaterhouseCoopers in Australia and the United Kingdom. He also has five years' experience in the provision of fund accounting and tax reporting services to investment clients gained at National Custodian Services in Melbourne.

DR RAPHAEL ARNDT
CHIEF INVESTMENT OFFICER

Dr Arndt has held the role of Chief Investment Officer since 1 September 2014. Prior to his appointment as Chief Investment Officer, Dr Arndt had been Head of Infrastructure and Timberland since 2008.

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

MR STEPHEN GILMORE
CHIEF INVESTMENT STRATEGIST

Mr Gilmore joined the Future Fund in 2009 having previously worked in senior strategy roles in London and Hong Kong with AIG Financial Products and Morgan Stanley. Prior to that, he worked with both the International Monetary Fund and the Reserve Bank of New Zealand.

RISK MANAGEMENT

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

We consider risk in three broad categories: investment risk, strategic risk and operational risk. The three categories shape the governance structure adopted by the Board and are incorporated into the way the organisation structures and controls its activity.

1. 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 'how we invest' section of this report. These processes are instrumental in managing market, credit, liquidity and counterparty risks.

2. 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.

3. 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.

MONITORING AND MANAGING RISK

The Agency's Operational Risk & Compliance Committee, together with the Board's Audit & Risk Committee, are responsible for the effective identification and management of operational and compliance risks.

The Agency's Operational Risk & 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.

The Board's Audit & Risk Committee meets at least five times during the year and its responsibilities include the review of the financial statements, oversight of the compliance and audit functions and evaluating the efficiency and effectiveness of the risk management framework.

The Agency's Risk Register documents the key risks and mitigating controls. The effectiveness of these key controls is assessed by control owners on a quarterly basis, with results reported to the Operational Risk & Compliance Committee and the Audit & Risk Committee.

The Operational Risk & Compliance Committee formally reviews each of the key risks documented in the Risk Register on a regular basis. This includes a discussion on emerging risks and whether new risks need to be added to the Risk Register or existing risks modified. The outcomes of these reviews are reported to the Audit & Risk Committee together with any recommendations for change.

RISK CULTURE

A strong culture of risk and compliance management exists within our organisation. All staff are required to adhere to the Australian Public Service Code of Conduct and comply with core 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 our approach to operational risk and compliance management through engagement with peer organisations.

INTERNAL AND EXTERNAL AUDIT

PricewaterhouseCoopers provides internal audit services reporting to the Audit & 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 Audit & Risk Committee receives internal and external audit reports and monitors management action in respect of these reports. During the year, the Committee has met separately with the internal and external auditors in the absence of management.

FRAUD AWARENESS

The Agency undertook a regular fraud and corruption risk assessment and updated its Fraud and Corruption Control Plan during the year which was reviewed and approved by the Agency's Operational Risk & Compliance Committee. There were no suspected or actual fraud incidents in 2016–17.

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

BUSINESS CONTINUITY

The Agency undertook its annual disaster recovery test in June 2017. The Agency's critical processes were included in this test which was completed successfully with the results reported to both the Agency's Operational Risk & Compliance Committee and the Board's Audit & Risk Committee.

CYBER SECURITY

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

OUR PEOPLE

LAKESIDE JOONDALUP SHOPPING CITY

THROUGH OUR PROPERTY PROGRAM, WE HAVE OWNED STAKES IN MAJOR SHOPPING CENTRES AROUND THE WORLD. LAKESIDE JOONDALUP SHOPPING CITY IS THE LARGEST SHOPPING CENTRE IN WESTERN AUSTRALIA. 11 MILLION SHOPPERS VISITED THE CENTRE OVER THE YEAR, GENERATING OVER $700 MILLION IN SALES.

OUR TEAM GREW IN LOTS OF WAYS THIS YEAR – IN EXPERIENCE, BY DEVELOPING IMPROVED SKILLS AND BY EXPANDING THEIR KNOWLEDGE. WE ALSO ADDED 24 NEW TEAM MEMBERS.

We have a strong employee value proposition. Our organisation's purpose – *investing for the benefit of future generations of Australians* – offers our people the opportunity to make a lasting and meaningful difference to the country.

We encourage our staff to be bold in their ideas and broad in their thinking, while working in a supportive environment that offers challenging opportunities to learn, grow and succeed. We recognise and reward the achievements of our people. We expect a lot of our people, including working hours that coincide with business hours overseas. We understand how important it is to help our people find a balance between work and life, so we offer a variety of formal and informal flexible working practices and tools. Together, these elements contribute to our organisation being able to attract the best talent in Australia and from all over the world.

OUR PRIORITIES IN 2016–17

In 2016–17 we focused on five key areas – leadership, talent, culture, diversity, and engagement – to achieve our people and culture strategic goal: attract and retain a high performing team that is engaged, motivated, supported and effectively managed.

WE ADDED NEW FUNCTIONS, WITH OUR LEADERSHIP TEAM DEVELOPING THEIR SKILLS TO LEAD A GROWING ORGANISATION.

To achieve our strategy we added new functions within the areas of investment, operations, technology and program management. Collectively, these new functions will support us to achieve our strategic goals to improve our investment processes and other operational capability. The leadership team was brought together at a leadership offsite to reflect on the changes we have made and the changes to come. The group worked together to develop ways of leading our transition from a small sized business to a medium sized business, focusing on inclusiveness, decision-making and relationship building.

THE EMPLOYEE CENSUS RESULTS INDICATED THAT 90% OF SURVEY RESPONDENTS STRONGLY AGREE OR AGREE THAT THEY ENJOY THE WORK IN THEIR CURRENT JOB.

We participated in the Australian Public Service (APS) employee census. The results indicated that 90% of survey respondents strongly agree or agree that they enjoy the work in their current job. This compares to the APS average of 75%.

We conducted the McKinsey Organizational Health Index (OHI) survey to help us understand how our organisation can become more effective. The OHI is a global survey-based diagnostic that has been deployed by more than 1300 organisations worldwide. We had a response rate of 87% to the survey. Our OHI score placed us in the top 10% of 820 organisations across all regions and industries surveyed by McKinsey over a five-year period.

AS A GREAT TEAM WE ARE RESTLESS IN OUR SEARCH TO GET EVEN BETTER.

We are proud of the team we have built together. As a great team we are restless in our search to get even better. We know that our culture, as much as our expertise, knowledge and skills, is one of our most valuable assets and that it differentiates us from others. We work tirelessly to nurture what we have as well as to adjust our culture as we grow.

To support our culture in a time of growth, a change management model has been rolled out to the business and a continuous improvement initiative has been launched. Both initiatives will help us realise our strategic pillar of remaining flexible, nimble and opportunity driven.

As we grow as an organisation we are placing greater emphasis on communication and the use of collaboration tools. This year we upgraded our intranet, which has become the organisation's main vehicle for communication and has been instrumental in connecting our growing team.

AS INVESTORS WE UNDERSTAND THE POWER OF DIVERSITY. COMBINING A RANGE OF PEOPLE THAT HAVE DIFFERENT CHARACTERISTICS INTO A TEAM, WE KNOW WE WILL CREATE A BETTER, MORE RELIABLE STREAM OF DECISIONS.

Inclusion is the set of behaviours that allow diversity to survive, prosper and add value. It's critical we build both. Inclusion builds depth to our interpersonal relationships. It encourages each of us to be more deeply aware of, and respectful of, the characteristics of the people around us.

In December 2016 we held a one-day workshop for all staff that focused on inclusion and diversity. The interactive workshop focused on Herrmann's Whole Brain Thinking System and highlighted that the best results for the organisation are achieved when we include different thinking styles, or whole brain thinking, in decision-making.

Inclusion is the behaviour that allows diversity to survive, prosper and add value. It's critical we build both. Inclusion is a set of behaviours that builds depth to our interpersonal relationships. It encourages each of us to be more deeply aware of, and respectful of, the characteristics of the people around us.

Inclusion allows us to harness the benefits of incorporating different perspectives and ways of thinking into our decision-making.

The organisation has an Inclusion and Diversity Strategy and a Culture, Inclusion & Diversity Council. Both initiatives aim to improve female representation at senior levels, improve our overall decision-making by understanding bias, consider ways we can support APS initiatives on Indigenous employment, increase flexibility options, and participate in research into improving diversity in the investment industry.

> GREAT RESULTS CAN ONLY BE ACHIEVED THROUGH GREAT CONTRIBUTIONS. ONE OF THE KEYS TO OUR SUCCESS IS OUR ABILITY TO HARNESS TALENT TO ENABLE PEOPLE TO REALISE THEIR FULL POTENTIAL.

We continued to build on our regular talent review process and ran our annual organisational talent review. The talent review is an important way for us to identify opportunities for all our staff to grow, to recognise and support future leaders, and to inform our succession plans. The Management Committee and over 20 managers participated in the discussions with outcomes to be implemented by direct managers.

We continue to pursue internal and external secondment opportunities for staff to increase their breadth of experience. Each year we provide a per person budget for development and all staff participate in some form of development whether it is on-the-job learning, online webinars and e-learning modules, in-house workshops, external training, conferences or formal study.

PROJECTS

One of the new functions we added this year is Program Execution which incorporates a project management office (PMO). This function is essential to the achievement and delivery of projects and ultimately our strategic goals. All strategic projects have a Management Committee member as Sponsor and the PMO provides resources to support each project, including providing a project manager where required. At set up, the PMO had two programs and eight projects under management – three of these projects have been completed with two rolled out. The remaining programs and projects will carry over, we anticipate that the PMO will manage three programs and at least 12 strategic projects in 2017–2018.

OUR WORKFORCE

Our workforce as at 30 June 2017 was 144 staff. There were 24 new starters in 2016–17: nine were replacements for existing roles, and 15 were for new roles. There were 17 internal promotions.

All staff work from the Melbourne office. We have a small office in Sydney used primarily by four staff who have arrangements in place to regularly work across both locations.

A strong positive culture and high level of engagement is reflected in the three main Human Resource statistics: lost time injuries – nil; absentee rate – 1.8%; and turnover rate – 6.5%.

Formal flexible work arrangements are available to all staff. This includes personal leave arrangements for primary and secondary carers. As at 30 June 2017, 22 employees had flexible work arrangements in place. In addition to these arrangements we have introduced a flexible working policy that provides flexibility in how, when or where we work but does not require a formal agreement.

No staff have identified as Indigenous.

WORK, HEALTH AND SAFETY

Our Work Health & Safety Committee operated throughout the year and undertook safety audit reviews of the office space. Ergonomic principles were maintained by providing appropriate workspace and equipment and ensuring new staff are informed of the principles of work space management. First aid and fire warden training was also provided. The Agency had zero lost time injuries.

Employee safety and wellbeing continues to be the focus for the Agency. A number of wellbeing initiatives including health checks and awareness programs have been implemented.

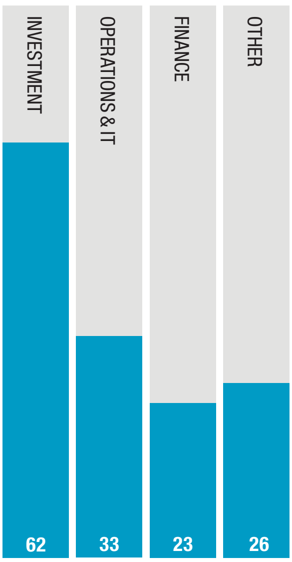
WORK FORCE DISTRIBUTION ACROSS THE AGENCY FOR 2016–17

	FULL TIME		PART-TIME OR CASUAL		MALE		FEMALE	
CLASSIFICATION LEVEL OF WORK	**FY 16/17**	**FY 15/16**	**FY 16/17**	**FY 15/16**	**FY 16/17**	**FY 15/16**	**FY 16/17**	**FY 15/16**
FFMA1	5	7	2	0	0	1	7	6
FFMA2	23	24	6	2	9	10	20	16
FFMA3	27	25	4	1	16	12	15	14
FFMA4	22	23	3	0	11	12	14	11
FFMA5	35	31	1	0	26	20	10	11
FFMA6	8	8	1	1	8	8	1	1
FFMA7	7	7	0	0	6	6	1	1
Total	**127**	**125**	**17**	**4**	**76**	**69**	**68**	**60**

WORK FORCE DISTRIBUTION BY INVESTMENT/ NON-INVESTMENT FOR 2016–17

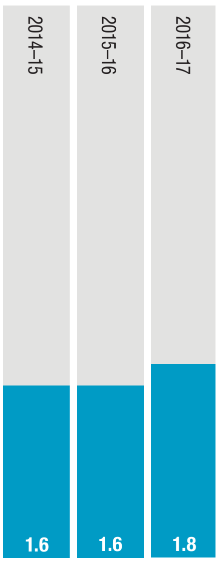
	INVESTMENT		NON-INVESTMENT	
CLASSIFICATION LEVEL OF WORK	**MALE**	**FEMALE**	**MALE**	**FEMALE**
FFMA1	0	0	0	7
FFMA2	4	3	5	17
FFMA3	9	2	7	13
FFMA4	6	6	5	8
FFMA5	16	2	10	8
FFMA6	5	1	3	0
FFMA7	2	0	4	1
Total	**42**	**14**	**34**	**54**

HEADCOUNT BY BUSINESS AREA



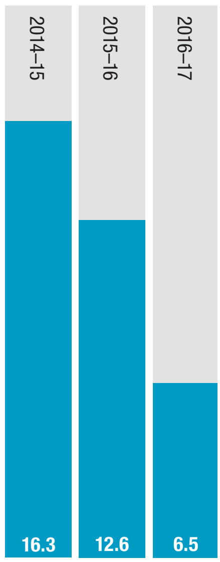
Other includes: CEO's Office, Public Affairs, People Culture & Communications and Legal.

ABSENTEEISM RATE (%)



Absenteeism rate is the days lost to unscheduled absence as a percentage of work days in the period.

TURNOVER RATE (%)



Turnover rate includes ongoing and non-ongoing employees. Turnover rate calculated for average headcount for period.

REMUNERATION REPORT

REMUNERATION STRATEGY

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

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

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

PERFORMANCE RELATED PAY

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

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

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

PERFORMANCE RELATED PAY TIED TO PERSONAL PERFORMANCE

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

Each individual's goals align to the organisation's strategic imperatives:

- Achieving high risk adjusted returns in accordance with the Investment Mandates through investment excellence.
- Achieving world-class implementation through operational excellence.
- Attracting and retaining a high performing team that is engaged, motivated, supported and effectively managed.
- Acquiring and maintaining information assets and tools that empower our people and add value to our processes while being secure, resilient and trusted.
- Building and maintaining active and constructive relationships with our key stakeholders in Australia and globally.

PERFORMANCE RELATED PAY TIED TO INVESTMENT PERFORMANCE

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

Performance related pay for investment performance is assessed both in absolute and relative terms. It includes assessment:

- against the Future Fund's absolute return against its mandated target return of at least Consumer Price Index + 4.5% pa (this element makes up 70% of the Investment Plan)
- of the performance of the Future Fund portfolio against the policy portfolio implied by the Target Asset Allocation set by the Board (this element makes up 30% of the Investment Plan).

REMUNERATION OF KEY MANAGEMENT PERSONNEL IN 2016–17

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

The Board of Guardians and the Agency are established by the *Future Fund Act 2006* (the Act). In accordance with the Act members of the Board are appointed by the responsible Ministers. The Act prescribes that fees payable to Board members are determined by the Commonwealth Remuneration Tribunal (the Tribunal).

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

During the 2016–17 year, the Guardians of the Fund were as follows:

FUTURE FUND BOARD OF GUARDIANS

NAME	TITLE	KMP STATUS 2016-17
Hon Peter Costello AC	Chairman	Current
Ms Erin Flaherty	Board member	Current
Mr Steven Harker	Board member	To 3 April 2017
Ms Carolyn Kay	Board member	Current
Mr John Poynton AO	Board member	Current
Mr Michael Wachtel	Board member	Current
Dr Jane Wilson	Board member	Current

During the 2016–17 year, the Agency's Management Committee comprised the following:

FUTURE FUND MANAGEMENT AGENCY

NAME	TITLE
Mr David Neal	Chief Executive Officer
Dr Raphael Arndt	Chief Investment Officer
Mr Stephen Gilmore	Chief Investment Strategist
Mr Paul Mann	Chief Financial Officer
Mr Gordon McKellar	Chief Operating Officer
Ms Elizabeth McPherson	Chief Culture Office
Mr Cameron Price	General Counsel

REMUNERATION MIX FOR KEY MANAGEMENT PERSONNEL

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

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

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

AT RISK PERFORMANCE RELATED PAY FOR EACH MEMBER OF THE MANAGEMENT COMMITTEE

NAME	MAXIMUM AT RISK PERFORMANCE RELATED PAY AS A % OF FIXED REMUNERATION	% OF AT RISK PERFORMANCE RELATED PAY TIED TO INVESTMENT PERFORMANCE (INVESTMENT PLAN)	% OF AT RISK PERFORMANCE RELATED PAY TIED TO PERSONAL PERFORMANCE (ANNUAL PLAN)
David Neal	120	70	30
Raphael Arndt	120	70	30
Stephen Gilmore	120	70	30
Paul Mann	55	25	75
Gordon McKellar	55	25	75
Elizabeth McPherson	55	25	75
Cameron Price	45	25	75

REMUNERATION OUTCOMES FOR KEY MANAGEMENT PERSONNEL IN 2016-17

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

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

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

At 30 June 2017, over three years the Future Fund earned $31.9 billion, returning 9.5% per annum against a target benchmark return of 6.0% per annum. The Future Fund portfolio outperformed the policy portfolio by +0.3% per annum over the three-year period.

PERFORMANCE RELATED PAY OUTCOMES

MANAGEMENT COMMITTEE	ACTUAL PRP/MAX INVESTMENT PLAN (%)	ACTUAL PRP/MAX ANNUAL PLAN (%)	ACTUAL PRP/MAX TOTAL PRP (%)
David Neal	76	85	79
Raphael Arndt	76	85	79
Stephen Gilmore	76	80	77
Paul Mann	76	75	75
Gordon McKellar	76	80	79
Elizabeth McPherson	76	85	83
Cameron Price	76	80	79

Actual Investment Plan outcomes reflect the combination of the absolute return of the Future Fund and the relative return of the Future Fund against its policy portfolio each over three years.

Actual Annual Plan outcomes reflect the achievement of personal goals by each member of the Management Committee over the 2016–17 year.

MANAGEMENT COMMITTEE REMUNERATION OUTCOMES

MANAGEMENT COMMITTEE	SALARY ($)	SUPERANNUATION ($)	PRP (INVESTMENT PLAN) ($)	PRP (ANNUAL PLAN) ($)	TOTAL PRP (INVESTMENT & ANNUAL PLAN) ($)	TOTAL REMUNERATION ($)
David Neal	613,608	31,798	413,111	197,494	610,605	1,256,011
Raphael Arndt	568,421	19,620	376,393	179,941	556,334	1,144,375
Stephen Gilmore	519,290	35,000	354,789	159,635	514,424	1,068,714
Paul Mann	475,918	31,798	53,196	157,075	210,271	717,987
Gordon McKellar	508,798	35,000	56,976	179,453	236,429	780,227
Elizabeth McPherson	354,793	35,000	40,840	136,671	177,511	567,304
Cameron Price	496,159	31,798	45,259	142,548	187,807	715,764
TOTAL	**3,536,987**	**220,014**	**1,340,564**	**1,152,817**	**2,493,381**	**6,250,382**

REMUNERATION OF ALL STAFF IN 2016–17

While the Agency operates on individual employment contracts rather than an enterprise agreement, the Agency adjusts its practices to meet the requirements of the Bargaining Policy and associated Directions for fixed pay (which includes superannuation). The Bargaining Policy and Directives applies for three years: 2014–15, 2015–16 and 2016–17.

In addition to fixed pay, ongoing staff have the opportunity to earn a variable pay component known as Performance Related Pay (PRP). Non-salary benefits are also available to staff, reflecting our commitment to ensuring our people have every opportunity to balance their work and life. We support and encourage flexible working arrangements to cater for family, study, community and similar commitments. Other non-salary benefits include annual flu vaccinations, skin and health checks, ergonomic assessments and furniture, contributions to relevent professional memberships, and salary sacrifice arrangements.

AVAILABLE SALARY RANGES

A summary of the available salary ranges for each work level is shown in the table below.

SALARY RANGES

LEVEL OF WORK	FROM	TO
FFMA 1	$55,000	$100,000
FFMA 2	$70,000	$140,000
FFMA 3	$90,000	$190,000
FFMA 4	$140,000	$250,000
FFMA 5	$190,000	$470,000
FFMA 6	$300,000	$550,000
FFMA 7	$380,000	$700,000

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

PERFORMANCE RELATED PAY

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

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

At 30 June 2017, over three years the Future Fund earned $31.9 billion, returning 9.5% per annum against a target benchmark return of 6.0% per annum. The Future Fund portfolio outperformed the policy portfolio by +0.3% per annum over the three-year period.

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

PERFORMANCE PAY SUMMARY TABLE FOR 2016–17

CLASSIFICATION LEVEL OF WORK	EMPLOYEES WHO RECEIVED PAYMENTS	AGGREGATE PERFORMANCE PAY ($)	MINIMUM PERFORMANCE PAY ($)	MAXIMUM PERFORMANCE PAY ($)	AVERAGE PAYMENT ($)
FFMA1	5	23,779	3,133	6,009	4,756
FFMA2	28	216,705	112	16,410	7,739
FFMA3	29	578,458	905	47,940	19,947
FFMA4	25	1,290,604	1,076	104,957	51,624
FFMA5	36	4,106,486	1,805	360,037	114,069
FFMA6	9	2,552,063	82,609	441,019	283,563
FFMA7	7	2,493,381	177,511	610,605	356,197
Total	**139**	**11,261,476**			**81,018**

FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

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

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance

Opinion

In my opinion, the financial statements of the Future Fund Management Agency and Board of Guardians for the year ended 30 June 2017:

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

(b) present fairly the financial position of the Future Fund Management Agency and Board of Guardians as at 30 June 2017 and its financial performance and cash flows for the year then ended.

The financial statements of the Future Fund Management Agency and Board of Guardians, which I have audited, comprise the following statements as at 30 June 2017 and for the year then ended:

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

Basis for Opinion

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

Key Audit Matters

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

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

Key audit matter	How the audit addressed the matter
Valuation of private market investments *Refer to Note 19G Collective Investment Vehicles* As at 30 June 2017, collective investment vehicles totalled $57.9 billion. Collective investment vehicles includes holdings of a diverse range of asset categories including private equity, hedge funds, direct property, infrastructure and timberland assets. Valuation techniques are varied depending on the particular asset category and holding. I focused on this area due to the inherent subjectivity and the significant judgements, assumptions and estimates required in the determination of the fair value of these investments.	The audit procedures applied to address this matter included: • assessment of the key controls associated with the valuation process and testing of a sample of controls as appropriate; • tests of detail, on a sample basis, which varied depending on the valuation technique undertaken for the investments. I engaged a valuation specialist to assist with these procedures. The tests included: • evaluation of the competence and objectivity of the valuation expert used by management; • assessment of the valuation models used including challenging the key assumptions applied within the models; • re-performance of mathematical calculations and completion of sensitivity analyses; • assessment of the audited financial statements of the collective investment vehicle which included considering the regulatory framework under which the financial statements were prepared, the accounting policies adopted and evaluating the competence and objectivity of the audit firm performing the audit and the opinion provided; and • roll forward procedures from the last set of audited financial statements where the financial statements had a year-end date other than 30 June 2017. • re-performance of the foreign currency translation calculations and agreeing exchange rates to independent sources; • testing key year-end reconciliations between the custodian and the investment managers; and • assessment of the appropriateness of the related disclosures included in Note 19 to the financial statements.

Other Information

The Accountable Authority is responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2017 but does not include the financial statements and my auditor's report thereon.

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

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

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

Accountable Authority's Responsibility for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Australian National Audit Office

Grant Hehir
Auditor-General

Canberra

26 September 2017

STATEMENT BY THE CHAIR OF THE FUTURE FUND BOARD OF GUARDIANS AND CHIEF FINANCIAL OFFICER OF THE FUTURE FUND MANAGEMENT AGENCY

In our opinion, the attached financial statements of the Future Fund Management Agency and the Board of Guardians (together the 'Fund') for the year ended 30 June 2017 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

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

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

P Costello

Hon P Costello AC
Chair of the Board of Guardians

26 September 2017

Paul Mann

P Mann
Chief Financial Officer

26 September 2017

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	NOTES	YEAR ENDED 30 JUNE 2017 $'000	YEAR ENDED 30 JUNE 2016 $'000
INCOME			
Dividends and imputation credits	4	3,484,707	2,822,811
Distributions	4	404,659	210,018
Interest income from financial assets not held at fair value through profit or loss	3	27,080	25,502
Net gain on financial instruments held at fair value through profit or loss	4	5,434,614	2,255,538
Net foreign currency gains	4	1,706,132	624,444
Other income	5	2,478	1,698
TOTAL INCOME		11,059,670	5,940,011
EXPENSES			
Investment management fees and advisory fees		133,163	157,259
Investment manager performance fees		57,634	(2,626)
Custody fees		13,417	13,019
Brokerage, duties and other statutory charges		35,247	40,033
Other investment portfolio expenses		4,997	20,332
Agency employees' remuneration	6	43,352	37,261
Other expenses	6,7	25,867	22,921
TOTAL EXPENSES		313,677	288,199
OPERATING RESULT FOR THE YEAR BEFORE TAX		10,745,993	5,651,812
Income tax expense	8	69,427	61,887
OPERATING RESULT FOR THE YEAR		10,676,566	5,589,925
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		10,676,566	5,589,925

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	NOTES	AS AT 30 JUNE 2017 $'000	AS AT 30 JUNE 2016 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	16	**1,785,174**	2,870,526
Receivables	10	**1,937,417**	1,618,595
Investments	9	**131,266,198**	119,790,206
Other financial assets		**444**	7,391
Total financial assets		**134,989,233**	124,286,718
Non-financial assets			
Plant and equipment	11	**4,032**	2,546
Intangibles	11	**3,820**	3,109
Total non-financial assets		**7,852**	5,655
TOTAL ASSETS		**134,997,085**	124,292,373
LIABILITIES			
Financial liabilities			
Investments	9	**753,216**	652,460
Payables	12	**806,765**	883,921
Total financial liabilities		**1,559,981**	1,536,381
Non-financial liabilities			
Employee provisions	13	**24,888**	20,342
Total non-financial liabilities		**24,888**	20,342
TOTAL LIABILITIES		**1,584,869**	1,556,723
NET ASSETS		**133,412,216**	122,735,650
EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT			
Contributions by Government	14	**60,536,831**	60,536,831
Retained earnings		**72,875,385**	62,198,819
TOTAL EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT		**133,412,216**	122,735,650

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

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	NOTES	YEAR ENDED 30 JUNE 2017 $'000	YEAR ENDED 30 JUNE 2016 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from sale of financial instruments held at fair value through profit or loss		**125,473,622**	115,161,343
Purchase of financial instruments held at fair value through profit or loss		**(132,395,951)**	(117,263,456)
Interest received		**27,091**	26,144
Dividends received		**2,667,063**	2,139,378
Distributions received		**394,722**	248,961
Franking credit refunds received		**628,463**	738,704
Net settlement of foreign exchange contracts		**2,450,313**	(710,922)
GST refund received		**11,093**	11,454
Other income received		**3,040**	552
Investment management fees and advisory fees paid		**(142,047)**	(156,236)
Investment manager performance fees paid		**(17,332)**	(2,453)
Custody fees paid		**(12,927)**	(11,918)
Brokerage, duties and other statutory charges paid		**(57,042)**	(55,005)
Taxes paid		**(25,034)**	(18,408)
Other expenses paid		**(79,461)**	(87,972)
Net cash (used in)/provided by operating activities	16	**(1,074,387)**	20,166
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment and software		**(4,538)**	(2,974)
Net cash used in investing activities		**(4,538)**	(2,974)
CASH FLOWS FROM FINANCING ACTIVITIES			
Amounts contributed by Government		**-**	-
Net cash provided by financing activities		**-**	-
Net (decrease)/increase in cash held		**(1,078,925)**	17,192
Cash at the beginning of the reporting period		**2,870,526**	2,897,421
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(6,427)**	(44,087)
Cash at the end of the reporting period	16	**1,785,174**	2,870,526

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	YEAR ENDED 30 JUNE 2017		
	CONTRIBUTED EQUITY $'000	RETAINED EARNINGS $'000	TOTAL EQUITY $'000
Opening balance	**60,536,831**	**62,198,819**	**122,735,650**
Net operating result	**-**	**10,676,566**	**10,676,566**
Other comprehensive income	**-**	**-**	**-**
Total comprehensive income	**-**	**10,676,566**	**10,676,566**
Contributions made by Government	**-**	**-**	**-**
Closing balance	**60,536,831**	**72,875,385**	**133,412,216**

	YEAR ENDED 30 JUNE 2016		
	CONTRIBUTED EQUITY $'000	RETAINED EARNINGS $'000	TOTAL EQUITY $'000
Opening balance	60,536,831	56,608,894	117,145,725
Net operating result	-	5,589,925	5,589,925
Other comprehensive income	-	-	-
Total comprehensive income	-	5,589,925	5,589,925
Contributions made by Government	-	-	-
Closing balance	60,536,831	62,198,819	122,735,650

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

SCHEDULE OF COMMITMENTS

AS AT 30 JUNE 2017

	NOTES	30 JUNE 2017 $'000	30 JUNE 2016 $'000
BY TYPE			
CAPITAL COMMITMENTS			
Collective investment vehicles	9	**16,045,761**	15,246,204
Corporate Credit (bank loans)		**941**	1,505
Total capital commitments		**16,046,702**	15,247,709
OTHER COMMITMENTS			
Operating leases[(a)]		**17,767**	21,059
Other commitments[(b)]		**8,298**	6,930
Total other commitments		**26,065**	27,989
BY MATURITY			
CAPITAL COMMITMENTS			
One year or less		**16,046,702**	15,247,709
Total capital commitments by maturity		**16,046,702**	15,247,709
OTHER COMMITMENTS			
Operating lease commitments			
One year or less		**3,388**	3,245
From two to five years		**14,258**	14,047
Five years and above		**121**	3,767
Total operating lease commitments by maturity		**17,767**	21,059
Other commitments			
One year or less		**7,802**	5,056
From two to five years		**496**	1,874
Total other commitments by maturity		**8,298**	6,930

Note: Commitments are GST inclusive.

(a) Operating lease commitments relate to rental commitments for the lease of property. Lease terms have 5 years remaining. The Fund has no option to purchase any leased items at the conclusion of the lease term.

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

NOTE 1: OBJECTIVES OF THE FUTURE FUND AND THE RESPONSIBILITIES OF THE AGENCY AND THE BOARD

The *Future Fund Act 2006* (as amended) (the Act) commenced on 3 April 2006 and established the Future Fund Special Account (the Fund Account), the Future Fund Board of Guardians (the Board) and the Future Fund Management Agency (the Agency), collectively referred to as the Future Fund (the Fund). The objective of the Act is to strengthen the Commonwealth's long-term financial position.

The Future Fund will be available to cover costs that will be payable by the Commonwealth in relation to unfunded superannuation liabilities that will become payable during a period when an ageing population is likely to place significant pressure on the Commonwealth's finances.

FUTURE FUND MANAGEMENT AGENCY

The Agency is a statutory agency for the purposes of the *Public Service Act 1999* (the Public Service Act) and is prescribed for the purposes of the *Public Governance, Performance and Accountability Act 2013* (the PGPA Act). The Agency is responsible for implementing the investment decisions made by the Board.

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

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

FUTURE FUND BOARD OF GUARDIANS

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 Act, the Government issued the Board with a revised Investment Mandate direction for the Future Fund, effective 18 December 2014 which applied to the 2016–17 financial year. A revised Investment Mandate for the Future Fund was issued by the Government on 15 May 2017 which came into effect on 1 July 2017 for the 2017–18 and following financial years.

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

The Board is also responsible for the investment of the assets of the Nation-building Funds, DisabilityCare Australia Fund and Medical Research Future Fund as set out in the *Nation-building Funds Act 2008*, the *DisabilityCare Australia Fund Act 2013* and the *Medical Research Future Fund Act 2015*. The assets and financial results of these 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 DIRECTION 2014

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 2.3). 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. The target benchmark return for the 2016–17 financial year was CPI +4.5 to 5.5 per cent per annum over the long term.

FUTURE FUND INVESTMENT MANDATE DIRECTION 2017

The main change compared to 2014 is the Benchmark return which was revised to CPI +4 to +5 per cent per annum over the long term.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

The financial statements are required by section 42 of the PGPA Act, and are general purpose financial statements prepared on a going concern basis.

The financial statements have been prepared in accordance with:

- Financial Reporting Rules (FRR) (being the *Public Governance, Performance and Accountability Rule 2015*) for reporting periods ending on or after 1 July 2016; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that apply for the reporting period.

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS *(CONTINUED)*

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

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

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

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

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

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In relation to collective investment vehicles, significant judgement is required in making assumptions and estimates which are inputs to the fair value of such investments. The Fund ensures that valuation principles applied are materially compliant with industry guidelines. Further details surrounding the judgements and estimates used to value these investments are disclosed in Note 19F and 19G.

2.2 STATEMENT OF COMPLIANCE

The financial report complies with Australian Accounting Standards as applicable to the Future Fund in accordance with the Financial Reporting Rules for the year ended 30 June 2017 made under the *Public Governance, Performance and Accountability Act 2013*.

Australian Accounting Standards require the Fund to disclose Australian Accounting Standards that have not yet been applied by the Fund, for standards that have been issued by the AASB but are not yet effective at the reporting date. The Fund must also disclose new standards and interpretations affecting amounts reported in the current period and those standards adopted with no effect on the financial statements in the current period.

Adoption of new accounting standards in the current reporting period

The Fund has applied the following new accounting standard which became effective for the annual reporting period commencing on 1 July 2016:

(i) AASB 124 Related Party Disclosures

The purpose of this standard is to identify the impact on the Fund's financial performance and position from financial transactions and balances with related parties. There is no material impact on the Fund's financial position from any transactions or balances with related parties. Key Management Personnel ('KMP') have been identified and the relevant disclosures regarding remuneration of KMP has been included in Note 18. The Senior Management Personnel Remuneration table included in Note 18 of the 2015–16 financial statements has been replaced with the KMP remuneration table.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 STATEMENT OF COMPLIANCE *(CONTINUED)*

Standards and amendments that will become effective in future reporting periods

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2017 reporting period and have not been early adopted by the Fund. The Fund's assessment of the impact of these new standards and interpretations is set out below. The Fund intends to adopt all of the standards upon their application date.

(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.

(ii) AASB 16 Leases (effective from 1 January 2019)

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

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 FINANCIAL ASSETS AND LIABILITIES

All investments of the Fund are in financial assets or financial liabilities for the purposes of the Government Finance Statistics system in Australia as is required under section 16 of the Act. Should the Fund acquire non-financial assets, section 32 of the Act requires the Board to realise such assets as soon as practicable.

Further details on how the fair values of financial instruments are determined are disclosed in Notes 19F and 19G.

2.3.1 CASH AND CASH EQUIVALENTS

Cash means notes and coins held and any deposits held at call with a bank. Cash is recognised at its nominal amount. Deposits held with a bank that are not at call are classified as investments.

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

2.3.2 RECEIVABLES

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

2.3.3 INVESTMENTS

All investments are designated as financial assets held at fair value through profit and loss on acquisition. Subsequent to initial recognition, all investments held at fair value through profit and loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income each reporting date.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.3 FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

2.3.3 INVESTMENTS *(CONTINUED)*

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 or vehicle.

  Manager valuation reports are reviewed to ensure the underlying valuation principles are materially compliant with Australian Accounting Standards and applicable industry standards including International Private Equity and Venture Capital Valuation Guidelines as endorsed by the Australian Private Equity and Venture Capital Association Limited (AVCAL).
- Derivative instruments are used by the Fund in accordance with the Act to manage its exposure to foreign exchange risk, interest rate risk, equity market risk and credit risk and to gain indirect exposure to market risks. The Fund uses forward foreign exchange contracts, swaps, swaptions, futures, forward contracts on mortgage backed securities and over the counter options which are recorded at their fair value on the date the contract is entered into and are subsequently re-measured to their fair values at each reporting date. Further disclosure regarding the use of derivatives by the Fund is presented in Note 19.
- Asset backed securities, bank bills, negotiable certificates of deposit and corporate debt securities which are traded in active markets are valued at the quoted market prices. Securities for which no active market is observable are valued at current market rates using broker sourced market quotations and/or independent pricing services as at the reporting date.

The fair value of financial assets and financial liabilities that are not traded in an active market are determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of observable market inputs and relying as little as possible on entity-specific inputs. Note 19F has further information surrounding the determination of fair values for investments.

2.3.4 FUTURE FUND INVESTMENT COMPANIES

Some of the investments of the Future Fund Board of Guardians are held through wholly owned investment holding companies, Future Fund Investment Companies (FFICs).

The FFICs are funded primarily via loan arrangements between the Future Fund Board of Guardians and each respective FFIC. These loans are designated as financial assets and measured at fair value with changes in their fair value recognised in the statement of comprehensive income each reporting date. Interest receivable at the reporting date is included in the fair market value of the loans.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.3 FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

2.3.4 FUTURE FUND INVESTMENT COMPANIES *(CONTINUED)*

The outstanding balance of the loan assets is unsecured and is repayable in cash on the earlier of demand or within the time period set out in the loan documents. Interest rates are set on the loans having regard to either the 5 or the 10 year government bond rate in the market in which the underlying investment is made.

As the FFICs hold a substantial portion of the investments of the Fund, disclosures in the financial instruments and financial risk management notes (Note 19) include the underlying investments of the FFICs on a look-through basis as this provides users of the financial statements with more relevant information in relation to the investment portfolio. The Note clearly states where this look-through has been applied.

2.4 REVENUE

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

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

Interest revenue is recognised in the statement of comprehensive income for all financial instruments that are not 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 held at fair value through profit or loss in the statement of comprehensive income.

2.5 OTHER INCOME

Services and resources received free of charge

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

Other income

Other income is measured at the fair value of consideration received or receivable.

2.6 TRANSACTIONS WITH THE GOVERNMENT AS OWNER

2.6.1 CREDITS TO THE FUND ACCOUNT

From time to time the responsible Ministers may determine that additional amounts are to be credited to the Fund Account. In addition, the responsible Ministers may transfer Commonwealth-owned financial assets to the Fund Account. As shown in Note 14 there were no contributions received during the year. No contributions were received in the previous financial year.

2.6.2 DEBITS TO THE FUND ACCOUNT

Amounts may be debited from the Fund Account in accordance with the purposes of the Fund Account as set out in the Act. Under the Act debits can be made to the extent of unfunded superannuation liabilities from whichever is the earlier of: (a) the time when the balance of the Fund is greater than or equal to the target asset level or (b) 1 July 2020. In May 2017 the Government announced there would be no draw down from the Fund until at least 2026–27.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.7 EMPLOYEE ENTITLEMENTS

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

2.7.1 LEAVE

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

The leave liabilities are calculated on the basis of employees' remuneration at the end of the financial year, adjusted for expected increases in remuneration effective from 1 July 2017. Liabilities for short-term employee benefits (i.e. wages and salaries, annual leave, performance payments, expected to be settled within 12 months from the reporting date) are measured at their nominal amounts.

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

2.7.2 SUPERANNUATION

Staff of the Fund are variously eligible to contribute to the Commonwealth Superannuation Scheme (CSS), Public Sector Superannuation Scheme (PSS) or the Public Sector Superannuation Scheme (Accumulation Plan). Staff may join any other complying employee nominated schemes.

For any staff who are members of CSS (Defined Benefit) or PSS (Defined Benefit), the Fund makes employer contributions to the Australian Government at rates determined by the Government actuary. The liability for superannuation benefits payable to an employee upon termination is recognised in the financial statements of the Australian Government.

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

2.7.3 PERFORMANCE RELATED PAYMENTS

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.8 LEASES

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

2.9 FINANCIAL RISK MANAGEMENT

Disclosures regarding the Fund's financial risks are presented in Note 19.

2.10 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).

2.11 ACQUISITION OF NON-FINANCIAL ASSETS

Non-financial assets are initially 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.

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.

2.12 PLANT AND EQUIPMENT – NON-FINANCIAL ASSETS

2.12.1 ASSET RECOGNITION THRESHOLD ON ACQUISITION

Purchases of plant and equipment are recognised initially at cost and are subsequently carried at cost less depreciation in the statement of financial position. Purchases costing less than $2,000 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.

2.12.2 IMPAIRMENT OF NON-FINANCIAL ASSETS

All non-financial assets which are not held at fair value were assessed for impairment at 30 June 2017. 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.

2.12.3 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 deemed appropriate. The depreciable value of infrastructure, plant and equipment assets is based on a zero residual value.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.13 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.

Capital expenditure on systems is recognised at cost in the statement of financial position and is amortised on a straight-line basis over a 5 year period from the date of acquisition or when a system is considered ready for use.

2.14 TAXATION

The Fund has sovereign immunity from taxation in Australia and foreign jurisdictions. In some limited cases and in some limited countries, foreign taxes can be payable on certain classes of income and capital gains. Mostly these foreign taxes are withheld at source (income net of taxes is received by the Fund) under the withholding regimes of the relevant jurisdiction. These withholding taxes are generally a final tax and no further amounts are payable. To the extent the Fund is entitled to a lower withholding amount than that deducted at source, the Fund makes a claim to the respective foreign revenue authority for the difference and these amounts are recorded as receivables on the statement of financial position and in the statement of comprehensive income as revenue.

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. As the fund is tax exempt in Australia, there is no current Australian tax amount recognised in the financial statements.

The Fund does incur foreign withholding taxes and capital gains taxes in some jurisdictions which are recorded as current taxes.

While foreign corporate taxes are incurred on certain foreign investments of the Fund held via holding entities or within collective investment vehicles, the Fund applies the investment entity exemption and does not consolidate these investments. Those tax expenses are therefore not recorded in the financial statements. Corporate tax paid or payable on foreign investments results in a lower mark to market fair valuation of these investments and is included in the net gain or loss on financial instruments held at fair value in the statement of comprehensive income.

Deferred Tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority and the Fund intends to settle its current tax assets and liabilities on a net basis.

While foreign deferred corporate taxes are recognised on certain foreign investments of the Fund as per above, as the Fund applies the investment entity exemption and does not consolidate these investments, those deferred tax expenses are not recorded in the financial statements. Deferred taxes on foreign investments result in an adjusted mark to market fair valuation of these investments and are included in the net gain or loss on financial instruments held at fair value in the statement of comprehensive income.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.14 TAXATION *(CONTINUED)*

Fringe Benefits Tax and Goods and Services Tax

The Fund is exempt from all forms of federal Australian taxation except for Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST). The Future Fund Investment Companies (FFICs), being wholly owned Australian corporate investment holding companies are taxpaying entities. The tax paid by the FFICs is recoverable via imputation credit refunds to which the Fund is entitled under the Act.

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

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

Receipts and payments in the statement of cash flows are recorded in gross terms (that is, at their GST inclusive amounts).

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

2.15 FOREIGN CURRENCY

Functional and presentation currency

Items included in the financial statements of the Fund are measured using the currency of the primary economic environment in which the Fund operates (the functional currency). The functional currency of the Fund is Australian dollars. It is also the presentation currency.

Transactions and balances

All foreign currency transactions during the period are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency items at reporting date are translated at the exchange rate existing at reporting date. Exchange differences are recognised in the statement of comprehensive income in the period in which they arise. Translation differences on assets and liabilities 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.

2.16 COMPARATIVE REVISIONS

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

The Bank bills – international of $5,178,717,000 disclosed in Note 9 – Interest bearing securities of lasts year's statements has been reclassified to Government debt securities – international. The interest rate exposure table in Note 19C(i) has also been updated to reflect the reclassification.

2.17 ROUNDING OF AMOUNTS

Amounts have been rounded to the nearest thousand dollars unless stated otherwise in accordance with the Financial Reporting Rules.

NOTE 3: INTEREST INCOME FROM FINANCIAL ASSETS NOT HELD AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 $'000	2016 $'000
Interest income		
Interest income – cash at bank	**27,080**	25,502
Total interest income	**27,080**	25,502

NOTE 4: DIVIDENDS, DISTRIBUTIONS AND NET GAINS/(LOSSES)

	2017 $'000	2016 $'000
Dividend income and imputation credits		
Dividend income – domestic equities and listed managed investment scheme distributions	**447,915**	443,459
Imputation credits refunded or refundable under Section 30 of the *Future Fund Act 2006*	**817,104**	638,151
Dividend income – related entities (FFICs)*	**1,512,626**	1,056,858
Dividend income – international equities	**707,062**	684,343
Total dividend and imputation credit income	**3,484,707**	2,822,811
Distribution income		
Distributions – collective investment vehicles	**404,659**	210,018
Total distribution income	**404,659**	210,018

* There are no dividends receivable from FFIC related entities.

	2017 $'000	2016 $'000
Net gain/(loss) on financial instruments held at fair value through profit or loss		
Net gain on financial assets held at fair value through profit or loss	**5,439,762**	2,409,328
Net loss on financial liabilities held at fair value through profit or loss	**(5,148)**	(153,790)
*Total net gain on financial instruments held at fair value through profit or loss**	**5,434,614**	2,255,538
Net gain arising on foreign currency#	**1,706,132**	624,444

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

Net foreign currency gain of $1,706,132,000 (2016: gain $624,444,000) arise mainly as a result of the implementation of the Board's foreign currency hedging policy. Offsetting gains/losses on investment values are included in the total net gain on financial instruments held at fair value through profit and loss of $5,434,614,000 (2016: $2,255,538,000).

NOTE 5: OTHER INCOME

	2017 $'000	2016 $'000
Other income		
Related party fee income for services provided (Note 22B)	2,322	1,542
Related party resources received free of charge (ANAO)	156	156
Total other income	2,478	1,698

NOTE 6: EXPENSES

	2017 $'000	2016 $'000
Agency employees' remuneration		
Wages and salaries	39,834	33,877
Superannuation	2,414	2,094
Leave and other entitlements payable	1,104	1,290
Total Agency employees' remuneration	43,352	37,261
Other expenses		
Board remuneration		
Wages and salaries	785	805
Superannuation	81	76
Total board remuneration	866	881
Depreciation & amortisation		
Depreciation of plant and equipment	1,172	636
Amortisation of intangibles – computer software	1,169	831
Total depreciation & amortisation	2,341	1,467
Other operating expenses (including audit fees)	22,660	20,573
Total other expenses	25,867	22,921

NOTE 7: REMUNERATION OF AUDITORS(1)

Included in other operating expenses is the financial statement audit services provided to the Fund which totalled $156,000 (2016: $156,000) which were provided free of charge. The fair value of all audit services provided by the Australian National Audit Office (ANAO) including the services provided free of charge and the audit of the FFICs was:

	2017	2016
	$	$
Auditing the financial statements – Future Fund and FFICs	**216,889**	222,550

No other services were provided by the ANAO.

(1) The Fund's auditor is the Australian National Audit Office who has retained Deloitte Touche Tohmatsu (Australia) to assist with the assignment.

NOTE 8: INCOME TAX EXPENSE

As per Note 2.14, 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 capital gains or corporate taxes where imposed by certain countries. Accordingly, the Australian tax rate for the Fund is 0% (2016: 0%).

	2017	2016
	$'000	$'000
(a) **Income tax expense**		
Current tax	**69,427**	61,887
Deferred tax	**-**	-
Adjustments for current tax of prior periods	**-**	-
	69,427	61,887
(b) **Numerical reconciliation of income tax expense to prima facie tax payable**		
Profit before income tax	**10,745,993**	5,651,812
Tax at the applicable Australian tax rate of 0% (2016: 0%)	**-**	-
Tax effect of items which are not deductible/(taxable) in calculating taxable income:		
Imputation credits for Australian subsidiaries	**1,343,007**	1,035,142
Difference in tax rates for Australian subsidiaries	**(1,343,007)**	(1,035,142)
Withholding tax	**64,722**	61,067
Other foreign corporate tax expense	**4,705**	820
Total income tax expense	**69,427**	61,887

NOTE 9: INVESTMENTS

	2017 $'000	2016 $'000
Investment Summary		
Financial assets at fair value:		
Future Fund Investment Companies	**48,984,840**	46,987,869
Interest bearing securities	**29,606,631**	25,352,595
Listed equities and listed managed investment schemes	**34,270,098**	34,261,116
Collective investment vehicles	**16,262,420**	10,278,724
Derivatives	**1,556,478**	1,984,908
Restricted cash	**585,731**	924,994
Total financial asset investments	**131,266,198**	119,790,206
Financial liabilities at fair value:		
Derivatives	**(753,216)**	(652,460)
Total financial liability investments	**(753,216)**	(652,460)

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

	2017 $'000	2016 $'000
Future Fund Investment Companies (FFICs)		
At fair value:		
Loans provided to FFICs	**39,865,117**	40,465,708
Residual equity in FFICs	**9,119,723**	6,522,161
Total Future Fund Investment Companies#	**48,984,840**	46,987,869

Refer to note 2.3.4 for more information regarding the FFICs and loan arrangements.

The table below shows the reconciliation of loans provided to FFICs.

	2017 $'000	2016 $'000
Loans provided to FFICs		
Beginning of the year	**40,465,708**	39,005,538
Loans advanced	**11,584,979**	13,680,229
Loan repayments received	**(9,279,912)**	(13,944,767)
Interest charged*	**900,695**	1,026,812
Interest repayments received	**(1,082,270)**	(1,175,704)
Fair value (loss)/gain	**(2,724,083)**	1,873,600
End of year	**39,865,117**	40,465,708

* Interest on the FFIC loans is included in the net gain/(loss) on financial instruments held at fair value through profit or loss – refer to note 2.4 for further details

NOTE 9: INVESTMENTS *(CONTINUED)*

	2017 $'000	2016 $'000
Interest bearing securities		
At fair value:		
Negotiable certificates of deposit - domestic	**19,204,464**	13,953,511
Corporate debt securities – domestic	**-**	204,652
Corporate debt securities – international	**1,326,765**	1,140,916
Mortgage backed securities – international	**900,240**	1,089,720
Asset backed securities – international	**584,131**	783,151
Corporate credit (bank loans) – international	**1,089,959**	1,066,802
Government debt securities – international	**6,049,805**	6,778,436
Other interest bearing securities – international	**451,267**	335,407
Total interest bearing securities	**29,606,631**	25,352,595
Listed equities and listed managed investment schemes		
At fair value:		
Domestic listed equities and listed managed investment schemes	**7,867,253**	9,188,473
International listed equities and listed managed investment schemes	**26,402,845**	25,072,643
Total listed equities and listed managed investment schemes	**34,270,098**	34,261,116
Collective investment vehicles		
At fair value:		
Unlisted investments	**14,343,321**	8,504,058
Unlisted shares	**1,919,099**	1,774,666
Total collective investment vehicles	**16,262,420**	10,278,724

NOTE 9: INVESTMENTS *(CONTINUED)*

	2017 $'000	2016 $'000
Derivatives		
At fair value: – financial assets		
Currency contracts	**726,922**	1,253,013
Interest rate swap agreements	**32,089**	114,382
Interest rate futures	**19,247**	267,382
Equity options and warrants	**618,575**	259,999
Equity futures	**279**	5,841
Credit default swaps	**7,825**	12,202
Currency swaps	**113,444**	34,211
Currency options	**38,097**	37,808
Forward contracts on mortgage backed securities	**-**	70
Total derivative financial assets	**1,556,478**	1,984,908

	2017 $'000	2016 $'000
Derivatives		
At fair value: – financial liabilities		
Currency contracts	**(634,449)**	(418,815)
Interest rate swap agreements	**(6,580)**	(15,698)
Interest rate futures	**(96,733)**	(2,273)
Equity options	**-**	(1,111)
Equity futures	**(1,758)**	(167,594)
Credit default swaps	**(13,513)**	(18,729)
Currency swaps	**-**	(28,190)
Currency options	**(183)**	(50)
Total derivative financial liabilities	**(753,216)**	(652,460)
Total derivatives	**803,262**	1,332,448

NOTE 9: INVESTMENTS *(CONTINUED)*

The Fund enters into certain derivative transactions under International Swaps and Derivatives Association (ISDA) agreements with various counterparties which include provisions for netting arrangements. The derivative financial asset and financial liability balances above are stated gross of any netting arrangements. The gross and net positions of financial assets and liabilities that have been offset in the balance sheet are disclosed in the first three columns of the following table. The fourth column in the tables below show 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 following table.

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
2017					
Derivative financial instruments	**1,192,914**	**-**	**1,192,914**	**(598,380)**	**594,534**
Total	**1,192,914**	**-**	**1,192,914**	**(598,380)**	**594,534**
2016					
Derivative financial instruments	1,646,069	-	1,646,069	(452,878)	1,193,191
Total	1,646,069	-	1,646,069	(452,878)	1,193,191

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
2017					
Derivative financial instruments	**598,380**	**-**	**598,380**	**(598,380)**	**-**
Total	**598,380**	**-**	**598,380**	**(598,380)**	**-**
2016					
Derivative financial instruments	452,878	-	452,878	(452,878)	-
Total	452,878	-	452,878	(452,878)	-

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 2017, the Fund has $0 in cash which has been posted as collateral with counterparties, (2016: $41,800,000) and has received $574,349,274 in cash (2016: $827,200,000) and $49,726,853 in US Treasuries (2016: $0).

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 2017, the Fund had posted $307,006,415 (2016: $533,380,842) 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 2017, the Fund had posted $25,807,682 (2016: $3,812,992) in swap margins to cover open positions. This cash also remains a financial asset of the Fund, however any alternate use of this cash is also restricted.

Cash prepayments for investments

The Fund prepays cash for applications into some Alternative investments in advance of the effective date as set out in the legal documents. Therefore the cash remains a financial asset of the Fund, however, any alternate use of this cash is restricted. As at 30 June 2017, the Fund prepaid $252,917,020 (2016: $346,000,000).

RESTRICTIONS ON INVESTMENTS – LISTED EQUITIES

The Fund has in place an automatic contractual lien over the Fund's listed equities with a counterparty when the Fund's exposure to that counterparty exceeds the base unsecured threshold. At 30 June 2017 no assets are subject to the lien (2016: no assets subject to the lien).

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

COLLECTIVE INVESTMENT VEHICLES

Commitments made to collective investment vehicles as at 30 June 2017

As disclosed in the schedule of commitments and in the following tables, the Fund, directly and via the FFICs has committed to provide capital to various collective investment vehicles. The total of these commitments at balance date is $16,046 million (2016: $15,246 million). The Fund's commitment obligations, being capital calls, are set out in the various underlying subscription documents. While the actual timing of the capital calls to be made by the managers of these vehicles is uncertain, as it is dependent on the managers sourcing suitable investment opportunities, the Fund has recorded the commitments as being current in accordance with the underlying legal documents (see the schedule of commitments). The Fund has appropriate liquidity planning in place to ensure a suitable allocation of resources will be available to cover these future commitments of capital.

Investment funds of the types the Fund invests in usually allow the fund's manager, general partner or other controlling entity to require repayment of distribution payments previously made to investors in order to cover certain fund liabilities (such as obligations to indemnify or to meet warranty claims on sold assets). In line with standard market practice, the Fund requires these 'giveback' obligations to be limited in both total amount (e.g. to between 10-25% of total distributions received) and liability period (e.g. for no longer than two years after the distributions are received). The Fund is not aware of any giveback obligations at 30 June 2017 (or 30 June 2016).

NOTE 9: INVESTMENTS *(CONTINUED)*

COLLECTIVE INVESTMENT VEHICLES *(CONTINUED)*

30 JUNE 2017 – DIRECTLY HELD BY THE FUND

As at 30 June 2017, the Fund had made commitments to a number of collective investment vehicles. Capital commitments (local currency), the net cost of the current investments net of returns of capital (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2017 are shown in the table below.

DESCRIPTION OF UNDERLYING STRATEGY	CAPITAL CALLED AND COMMITTED AS AT 30 JUNE 2017 LOCAL CURRENCY	OUTSTANDING COMMITMENT AS AT 30 JUNE 2017 AUD EQUIVALENT $'000	NET CAPITAL COST AS AT 30 JUNE 2017 AUD EQUIVALENT $'000	FAIR VALUE AS AT 30 JUNE 2017 AUD EQUIVALENT $'000
Alternative strategies	AUD $3,139,070,000	-	3,141,076	3,203,916
Alternative strategies	USD $2,467,576,750	-	3,087,241	3,000,413
Debt	AUD $1,251,713,598	156,585	1,032,236	1,008,050
Debt	EUR €948,895,083	345,970	483,699	675,396
Debt	USD $1,510,606,766	738,066	881,735	922,374
Global Infrastructure	AUD $837,917,846	-	837,918	1,763,585
Global Infrastructure	USD $1,491,034,277	990,338	762,941	917,889
Listed Equities	USD $194,000,000	252,917	-	-
Private Equity	EUR €169,984,161	15,455	279,861	239,053
Private Equity	USD $350,006,747	110,837	302,006	397,706
Property	AUD $551,934,669	-	344,144	403,452
Property	EUR €187,324,310	43,909	233,512	268,521
Property	GBP £362,913,861	337,107	205,804	323,099
Property	USD $3,739,708,652	1,392,571	2,082,451	2,907,618
Timberlands	USD $167,560,890	-	222,175	231,348
Total		4,383,755	13,896,799	16,262,420

NOTE 9: INVESTMENTS *(CONTINUED)*

COLLECTIVE INVESTMENT VEHICLES *(CONTINUED)*

30 JUNE 2017 – INDIRECTLY HELD VIA THE FFICS

As at 30 June 2017, the Fund had made commitments to a number of collective investment vehicles via its FFICs. Capital commitments (local currency), the net cost of the current investments net of returns of capital (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2017 are shown in the table below.

DESCRIPTION OF UNDERLYING STRATEGY	CAPITAL CALLED AND COMMITTED AS AT 30 JUNE 2017 LOCAL CURRENCY	OUTSTANDING COMMITMENT AS AT 30 JUNE 2017 AUD EQUIVALENT $'000	NET CAPITAL COST AS AT 30 JUNE 2017 AUD EQUIVALENT $'000	FAIR VALUE AS AT 30 JUNE 2017 AUD EQUIVALENT $'000
Alternative Strategies	AUD $7,195,199,359	324,832	6,504,634	6,814,442
Alternative Strategies	JPY ¥55,626,295,644	-	156,484	166,612
Alternative Strategies	USD $8,783,870,848	575,670	4,943,891	6,429,766
Debt	AUD $875,000,000	-	875,000	1,000,086
Debt	EUR €1,014,615,675	611,946	151,387	287,762
Debt	USD $6,364,646,235	922,330	2,272,428	3,444,753
Global Infrastructure	AUD $2,804,202,831	371,120	2,033,579	2,296,209
Global Infrastructure	GBP £262,028,692	-	252,350	1,093,123
Global Infrastructure	USD $1,004,065,297	124,063	1,042,676	1,188,848
Listed Equities	USD $2,548,370,000	-	1,331,802	2,628,970
Private Equity	AUD $597,178,007	114,345	385,387	451,357
Private Equity	EUR €1,033,438,007	338,398	754,055	1,229,416
Private Equity	GBP £100,000,000	38,070	144,676	179,463
Private Equity	USD $14,652,316,957	6,761,789	8,660,860	12,847,452
Property	AUD $755,075,000	287,605	473,698	662,948
Property	EUR €749,975,000	624,407	364,382	304,264
Property	USD $737,146,593	567,431	264,998	303,349
Timberland	AUD $323,381,825	-	86,068	309,146
Total		11,662,006	30,698,355	41,637,966

NOTE 9: INVESTMENTS *(CONTINUED)*

COLLECTIVE INVESTMENT VEHICLES

30 JUNE 2016 – DIRECTLY HELD BY THE FUND

As at 30 June 2016, the Fund had made commitments to a number of collective investment vehicles. Capital commitments (local currency), the net cost of the current investments net of returns of capital (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2016 are shown in the table below.

DESCRIPTION OF UNDERLYING STRATEGY	CAPITAL CALLED AND COMMITTED AS AT 30 JUNE 2016 LOCAL CURRENCY	OUTSTANDING COMMITMENT AS AT 30 JUNE 2016 AUD EQUIVALENT $'000	NET CAPITAL COST AS AT 30 JUNE 2016 AUD EQUIVALENT $'000	FAIR VALUE AS AT 30 JUNE 2016 AUD EQUIVALENT $'000
Alternative strategies	AUD $1,325,000,000	-	1,325,000	1,313,560
Debt	AUD $851,713,598	417,851	433,863	414,547
Debt	EUR €589,524,129	154,423	701,286	806,573
Debt	USD $1,014,480,854	755,585	254,996	295,690
Global Infrastructure	AUD $837,917,846	-	837,918	1,528,000
Global Infrastructure	USD $986,707,354	577,214	544,403	640,267
Private Equity	EUR €169,982,055	15,508	281,910	175,918
Private Equity	USD $350,000,093	176,286	241,065	304,781
Property	AUD $551,934,669	-	370,381	442,442
Property	EUR €178,052,742	30,195	237,092	249,475
Property	GBP £475,827,722	526,469	232,664	335,286
Property	USD $3,706,866,088	1,663,170	2,681,787	3,772,185
Total		4,316,701	8,142,365	10,278,724

NOTE 9: INVESTMENTS *(CONTINUED)*

COLLECTIVE INVESTMENT VEHICLES *(CONTINUED)*

30 JUNE 2016 – INDIRECTLY HELD VIA THE FFICS

As at 30 June 2016, the Fund had made commitments to a number of collective investment vehicles via its FFICs. Capital commitments (local currency), the net cost of the current investments net of returns of capital (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2016 are shown in the table below.

DESCRIPTION OF UNDERLYING STRATEGY	CAPITAL CALLED AND COMMITTED AS AT 30 JUNE 2016 LOCAL CURRENCY	OUTSTANDING COMMITMENT AS AT 30 JUNE 2016 AUD EQUIVALENT $'000	NET CAPITAL COST AS AT 30 JUNE 2016 AUD EQUIVALENT $'000	FAIR VALUE AS AT 30 JUNE 2016 AUD EQUIVALENT $'000
Alternative Strategies	AUD $6,521,432,036	324,832	5,742,740	6,513,533
Alternative Strategies	JPY ¥55,626,295,644	-	278,492	362,685
Alternative Strategies	USD $10,457,850,405	535,982	6,194,764	8,671,501
Debt	AUD $750,000,000	-	750,000	780,164
Debt	EUR €1,134,045,720	325,148	521,825	780,897
Debt	USD $6,561,823,441	804,711	3,177,252	4,588,772
Global Infrastructure	AUD $1,205,951,823	-	1,135,357	1,370,764
Global Infrastructure	GBP £262,028,692	-	254,216	846,551
Global Infrastructure	USD $1,074,888,527	261,368	1,006,574	1,123,863
Listed Equities	USD $2,326,560,000	-	1,039,392	2,193,573
Private Equity	AUD $437,178,007	66,210	294,605	337,349
Private Equity	EUR €859,350,820	413,838	655,936	1,037,979
Private Equity	GBP £100,000,000	66,899	123,464	137,149
Private Equity	USD $12,518,830,558	6,875,198	6,443,573	10,590,670
Property	AUD $903,142,218	306,605	472,873	589,698
Property	EUR €753,975,000	679,447	327,556	257,593
Property	USD $737,146,593	269,265	628,946	612,954
Timberlands	AUD $323,381,825	-	86,068	221,648
Total		10,929,503	29,133,633	41,017,343

NOTE 10: RECEIVABLES

	2017 $'000	2016 $'000
Receivables		
Imputation credits refundable	**1,551,657**	1,249,413
Interest receivable	**1,264**	1,225
Dividends & distributions receivable	**161,754**	158,132
Unsettled sales	**222,742**	209,825
Total Receivables	**1,937,417**	1,618,595

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

NOTE 11: NON-FINANCIAL ASSETS

	2017 $'000	2016 $'000
Plant and equipment		
Computers, plant and equipment	**8,816**	6,158
Accumulated depreciation	**(4,784)**	(3,612)
Total plant and equipment	**4,032**	2,546
Intangibles – software licences & systems		
Computer software & systems purchased – cost	**7,976**	6,096
Accumulated amortisation	**(4,156)**	(2,987)
Total intangibles – software licences & systems	**3,820**	3,109

Refer to the accounting policy note on non-financial assets for more details.

NOTE 11: NON-FINANCIAL ASSETS *(CONTINUED)*

ANALYSIS OF PLANT AND EQUIPMENT, AND INTANGIBLES	YEAR ENDED 30 JUNE 2017		
	PLANT & EQUIPMENT $'000	COMPUTER SOFTWARE $'000	TOTAL $'000
Opening balance as at 1 July 2016			
Gross book value	**6,158**	**6,096**	**12,254**
Accumulated depreciation/amortisation	**(3,612)**	**(2,987)**	**(6,599)**
Net book value as 1 July 2016	**2,546**	**3,109**	**5,655**
Additions: by purchase	**2,658**	**1,880**	**4,538**
Depreciation/amortisation charge for the period	**(1,172)**	**(1,169)**	**(2,341)**
Net book value as of 30 June 2017	**4,032**	**3,820**	**7,852**
Represented by:			
Gross book value	**8,816**	**7,976**	**16,792**
Accumulated depreciation/amortisation	**(4,784)**	**(4,156)**	**(8,940)**
	4,032	**3,820**	**7,852**

ANALYSIS OF PLANT AND EQUIPMENT, AND INTANGIBLES	YEAR ENDED 30 JUNE 2016		
	PLANT & EQUIPMENT $'000	COMPUTER SOFTWARE $'000	TOTAL $'000
Opening balance as at 1 July 2015			
Gross book value	4,979	4,301	9,280
Accumulated depreciation/amortisation	(2,976)	(2,156)	(5,132)
Net book value as 1 July 2015	2,003	2,145	4,148
Additions: by purchase	1,179	1,795	2,974
Depreciation/amortisation charge for the period	(636)	(831)	(1,467)
Net book value as of 30 June 2016	2,546	3,109	5,655
Represented by:			
Gross book value	6,158	6,096	12,254
Accumulated depreciation/amortisation	(3,612)	(2,987)	(6,599)
	2,546	3,109	5,655

NOTE 12: PAYABLES

	2017 $'000	2016 $'000
Payables		
Unsettled purchases*	**716,948**	821,528
Other accrued expenses including management and performance fees payable	**89,817**	62,393
Total Payables	**806,765**	883,921

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

NOTE 13: PROVISIONS

	2017 $'000	2016 $'000
Employee provisions		
Annual leave	**1,984**	1,718
Long service leave	**4,388**	3,591
Other employee liabilities	**18,516**	15,033
Total Employee provisions	**24,888**	20,342

NOTE 14: CONTRIBUTIONS BY GOVERNMENT

	2017 $'000	2016 $'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 15: UNCONSOLIDATED SUBSIDIARIES AND INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

As an investment entity, the Fund does not consolidate any of the subsidiaries listed below.

The Fund also invests via non-controlled structured entities.

All entities (controlled or non-controlled) have some or all of the following characteristics:

- the requirement for the Fund (or a FFIC entity) to fund future commitments to the entity as called by the investment manager or general partner. These amounts are limited in terms of total value and callable only in accordance with the underlying legal arrangements. These amounts are disclosed in Note 9;
- the lack of control over the payment of dividends, distributions or the return of capital from the entity. These are controlled by the general partner or the investment manager in accordance with the legal arrangements entered into upon initial investment;
- limitations on transfer or redemption of the interest in the entity. The Fund ensures that these are normal commercial arrangements for investments of this type, typically existing to protect and treat all investors in an equitable manner; and
- limited recourse to the Fund (ordinarily capped at the commitment or invested capital value) for any claims or liabilities incurred by these entities.

NAME OF ENTITY	COUNTRY OF INCORPORATION/ DOMICILE	EQUITY HOLDING	
		30 JUNE 2017	30 JUNE 2016
		%	%
Future Fund Investment Company No.1 Pty Ltd^	**Australia**	**100**	100
Future Fund Investment Company No.2 Pty Ltd^	**Australia**	**100**	100
Global Hedged Strategies Fund Ltd	Cayman Islands	100	100
Future Fund Investment Company No.3 Pty Ltd^	**Australia**	**100**	100
GWII Unit Trust 2	Australia	100	100
Co-Investment Fund (Parallel) LP (formerly BlackRock Co-Investment Fund III (Parallel) LP)	United States	100	100
FF Holdings 1 Pty Ltd	Australia	-	100
– FF Holdings Trust 1	Australia	-	100
Future Fund Investment Company No.4 Pty Ltd^	**Australia**	**100**	100
Future Fund Investment Company No.5 Pty Ltd^	**Australia**	**100**	100
Blue Jay Fund Ltd	Bermuda	100	100
Elementum Tranquillus Fund Ltd	Bermuda	100	100
Clocktower FF LP	Cayman Islands	100	100
QMS Diversified Global Macro Offshore Fund II Ltd	Cayman Islands	100	100
Future Fund Investment Company No.6 Pty Ltd (Dormant)	**Australia**	**100**	100
FFH No.3 Trust	**Australia**	**100**	100
Queenscliff Trust	**Australia**	**100**	100
Bain Capital Distressed and Special Situations 2016 (F) LP	**United States**	**100**	100
Sankaty Credit Opportunities (F) Europe LP	**England**	**100**	100
Heathcote Fund Ltd	**Cayman Islands**	**100**	-

^Audited by the Australian National Audit Office.

NOTE 16: CASH FLOW RECONCILIATION

	2017 $'000	2016 $'000
(a) Reconciliation of operating result to net cash from operating activities:		
Operating result	**10,676,566**	5,589,925
Depreciation and amortisation	**2,341**	1,467
Purchase of investments	**(132,395,951)**	(117,263,456)
Proceeds from sale of investments	**126,214,251**	115,161,343
Net gain on revaluation of investments	**(3,615,739)**	(2,255,538)
Unrealised gain on foreign currency	**(1,688,867)**	(1,300,433)
(Increase)/decrease in accrued income	**(305,905)**	88,201
Decrease/(increase) in other assets	**6,947**	(1,744)
Increase in employee provisions	**4,546**	2,264
Increase/(decrease) in other payables	**27,424**	(1,863)
Net cash (used in)/provided by operating activities	**(1,074,387)**	20,166

(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:

	2017 $'000	2016 $'000
Cash and cash equivalents	**1,785,174**	2,870,526

NOTE 17: CONTINGENT LIABILITIES AND ASSETS

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

NOTE 18: RELATED PARTY TRANSACTIONS

(I) PARENT ENTITY

The ultimate controlling entity of the Fund is the Commonwealth of Australia.

(II) SUBSIDIARIES

Interests in subsidiaries are set out in Note 15.

(III) KEY MANAGEMENT PERSONNEL

Key management personnel are defined as the Board, members of the Agency's Management Committee which includes the Chief Executive Officer, Chief Investment Officer, Chief Operating Officer, Chief Financial Officer, Chief Culture Officer, General Counsel and Chief Investment Strategist and the Finance Minister and the Treasurer. These persons are the only persons considered to have the capacity and responsibility for decision making that can have a material impact on the strategic direction and financial performance of the Fund.

Remuneration of the Finance Minister, Treasurer and Board members is independently determined by the Australian Government Remuneration Tribunal. No member of the Board nor the statutory Accountable Authority receive any entitlement to performance related payments in undertaking their roles. The remuneration of the Finance Minister and Treasurer is not paid by the Fund and is therefore excluded from the compensation disclosed in Note 18(iv).

(IV) KEY MANAGEMENT PERSONNEL COMPENSATION

	2017 $	2016 $
Short-term employee benefits	**6,511,237**	6,374,779
Post-employment benefits	**300,281**	293,350
Other long-term benefits	**429,446**	440,728
Total Compensation	**7,240,964**	7,108,857

The total number of key management personnel that are included in the above table are 14 (2016: 16).

(V) TRANSACTIONS WITH RELATED PARTIES

	2017 $'000
Subscriptions for capital and expenses*	
Subsidiaries	**440,274**
Dividend and distribution revenue*	
Subsidiaries	**86,780**

* FFBG subsidiaries excluding FFIC entities. FFIC transactions reflected in FFIC loans (Note 9) and FFIC dividend income (Note 4).

(VI) TERMS AND CONDITIONS

Transactions relating to dividends, distributions and funding of capital and expenses with related parties were made in accordance with the individual legal agreements.

NOTE 18: RELATED PARTY TRANSACTIONS *(CONTINUED)*

(VII) TRANSACTIONS WITH GOVERNMENT-RELATED ENTITIES

Transactions with other Australian government controlled entities for normal day-to-day business operations were provided under normal terms and conditions. This includes the payment of workers compensation and insurance premiums and superannuation. They are not considered significant individually to warrant separate disclosure as related party transactions. See Note 4 for details regarding the imputation credits refundable from the Australian Taxation Office.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

NOTE 19A: 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.

NOTE 19B: FINANCIAL RISK MANAGEMENT OBJECTIVES

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

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

NOTE 19C: 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 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19C (I): INTEREST RATE RISK

INTEREST RATE EXPOSURE TABLES

The exposure to interest rates as at 30 June 2017 of the Fund and the FFICs are set out below.

FINANCIAL ASSET	FLOATING INTEREST RATE	FIXED INTEREST RATE	NON–INTEREST BEARING	TOTAL*
	2017	2017	2017	2017
	$'000	$'000	$'000	$'000
Cash and cash equivalents	3,201,014	-	-	3,201,014
Negotiable certificates of deposit	-	19,204,464	-	19,204,464
Corporate debt securities	90,394	1,785,703	-	1,876,097
Mortgage backed securities	865,037	35,203	-	900,240
Asset backed securities	508,815	75,316	-	584,131
Corporate credit (bank loans)	1,303,216	-	-	1,303,216
Government debt securities	115,955	6,685,989	203	6,802,147
Other interest bearing securities	437,179	600,727	2,350	1,040,256
Other financial assets	-	-	100,869,946	100,869,946
Total financial assets	6,521,610	28,387,402	100,872,499	135,781,511
Notional value of derivative positions				
Interest rate swaps (notional amount) – pay	(3,089,083)	(263,638)	-	
Interest rate swaps (notional amount) – receive	263,638	3,089,083	-	
Currency swaps (notional amount) – pay	(5,155,426)	-	-	
Currency swaps (notional amount) – receive	5,210,000	-	-	

As at the reporting date the Fund's debt portfolio had an effective interest rate duration of 1.17 (2016: 1.21).

* Total balances will not agree with the investment balances reported in Note 9 as this disclosure includes additional interest rate securities and cash and cash equivalents held by the FFICs.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19C (I): INTEREST RATE RISK *(CONTINUED)*

The exposure to interest rates as at 30 June 2016 of the Fund and the FFICs are set out below.

FINANCIAL ASSET	FLOATING INTEREST RATE	FIXED INTEREST RATE	NON–INTEREST BEARING	TOTAL*
	2016	2016	2016	2016
	$'000	$'000	$'000	$'000
Cash and cash equivalents	3,712,985	-	-	3,712,985
Negotiable certificates of deposit	-	13,953,511	-	13,953,511
Corporate debt securities	459,149	1,131,745	-	1,590,894
Mortgage backed securities	1,024,397	65,323	-	1,089,720
Asset backed securities	659,934	123,217	-	783,151
Corporate credit (bank loans)	1,227,931	-	-	1,227,931
Government debt securities	180,453	7,340,962	-	7,521,415
Other interest bearing securities	279,505	303,072	-	582,577
Other financial assets	-	-	93,824,534	93,824,534
Total financial assets	7,544,354	22,917,830	93,824,534	124,286,718
Notional value of derivative positions				
Interest rate swaps (notional amount) – pay	(4,599,655)	(394,338)	-	
Interest rate swaps (notional amount) – receive	394,338	4,599,655	-	
Currency swaps (notional amount) – pay	(2,760,782)	-	-	
Currency swaps (notional amount) – receive	2,750,000	-	-	

* Total balances will not agree with the investment balances reported in Note 9 as this disclosure includes additional interest rate securities and cash and cash equivalents held by the FFICs.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19C (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 and interest rate option agreements as at 30 June 2017. The Act governs the use of financial derivatives as detailed in note 2.3.3.

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

The Fund transacts in interest rate derivatives in the following forms:

- bi-lateral over-the-counter contracts;
- centrally cleared over-the-counter contracts; and
- exchange traded derivatives.

The Fund's bi-lateral counterparties for interest rate swaps and options include major banking firms and their affiliates. The Fund diversifies its exposure by utilising multiple counterparties, by considering each counterparty's credit rating, and by executing such contracts pursuant to master netting agreements. All bi-lateral swap and option transactions which are not subject to mandatory central clearing are undertaken using ISDAs. Centrally cleared transactions are cash margined at least daily. The Fund's interest rate futures contracts are cash margined daily with the relevant futures clearing exchange. The notional value of the open positions, impact on fixed interest exposure and their fair value are set out below:

	NOTIONAL VALUE 2017 $'000	FAIR MARKET VALUE 2017 $'000	NOTIONAL VALUE 2016 $'000	FAIR MARKET VALUE 2016 $'000
Buy domestic interest rate futures contracts	**6,915,864**	**(78,233)**	10,608,988	51,377
Buy international interest rate futures contracts	**11,824,559**	**(97)**	7,415,737	216,005
Sell domestic interest rate futures contracts	**(3,774,805)**	**488**	(2,146,052)	(74)
Sell international interest rate futures contracts	**(192,503)**	**356**	(171,456)	(2,199)
Receiver (fixed) interest rate swap agreements	**3,089,083**	**22,145**	4,599,655	114,267
Payer (fixed) interest rate swap agreements	**(263,638)**	**(1,258)**	(394,338)	(15,583)
Buy forward contracts on mortgage backed securities	**-**	**-**	11,140	77
Sell forward contracts on mortgage backed securities	**-**	**-**	(5,575)	(7)
Total		**(56,599)**		363,863

No interest rate derivatives are held by the FFICs.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19C(I): INTEREST RATE RISK *(CONTINUED)*

INTEREST RATE SENSITIVITY ANALYSIS

The following table demonstrates the impact on the operating result of the Fund and the FFICs for a 30 basis point (2016: 30 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 2017 and 30 June 2016) and there are concurrent movements in interest rates and parallel shifts in the yield curves. A 30 basis point (2016: 30 basis point) movement would result in the following impact on the debt portfolios (including interest rate derivatives) contribution to the Fund and FFICs' operating result. The impact on the operating result includes the increase/(decrease) in interest income on floating rate securities from the basis point change.

	30 JUNE 2017 IMPACT ON OPERATING RESULT $'000
+ 30 basis points	**(571,316)**
- 30 basis points	**587,113**

	30 JUNE 2016 IMPACT ON OPERATING RESULT $'000
+ 30 basis points	(574,644)
- 30 basis points	586,848

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19C(II): FOREIGN CURRENCY RISK MANAGEMENT

The Fund and the FFICs undertake certain transactions denominated in foreign currencies and accordingly are exposed to the effects of exchange rate fluctuations. The Board sets a target exposure to foreign currency risk and this is managed utilising forward foreign exchange contracts and other derivatives.

Foreign exchange contracts are used by the Fund's investment managers to manage the exposure to foreign exchange and to ensure it remains within Board approved limits. The Act governs the use of financial derivatives as detailed in note 2.3.3. The Fund's counterparties for foreign exchange contracts include major banking firms and their affiliates. The Fund diversifies its exposure by utilising major banking firms, by considering each counterparty's credit rating, and by executing such contracts pursuant to master netting agreements. All transactions (other than spot trades) are undertaken using ISDAs.

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

30 JUNE 2017	USD AUD $'000	EUR AUD $'000	GBP AUD $'000	JPY AUD $'000	OTHER[1] AUD $'000	TOTAL AUD $'000
Cash & cash equivalents	2,250,592	130,959	78,984	89,042	41,678	2,591,255
Listed equities and listed managed investment schemes	14,810,320	3,226,080	1,726,484	1,352,393	8,984,220	30,099,497
Interest bearing securities	5,231,311	286,373	187,068	6,009,785	249,685	11,964,222
Collective investment vehicles	35,202,273	2,999,266	1,595,685	166,612	-	39,963,836
Other investments	867,936	44,369	8,425	62,931	17,199	1,000,860
Receivables	313,783	26,922	15,029	2,983	104,812	463,529
Payables	(238,281)	(21,530)	(18,913)	(438,025)	(17,822)	(734,571)
Total physical exposure	58,437,934	6,692,439	3,592,762	7,245,721	9,379,772	85,348,628
Forward exchange contracts and currency swaps						
– buy foreign currency	11,823,135	2,565,851	225,991	772,421	15,773,793	31,161,191
– sell foreign currency	(39,720,156)	(9,510,327)	(3,848,939)	(1,513,101)	(8,245,870)	(62,838,393)
Currency options	55,000	-	-	60,000	-	115,000
Total derivative exposure	(27,842,021)	(6,944,476)	(3,622,948)	(680,680)	7,527,923	(31,562,202)
Total net exposure	30,595,913	(252,037)	(30,186)	6,565,041	16,907,695	53,786,426

(1) Other includes AUD equivalent exposures to other currencies which, when considered individually, are immaterial.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19C(II): FOREIGN CURRENCY RISK MANAGEMENT *(CONTINUED)*

The Fund and FFICs' exposure in Australian equivalents to foreign currency risk at 30 June 2016 was as follows:

30 JUNE 2016	USD AUD $'000	EUR AUD $'000	GBP AUD $'000	JPY AUD $'000	OTHER[1] AUD $'000	TOTAL AUD $'000
Cash & cash equivalents	2,742,491	49,340	66,157	65,933	24,189	2,948,110
Listed equities and listed managed investment schemes	14,538,747	3,168,438	1,751,801	1,096,795	7,881,675	28,437,456
Interest bearing securities	5,409,945	111,052	93,810	6,638,562	108,193	12,361,562
Collective investment vehicles	32,788,802	3,308,435	1,318,987	362,685	-	37,778,909
Other investments	385,913	30,576	6,166	193,615	20,377	636,647
Receivables	305,387	35,482	11,460	18,345	95,827	466,501
Payables	(210,737)	(16,619)	(8,112)	(574,463)	(21,636)	(831,567)
Total physical exposure	55,960,548	6,686,704	3,240,269	7,801,472	8,108,625	81,797,618
Forward exchange contracts and currency swaps						
– buy foreign currency	7,833,784	2,434,175	709,206	764,073	9,974,779	21,716,017
– sell foreign currency	(30,677,672)	(9,148,844)	(4,418,082)	(1,444,044)	(4,788,946)	(50,477,588)
Currency options	425,000	-	-	68,000	-	493,000
Total derivative exposure	(22,418,888)	(6,714,669)	(3,708,876)	(611,971)	5,185,833	(28,268,571)
Total net exposure	33,541,660	(27,965)	(468,607)	7,189,501	13,294,458	53,529,047

(1) Other includes AUD equivalent exposures to other currencies which, when considered individually, are immaterial.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19C(II): FOREIGN CURRENCY RISK MANAGEMENT *(CONTINUED)*

FOREIGN CURRENCY SENSITIVITY ANALYSIS

The following table demonstrates the impact on the Fund and the FFICs' operating result of a 10.2% (2016: 10.5%) movement in exchange rates relative to the Australian dollar at 30 June 2017, 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 2017 IMPACT ON OPERATING RESULT $'000
+ 10.2% movement	**6,763,477**
- 10.2% movement	**(6,625,837)**

	30 JUNE 2016 IMPACT ON OPERATING RESULT $'000
+ 10.5% movement	6,581,001
- 10.5% movement	(6,459,086)

NOTE 19C(III): EQUITY PRICE RISK

PUBLIC MARKETS EQUITY PRICE RISK

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

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

	2017* $'000	2016* $'000
Domestic listed equities and listed managed investment schemes	**8,526,639**	9,998,428
International listed equities and listed managed investment schemes	**30,075,876**	28,435,453
Total equity price risk exposure	**38,602,515**	38,433,881

* Total balances will not agree with the investment balances reported in Note 9 as this disclosure includes additional public market equities held by the FFICs.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19C(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 2017. The Act governs the use of financial derivatives as detailed in note 2.3.3. Equity futures, swaps, options and warrants are used to manage market exposures to equity price risk and to ensure that asset allocations remain within approved limits. The Fund's counterparties for over the counter equity options 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 over the counter transactions are undertaken using ISDAs. The Fund's equity futures contracts are cash margined daily with the relevant futures clearing exchange. The notional value of the open contracts and their fair value are set out below:

	NOTIONAL VALUE 2017 $'000	FAIR MARKET VALUE 2017 $'000	NOTIONAL VALUE 2016 $'000	FAIR MARKET VALUE 2016 $'000
Buy domestic equity futures contracts	**50,841**	**(468)**	136,646	190
Sell domestic equity futures contracts	**-**	**-**	(1,921,202)	2,530
Buy international equity futures contracts	**155,790**	**(1,172)**	2,388,268	(142,824)
Sell international equity futures contracts	**(24,204)**	**161**	(2,611,732)	(21,649)
Exchange traded international volatility index call options	**-**	**-**	1,569	269
Exchange traded international volatility index put options	**(645)**	**247**	(1,637)	344
Over the counter domestic equity index call options	**167,852**	**2,810**	141,750	12,635
Over the counter international equity index put options	**(725,208)**	**19,307**	(115,242)	7,305
Over the counter international equity index call options	**5,664,895**	**387,186**	2,487,677	238,335
Exchange traded warrants domestic	**6,894**	**725**	-	-
Exchange traded warrants international	**10,408**	**755**	-	-
Over the counter warrants international	**247,855**	**207,545**	-	-
Total		**617,096**		97,135

No equity derivative contracts are held by the FFICs.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19C(III): EQUITY PRICE RISK *(CONTINUED)*

EQUITY PRICE SENSITIVITY ANALYSIS

The analysis below demonstrates the impact on the Fund and FFICs' operating result of the following movements:

- +/- 20% on Australian equities
- +/- 15% on International equities

The sensitivity analysis has been performed to assess the direct risk of holding equity instruments and associated derivatives. The analysis is undertaken on the base currency values of the underlying exposures. Currency risk sensitivity is considered separately in the currency sensitivity table presented in Note 19C(ii). 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.

	2017 IMPACT ON OPERATING RESULT $'000	2016 IMPACT ON OPERATING RESULT $'000
20% increase in Australian equities	**2,942,834**	2,850,903
15% increase in International equities	**10,628,414**	9,403,062
Total	**13,571,248**	12,253,965
20% decrease in Australian equities	**(2,919,223)**	(2,796,073)
15% decrease in International equities	**(10,127,127)**	(8,983,183)
Total	**(13,046,350)**	(11,779,256)

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19C(IV): OTHER PRICE RISK (COLLECTIVE INVESTMENT VEHICLES)

The Fund and FFICs are exposed to other price risks arising from its investments in collective investment vehicles. The Fund and FFICs mitigate this risk through diversification of its investments.

As noted in Note 19F, in the absence of active markets for a particular investment, judgement is required in determining fair value which introduces an increased element of uncertainty in the determination of that fair value. Collective investment vehicle pricing requires this judgement to be exercised in determining appropriate market reference transactions, pricing or earnings multiples, cash flow estimates and market discount rates.

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

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

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

Infrastructure proxy
Utilisation of an appropriate index of publicly traded infrastructure companies in the appropriate geography and sector is used as a proxy.

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

OTHER PRICE RISK SENSITIVITY ANALYSIS

The sensitivity analysis for other price risk using the proxies noted above is incorporated within the equity risk sensitivity analysis and interest rate sensitivity analysis presented earlier in Notes 19C(i) and 19C(iii).

NOTE 19D: LIQUIDITY RISK MANAGEMENT

Liquidity risk is the vulnerability of portfolio cash-flow management to compromise or failure. In particular, it is the risk that insufficient at-call liquidity is available to meet the Fund's liabilities and obligations as they fall due.

The Fund devotes considerable resources to liquidity risk management and the Liquidity Risk Management Policy is one of four main investment policies that support the investment process and help to ensure that the Fund and the FFICs takes 'acceptable but not excessive' risk.

The implementation of the Liquidity Risk Management Policy relies upon the following primary inputs:

- A daily stress test that is designed to ensure that the Fund and the FFICs hold enough at-call liquidity to meet our short-term obligations at all times. If the level of at-call liquidity in the Fund and the FFICs is insufficient to pass this test, it must be replenished;
- A portfolio projection model that forecasts the prospective build of the Fund and the FFICs, based on cash flow projections in a range of different market conditions;
- A commitment register of all contractual and discretionary capital commitments that may need to be funded with at-call liquidity in the future;
- A contingency plan that is designed to expedite access to alternative forms of at-call liquidity should access to traditional sources be constrained.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19D: LIQUIDITY RISK MANAGEMENT *(CONTINUED)*

The following tables summarise the maturity profile of the Fund and FFICs' financial liabilities, net and gross settled derivative financial liability instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The tables have been drawn up based on the contractual discounted cash flows. As the majority of payments occur within one year, the difference between discounted and undiscounted cashflows is immaterial.

As at 30 June 2017:

	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
2017						
Non-derivatives						
Unsettled purchases	770,905	-	-	-	770,905	770,905
Other payables	126,814	-	-	-	126,814	126,814
Total non-derivatives	897,719	-	-	-	897,719	897,719*
Derivatives						
Net settled (interest rate swaps, credit default swaps, interest rate options)	118,767	-	-	-	118,767	118,767
Gross settled (forward foreign exchange contracts, cross currency swaps)						
– (inflow)	(22,488,551)	(4,523,076)	-	-	(27,011,627)	(27,011,627)
– outflow	23,025,526	4,620,552	-	-	27,646,078	27,646,078
Total derivatives	655,742	97,476	-	-	753,218	753,218*

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.

* Total balances do not agree with the investment balance reported in Note 9 and the payables balances reported in Note 12 as the FFICs are included in this disclosure.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19D: LIQUIDITY RISK MANAGEMENT *(CONTINUED)*

As at 30 June 2016:

	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
2016						
Non-derivatives						
Unsettled purchases	865,889	-	-	-	865,889	865,889
Other payables	84,878	-	-	-	84,878	84,878
Total non-derivatives	950,767	-	-	-	950,767	950,767*
Derivatives						
Net settled (interest rate swaps, credit default swaps, interest rate options)	196,759	8,696	-	-	205,455	205,455
Gross settled (forward foreign exchange contracts, cross currency swaps)						
– (inflow)	(10,076,195)	(5,480,409)	-	-	(15,556,604)	(15,556,604)
– outflow	10,343,721	5,660,502	-	-	16,004,223	16,004,223
Total derivatives	464,285	188,789	-	-	653,074	653,074*

* Total balances do not agree with the investment balance reported in Note 9 and the payables balances reported in Note 12 as the FFICs are included in this disclosure.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19E: 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 2017, an exposure of 14.39% (2016: 11.54%) 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:	2017 $'000	2016 $'000
Westpac Banking Corporation	**5,099,087**	3,523,205
Australia and New Zealand Banking Group Limited	**4,931,827**	3,510,618
National Australia Bank Limited	**4,325,589**	3,460,352
Commonwealth Bank of Australia	**4,738,210**	3,434,624
Other domestic banks	**109,751**	229,364
Total	**19,204,464**	14,158,163

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

DOMESTIC INTEREST BEARING SECURITIES ISSUED BY:	2017 $'000	2016 $'000
Negotiable certificates of deposit - domestic	**19,204,464**	13,953,511
Corporate debt securities - domestic	**-**	204,652
Total	**19,204,464**	14,158,163

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 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19E: CREDIT RISK *(CONTINUED)*

CREDIT RISK DERIVATIVES

The Funds' managers utilise credit default swaps to gain exposure to, and to hedge, credit risk. The Act governs the use of financial derivatives as detailed in note 2.3.3.

The Fund transacts in credit default swaps in the following forms:

- bi-lateral over-the-counter contracts; and
- centrally cleared over-the-counter contracts.

The Fund's bi-lateral counterparties for credit default swaps include major banking firms and their affiliates. The Fund diversifies its exposure by utilising multiple counterparties, by considering each counterparty's credit rating, and, where contracts are not subject to mandatory clearing arrangements, by executing such contracts pursuant to master netting agreements. All transactions which are not centrally cleared are undertaken using ISDAs approved by the Fund. Centrally cleared transactions are cash margined at least daily. Managers are required to fully cash back all sold credit protection positions. Outstanding positions are marked to market and collateralisation of out of the money positions is required by each counterparty or the central clearing exchange.

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 2017 $'000	FAIR MARKET VALUE 2017 $'000	NOTIONAL VALUE 2016 $'000	FAIR MARKET VALUE 2016 $'000
Buy Credit Protection	**441,962**	**(10,162)**	985,055	(15,954)
Sell Credit Protection	**(138,519)**	**4,474**	(493,953)	9,427
Total		**(5,688)**		(6,527)

No credit risk derivative contracts are held by the FFICs.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19E: 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 and the FFICs according to the credit ratings of the underlying debt instruments.

	2017 $'000	2016 $'000
Long term rated securities		
AAA	**159,035**	117,169
AA	**3,297,795**	4,021,878
A	**714,684**	1,618,903
BBB	**69,547**	341,292
Below Investment grade / not rated#	**6,100,314**	5,173,136
Short term rated securities		
A-1+/A-3/P-1	**24,510,602**	19,132,229
Other		
US Government Guaranteed	**59,588**	57,577
Total debt securities and cash held	**34,911,565**	30,462,184
Other non-debt financial assets	**100,869,946**	93,824,534
Total financial assets	**135,781,511***	124,286,718*

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

* Total balances will not agree with the investment balances reported in Note 9 as this disclosure includes cash and financial assets held by the FFICs.

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

There are no overdue contractual receipts due from counterparties as at 30 June 2017 (2016: nil).

NOTE 19F: 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.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19F: FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES *(CONTINUED)*

(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 19G: 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).

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19G: FAIR VALUE HIERARCHY *(CONTINUED)*

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 19C (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.

The tables below provide information on the fair value hierarchy for the Fund and FFICs.

As at 30 June 2017:

	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	14,728	30,132,488	1,563,335	31,710,551
Listed equities and listed managed investment schemes	38,521,880	27,174	77,082	38,626,136
Collective investment vehicles	-	-	57,876,767	57,876,767
Derivatives	20,188	1,328,168	208,136	1,556,492
Restricted Cash	585,731	-	-	585,731
Total	39,142,527	31,487,830	59,725,320	130,355,677
Financial liabilities at fair value through profit or loss:				
Derivatives	20,259	732,959	-	753,218
Total	20,259	732,959	-	753,218

* Total balances will not agree with the investment balances reported in Note 9 as this disclosure includes cash and financial assets and liabilities held by the FFICs.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19G: FAIR VALUE HIERARCHY *(CONTINUED)*

The following table presents the transfers between levels for the year ended 30 June 2017:

	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000
Transfers between Levels 1 and 2	(22)	22	-
Transfers between Levels 1 and 3	57,436	-	(57,436)
Transfers between Levels 2 and 3	-	(1,788)	1,788

The following table presents the movement in Level 3 instruments for the year ended 30 June 2017 by class of financial instrument.

	INTEREST BEARING SECURITIES $'000	EQUITIES AND LISTED MANAGED INVESTMENT SCHEMES $'000	COLLECTIVE INVESTMENT VEHICLES $'000	DERIVATIVES $'000	TOTAL $'000
Financial assets at fair value through profit or loss:					
Opening balance	1,088,213	116,671	51,296,067	613	52,501,564
Purchases	767,679	85,651	18,245,923	281,953	19,381,206
Sales	(304,713)	(75,985)	(13,520,846)	(497)	(13,902,041)
Transfers into Level 3	4,296	2,334	-	-	6,630
Gains and losses recognised in the statement of comprehensive income	7,860	10,689	1,855,623	(73,933)	1,800,239
Transfers out of Level 3	-	(62,278)	-	-	(62,278)
Closing balance	1,563,335	77,082	57,876,767	208,136	59,725,320

There were no Level 3 financial liabilities.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19G: 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 2017:

	FAIR VALUE $'000	VALUATION TECHNIQUE	UNOBSERVABLE INPUTS
Recurring fair value measurements			
Financial assets at fair value through profit or loss:			
Interest bearing securities	**31,695,823**	Discounted cash flow	Discount Rate
		Market Approach	Earnings Multiple
		Broker Quotations	N/A
		Independent Pricing Services	N/A
		Recovery Rate	Illiquidity Discount
Equities and listed managed investment schemes	**104,256**	Discounted cash flow	Discount Rate
		Independent Pricing Services	N/A
		Recent Transaction	N/A
		Recovery Value	Recovery Rate
Collective investment vehicles	**57,876,767**	Market Approach	Earnings Multiple
			Net Asset Value
		Discounted cash flow	Discount Rate
Derivatives	**1,536,304**	Independent Pricing Services	N/A
		Broker Quotations	N/A
Total	**91,213,150**		
Financial liabilities at fair value through profit or loss:			
Derivatives	**732,959**	Independent Pricing Services	N/A
		Broker Quotations	N/A
Total	732,959		

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19G: FAIR VALUE HIERARCHY *(CONTINUED)*

As at 30 June 2016:

	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	33,214	25,627,772	1,088,213	26,749,199
Listed equities and listed managed investment schemes	38,292,987	24,223	116,671	38,433,881
Collective investment vehicles	-	-	51,296,067	51,296,067
Derivatives	221,846	1,762,486	613	1,984,945
Restricted Cash	924,994	-	-	924,994
Total	39,473,041	27,414,481	52,501,564	119,389,086
Financial liabilities at fair value through profit or loss:				
Derivatives	2,199	650,875	-	653,074
Total	2,199	650,875	-	653,074

* Total balances will not agree with the investment balances reported in Note 9 as this disclosure includes cash and financial assets and liabilities held by the FFICs.

The following table presents the transfers between levels for the year ended 30 June 2016:

	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000
Transfers between Levels 1 and 2	-	-	-
Transfers between Levels 1 and 3	(26,663)	-	26,663
Transfers between Levels 2 and 3	-	12,444	(12,444)

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19G: FAIR VALUE HIERARCHY *(CONTINUED)*

The following table presents the movement in Level 3 instruments for the year ended 30 June 2016 by class of financial instrument.

	INTEREST BEARING SECURITIES $'000	EQUITIES AND LISTED MANAGED INVESTMENT SCHEMES $'000	COLLECTIVE INVESTMENT VEHICLES $'000	DERIVATIVES $'000	TOTAL $'000
Financial assets at fair value through profit or loss:					
Opening balance	858,108	123,816	47,183,956	637	48,166,517
Purchases	653,758	28,778	17,407,466	1,076	18,091,078
Sales	(376,218)	(65,533)	(14,601,927)	-	(15,043,678)
Transfers into Level 3	-	26,663	-	-	26,663
Gains and losses recognised in the statement of comprehensive income	(36,330)	4,286	1,306,572	(1,100)	1,273,428
Transfers out of Level 3	(11,105)	(1,339)	-	-	(12,444)
Closing balance	1,088,213	116,671	51,296,067	613	52,501,564

There were no Level 3 financial liabilities.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT *(CONTINUED)*

NOTE 19G: 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 2016:

	FAIR VALUE $'000	VALUATION TECHNIQUE	UNOBSERVABLE INPUTS
Recurring fair value measurements			
Financial assets at fair value through profit or loss:			
Interest bearing securities	26,715,985	Discounted cash flow	Discount Rate
		Market Approach	Earnings Multiple
		Broker Quotations	N/A
		Independent Pricing Services	N/A
		Recovery Rate	Illiquidity Discount
Equities and listed managed investment schemes	140,894	Discounted cash flow	Discount Rate
		Independent Pricing Services	N/A
		Recent Transaction	N/A
		Recovery Value	Recovery Rate
Collective investment vehicles	51,296,067	Market Approach	Earnings Multiple
			Net Asset Value
		Discounted cash flow	Discount Rate
Derivatives	1,763,099	Independent Pricing Services	N/A
		Broker Quotations	N/A
Total	79,916,045		
Financial liabilities at fair value through profit or loss:			
Derivatives	650,875	Independent Pricing Services	N/A
		Broker Quotations	N/A
Total	650,875		

NOTE 20: EVENTS OCCURRING AFTER REPORTING DATE

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

NOTE 21: SPECIAL ACCOUNTS

NOTE 21A: SPECIAL ACCOUNTS: FUTURE FUND SPECIAL ACCOUNT

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

Appropriation authority – section 80 of the PGPA Act.

Purpose – establishment and ongoing operation of the Fund.

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

FUTURE FUND SPECIAL ACCOUNT	PERIOD FROM 1 JULY 2016 TO 30 JUNE 2017 $'000	PERIOD FROM 1 JULY 2015 TO 30 JUNE 2016 $'000
Balance carried from previous period	-	-
Bank interest amounts credited	-	-
Appropriations for reporting period	-	-
Other Receipts:		
GST credits	11,093	11,454
Amounts transferred from investment account [(a)]	327,288	323,512
Amounts credited to the special account	-	-
Total Credits	338,381	334,966
Available for payments	338,381	334,966
Payments made:		
Investments debited from the Special Account (FFA s17)		-
Payments made		
– Remuneration of Agency staff	38,843	34,988
– Remuneration of Board members	908	895
– Suppliers	39,710	52,089
– Investment expenses	254,382	244,020
– Purchase of capital equipment and software	4,538	2,974
Total Debits	338,381	334,966
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 21B.

NOTE 21: SPECIAL ACCOUNTS *(CONTINUED)*

NOTE 21B: 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 2016 TO 30 JUNE 2017 $'000	PERIOD FROM 1 JULY 2015 TO 30 JUNE 2016 $'000
Opening balance	**103,077,040**	95,229,964
Investments made on transfer of funds from the Special Account	**-**	-
Realised investments reinvested	**130,386,653**	119,774,888
Interest earned reinvested	**1,840,366**	1,669,128
Dividends received reinvested	**3,061,785**	2,388,269
Franking credits received reinvested	**628,463**	738,704
Foreign currency realised reinvested	**2,450,313**	(710,922)
Amounts transferred to operations[a]	**(327,288)**	(323,512)
Investments realised	**(124,952,039)**	(115,689,479)
Closing Balance	**116,165,293**	103,077,040

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

NOTE 22: REPORTING OF OUTCOMES

NOTE 22A: NET COST OF OUTCOME DELIVERY

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

The net contribution of outcome 1 is disclosed in the Statement of comprehensive income.

NOTE 22B: NET COST OF OUTCOME DELIVERY – PROGRAMS

The Agency has two programs: the management of the investment of the Future Fund and the management of the investment of the Building Australia Fund, Education Investment Fund, DisabilityCare Australia Fund and Medical Research Future Fund. These investments are held for and on behalf of the Commonwealth of Australia.

Program 1.1 Management of the investment of the Future Fund.

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

NOTE 22: REPORTING OF OUTCOMES *(CONTINUED)*

NOTE 22B: NET COST OF OUTCOME DELIVERY – PROGRAMS *(CONTINUED)*

Program 1.2 Management of the investment of the Building Australia Fund, Education Investment Fund, DisabilityCare Australia Fund and the Medical Research Future Fund (the BAF, EIF, DCAF and MRFF).

Under the *Nation-building Funds Act 2008*, the role of the Agency was extended to include supporting the Board in the investment of the assets of the BAF and EIF (each a 'fund') and subsequently by the *DisabilityCare Australia Fund Act 2013* and the *Medical Research Future Fund Act 2015* to support the Board in the investment of the assets of the DCAF and MRFF. 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. This is shown as other income in the income statement. Direct costs to the BAF, EIF, DCAF and MRFF, such as investment management and custody fees, were charged directly to each fund's Special Account and are not reported as part of these financial statements.

NOTE 23: BUDGETARY REPORTS

The following tables provide a comparison of the original budget as presented in the 2016–17 Portfolio Budget Statements (PBS) to the 2016–17 final outcome as presented in accordance with Australian Accounting Standards for the entity. The budget is not audited.

The 2016-17 budget was based on the assumption that the mandated return is achieved for each forward estimates year. CPI is estimated in these budget numbers. In that context, the budget construct, including related investment costs, was based on the estimated mandated return. Actual results will always deviate from these assumed returns. For 2016-17, the Fund generated a net of costs return of $10.68b (8.7%), a 31% increase from the budgeted amount. For comparative purposes, the mandated return used for budget purposes for the equivalent period was 6.8%.

There are therefore significant variances between budgeted and actual outcomes. Due to the volatile nature of investment markets, it is difficult to accurately predict the financial outcomes of the Fund. Further, as PBS financial information is presented in a concise format which differs to the level of information presented in this financial report, the tables below compare actual and budgeted information for the statement of comprehensive income and statement of financial position.

STATEMENT OF COMPREHENSIVE INCOME	YEAR ENDED	PBS - ADMINISTERED	PBS - DEPARTMENTAL	VARIANCE
	30 JUNE 17	30 JUNE 17	30 JUNE 17	30 JUNE 17
	$'000	$'000	$'000	$'000
Total income	11,059,670	8,591,752	62,816	2,405,102
Total expenses including income tax	383,104	457,245	62,816	(136,957)#
OPERATING RESULT FOR THE YEAR	**10,676,566**	**8,134,507**	**-**	**2,542,059**

STATEMENT OF FINANCIAL POSITION	AS AT	PBS - ADMINISTERED	PBS - DEPARTMENTAL	VARIANCE
	30 JUNE 17	30 JUNE 17	30 JUNE 17	30 JUNE 17
	$'000	$'000	$'000	$'000
Total assets	134,997,085	129,803,916	30,378	5,162,791
Total liabilities	1,584,869	1,435,938	30,378	118,553
TOTAL EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT	**133,412,216**	**128,367,978**	**-**	**5,044,238**

Total expenses were lower than budgeted mainly due to the total budgeted expense estimate based on the consolidation of subsidiaries under accounting standards which is required for budget preparation. As the Fund applies the investment entity standard, expenses incurred in subsidiaries are not included in the financial statements as separate expenses but are included in the change in fair value of the investment entities in which the expenses are incurred.

OTHER MANDATORY REPORTING

RESOURCE STATEMENT

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

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

The Future Fund was established in 2006 to strengthen the Australian Government's long-term financial position. The outcome for the Agency is: make provision for the Commonwealth's unfunded superannuation liabilities and development of infrastructure by managing the operational activities of the Future Fund, the Medical Research Future Fund, the DisabilityCare Australia Fund and the Nation-building Funds in line with the Government's Investment Mandates.

AGENCY RESOURCE STATEMENT

	ACTUAL AVAILABLE APPROPRIATIONS FOR 2016–17 $'000	PAYMENTS MADE 2016–17 $'000	BALANCE REMAINING
Special Accounts			
Opening balance	-	-	-
Non-appropriation receipts to Special Accounts	338,381	338,381	-
Total Resourcing and Payments	**338,381**	**338,381**	**-**

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 2016–17 $'000	ACTUAL EXPENSES 2016–17 $'000	VARIATION $'000
Program 1.1 Management of the investment of the Future Fund			
Advances from the Special Account	61,429	58,248	3,181
Total for Program 1.1	**61,429**	**58,248**	**3,181**
Program 1.2 Management of the investment of BAF, EIF, DCAF, MRFF			
Advances from the Special Account	1,231	2,322	(1,091)
Total for Program 1.2	**1,231**	**2,322**	**(1,091)**
Total for Outcome 1	**62,660**	**60,570**	**2,090**

PROCUREMENT

The procurement 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 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. 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 2016–17 14 new consultancy contracts were entered into involving total actual expenditure of $1,065,552. In addition nine ongoing consultancy contracts were active during the 2016–17 year, involving total actual expenditure of $1,318,971.

The Agency supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprises (SMEs) and Small Enterprise participation statistics are available on the Department of Finance's website.

The Agency recognises the importance of ensuring that small businesses are paid on time. The results of the survey of Australian Government Payments to Small Business are available on the Treasury's website.

The Agency's support for small business includes using the Commonwealth Contracting Suite for procurements under $200,000 in accordance with applicable Department of Finance resource management guidance.

FREEDOM OF INFORMATION

Agencies subject to the *Freedom of Information Act 1982* (FOI Act) are required to publish information to the public as part of the Information Publication Scheme (IPS). This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a section 8 statement in an annual report. Each agency must display on its website a plan showing what information it publishes in accordance with the IPS requirements. Information regarding the Agency's Information Public Scheme Plan is available at *www.futurefund.gov.au/About-us/access-to-information/information-publication-scheme*

ADVERTISING AND MARKET RESEARCH

During the 2016–17 year the Agency undertook recruitment advertising. The total cost of this was $6,071. No campaign advertising was undertaken.

GRANT PROGRAMS

The organisation does not administer any grant programs.

ECOLOGICALLY SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL PERFORMANCE

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

The 'how we invest' section of this report refers to how environmental, social and governance matters are incorporated into the investment decision-making which is the central purpose of the organisation.

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

A NABERS self-assessment of the Agency's tenancy during the year resulted in a rating of 5 stars. This is due to a number of energy saving initiatives, including recycling office consumables, and using energy saving features on office equipment and lighting.

DISABILITY REPORTING MECHANISMS

Since 1994 Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy.

In 2007–08 reporting on the employer role was transferred to the Australian Public Service Commission's State of the Service Report and the APS Statistical Bulletin. These reports are available at *www.apsc.gov.au*. From 2010–11 departments and agencies have no longer been required to report on these functions.

The Commonwealth Disability Strategy has been overtaken by a new National Disability Strategy 2010–2020, which sets out a 10-year national policy framework to improve the lives of people with disability, promote participation and create a more inclusive society. A high level two-yearly report will track progress against each of the six outcome areas of the Strategy and present a picture of how people with disability are faring. The first of these reports can be found at *www.dss.gov.au*.

2016–17 ANNUAL PERFORMANCE STATEMENT

INTRODUCTORY STATEMENT

The Annual Performance Statement has been prepared under s39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) for the 2016-17 financial year and accurately represents the Future Fund Board of Guardians (Board) and the Future Fund Management Agency's (Agency) performance in achieving its purposes in accordance with s39(2) of the PGPA Act.

PURPOSE

The Future Fund is Australia's sovereign wealth fund, responsible for investing for the benefit of future generations of Australians. Established in 2006 its main objective is to strengthen the Commonwealth's long-term position.

The Board has responsibility for investing the assets of special purpose public funds including the Future Fund, the Medical Research Future Fund, the DisabilityCare Australia Fund and two Nation-building Funds (the Building Australia Fund and the Education Investment Fund). Risk and return objectives for each of the Funds are set by Investment Mandate Directions issued by the Treasurer and Minister for Finance to the Board.

The Agency supports the Board with investing Funds for which the Board is responsible in line with the Investment Mandate Directions for each Fund.

RESULTS

As an investment institution, the achievement of the return and risk objectives set by Government for each special purpose public Fund is the key measure of performance. These expectations are set out in the Investment Mandate Directions issued by the responsible Ministers.

PERFORMANCE CRITERION ONE

Provide assistance and advice to the Board in pursuit of achieving the Future Fund Investment Mandate Direction target return of an average of at least 4.5% to 5.5% above the Consumer Price Index (CPI) over the long term (interpreted as rolling 10-year periods) with acceptable but not excessive risk.

CRITERION SOURCE

2016–17 performance criteria outlined in the 2016-17 Corporate Plan and 2016-17 Portfolio Budget Statements.

RESULT AGAINST PERFORMANCE CRITERION

Performance against the Future Fund Investment Mandate Direction is set out in the table below.

RETURNS – FUTURE FUND

PERIOD TO 30 JUNE 2017	RETURN PA	TARGET RETURN (CPI+4.5% PA)
From May 2006	7.8%	6.9%
10 years	7.9%	6.9%
Seven years	10.4%	6.6%
Five years	11.6%	6.5%
Three years	9.5%	6.0%
One year	8.7%	6.4%

PERFORMANCE CRITERION TWO

Provide assistance and advice to the Board in pursuit of achieving the Investment Mandate Direction target returns as follows:

- For each of the Nation-building Funds and the DisabilityCare Australia Fund, the Australian three-month bank bill swap rate + 0.3% per annum, calculated on a rolling 12-month basis while minimising the probability of capital loss over a 12-month horizon.
- For the Medical Research Future Fund, an average return of at least the Reserve Bank of Australia Cash Rate target +1.5% to 2.0% per annum, net of investment fees, over a rolling 10-year term with acceptable but not excessive risk.

CRITERION SOURCE

2016–17 performance criteria outlined in the 2016-17 Corporate Plan and 2016-17 Portfolio Budget Statements.

RESULT AGAINST PERFORMANCE CRITERION

In 2016–17, the Building Australia Fund and Education Investment Fund each achieved a return of 2.4%. The target benchmark return for the Nation-building Funds during that period was 2.1%.

In 2016–17 the DisabilityCare Australia Fund generated a return of 2.4%. The target benchmark return for the period was 2.1%.

Since inception the Medical Research Future Fund has generated a return of 3.9% against a target benchmark return of 3.1%.

ANALYSIS OF PERFORMANCE AGAINST PURPOSE

The Future Fund has exceeded the target benchmark return over each time period since inception adding over $73 billion to the value of the Fund.

We have continued to diversify the Medical Research Future Fund in line with our investment strategy. The Fund exceeded its target benchmark over a one-year period, and since inception, noting that returns are to be assessed over rolling 10-year periods.

The DisabilityCare Australia Fund and Nation-building Funds all exceeded their target benchmark in 2016–17.

We are operating in an uncertain investment environment with lower prospective returns. In this environment we have exercised patience and diligence in investing the assets of the Funds, only taking on risk where it is adequately rewarded.

We will continue to manage each Fund within the risk and return requirements of its relevant Investment Mandate Direction.

In May 2017 the long-term benchmark return target for the Future Fund was reduced by the responsible Ministers to CPI + 4% to 5% per annum, reflecting the changed investment environment. The revised Investment Mandate takes effect from 1 July 2017. The return objective must continue to be pursued with acceptable but not excessive levels of risk.

REFERENCES AND INDEX

APPENDIX A: INVESTMENT MANAGERS ENGAGED BY THE FUTURE FUND BOARD OF GUARDIANS AS AT 30 JUNE 2017

ASSET CLASS	MANAGER
EQUITIES	
Australian equities	• Henderson Global Investors (Australia) • Macquarie Investment Management
Developed market equities	• Blackstone Alternative Asset Management • BlackRock Alternative Advisors • Massachusetts Financial Services • Schroder Investment Management Australia • State Street Global Advisors
Emerging market equities	• Mondrian Investment Partners • Schroder Investment Management Australia • State Street Global Advisors • Trilogy Global Advisors
PRIVATE EQUITY	
Buy out	• Advent International Corporation • American Industrial Partners • 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
Venture and growth	• Adams Street Partners • Bessemer Venture Partners • CDH Investments • Columbia Capital • FountainVest Partners • Greenspring Associates • Hillhouse Capital • Horsley Bridge Partners • Insight Venture Partners • Lightspeed Venture Partners • New Enterprise Associates • Playground Global • Quilvest • Xiang He Capital
Special opportunities	• Adams Street Partners • HarbourVest Partners • Oaktree Capital Management • TowerBrook Capital Partners

ASSET CLASS	MANAGER
PROPERTY	
Unlisted	• Altarea Cogedim • Berkshire Property Advisors • BlackRock • Brookfield Asset Management • CorVal Partners • DEXUS Funds Management • Garrison Investment Group LP • Harbert Management Corporation • Hillwood Investment Properties • ICAMAP Advisory • Lend Lease Investment Management • Morgan Stanley Real Estate Investing • Peet Limited • The Townsend Group • TIAA-CREF/TIAA Henderson Real Estate • Vicinity Centres
Listed	• CBRE Clarion Real Estate Securities
INFRASTRUCTURE & TIMBERLAND	
Unlisted	• AMP Capital Investors • Campbell Global • Corsair Infrastructure Management • Global Infrastructure Partners • HRL Morrison & Co • Morgan Stanley Infrastructure • Oaktree Capital Management • Starwood Energy • QIC Global Infrastructure
Listed	• Deutsche Asset & Wealth Management
DEBT	
High grade debt	• Colonial First State Global Asset Management • Goldman Sachs Asset Management • M&G Investment Management Limited • Macquarie Investment Management • PIMCO Australia
High yield debt	• Ares Management • Bain Capital Credit • BlackRock Investment Management • Haymarket Financial • Lazard Asset Management • Oak Hill Advisors • Oaktree Capital Management • PAG Holdings Limited • Quadrant Real Estate Advisors • Westbourne Credit Management Limited

ASSET CLASS	MANAGER
Distressed and event driven	• Bain Capital Credit • Centerbridge Partners L.P. • Oaktree Capital Management
ALTERNATIVES	
Multi-strategy/relative value	• Arrowgrass Capital Partners • BlackRock Alternative Advisors • Citadel Advisors • PAG Holdings Limited • Wellington Management
Macro-directional	• AHL Partners • BlackRock Alternative Advisors • Brevan Howard Asset Management • Bridgewater Associates • BT Investment Management • Citadel Advisors • Civic Capital • Drobny Capital • Glen Point Capital • GMO Australia • Ionic Capital Management • QMS Capital Management
Alternative risk premia	• Elementum Advisors • Hiscox Re Insurance Linked Strategies Ltd • Man FRM Investment Management • SouthPeak Investment Management
Overlay strategies	• Ashmore Investment Management Limited • 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 • PIMCO Australia

APPENDIX B: INVESTMENT MANDATE DIRECTIONS

FUTURE FUND INVESTMENT MANDATE DIRECTION 2014 – SUPERSEDED

PART 1 – PRELIMINARY

1. NAME OF DIRECTION

This Direction is the *Future Fund Investment Mandate Direction 2014*.

2. COMMENCEMENT

This Direction commences on the 15th day after it is given.

Note: Section 42 of the *Legislative Instruments Act 2003* (which deals with the disallowance of legislative instruments) does not apply to this instrument: see section 44 of that Act. Part 6 of that Act (which deals with the sunsetting of legislative instruments) does not apply to this instrument: see section 54 of that Act.

3. REVOCATION OF PREVIOUS DIRECTION

The *Future Fund Investment Mandate Directions 2006* are revoked in full.

4. DEFINITIONS

In this Direction:
Act means the *Future Fund Act 2006*.
Fund means the Future Fund.
Board means the Future Fund Board of Guardians.
responsible Ministers has the same meaning as in the Act.

5. OBJECT OF THIS DIRECTION

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

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

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

PART 2 – DIRECTION

6. BENCHMARK RETURN

The Board is to adopt an average return of at least the Consumer Price Index (CPI) + 4.5 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.

7. LIMITS FOR HOLDINGS OF LISTED COMPANIES

The Board must establish a limit for holdings on any listed company in order to prevent a breach of the statutory limits imposed by sections 21 and 84C of the Act.

8. BOARD MUST CONSIDER IMPACTS FROM ITS INVESTMENT STRATEGY

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

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

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

9. CORPORATE GOVERNANCE

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

FUTURE FUND INVESTMENT MANDATE DIRECTION 2017

PART 1 – PRELIMINARY

1. NAME OF DIRECTION

This Direction is the *Future Fund Investment Mandate Direction 2017*.

2. COMMENCEMENT

This Direction commences on 1 July 2017, or on the 15th day after it is given to the Board, whichever occurs later.

Note: Section 42 of the *Legislative Instruments Act 2003* (which deals with the disallowance of legislative instruments) does not apply to this instrument: see section 44 of that Act. Part 6 of that Act (which deals with the sunsetting of legislative instruments) does not apply to this instrument: see section 54 of that Act.

3. REVOCATION OF PREVIOUS DIRECTION

The *Future Fund Investment Mandate Direction 2014* is revoked in full.

4. DEFINITIONS

In this Direction:

Act means the *Future Fund Act 2006*.

Fund means the Future Fund.

Board means the Future Fund Board of Guardians.

responsible Ministers has the same meaning as in the Act.

5. OBJECT OF THIS DIRECTION

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

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

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

PART 2 – DIRECTION

6. BENCHMARK RETURN

The Board is to adopt an average return of at least the Consumer Price Index (CPI) + 4 to + 5 per cent per annum over the long term as the benchmark return on the Fund.

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

7. LIMITS FOR HOLDINGS OF LISTED COMPANIES

The Board must establish a limit for holdings on any listed company in order to prevent a breach of the statutory limits imposed by sections 21 and 84C of the Act.

8. BOARD MUST CONSIDER IMPACTS FROM ITS INVESTMENT STRATEGY

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

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

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

9. CORPORATE GOVERNANCE

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

MEDICAL RESEARCH FUTURE FUND INVESTMENT MANDATE DIRECTION 2015

PART 1 – PRELIMINARY

1. NAME OF DIRECTION

This Direction is the *Medical Research Future Fund Investment Mandate Direction 2015*.

2. COMMENCEMENT

This Direction commences on the 15th day after it is given.

Note: Section 42 of the *Legislative Instruments Act 2003* (which deals with the disallowance of legislative instruments) does not apply to this instrument: see section 44 of that Act. Part 6 of that Act (which deals with the sunsetting of legislative instruments) does not apply to this instrument: see section 54 of that Act.

3. DEFINITIONS

In this Direction:
Act means the *Medical Research Future Fund Act 2015*.
Board means the Future Fund Board of Guardians.
Fund means the Medical Research Future Fund.
responsible Ministers has the same meaning as in the Act.

4. OBJECT OF THIS DIRECTION

The Fund has been established to provide grants of financial assistance to support medical research and medical innovation over the long term.

The object of this Direction is to give guidance to the Board in relation to its investment strategy for the Fund. The Board is required under section 40 of the Act to:

- seek to maximise the return earned on the Fund over the long term, consistent with international best practice for institutional investment; and
- to enhance the commonwealth's ability to provide grants of financial assistance to support medical research and innovation,

subject to its obligations under the Act and any directions given by the responsible Ministers under the Act.

This Direction is given under subsection 39(1) of the Act to articulate the Government's expectations for how the Fund will be invested and managed by the Board.

PART 2 – DIRECTION

5. BENCHMARK RETURN

The Board is to adopt an average return of at least the Reserve Bank of Australia Cash Rate target + 1.5 to 2.0 per cent per annum, net of investment fees, over a rolling 10 year term as the benchmark return on the Fund.

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

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

6. BOARD MUST CONSIDER IMPACTS FROM ITS INVESTMENT STRATEGY

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

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

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

7. CORPORATE GOVERNANCE

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

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:

- 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 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://www.frli.gov.au.

BUILDING AUSTRALIA FUND INVESTMENT MANDATE DIRECTIONS 2009[1]

PART 1 – PRELIMINARY

1. NAME OF DIRECTIONS

These Directions are the *Building Australia Fund Investment Mandate Directions 2009*.

2. COMMENCEMENT

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

Note: Section 42 of the *Legislative Instruments Act 2003* (which deals with the disallowance of legislative instruments) does not apply to this instrument: see section 44 of that Act. Part 6 of that Act (which deals with the sunsetting of legislative instruments) does not apply to this instrument: see section 54 of that Act.

3. DEFINITIONS

In these Directions:

Act means the *Nation-building Funds Act 2008*.

Board means the Future Fund Board of Guardians.

Fund means the Building Australia Fund.

responsible Ministers has the same meaning as in the Act.

4. OBJECT OF THESE DIRECTIONS

(1) The Building Australia Fund is a financing source to enhance the Commonwealth's ability to make payments in relation to the creation or development of transport, communications, energy and water infrastructure, and eligible national broadband network matters.

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

(3) These Directions are given under subsection 35 (1) of the Act to articulate the Australian Government's expectations of how the Fund will be invested and managed by the Board.

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

PART 2 – DIRECTIONS

5. BENCHMARK RETURN

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

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

6. BOARD MUST CONSIDER IMPACTS FROM ITS INVESTMENT STRATEGY

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

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

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

Note

1. All legislative instruments and compilations are registered on the Federal Register of Legislative Instruments kept under the *Legislative Instruments Act 2003*. See 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.

APPENDIX C: IMPLEMENTATION OF THE SANTIAGO PRINCIPLES

The Santiago Principles are a voluntary set of principles and practices originally developed by the International Working Group of Sovereign Wealth Funds (the **Working Group**) during 2008 and which today are at the heart of the International Forum of Sovereign Wealth Funds (the **Forum**).

The Santiago 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 Forum was established as a voluntary group of SWFs in 2009, to build on the efforts of the Working Group, to meet, exchange views on issues of common interest, and facilitate an understanding of the Santiago Principles and SWF activities. The Future Fund Board of Guardians (the **Board of Guardians**) was a member of the Working Group, is a founding member of the Forum and, through its then Chairman, David Murray, was the inaugural Chair of the Forum.

This document describes how the Board of Guardians implements the Santiago Principles.

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 its supporting management team in the Future Fund Management Agency (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*, the *Nation-building Funds Act 2008*, the *DisabilityCare Australia Fund Act 2013* and the *Medical Research Future Fund Act 2015*. The framework is designed specifically to establish the sound and effective operation of the organisation and achievement of its objectives. The legal basis and structure and the legal relationships between the Board of Guardians, Agency and the Australian Government is detailed in the legislation which is publicly available. Additional detail and discussion of the basis and operation of the Board, Agency and the various public asset funds themselves is available from the Board's annual report and website. *www.futurefund.gov.au/About-us/Legislation-and-governance* *www.futurefund.gov.au/investment/how-we-invest/investment-mandates*
2. The SWF's policy purpose should be clearly defined and publicly disclosed.	The Future Fund was established to strengthen the Australian Government's long-term financial position. 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 Medical Research Future Fund was established to improve the health and wellbeing of Australians by providing grants of financial assistance to support medical research and medical innovation.

PRINCIPLE	IMPLEMENTATION AND REFERENCE MATERIAL
	The Board of Guardians is responsible for the investment of the assets in each of these 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-us/Legislation-and-governance* *www.futurefund.gov.au/investment/how-we-invest/investment-mandates* *www.futurefund.gov.au/About-us/annual-reports*
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, the Nation-building Funds, the DisabilityCare Australia Fund and the Medical Research Future 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 Directions do not direct the Board of Guardians to invest in particular sectors or asset classes domestically or internationally. Based on its mandate the Board of Guardians develops and implements appropriate investment portfolios in line with the Investment Mandate Directions. 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. Withdrawals from the DisabilityCare Australia Fund and Medical Research Future Fund are made in accordance with the governing legislation. Coordination by Government with all relevant fiscal and monetary authorities, and relevant departments, is undertaken as part of the legislated processes for withdrawals. *www.futurefund.gov.au/About-us/Legislation-and-governance* *www.budget.gov.au*

PRINCIPLE		IMPLEMENTATION AND REFERENCE MATERIAL
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.	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. Details on planned contributions to and withdrawals from the funds are included in the Australian Government's annual Budget. *www.futurefund.gov.au/About-us/Legislation-and-governance* *www.finance.gov.au/investment-funds/* *www.budget.gov.au*
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* *www.futurefund.gov.au/investment/investment-performance/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 of Guardians and Agency, as asset manager are detailed in the legislation. Further detail is provided by the Investment Mandate Directions for each Fund and the Statement of Expectations and Statement of Intent exchanged between the Government and the Board of Guardians 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-us/Legislation-and-governance*
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, while maintaining the investment independence of the Board of Guardians, are detailed in the legislation. *www.futurefund.gov.au/About-us/Legislation-and-governance*

PRINCIPLE		IMPLEMENTATION AND REFERENCE MATERIAL
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 of Guardians is bound by the legislation and Investment Mandate Directions set by Government to pursue the investment objectives detailed in the legislation and to act in good faith. The legislation also provides the Board of Guardians with the necessary powers to undertake its mandated activities and sets out the experience, expertise and credibility required of appointees to the Board of Guardians. *www.futurefund.gov.au/About-us/Legislation-and-governance* *www.futurefund.gov.au/investment/how-we-invest/investment-mandates*
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 of Guardians 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 of Guardians and to assist in giving effect to its 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-us/Legislation-and-governance*
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 Ministers, are detailed in the legislation. Members of the Board of Guardians 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-us/Legislation-and-governance*
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.	An annual report (prepared in accordance with the requirements of the *Future Fund Act 2006* and the *Public Governance Reporting and Accountability Act 2014*) and audited financial statements are prepared in accordance with the Public Governance, Performance and Accountability (Financial Reporting) Rule. 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-us/Legislation-and-governance* *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 Audit Committee of the Board of Guardians. 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-us/annual-reports* *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-us/Legislation-and-governance* *www.apsc.gov.au/values/conductguidelines.htm*
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 approach to engaging third parties, including advisors and investment managers, by the Board of Guardians and the Agency is outlined in a 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/how-we-invest/investment-policy-and-position-papers*
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-us/Legislation-and-governance*
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 of Guardians and the Agency are set out in the legislation and in public annual reports. The framework clearly establishes the independence and accountability arrangements for each Fund, the Board of Guardians and the Agency. *www.futurefund.gov.au/About-us/Legislation-and-governance* *www.futurefund.gov.au/annual-reports*
17 Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in internal financial markets and enhance trust in recipient countries.	An annual report and audited annual financial statements are tabled in Parliament and published via the website. The Board also issues public quarterly updates on performance and asset allocation and routinely provides updates on the operations and performance of the various Funds during formal public hearings before a Committee of the Senate. *www.futurefund.gov.au/annual-reports* *www.futurefund.gov.au/investment/investment-performance/portfolio-updates*

PRINCIPLE	IMPLEMENTATION AND REFERENCE MATERIAL
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.	A Statement of Investment Policies, published on the internet as required by legislation, details the investment strategy and risk tolerance of the Board of Guardians and its application of portfolio investment principles. Annual reports, as well as regular public speeches and briefings, provide additional insight and discussion of the investment strategy. The Board is prohibited from borrowing under Section 23 of the Future Fund Act. These documents and communication activities 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 and communications are consistent with the obligations contained in the legislation. *www.futurefund.gov.au/About-us/Legislation-and-governance* *www.futurefund.gov.au/investment/how-we-invest/investment-policy-and-position-papers* *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 of Guardians is obliged by legislation to seek to maximise risk-adjusted financial returns. Return and risk parameters for each Fund are detailed through Investment Mandate Directions created under relevant legislation. The Board of Guardians 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 approach to consideration of environmental, social and governance matters, and to the universe of investments the Board of Guardians considers, is detailed in the Statement of Investment policies and reflects the organisation's focus on acting as a prudent investor seeking to maximise risk-adjusted returns. *www.futurefund.gov.au/About-us/Legislation-and-governance* *www.futurefund.gov.au/investment/how-we-invest/investment-policy-and-position-papers*

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 of Guardians 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 of Guardians operates and makes decisions independently of Government. Policies and processes are in place to restrict and coordinate engagement with the Government in relation to matters concerning the Board of Guardians and Agency. Board members are not permitted to be employees of the Commonwealth or to be holders of a full-time office under a law of the Commonwealth. Agency staff are bound by the Australian Public Service Code of Conduct. The Investment Mandate Directions also requires the Board of Guardians, 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-us/Legislation-and-governance* *www.futurefund.gov.au/investment/how-we-invest/investment-mandates*
21	SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If a 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 of Guardians 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. Its approach to the exercise of ownership and voting rights is detailed in the Statement of Investment Policies. The annual report discusses the application of this policy including reporting in aggregate of how voting rights have been exercised. *www.futurefund.gov.au/investment/how-we-invest/investment-policy-and-position-papers* *www.futurefund.gov.au/investment/how-we-invest/investment-mandates*

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 Mandate Directions and obligation to have regard to international best practice for institutional investment, the Board of Guardians 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/how-we-invest/investment-policy-and-position-papers* *www.futurefund.gov.au/About-us/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 Directions, are reported to the responsible Ministers and publicly through quarterly portfolio updates and an annual report (including audited financial statements) which is tabled in Parliament. *www.futurefund.gov.au/About-us/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 of Guardians undertakes an annual review of its implementation of the Santiago Principles. The Board of Guardians has contributed to the Forum's various reports on the application of the Santiago Principles, including reports published in 2011, 2014 and 2016. The organisation also regularly participates in workshops and discussions with other members of the Forum on best practice approaches to the investment and governance of SWFs. *www.futurefund.gov.au/About-us/Legislation-and-governance* *www.ifswf.org*

APPENDIX D: LIST OF REQUIREMENTS

This list of requirements is provided as a checklist against the requirements detailed in Resource Management Guide No. 135, 'Annual reports for non-corporate Commonwealth entities', in line with reporting requirements under 17AJ(d) of the PGPA rule.

PGPA RULE REFERENCE	PART OF REPORT	DESCRIPTION	REQUIREMENT	LOCATION IN ANNUAL REPORT
17AD(g)	**Letter of transmittal**			
17AI		A copy of the letter of transmittal signed and dated by accountable authority on date final text approved, with statement that the report has been prepared in accordance with section 46 of the Act and any enabling legislation that specifies additional requirements in relation to the annual report.	Mandatory	p3
17AD(h)	**Aids to access**			
17AJ(a)		Table of contents.	Mandatory	p1
17AJ(b)		Alphabetical index.	Mandatory	p199–203
17AJ(c)		Glossary of abbreviations and acronyms.	Mandatory	p198
17AJ(d)		List of requirements.	Mandatory	p192–197
17AJ(e)		Details of contact officer.	Mandatory	Inside front cover
17AJ(f)		Entity's website address.	Mandatory	Inside front cover
17AJ(g)		Electronic address of report.	Mandatory	Inside front cover
17AD(a)	**Review by accountable authority**			
17AD(a)		A review by the accountable authority of the entity.	Mandatory	p6–7
17AD(b)	**Overview of the entity**			
17AE(1)(a)(i)		A description of the role and functions of the entity.	Mandatory	p12–15
17AE(1)(a)(ii)		A description of the organisational structure of the entity.	Mandatory	p80–87
17AE(1)(a)(iii)		A description of the outcomes and programmes administered by the entity.	Mandatory	p12–13, 38–77
17AE(1)(a)(iv)		A description of the purposes of the entity as included in corporate plan.	Mandatory	p12–13, p172–173
17AE(1)(b)		An outline of the structure of the portfolio of the entity.	Portfolio departments – mandatory	Not applicable
17AE(2)		Where the outcomes and programs administered by the entity differ from any Portfolio Budget Statement, Portfolio Additional Estimates Statement or other portfolio estimates statement that was prepared for the entity for the period, include details of variation and reasons for change.	If applicable, mandatory	Not applicable

PGPA RULE REFERENCE	PART OF REPORT	DESCRIPTION	REQUIREMENT	LOCATION IN ANNUAL REPORT
17AD(c)	**Report on the Performance of the entity**			
	Annual performance Statements			
17AD(c)(i); 16F		Annual performance statement in accordance with paragraph 39(1)(b) of the Act and section 16F of the Rule.	Mandatory	p172–173
17AD(c)(ii)	*Report on Financial Performance*			
17AF(1)(a)		A discussion and analysis of the entity's financial performance.	Mandatory	p34–77
17AF(1)(b)		A table summarising the total resources and total payments of the entity.	Mandatory	p169
17AF(2)		If there may be significant changes in the financial results during or after the previous or current reporting period, information on those changes, including: the cause of any operating loss of the entity; how the entity has responded to the loss and the actions that have been taken in relation to the loss; and any matter or circumstances that it can reasonably be anticipated will have a significant impact on the entity's future operation or financial results.	If applicable, mandatory	Not applicable
17AD(d)	**Management and Accountability**			
	Corporate Governance			
17AG(2)(a)		Information on compliance with section 10 (fraud systems).	Mandatory	p89
17AG(2)(b)(i)		A certification by accountable authority that fraud risk assessments and fraud control plans have been prepared.	Mandatory	p3
17AG(2)(b)(ii)		A certification by accountable authority that appropriate mechanisms for preventing, detecting incidents of, investigating or otherwise dealing with, and recording or reporting fraud that meet the specific needs of the entity are in place.	Mandatory	p3
17AG(2)(b)(iii)		A certification by accountable authority that all reasonable measures have been taken to deal appropriately with fraud relating to the entity.	Mandatory	p3
17AG(2)(c)		An outline of structures and processes in place for the entity to implement principles and objectives of corporate governance.	Mandatory	p80–89
17AG(2)(d) – (e)		A statement of significant issues reported to Minister under paragraph 19(1)(e) of the Act that relates to non-compliance with Finance law and action taken to remedy non-compliance.	If applicable, mandatory	Not applicable

PGPA RULE REFERENCE	PART OF REPORT	DESCRIPTION	REQUIREMENT	LOCATION IN ANNUAL REPORT
	External Scrutiny			
17AG(3)		Information on the most significant developments in external scrutiny and the entity's response to the scrutiny.	Mandatory	p80–81
17AG(3)(a)		Information on judicial decisions and decisions of administrative tribunals and by the Australian Information Commissioner that may have a significant effect on the operations of the entity.	If applicable, mandatory	Not applicable
17AG(3)(b)		Information on any reports on operations of the entity by the Auditor-General (other than report under section 43 of the Act), a Parliamentary Committee, or the Commonwealth Ombudsman.	If applicable, mandatory	Not applicable
17AG(3)(c)		Information on any capability reviews on the entity that were released during the period.	If applicable, mandatory	Not applicable
	Management of Human Resources			
17AG(4)(a)		An assessment of the entity's effectiveness in managing and developing employees to achieve entity objectives.	Mandatory	p92–101
17AG(4)(b)		Statistics on the entity's APS employees on an ongoing and non-ongoing basis; including the following: • Statistics on staffing classification level; • Statistics on full-time employees; • Statistics on part-time employees; • Statistics on gender; • Statistics on staff location; • Statistics on employees who identify as Indigenous.	Mandatory	p95–96
17AG(4)(c)		Information on any enterprise agreements, individual flexibility arrangements, Australian workplace agreements, common law contracts and determinations under subsection 24(1) of the *Public Service Act 1999*.	Mandatory	p100
17AG(4)(c)(i)		Information on the number of SES and non-SES employees covered by agreements etc identified in paragraph 17AG(4)(c).	Mandatory	p100
17AG(4)(c)(ii)		The salary ranges available for APS employees by classification level.	Mandatory	p101
17AG(4)(c)(iii)		A description of non-salary benefits provided to employees.	Mandatory	p100
17AG(4)(d)(i)		Information on the number of employees at each classification level who received performance pay.	If applicable, mandatory	p101
17AG(4)(d)(ii)		Information on aggregate amounts of performance pay at each classification level.	If applicable, mandatory	p101

PGPA RULE REFERENCE	PART OF REPORT	DESCRIPTION	REQUIREMENT	LOCATION IN ANNUAL REPORT
17AG(4)(d)(iii)		Information on the average amount of performance payment, and range of such payments, at each classification level.	If applicable, mandatory	p101
17AG(4)(d)(iv)		Information on aggregate amount of performance payments.	If applicable, mandatory	p101
	Assets Management			
17AG(5)		An assessment of effectiveness of assets management where asset management is a significant part of the entity's activities.	If applicable, mandatory	Not applicable
	Purchasing			
17AG(6)		An assessment of entity performance against the Commonwealth Procurement Rules.	Mandatory	p170
	Consultants			
17AG(7)(a)		A summary statement detailing the number of new contracts engaging consultants entered into during the period; the total actual expenditure on all new consultancy contracts entered into during the period (inclusive of GST); the number of ongoing consultancy contracts that were entered into during a previous reporting period; and the total actual expenditure in the reporting year on the ongoing consultancy contracts (inclusive of GST).	Mandatory	p170
17AG(7)(b)		A statement that "*During [reporting period], [specified number] new consultancy contracts were entered into involving total actual expenditure of $[specified million]. In addition, [specified number] ongoing consultancy contracts were active during the period, involving total actual expenditure of $[specified million]*".	Mandatory	p170
17AG(7)(c)		A summary of the policies and procedures for selecting and engaging consultants and the main categories of purposes for which consultants were selected and engaged.	Mandatory	p170
17AG(7)(d)		A statement that "*Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website.*"	Mandatory	p170
	Australian National Audit Office Access Clauses			
17AG(8)		If an entity entered into a contract with a value of more than $100 000 (inclusive of GST) and the contract did not provide the Auditor-General with access to the contractor's premises, the report must include the name of the contractor, purpose and value of the contract, and the reason why a clause allowing access was not included in the contract.	If applicable, mandatory	Not applicable

PGPA RULE REFERENCE	PART OF REPORT	DESCRIPTION	REQUIREMENT	LOCATION IN ANNUAL REPORT
	Exempt contracts			
17AG(9)		If an entity entered into a contract or there is a standing offer with a value greater than $10 000 (inclusive of GST) which has been exempted from being published in AusTender because it would disclose exempt matters under the FOI Act, the annual report must include a statement that the contract or standing offer has been exempted, and the value of the contract or standing offer, to the extent that doing so does not disclose the exempt matters.	If applicable, mandatory	Not applicable
	Small business			
17AG(10)(a)		A statement that "*[Name of entity] supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprises (SME) and Small Enterprise participation statistics are available on the Department of Finance's website.*"	Mandatory	p170
17AG(10)(b)		An outline of the ways in which the procurement practices of the entity support small and medium enterprises.	Mandatory	p170
17AG(10)(c)		If the entity is considered by the Department administered by the Finance Minister as material in nature – a statement that "*[Name of entity] recognises the importance of ensuring that small businesses are paid on time. The results of the Survey of Australian Government Payments to Small Business are available on the Treasury's website.*"	If applicable, mandatory	p170
	Financial Statements			
17AD(e)		Inclusion of the annual financial statements in accordance with subsection 43(4) of the Act.	Mandatory	p102–167
17AD(f)	**Other Mandatory Information**			
17AH(1)(a)(i)		If the entity conducted advertising campaigns, a statement that "*During [reporting period], the [name of entity] conducted the following advertising campaigns: [name of advertising campaigns undertaken]. Further information on those advertising campaigns is available at [address of entity's website] and in the reports on Australian Government advertising prepared by the Department of Finance. Those reports are available on the Department of Finance's website.*"	If applicable, mandatory	Not applicable
17AH(1)(a)(ii)		If the entity did not conduct advertising campaigns, a statement to that effect.	If applicable, mandatory	p170

PGPA RULE REFERENCE	PART OF REPORT	DESCRIPTION	REQUIREMENT	LOCATION IN ANNUAL REPORT
17AH(1)(b)		A statement that "*Information on grants awarded by [name of entity] during [reporting period] is available at [address of entity's website].*"	If applicable, mandatory	p170
17AH(1)(c)		Outline of mechanisms of disability reporting, including reference to website for further information.	Mandatory	p171
17AH(1)(d)		Website reference to where the entity's Information Publication Scheme statement pursuant to Part II of FOI Act can be found.	Mandatory	p170
17AH(1)(e)		Correction of material errors in previous annual report.	If applicable, mandatory	Not applicable
17AH(2)		Information required by other legislation.	Mandatory	p34–77

APPENDIX E: GLOSSARY OF ABBREVIATIONS AND ACRONYMS

AASB	Australian Accounting Standards Board
AC	Companion of the Order of Australia
ANAO	Australian National Audit Office
AO	Officer of the Order of Australia
APS	Australian Public Service
ATO	Australian Taxation Office
CPI	Consumer Price Index
EEE	Equivalent Equity Exposure
ESG	Environmental, social and governance (risk management)
FFIC	Future Fund Investment Company
FFMA	Future Fund Management Agency
FoI Act	*Freedom of Information Act 1982*
GST	Goods and Services Tax
IFSWF	International Forum of Sovereign Wealth Funds
OECD	Organisation for Economic Co-operation and Development
PGPA Act	*Public Governance, Performance and Accountability Act 2013*
SWF	Sovereign wealth fund

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