futurefund

Australia's Sovereign Wealth Fund

ANNUAL REPORT 2014/2015

INVESTING FOR THE BENEFIT OF FUTURE GENERATIONS OF AUSTRALIANS

CONTENTS

Data in this report may not sum due to rounding.

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A copy of this document together with other information about the investments and operations of the Future Fund Board of Guardians and Future Fund Management Agency is available at www.futurefund.gov.au

ISSN: 2205-8044 (print)
ISSN: 2205-8052 (online)

Accessing this report online
Further information about the Future Fund and an online version of this report are available on the Future Fund website (www.futurefund.gov.au). For the annual report follow the links Annual reports - Annual Report 2014-15.

Australian Government

Future Fund

25 September 2015

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

Dear Minister

I have pleasure in presenting to you, as the nominated Minister for the purposes of the *Future Fund Act 2006* (the Act), the Annual Report of the Future Fund Board of Guardians and the Future Fund Management Agency (the Agency) for the year ended 30 June 2015 for presentation to the Parliament.

The report has been prepared in accordance with section 46 of the *Public Governance, Performance and Accountability Act 2013* and section 81 of the Act, and includes the required disclosures in relation to the Future Fund, Building Australia Fund, Education Investment Fund, Health and Hospitals Fund and DisabilityCare Australia Fund. The report has also been prepared with regard to the Requirements for Annual Reports for Departments, Executive Agencies and other non-corporate Commonwealth entities as approved by the Joint Committee of Public Accounts and Audit under sub-sections 63(2) and 70(2) of the *Public Service Act 1999*.

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

As Accountable Authority of the Agency, I certify that:

- the Agency has conducted a fraud risk assessment and prepared a fraud control plan;
- the Agency has in place appropriate fraud prevention, detection, investigation and reporting mechanisms that meet the specific needs of the Agency; and
- all reasonable measures have been taken to appropriately deal with any fraud relating to the Agency.

P Costello

Hon Peter Costello AC
Chairman
Future Fund Board of Guardians

ABOUT THE FUNDS

THE FUTURE FUND BOARD OF GUARDIANS (THE BOARD), SUPPORTED BY THE FUTURE FUND MANAGEMENT AGENCY (THE AGENCY), INVESTS FOR THE BENEFIT OF FUTURE GENERATIONS OF AUSTRALIANS.

THE ORGANISATION IS RESPONSIBLE FOR INVESTING THE ASSETS OF SPECIAL PURPOSE PUBLIC FUNDS INCLUDING THE FUTURE FUND, THREE NATION-BUILDING FUNDS AND THE DISABILITYCARE AUSTRALIA FUND.

The Board is focused on delivering high, risk-adjusted returns over the long term on contributions to special purpose public funds. Operating independently from the government, the Board tailors the management of each fund to its unique mandate while delivering efficiency through common infrastructure.

With the passage of the Medical Research Future Fund Bill 2015 through Parliament in August 2015, after the end of the financial year, the Board of Guardians has also been given responsibility for managing the assets of the Medical Research Future Fund.

By generating returns on these funds in line with their Investment Mandates, the Board is investing for the benefit of future generations of Australians.

The Board is a founding member of the International Forum of Sovereign Wealth Fund (IFSWF) and fully implements the Santiago Principles or Generally Accepted Principles and Practices for Sovereign Wealth Funds.

FUTURE FUND

The Future Fund is a financial asset fund established by the *Future Fund Act 2006*. Its purpose is to make provision for unfunded superannuation liabilities that will become payable during a period when an ageing population is likely to place significant pressure on Commonwealth finances. Withdrawals from the Future Fund to pay superannuation benefits may only occur once the superannuation liability is fully offset or from 1 July 2020, whichever is the earlier.

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

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

NATION-BUILDING FUNDS

The Building Australia Fund, the Education Investment Fund and the Health and Hospitals Fund are financial asset funds established on 1 January 2009 under the *Nation-building Funds Act 2008*. Following the passage of the Medical Research Future Fund Act 2015 in August 2015, the Health and Hospitals Fund will be closed with remaining uncommitted capital transferred to the Medical Research Future Fund and to consolidated revenue.

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

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

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

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

DISABILITYCARE AUSTRALIA FUND

The DisabilityCare Australia Fund was established by the *DisabilityCare Australia Fund Act 2013*. The Fund came into existence on 1 July 2014 with the first payment into the Fund made on 26 November 2014.

The object of the Fund is to enhance the Commonwealth's ability to reimburse States and Territories for expenditure incurred in relation to the *National Disability Insurance Scheme Act 2013* and to reimburse the Commonwealth for expenditure incurred in relation to the *National Disability Insurance Scheme Act 2013*.

The *DisabilityCare Australia Fund Act 2013* establishes the framework for credits and payments to and from the Fund and the responsibilities of the Treasurer, Finance Minister and National Disability Insurance Minister. The Treasurer is responsible for the crediting of amounts to the Fund on advice from the Australian Taxation Office and the Finance Minister is responsible for the debiting of the Fund on the advice of the National Disability Insurance Minister.

MEDICAL RESEARCH FUTURE FUND

Legislation to establish the Medical Research Future Fund was passed in August 2015, after the end of the 2014/15 year. The Board will implement an investment strategy in line with the legislation and Investment Mandate and report on the Medical Research Future Fund through its website, portfolio updates and future annual reports.

FACTS AT A GLANCE

FUTURE FUND ASSET ALLOCATION AT 30 JUNE 2015

LISTED EQUITIES	
AUSTRALIAN	6.8%
DEVELOPED	17.6%
EMERGING	9.4%

PRIVATE EQUITY	
PRIVATE EQUITY	10.8%

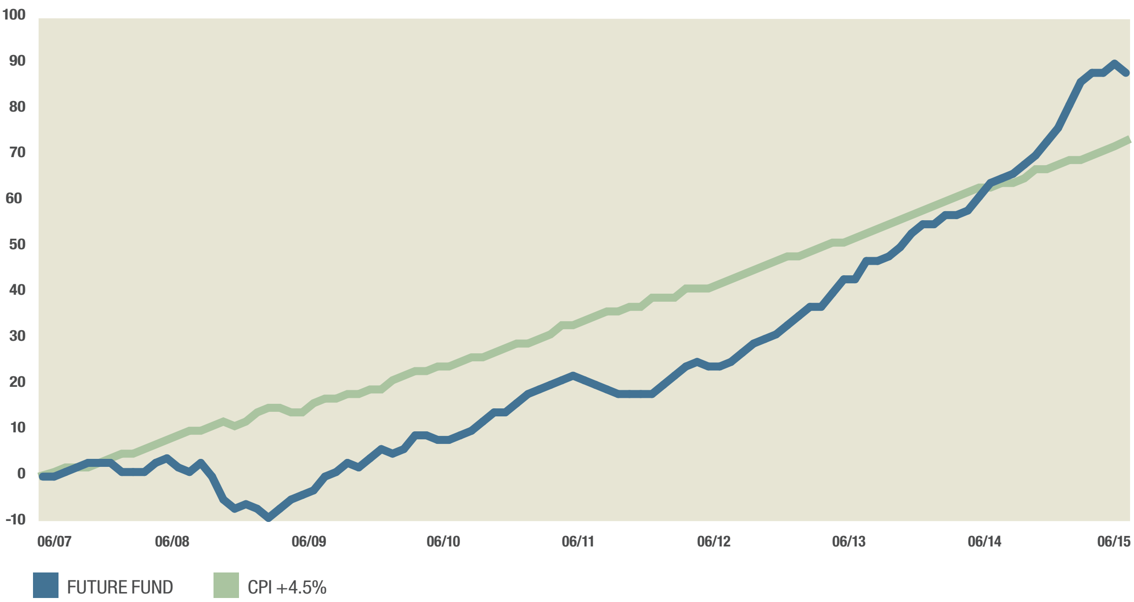
TANGIBLES	
PROPERTY	6.0%
INFRASTRUCTURE AND TIMBERLAND	7.5%

DEBT	
DEBT	9.8%

ALTERNATIVES	
ALTERNATIVE ASSETS	12.7%

CASH	
CASH	19.5%

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



FUTURE FUND PERFORMANCE

FUTURE FUND RETURN 2014/2015 **15.4%**	FUTURE FUND EARNINGS 2014/15 **$15.6 bn**
FUTURE FUND RETURN SINCE INCEPTION **8.0% pa**	FUTURE FUND EARNINGS SINCE INCEPTION **$56.7 bn**

CASH FLOW HISTORY OF THE FUNDS IN A$ AT 30 JUNE 2015

	CONTRIBUTIONS		EARNINGS		WITHDRAWALS		BALANCE
FUTURE FUND	60.5 BN	+	56.7 BN	–	0 BN	=	**117.2 BN**
EDUCATION INVESTMENT FUND	6.5 BN	+	1.3 BN	–	4.1 BN	=	**3.7 BN**
BUILDING AUSTRALIA FUND	10.9 BN	+	1.8 BN	–	9.1 BN	=	**3.6 BN**
HEALTH AND HOSPITALS FUND	5.0 BN	+	1.0 BN	–	4.5 BN	=	**1.5 BN**
DISABILITY CARE AUSTRALIA FUND	2.5 BN	+	0 BN	–	0 BN	=	**2.5 BN**
ALL FUNDS	**85.4 BILLION**	+	**60.8 BILLION**	–	**17.7 BILLION**	=	**128.5 BILLION**

REPORT FROM THE CHAIRMAN

WHEN THE FUTURE FUND WAS ESTABLISHED IN 2006, THE BOARD OF GUARDIANS WAS CHARGED WITH INVESTING CONTRIBUTIONS FROM GOVERNMENT TO HELP AUSTRALIA PREPARE FOR THE AGEING OF THE POPULATION WHICH WILL PLACE EVER GREATER PRESSURE ON GOVERNMENT FINANCES.

Since then the Board has been tasked with managing additional public asset funds in the form of the Nation-building Funds and the DisabilityCare Australia Fund. In August 2015, after the end of the financial year, legislation was passed which gave responsibility to the Board for investing the assets of the Medical Research Future Fund. The government has also announced its plan to create an Asset Recycling Fund to be invested by the Board.

In managing all of these portfolios, the Board, supported by its management team, is investing for the benefit of future generations of Australians.

Investment of the Future Fund will help to offset Commonwealth superannuation liabilities which have to be paid out of general revenue in the years ahead. In this way it will ease pressure on the Budget and ultimately on future taxpayers.

The Nation-building Funds, and the Asset Recycling Fund if legislated, will help to provide future investment in infrastructure.

The assets of the DisabilityCare Australia Fund will help to finance better support for Australians with a disability and their carers.

Income generated from the assets of the Medical Research Future Fund will help to fund world-leading initiatives in the area of medical research and innovation.

Across all of these portfolios, prudent and patient investment has added more than $60 billion to the original capital contributed.

PERFORMANCE AND ENVIRONMENT

In 2014/15 the Future Fund produced a return of 15.4%. Since it was established its return is 8.0% per annum. In comparison the Fund's target benchmark return for these periods was 6.0% and 7.1% pa respectively.

On original contributions valued at $60.5 billion, the investment program has added $56.7 billion taking the total value of the Future Fund to $117.2 billion.

THE FUTURE FUND WAS ESTABLISHED IN MAY 2006 AS A SOVEREIGN WEALTH FUND TO HELP AUSTRALIA PREPARE FOR THE AGEING OF THE POPULATION AND PROMOTE INTERGENERATIONAL EQUITY FOR FUTURE AUSTRALIANS.

The Nation-building Funds have been set more modest return targets reflecting their shorter time horizon and need for liquidity in order to meet drawdown requirements of government. In 2014/15 the Nation-building Funds produced returns of 2.9% and were valued at $8.8 billion at year end.

Receiving the first contribution to the DisabilityCare Australia Fund in November 2014, the Board has begun investing this capital and at balance date the DisabilityCare Australia Fund was valued at $2.5 billion.

In total the Board today is responsible for investing over $128 billion on behalf of the government.

Adopting a disciplined approach to investing each portfolio has been key to delivering these returns, particularly given the volatility in markets since 2006 and the significant, and often unconventional, responses of policy makers around the world.

There have been enormous stimulatory policy measures applied globally which have driven strong rises in asset prices. This cannot be sustained and it seems likely that generally returns in the future will be lower than in recent years.

What is more, there are risks in making the necessary transition to more normal policy settings. The size and nature of the adjustment will require careful calibration.

The Board is sharply focused on positioning the portfolio to be robust to the various scenarios that may unfold and it reviewed its Investment Strategy in October and May. A discussion of the investment environment and our investment strategy formulation process is detailed elsewhere in this Annual Report.

The Board is also committed to continuing to ensure that the right capabilities and resources are in place to respond nimbly to opportunities and challenges, particularly in a market in which there is increasing competition for access to attractive opportunities.

To support this, during the year the Board agreed a strategic plan for the organisation designed to help develop and sustain capabilities in the years to come. This plan places a particular emphasis on:

- One team, one portfolio – combining experience and skills into a collaborative whole to create meaningful comparative advantage;
- Leveraging the best in the world – using internal skills where they can add most value and building strategic, valuable partnerships with the best external capabilities available;
- Flexible, nimble and opportunity-driven – being broad and creative in finding opportunities to improve the portfolio and the organisation and responding flexibly, avoiding the unnecessary constraints and barriers that organisations often construct.

GOVERNANCE

The Board continues to operate at arm's length from government, as envisaged in the legislation. The responsibility of the Board to invest the assets of the various portfolios to maximise risk-adjusted returns is clearly articulated in the legislation and Investment Mandate Directions.

The Board received the first contribution to the DisabilityCare Australia Fund in November 2014 and began implementing an investment strategy in accordance with the Investment Mandate Directions from government.

In December 2014, the responsible Ministers issued a revised Investment Mandate Direction for the Future Fund removing a redundant restriction on purchasing shares in Telstra Corporation Ltd.

During the year Ms Susan Doyle and Dr John Mulcahy left the Board of Guardians upon the conclusion of their terms of office, each having served with distinction since 2006.

I thank Susan and John for their service as members of the Board of Guardians. As founding members of the Board they have each played a pivotal role in the development of the organisation and its investment portfolio and in building the high levels of trust and credibility that the organisation enjoys.

The responsible Ministers appointed Ms Carolyn Kay and Dr Jane Wilson to the Board each for five year terms from 14 April 2015. The Board is delighted to welcome Ms Kay and Dr Wilson and will benefit greatly from their expertise.

ACKNOWLEDGEMENTS

I thank the responsible Ministers for their continued support during the year and for entrusting the organisation with the management of additional pools of capital.

I also acknowledge the support of the staff, led by David Neal as Managing Director, and thank them for their continued hard work and enthusiasm.

P Costello

Hon Peter Costello AC
Chairman
Future Fund Board of Guardians

REPORT FROM THE MANAGING DIRECTOR

WE ARE DELIGHTED WITH THE RETURN OF 15.4% FOR THE YEAR, AND ESPECIALLY SO GIVEN THIS WAS DELIVERED WITH A PORTFOLIO THAT HAS ONLY A MODERATE AMOUNT OF MARKET RISK EXPOSURE.

However, one of the traits of the prudent investor is that the better the past returns have been, the more thought must be put into prospects for future returns. With interest rates around the globe remaining at remarkably low levels, fairly full asset valuations across most sectors and markets, and economic growth in many parts of the world tepid, it is hard not to feel that investors are going to have a much tougher time of it going forward.

For our part, we have worked hard alongside our investment managers and other partners to find the very best investment opportunities we can to maximise returns for a prudent level of risk in this context.

Continuing to deliver strong performance requires us to sustain a consistently high level of skill and attention to the portfolio. In turn, this requires a consistently strong, continuously improving organisation.

An important step to delivering on this need was the development of a new strategic plan to clarify and confirm our business model and approach, as highlighted in the Chairman's report. Off the back of this plan, the management team developed a three year business plan that aims to position the organisation in the best possible way to address the demands of the future.

Our focus is on building greater efficiency into the business to allow our professionals to do what they do so well – research, select and implement great investment ideas. We aim to do this by improving our supporting systems and processes and by nurturing and developing the talent and strong culture that is at the heart of the organisation's success. I look forward to reporting back on our progress against this plan next year.

CONTINUING TO DELIVER STRONG PERFORMANCE REQUIRES US TO SUSTAIN A CONSISTENTLY HIGH LEVEL OF SKILL AND ATTENTION TO THE PORTFOLIO. THIS REQUIRES A CONSISTENTLY STRONG, CONTINUOUSLY IMPROVING ORGANISATION.

2014/15 PROGRESS

A detailed discussion of the investment strategy is provided in the Investment Report.

Early in the year, we modified the reporting structure of the investment team.

I was delighted to appoint Dr Raphael Arndt as the Chief Investment Officer. Dr Arndt had previously been our Head of Infrastructure and Timberland. A more streamlined Chief Investment Officer role is allowing for greater time and expertise to be focused on the processes of both collaboration and contest for capital across different asset classes. This is also supporting better integration of the bottom-up ideas and insights with our top-down macroeconomic and market perspectives.

Stephen Gilmore, in an expanded role of Chief Investment Strategy and Risk Officer, is overseeing the development of top-down perspectives, whilst further deepening the focus of investment risk management capabilities.

We have continued to develop and strengthen our operating environment including our operational compliance practices, risk policies and related processes and procedures.

As part of this development we undertook a thorough review of our Over the Counter (OTC) derivatives operating structure to address material changes to global OTC regulation. We are also developing a stronger and more systematic approach to the management of internal projects so that we are better able to prioritise and efficiently manage strategic projects.

On the people front, we conducted an employee engagement survey which reported a 93% engagement rate among employees. This is an excellent result, and we identified a number of initiatives to help us build on this and address areas which could generate additional value. This included the development of a comprehensive People & Culture strategy and the deployment of a new HR Information System.

Ensuring that we have appropriate and secure tools and systems in place to support the investment program is vital. Our IT infrastructure has remained stable and secure and we established a separate IT Security and Risk function to help us keep pace with the fast-evolving cyber security environment. We also upgraded our information and document management platform and further developed our data management platform. An ongoing focus will be on adding to our knowledge management capabilities.

Contributing to the Australian and global investment industry is one of the ways in which we maintain constructive relationships with stakeholders. This year we collaborated with the Centre for International Finance and Regulation on a project exploring the opportunities and challenges of being a long-term investor.

We worked with the Hedge Fund Standards Board, the Institutional Limited Partners Association, and the Thinking Ahead Institute to help shape best practice in the industry, while our 2013/14 annual report was nominated in the 2015 Responsible Investor Reporting Awards. We continue our close association with the International Forum of Sovereign Wealth Funds and were pleased that staff from the organisation contributed to an array of industry conferences and events.

These initiatives, among others, provide a flavour of the hard work that has helped the organisation deliver strong risk adjusted returns since inception, and will help us build on that performance.

ACKNOWLEDGEMENTS

I thank the Board of Guardians for the trust they have placed in the management team and for their guidance and leadership through the year.

Most importantly I thank my colleagues across the organisation for their dedication and commitment to excellence. Their willingness to collaborate, to test new ideas and to constructively challenge is a hallmark of our organisation's culture and a central part of the success of our investment program to date.

I look forward to continuing to build on this in the years ahead.

David Neal
Managing Director

INVESTMENT

IN INVESTING THE FUTURE FUND OUR APPROACH IS TO SEEK OUT THE BEST INVESTMENT IDEAS FOR THE TARGETED RISK AND RETURN OBJECTIVES IN A GIVEN INVESTMENT ENVIRONMENT. OUR STRUCTURE, CULTURE AND GOVERNANCE ARRANGEMENTS ARE DESIGNED TO ACHIEVE THIS.

Sandy, *Infrastructure and Timberland*
Simon, *Investment Strategy & Risk*

INVESTMENT BELIEFS OF THE FUTURE FUND BOARD OF GUARDIANS

Mission beliefs

The Board believes:

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

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

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

Governance beliefs

The Board believes:

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

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

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

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

Investment strategy beliefs

The Board believes:

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

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

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

iv. that prospective returns and risks vary materially over time in a way that is at least partially observable and hence exploitable. The amount of risk taken should therefore be managed dynamically as conditions change;

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

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

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

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

INVESTMENT

FUTURE FUND

Background

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

Between May 2006 and June 2008 the Government made cash contributions to the Future Fund totalling $51.3 billion. No further cash contributions have since been made. In association with the sale of the Government's remaining stake in Telstra Corporation Limited, 2,105 million shares in the company were transferred to the Fund in February 2007. A further 57 million shares were transferred during 2007 and 2008. The total value of these shares on their respective transfer dates was $9.21 billion. The Board of Guardians completed a process of reducing its holding in Telstra to a level consistent with its broader investment strategy in August 2011.

Under the *Future Fund Act 2006* withdrawals may not be made from the Fund (apart from meeting operating costs) until at least 1 July 2020 unless the value of the Fund exceeds the target asset level (TAL) for the relevant year. This is the amount that is expected to offset the present value of projected unfunded superannuation liabilities.

The Australian Government Actuary, in his 2015 report, specified the TAL for the years to 2019/20 with the TAL rising from $154.9 billion in 2015/16 to $180.4 billion in 2019/20. As such at this stage no withdrawal before 2020 is expected.

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

Investment Mandate Directions were first issued to the Board by the responsible Ministers – the Treasurer and the Minister for Finance and Administration (now Minister for Finance) – in May 2006. The Directions were revised with effect from January 2015 to remove a restriction on acquiring a direct equity holding of voting shares in Telstra Corporation.

The Directions set out the following obligations:

i. an objective of achieving an investment return averaging at least the Australian Consumer Price Index (CPI) +4.5% to 5.5% per annum over the long term (the benchmark return);
ii. in targeting this benchmark return, the Board must determine an acceptable but not excessive level of risk for the Fund measured in terms such as the probability of losses in a particular year;
iii. a limit for holdings on any listed company in order to prevent triggering the takeover provisions of the *Corporations Act 2001*;
iv. a requirement to act in a way that minimises the potential to effect any abnormal change in the volatility or efficient operation of Australian financial markets and is unlikely to cause any diminution of the Australian Government's reputation in Australian and international financial markets; and
v. a requirement to have regard to international best practice for institutional investment in determining its approach to corporate governance principles, including in relation to its voting policy.

Interpreting the mandate

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

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

In aiming to achieve the targeted return over the long term, the Board is required to take "an acceptable but not excessive" level of risk. A number of potential indicators of risk in this context can be considered.

The Board explicitly rejects the concept of peer risk (the risk of underperforming other institutional investors over the short term) as being inconsistent with the mission and mandate of the Future Fund. However, the Board appreciates that comparisons of the Fund's return with other funds with similar objectives both locally and globally is a valid exercise over the longer term.

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

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

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

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

INVESTMENT

Portfolio design

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

This provides the organisation with a governance framework which allows the broad return and risk characteristics to be monitored and controlled while simultaneously providing the opportunity for agile navigation of emerging opportunities and risks within the categories. Alongside this, genuine diversification is an important element of the investment strategy and although this incurs higher costs than those of many other investors, it is beneficial to performance during periods of market volatility. The investment model considers returns net of costs.

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

In addition to building flexibility into the management of each sector, the Board also believes in the importance of being dynamic with the management of the overall strategy allowing the Board to increase risk levels when the expected reward is higher and to reduce risk when reward is lower.

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

BROAD INVESTMENT CATEGORIES

CATEGORY	DEFINITION	SECTORS COVERED
Listed equities	Exposure to corporate enterprise gained through public markets	Australian equities, global developed market equities, global emerging market equities
Private equity	Exposure to corporate enterprise gained through private markets	Venture capital, growth capital, buyout, distressed debt for control
Tangible assets	Exposure to investment where the return comes primarily from the income return on a physical asset	Real estate, infrastructure, utilities, timber and agricultural assets gained through public or private markets
Debt	Exposure to the credit component of interest-bearing securities	Primarily 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	Developed market currency, emerging market currency, domestic and global interest rates and portfolio protection strategies

Macroeconomic and market analysis

The global economy has continued to gradually heal following the 2008/09 financial crisis – albeit slowly. The improvement has been supported by unprecedented levels of policy accommodation, particularly from the major developed market central banks.

Despite this considerable policy support, for the most part growth rates and inflation remain muted so that much of the world continues to have spare capacity with potential disinflationary consequences. The resultant weak nominal GDP growth means that little headway has been made in addressing debt burdens in a number of developed market economies, with apparent debt reductions in many instances merely being a transfer from private to public hands.

The combination of the ongoing need for policy support, the diminished capacity of both monetary and fiscal policy to stimulate activity given the current starting point, and persistent imbalances lends an air of fragility to the recovery. In particular, economic policymakers will probably find it quite difficult from here to effectively respond to any adverse global shocks.

Nevertheless, the near-term outlook has improved to the extent that the United States and United Kingdom appear set to begin the process of interest rate normalisation in the next year (absent external shocks). This would constitute the first increase in cash rates in these economies for nearly a decade. However, we note that policymakers are likely to be much more patient than in past tightening cycles given the subdued recovery, still significant debt levels, some uncertainty over the impact of higher interest rates, and a shift down in trend growth rates. Interest rate normalisation, if it does eventuate, may pose additional unforeseen risks given the extended period that cash rates have been at the lower bound and the unintended consequences that may have brought.

The Eurozone has also been making progress, helped by quantitative easing and the ensuing currency depreciation that has enhanced the external competitiveness of the bloc. This has improved peripheral country current account balances, although further gains of competitiveness within the Euro area have had to be achieved through a painful process of "internal devaluation" associated with very high levels of unemployment. Financial sector fragmentation concerns have also abated somewhat as banks build capital, although recent developments that saw Greece again on the brink of default cast yet more doubt on the viability of its supposedly irrevocable membership of the common currency area. More generally, the Eurozone must surmount formidable long-term economic and political challenges in order to forge a sustainable path.

China's ability to manage down credit growth and rebalance away from investment to consumption without causing too much of an economic slowdown remains a key risk. While Chinese policymakers have an enviable track record, they will be tested in their efforts to maintain employment growth and rebalance the economy given a backdrop defined by a property sector that has still not fully absorbed previous supply, overcapacity in certain key industrial sectors, still significant shadow banking activity and the legacy of excessive local government borrowing. Sharp mid-year falls on Chinese equity markets are only expected to modestly drag on growth; more important are the signals the policy response sends in relation to the likely pace and nature of reform efforts.

Elsewhere in the emerging world, countries are grappling with a changing dynamic as strong capital inflows of the past have moderated along with growth prospects. In conjunction with substantial terms of trade declines for commodity producers, this has exposed underlying fragilities. The export-driven growth model now looks less sustainable and countries will need to move toward domestic drivers. This is proving particularly challenging for commodity producers, as the investment that took place to meet increased demand recedes and falling commodity prices act as a significant headwind to nominal GDP growth.

The Australian economy has reached a point of transition as the mining investment boom peaks and moves to a phase of lower employment intensity. The gap created by the expected fall in mining-related investment, which accounted for a substantial portion of economic growth in the early part of this decade, is being offset by higher exports as that capacity comes on stream along with a boost to domestic demand from monetary stimulus. However, a near-term challenge to growth lies ahead as the impact of past monetary stimulus peaks, the resource sector build continues to completion, the auto sector winds down and the terms of trade decline from record peaks.

INVESTMENT

Fundamental drivers of returns

While the global economic backdrop remains complex, gradual recovery and an accommodative policy stance since the financial crisis have boosted prices, and thereby returns, of risky assets. We question whether this process can continue for much longer without material improvements in the growth outlook and we expect long-term returns to be lower than those realised in the recent past, especially as policy support is slowly removed.

This can be illustrated by analysing the broad macro drivers of investment returns from 2009 through to the present. The Future Fund views the linkages between the macro-economy and markets through a lens that emphasises the evaluation of discounted cash flows. This process takes into consideration how economic variables and risk premia might evolve relative to expectations in the future. Based on an assessment of what is priced into markets at any given time, it examines the potential impact on discount rates and cash-flow growth for the investments in our portfolio.

While this approach is forward-looking by design, we have also developed a framework to isolate the core drivers of the real returns generated by the portfolio over time. This framework evaluates realised return data to distinguish between:

(1) The impact of initial real discount rates, that is, the expected long-term real return priced into markets at the start of the assessment period;

(2) Changes to the constituents of these real discount rates – real interest rates and broad market risk premia (the excess return over cash for taking risk) – relative to what had been priced into markets;

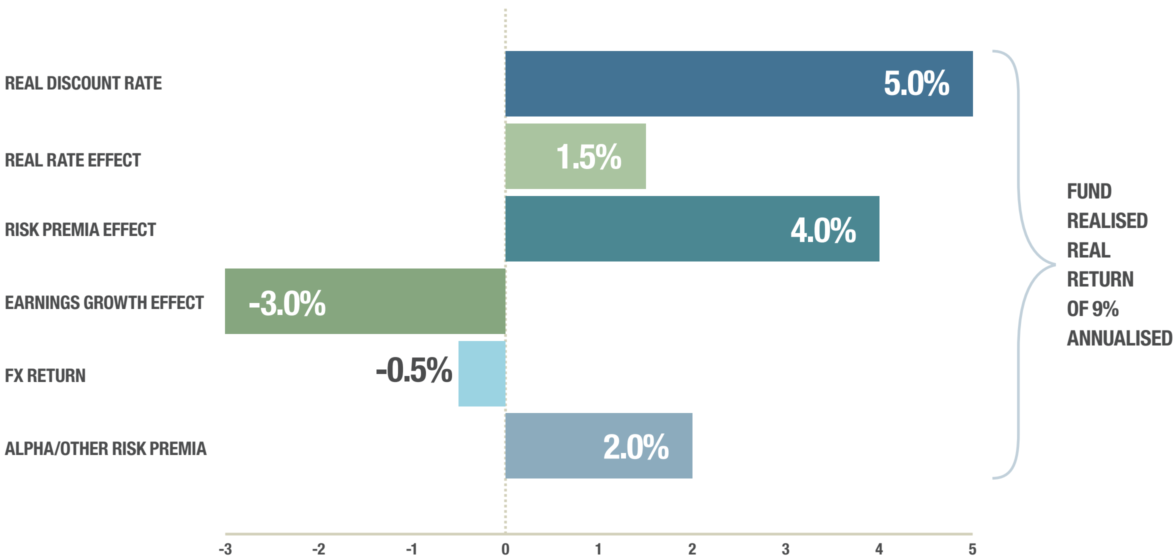
(3) Changes in earnings (or cash flow) growth relative to what had been priced into markets;

(4) The impact of currency; and

(5) The realised reward from illiquidity and idiosyncratic factors like manager skill.

The chart below provides a summary of this analysis as at 30 June 2015.

MACRO FACTOR CONTRIBUTION TO TOTAL FUND ANNUALISED REAL RETURN SINCE 1 JULY 2009



The expected long-term return for the Future Fund on 1 July 2009 was approximately CPI+5% per annum as shown by the "Real discount rate" calculation. However, realised returns over that period have actually been around CPI+9% per annum. Our framework explains this 4% per annum difference as follows:

(1) Real interest rates have not risen as expected and have therefore not been the drag on returns that was anticipated. This is because monetary policy has remained more accommodative than expected following the financial crisis and inflation outcomes have been low but relatively stable. This has added 1.5% per annum;

(2) Broad risk premia have compressed considerably more than was priced into markets, that is the realised additional reward for taking risk has been higher than expected. This is because monetary stimulus has lasted longer and been more aggressive than expected, resulting in extremely low yields on cash and other defensive investments, increasing demand – and therefore prices – for riskier assets that generate higher yields. This has added 4.0% per annum;

(3) Earnings (and cash flow) growth has been considerably lower than was priced into markets. This is consistent with the far more tepid recovery in aggregate demand and growth following the financial crisis than was generally expected. This lower than expected growth has detracted 3.0% per annum; and,

(4) Our manager and asset selection, together with the rewards for holding illiquid or otherwise complex investments, has generated an additional excess return over the assessment period of 2.0% per annum.

As outlined earlier, it is unlikely that monetary policy will remain as supportive – or indeed as effective – in the future as it has been in the recent past. We would therefore expect many of the factors that have acted as tailwinds for the portfolio since 2009 to exert at best a neutral influence going forward and, without material improvements in growth prospects, we reiterate that prospective returns are likely to be lower than those realised in the recent past.

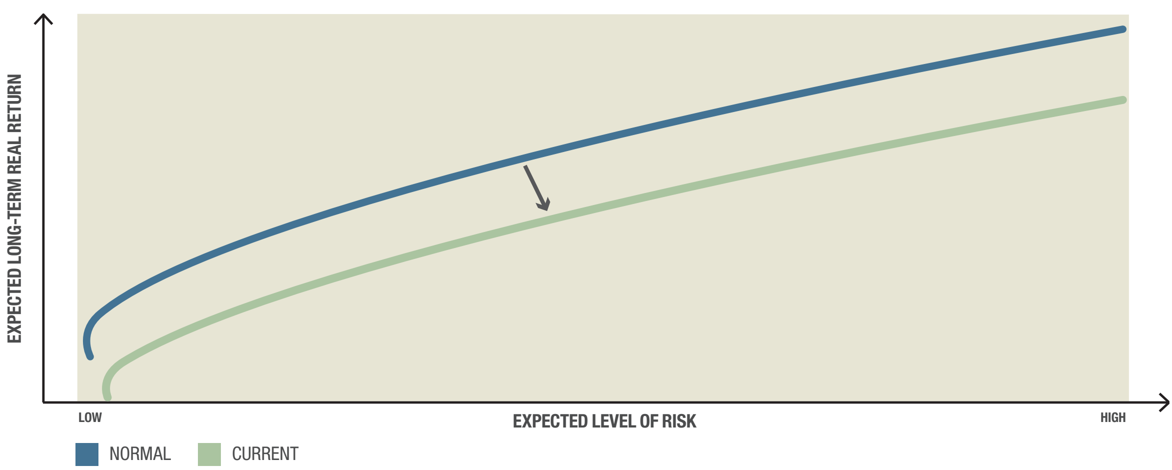
The trade-off between acceptable and excessive risk

The synthesis of these outlooks on the global economy and markets leads us to envisage an investment environment where not only will returns be lower than in recent years, but also one in which risks will increase. This shift in the available risk/return characteristics is shown stylistically in the chart below.

This creates a dilemma for investors. In order to generate their targeted returns, an investor might be tempted to increase the overall level of risk in their portfolio despite the fact that the reward for risk has declined. Alternatively, investors might choose to maintain or reduce their overall level of portfolio risk, accepting that prospective returns may be lower.

The Board believes that it should dynamically manage its risk exposure such that it takes higher levels of risk when it considers risk is well rewarded, and vice versa. In addition, the Investment Mandate requires the Board to take "acceptable but not excessive risk" in pursuit of the Future Fund Mandate. Accordingly, the Board has chosen to modestly reduce overall portfolio risk during the last year.

CURRENT RISK/REWARD TRADEOFF VERSUS "NORMAL"

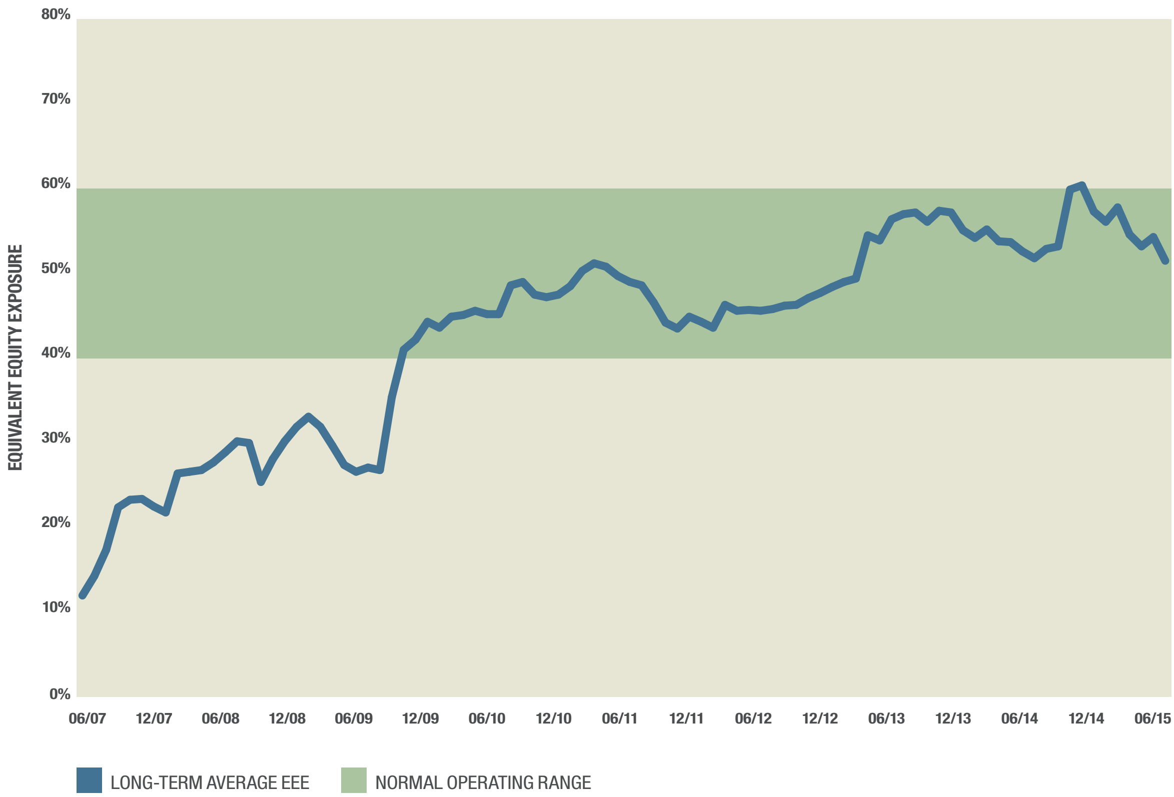


How we measure and interpret portfolio risk

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

At a simplistic, high level, the broad market risk exposure of the Future Fund is indicated in the chart below that tracks its Equivalent Equity Exposure (EEE) over time. EEE estimates the "look through" sensitivity of the portfolio to price movements in global equity markets and is one of the primary measures we use to understand total portfolio risk. A simple proxy for an investment portfolio with a EEE of 50 is one comprised of 50% cash and 50% global equities (hedged back to the Australian dollar).

FUTURE FUND EQUIVALENT EQUITY EXPOSURE (EEE) SINCE INCEPTION



INVESTMENT PROCESS AND DECISION-MAKING

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

The strategic process is designed to:

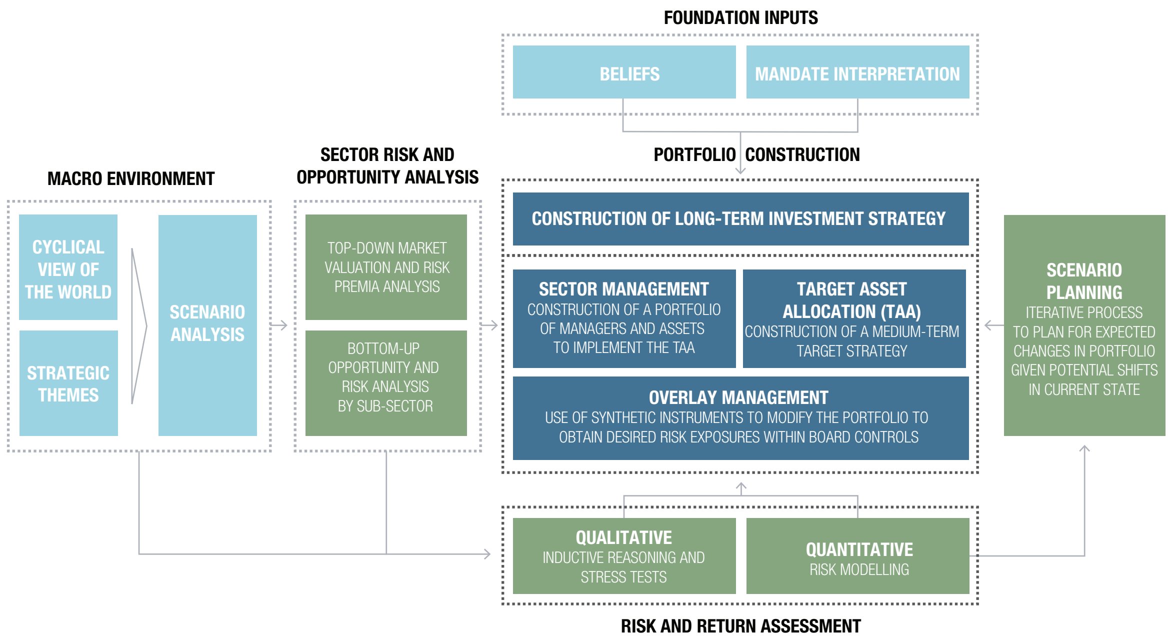
- deliver understanding of the medium -to long-term macroeconomic, market and policy context that ultimately shapes the level and path of investment cash flows;
- understand the available opportunity set for investment;
- enable the creation of robust portfolio solutions that target our mandate and deal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

Key elements of the strategic process include:

1. **Foundation inputs**. Our foundation inputs include our fundamental beliefs or investment philosophies as well as our mandate interpretation. We review the basic objectives of the Fund and interpret what the implications are for investing and our resultant appetite for various types of investment risk.

2. **Scenario analysis and planning**. Scenarios form an important component of the strategic risk assessment and management process. Scenario analysis starts with the development of a central case, which is our best estimation for the global macro environment over the next three years. We then develop scenarios around this central case, each with different growth and inflation outcomes. We also supplement this analysis by examining possible future shocks. These shocks help model non-linear outcomes that cut across scenarios.

INVESTMENT PROCESS



We refresh economic scenarios and analytics to:

a. Test and enhance the robustness of the portfolio. By helping us understand how different assets and risk factors will fare under a range of conditions, we are able to design a strategy that is as robust as possible to the uncertain future direction of economies and markets.

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

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

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

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

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

APPLYING THE STRATEGIC PROCESS

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

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

The Manager Review Committee and the Asset Review Committee, both chaired by the Chief Investment Officer, comprise senior representatives from across the sector teams.

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

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

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

INVESTMENT DECISION-MAKING STRUCTURE

BOARD

INVESTMENT COMMITTEE (IC)

MANAGER REVIEW COMMITTEE (MRC)

ASSET REVIEW COMMITTEE (ARC)

SENIOR INVESTMENT TEAM (SIT)

SECTOR TEAMS
- LISTED EQUITIES
- PRIVATE EQUITY
- PROPERTY
- INFRASTRUCTURE
- DEBT AND ALTERNATIVES
- EMERGING MARKETS
- ESG

INVESTMENT STRATEGY & RISK

COMMUNICATION AND DISCUSSION FORUMS
- MACRO AND MARKETS FORUM
- PORTFOLIO PLANNING GROUP
- AD HOC MEETINGS

INVESTMENT COMMITTEE

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

INVESTMENT

Asset Allocation

The integrated investment process developed by the Future Fund aims to reconcile our top-down outlook on the global economy and markets with the opportunities and risks we identify from the bottom up. The investment strategy is formally reviewed by the Board twice each year and at any time in between as conditions dictate. The Agency Investment Committee meets at least twice a month to consider the Fund's strategic investment positioning in light of the prevailing macroeconomic, market and policy environment.

One development of particular note over the course of the last year has been the substantial increase in our cash holdings. The level of cash in the portfolio can, on its own, give a misleading impression of overall portfolio risk for a number of reasons, including the fact that a proportion of the cash allocation implicitly backs certain overlay exposures and concentrated positions in other parts of the portfolio often require some dilution from cash to meet overall risk targets.

	PORTFOLIO AT 30 JUNE 2014	PORTFOLIO AT 30 JUNE 2015
Equities	50.5%	44.6%
Listed Equities	42.2%	33.8%
Private Equity	8.3%	10.8%
Tangible Assets	13.6%	13.5%
Debt	11.2%	9.8%
Alternative Assets	13.5%	12.7%
Cash	11.2%	19.5%
Total capital allocation	100%	100%
Nominal interest rate overlay	4%	6%
Developed markets foreign currency	30.2%	30.4%
Emerging markets foreign currency	13.6%	12.2%

LONG-TERM INVESTING AS AN AGENCY PROBLEM

Principal–Agent misalignments are widespread in institutional investing. They can result in higher costs, lower performance, missed opportunities, increased risk and, ultimately, the failure to achieve objectives.

A joint Future Fund/Centre for International Finance and Regulation paper[1], "Long-Term Investing as an Agency Problem" explores Principal-Agent misalignment and its impact on pursuing long-term investment objectives.

Among the solutions canvassed is engagement. Building understanding between Principals and Agents can shorten the investment chain, reducing the gap between the objectives of the Principals and those of their various Agents.

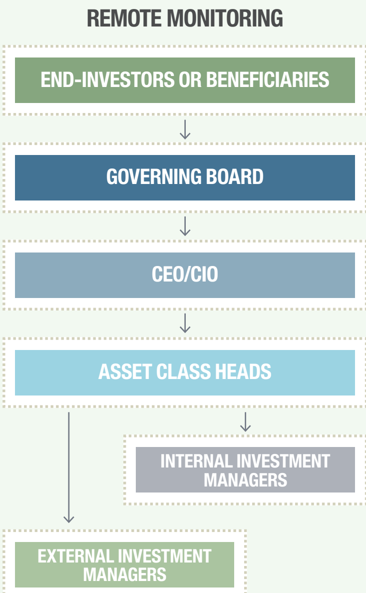
Engagement means involving Principals in decisions and prioritising communication and transparency between and among Agents. While this can sit uncomfortably with the concept that there should be separation between governance and management, it helps deal with the risk that those throughout the value chain are drawn to be focused on short-term concerns rather than long-term outcomes.

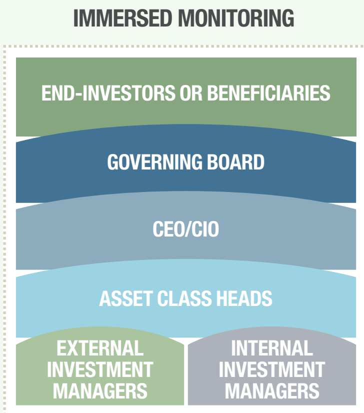
The traditional view is one of remote monitoring that focuses on sets of contracts and protocols. The alternative view, is one of "immersed monitoring" which features overlapping links, with direct engagement between Principals and Agents, possibly with Principals involved in investment decisions. It makes use of judgement (supported by data) when evaluating managers, abetted by deep understanding of investment decisions.

Immersed monitoring promotes trust and enhances confidence to invest for the long run and moves attention from short-term performance to aspects like decision processes, behaviours and alignment.

Many of the facets of the immersed model can be found in the Future Fund. This includes a focus on alignment between the Board and management team, regular reviews of objectives, beliefs and portfolio positioning, an emphasis on collaboration, shared responsibility, challenge and innovation and deeper, more strategic relationships with external partners.

MONITORING AND THE CHAIN OF DELEGATION





1. "Long-Term Investing as an Agency Problem": David Neal, Managing Director, Future Fund, and Dr Geoff Warren, Centre for International Finance and Regulation. June 2015

IMPLEMENTATION

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

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

Appropriately experienced investment professionals are responsible for undertaking investment manager and asset due diligence. These professionals apply a structured framework to assess the manager or asset and bring forward a recommendation to the Manager Review Committee or Asset Review Committee as appropriate.

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

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

In implementing its investment strategy the Board invests through various jurisdictions and investment vehicles for a variety of commercial, legal and tax reasons.

In Australia the *Future Fund Act 2006* exempts the Board from paying income tax. This reflects the fact that the Fund's earnings are owned by the Australian Government. Internationally the Board also benefits from sovereign immunity for tax purposes in the bulk of its investments.

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

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

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

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

ONE TEAM, ONE PORTFOLIO IN ACTION

Our investment approach is based on one investment team working together for the benefit of the portfolio as a whole. We emphasise making sure that teams collaborate and bring together the appropriate expertise from across the organisation, responding nimbly and innovatively to opportunities.

In 2010, the Future Fund completed a co-investment alongside TowerBrook Capital Partners, one of our Private Equity managers into a company called Haymarket Financial ("Hayfin"). Hayfin was established to make loans to medium-sized businesses throughout Europe who were struggling to finance their growth aspirations following the tightening of credit conditions in the financial crisis.

As part of their due diligence the Private Equity team involved the Debt and Alternatives team, who backed them with a separate account mandate and increased our exposure to attractively priced European middle market loans and the relationship developed from there.

Over subsequent years financial conditions in Europe have stabilised and Hayfin has grown to a highly successful credit manager.

Earlier this year the equity investors in the business, including the Future Fund, sought to realise part of the original investment. In order to best achieve this Hayfin decided to sell down the loan portfolio it owned on its balance sheet.

As we understood the portfolio of loans well, the Future Fund was positioned to assess a fair value for the assets and acquire them in an efficient transaction. The Debt and Alternatives team is highly skilled at analysing debt securities and was able to assess an appropriate value quickly, however they typically use investment managers to implement these views.

Given our flat structure and single team approach, a member of our Property team who is highly skilled at direct transactions was able to work alongside the Debt and Alternatives team to coordinate the due diligence and acquisition process and to ensure that this complex transaction was closed efficiently.

In this way the Future Fund was able to access an attractive portfolio of loans and provide a quick and efficient return of capital to the Hayfin equity holders.

> **"Our investment approach is based on one investment team working together for the benefit of the portfolio as a whole."**

SECTOR 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; and
- Physical and synthetic investments.

We use the following framework to guide our investment in listed equities investments and include:

- Our belief that the highest long-term total risk-adjusted returns can be achieved by using our long-term orientation to invest in a benchmark-unconstrained approach. We seek to do this by identifying long-term themes and various risk premia and biasing the portfolio towards these.
- The view that listed equities as a single, liquid global market does not lend itself to achieving high risk-adjusted returns through short-term trading between specific sectors or regions.
- We are agnostic as to whether we implement our strategic biases via active or passive management. Instead we target the most efficient way of gaining our desired exposure taking into account risk, return, costs, and potential manager added value.
- Where we employ active management, we focus on a relatively small number of high conviction managers.
- Stock picking decisions are best implemented via the use of skilled managers who can dive deeply into the markets of their particular expertise.

Report

During the past year, we maintained substantial exposures to our three key Listed Equities sub-sectors: Australia, Developed Markets and Emerging Markets. Our investment in each of these sub-sectors continues to be well diversified across countries and sectors. These exposures are achieved through 13 managers and 17 different investment strategies.

Our global developed equities portfolio continues to be our largest sub-sector allocation although we have trimmed our exposure during the course of the year to reflect the decision to reduce the Fund's overall level of risk.

Our US equities exposure has been reduced, reflecting our view there is some heightened risk to prospective US equity returns should the stronger US dollar and rising wages impact US company margins going forward.

Nevertheless, we continue to view US equities exposure as core to our portfolio and that, while having moved to be more fully valued over the last year, the US market remains reasonably valued for the level of growth expected. We also see the US equity market to be a relative safe haven in the event of any global shocks.

We reinvested the bulk of the proceeds from our reduction in US equities into Japanese equities in order to address the Fund's overall lower relative exposure to that market. In general, we believe that there are signs of improving Japanese corporate fundamentals for listed companies and a focus on financial productivity supported by a range of government initiatives to elevate corporate governance.

We have maintained a core exposure to global quality strategies, as we believe that high quality companies have defensive characteristics and that this should benefit the portfolio in a period in which the market environment is more uncertain and offers relatively weaker growth. We also continue to invest across a range of other approaches including value, growth, momentum, agribusiness and long/short equities. We implement these portfolios using physical and synthetic instruments as well as active and passive management.

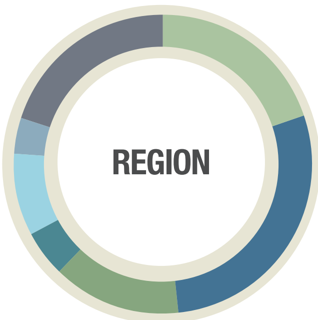
The portfolio maintained a significant exposure to Australian equities, although we marginally reduced this exposure during the year reflecting our continuing caution on the outlook for the Australian market. Our Australian equities exposure plays an important role in our portfolio as it provides a reasonable hedge to Australian inflation, which is an important component of the Fund's mandate.

The Australian equities portfolio is implemented through a combination of a large indexed portfolio managed to an after-tax benchmark together with active management.

The restriction on the Board of Guardians from acquiring a direct equity holding of voting shares in Telstra Corporation was removed in January 2015. Our Telstra exposure is now managed within the normal investment mandates of our external managers as part of their day-to-day portfolio management.

We have maintained a meaningful exposure to Emerging Markets equities over the year reflecting our continued positive long-term view of the secular growth forces across emerging markets in aggregate. However, we moderated our plans during the year for growing our exposure further. This is in recognition of the potential impact of lower growth in developed markets on emerging markets, the potential for a further slowing of China's economic growth, and the increasing prospect of the US moving into a rising interest rate cycle.

EXPOSURE AT 30 JUNE 2015



AUSTRALIA	20%
UNITED STATES OF AMERICA	29%
EUROPE (ex UK)	14%
UNITED KINGDOM	5%
JAPAN	9%
DEVELOPED (OTHER)	4%
EMERGING	20%

ENERGY	6%
MATERIALS	9%
INDUSTRIALS	12%
CONSUMER DISCRETIONARY	13%
CONSUMER STAPLES	10%
HEALTH CARE	10%
FINANCIALS	23%
INFORMATION TECHNOLOGY	12%
TELECOMMUNICATION SERVICES	4%
UTILITIES	1%

PRIVATE EQUITY

Strategy

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

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

Report

As of 30 June 2015 we had $19.8 billion of capital (invested plus committed) with 26 private equity managers. We did not appoint any new managers during the year, instead choosing to allocate a further $2.6 billion to our existing managers, including co-investments alongside those managers. Invested capital increased from $8.5 billion to $ 12.6 billion over the course of the year, reflecting $2.5 billion of capital calls, $2.0 billion of distributions and $2.6 billion of unrealised asset value appreciation. Unfunded commitments increased from $5.8 billion to $7.2 billion over the course of the year, principally due to the fall in the Australian dollar.

Of the capital called, 30% was for buyout opportunities, 32% was for venture capital and growth equity opportunities, 5% was for secondaries, 25% was for co-investments and the remaining 8% was invested in distressed opportunities.

Of the distributions received 25% were from realisations in our buyout portfolio, 18% from the distressed portfolio, 29% from the secondaries portfolio, 26% from the venture capital and growth equity portfolio and 2% from the co-investment portfolio. As at 30 June 2015 private equity represented 10.8% of the Fund's total assets.

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

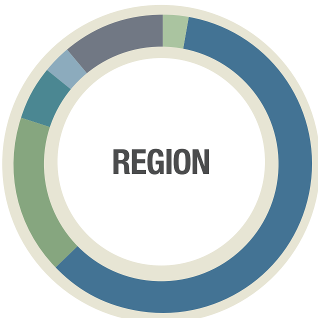
In the second category we would include such themes as exposing the portfolio to innovation (venture), companies in financial difficulty that require capital to undertake financial restructurings and/or operational turnarounds (distressed opportunities), and funding idiosyncratic growth within small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

As we look at the market, we are concerned by the supply and demand dynamics for investors' capital and the negative impact this is having on expected returns. From our perspective, many segments of the market are not offering sufficient return for the risks we are expected to take, and while attractive opportunities for deploying capital can still be found, when one does arise, there can be fierce competition for it.

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

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

EXPOSURE AT 30 JUNE 2015



AUSTRALIA	3%
UNITED STATES OF AMERICA	60%
EUROPE (ex UK)	17%
UNITED KINGDOM	6%
DEVELOPED (OTHER)	3%
EMERGING	11%

VENTURE CAPITAL AND GROWTH	40%
BUYOUT	18%
CO-INVESTMENTS	16%
SECONDARIES	9%
DISTRESSED OPPORTUNITIES	17%

PROPERTY

Strategy

Our opportunity set is global and includes property held directly or in listed form. We primarily take equity positions, but will consider debt if we consider it to be the best point of entry.

Our value-add derives from:

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

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

Report

The property market has maintained positive momentum again this year, driven by strong investor demand for assets providing stable income return. This is a common phenomenon across most developed markets.

The significant liquidity in the market continues to provide a tailwind for our existing portfolio reflected in a firming of valuations. It also has supported the implementation of our investment business plans more quickly than we originally anticipated. We continue to encourage our managers to sell assets once they have executed their plan to take advantage of the positive market conditions.

We expect the environment for new investment will be challenging in the near term, but we remain confident that we will continue to find opportunities given the divergences across the markets. We expect these to be mostly bottom up and quite idiosyncratic.

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

Our managers continue to find good risk adjusted returns in this space. Increasingly, however, there are other investors looking at this strategy, accepting increased risk in the search for higher returns. We need to watch the pricing of this style of property to ensure the inherent risks remain appropriately priced.

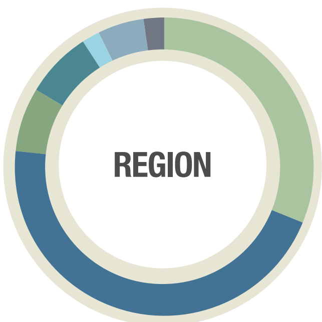
We maintain a dominant exposure to the US and Australia. Our US portfolio has again generated a strong return driven by investor demand and a return of economic growth leading to improved occupier fundamentals. Our Australian portfolio has benefited from valuation uplift flowing from strong investor demand. This is despite soft occupier demand. Meanwhile our exposure to Europe is slowly building as we continue to opportunistically search for value in the markets. Exposure to Asia outside Australia is modest, limited by our ability to find value and appropriate access conduits.

Our Australian listed exposure has performed very well, supported by investors seeking yield. Our global listed exposure, which has performed well for much of the year, was impacted over the last two months of the year, caught up with broader market volatility.

While we do not specifically target particular property sectors, we are now quite diversified.

During the year, we have selectively added to the portfolio, including two new listed REIT strategies and new managers and partners for US multifamily opportunities, logistics in Australia and global value investing.

EXPOSURE AT 30 JUNE 2015



AUSTRALIA	31%
UNITED STATES OF AMERICA	45%
EUROPE (ex UK)	7%
UNITED KINGDOM	7%
JAPAN	2%
DEVELOPED (OTHER)	5%
EMERGING	2%

RETAIL	38%
OFFICE	28%
INDUSTRIAL	11%
RESIDENTIAL	15%
DIVERSIFIED	6%
HOTEL	2%

INVESTMENT

INFRASTRUCTURE AND TIMBERLAND

Strategy

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

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

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

Our value-add comes in two forms:

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

Report

The Infrastructure and Timberland exposure held roughly level in dollar terms, ending the year at $8.7 billion or 7.5% of the Fund. There was, however, significant underlying portfolio activity. We reduced our exposure to relatively expensive listed core assets where growth potential had diminished in favour of less mature, higher returning direct opportunities. The return from the underlying portfolio was strong, driven by the strong market for core assets, especially in Australia, and the continued development of the opportunistic portfolio.

INFRASTRUCTURE

Global demand for infrastructure assets with stable cash flow profiles and strong yields has increased steadily over the past few years. This type of "core" infrastructure can be attractive to investors seeking to match liabilities while seeking better returns than those available in high-grade bond markets. While core infrastructure assets exhibit many characteristics which are attractive to the Fund, we are also focusing on opportunistic infrastructure at this point in the cycle, which can offer strong risk-adjusted returns when managers and investments are carefully selected.

Economic growth remains low throughout much of the world while unprecedented monetary policy stimulus has driven down the cost of borrowing and expected returns. We remain focused on the impact of the likely exit by the US Federal Reserve from its Quantitative Easing program and the potential impact this could have on the valuation of long duration assets such as core infrastructure.

During the year we continued to focus on rotating our exposure away from core infrastructure and towards our higher returning opportunistic strategy. Our managers in the opportunistic space had their most active period in several years, largely driven by the reduction in oil prices that led to market changes in the US energy sector. In particular we acquired interests in existing gas fired power generation plants at prices below replacement cost. We also obtained exposure to renewable generation greenfield opportunities where a development premium can be earned.

Our managers have continued to invest in assets associated with the transportation of shale energy to market. This included new exposures to gas gathering and transmission pipelines, gas treatment facilities.

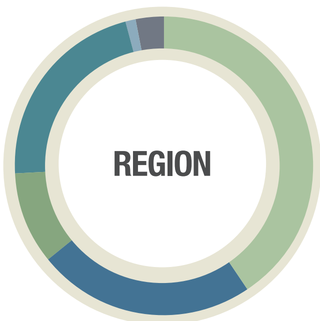
The listed infrastructure universe valuations increased in line with broader equity markets during the period, and we reduced our exposure modestly after strong performance in the first half of the year. We appointed an additional listed infrastructure manager and transitioned part of the listed infrastructure portfolio to them, creating more diversity in the way we access the listed infrastructure market.

We continue to see Australian infrastructure assets as a good fit for our mandate due to their long duration, inflation linked cash flows. Our largest direct investments, Melbourne and Perth Airports, have had a very active year with large capital investment and property development programs. We made small follow-on investments in both airports to improve our governance and exit optionality. We are well placed to participate in the upcoming pipeline of state government privatisations should they represent value for the Fund, and we continue to monitor the market closely.

TIMBERLAND

We maintain our interest in timberland markets and continue to observe the US sector closely. Asset prices have remained full, supported by the strengthening economy and a recovery in the housing market. As for infrastructure assets, we remain concerned regarding the impact on asset values from the likely rise in interest rates as the economy continues to recover. Our Australian exposure has performed well, supported by 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 2015



AUSTRALIA	41%
UNITED STATES OF AMERICA	24%
EUROPE (ex UK)	10%
UNITED KINGDOM	22%
DEVELOPED (OTHER)	1%
EMERGING	3%

AUSTRALIAN CORE	31%
GLOBAL CORE	22%
LISTED	29%
OPPORTUNISTIC	18%

DEBT

Strategy

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

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

Our key value-add derives from:

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

The breadth and complexity of the sectors within credit mean that our strategy will, with few exceptions, be implemented through fully discretionary mandates or comingled vehicles.

We have focused our efforts on building core relationships with managers that demonstrate multiple, high quality skill sets. This accumulation of sector capabilities creates levers of access through which we can dynamically orientate the portfolio to the most attractive opportunities. This strategy also implies that we will have multiple portfolios and large sums of money with each of our managers.

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

In a departure from the general trends we have seen post-crisis, credit markets have experienced increased volatility and price pressure over the past 12 months. Several segments of the market have seen meaningful spread widening over this period, despite default activity remaining low.

Initially this was due to a level of contagion over sector-specific volatility affecting energy and commodities-related issuers in particular over the second half of 2014. More recently wider macro headlines such as the Greek crisis, concerns over Chinese growth, and divergent central bank activity have had more bearing.

While spreads appear somewhat more attractive than 12 months ago given this backdrop, even against somewhat higher forward default expectations, outright yields remain low given the continued low level of base rates in most developed markets.

The performance of the Debt portfolio was not isolated from this environment, although the strong base of income provided by our focus on areas such as private lending and structured credit helped buffer the mark-to-market pressure seen in more liquid sectors.

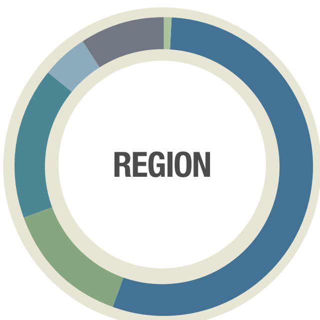
After the significant reductions to our exposure in more liquid sectors in prior years, the overall size of the Debt portfolio was largely unchanged over the last 12 months. We remain focused on the total return potential across various credit sectors, and continue to concentrate our portfolio in areas where we see the most favourable risk/reward.

Notable activity through the year included a meaningful reduction in our exposure to the US non-agency mortgage market. This has been a significant strategy for us historically, however, bond prices have staged a strong recovery over the past few years and forward looking returns are expected to be notably lower. That said, given the inefficiency of this market in particular, we still see substantial scope for alpha in this sector and as such do retain some exposure here, albeit significantly lower than previously.

The growth of our private lending activities continues to be an important theme, particularly weighted towards Europe. While we remain focused on building through primary issuance, we have also had some success in adding to our exposure through secondary acquisitions. We are starting to see signs of more competitive pressure building here, with institutional engagement in the sector increasing steadily. On the other hand, regulatory pressures felt by traditional participants such as banks and insurance companies are opening gaps for institutional capital to fill. More recently we have looked to expand our strategy geographically, looking at opportunities across the Asia Pacific region.

Finally, we have progressed a significant stream of work reviewing our approach to the emerging markets debt sector. We have restructured our existing exposure from a more benchmark-oriented focus to one which is multi-sector and absolute return in approach. In addition, we are starting to look further at growing opportunities in emerging market corporates, both performing and stressed. Whilst we are yet to deploy meaningfully to this sector, we are attracted to the potential diversification benefits offered.

EXPOSURE AT 30 JUNE 2015



AUSTRALIA	1%
UNITED STATES OF AMERICA	54%
EUROPE (ex UK)	14%
UNITED KINGDOM	16%
DEVELOPED (OTHER)	5%
EMERGING	9%

PRIVATE DEBT	36%
INVESTMENT GRADE CORPORATE	1%
SUB-INVESTMENT GRADE CORPORATE	23%
US NON-AGENCY RMBS	13%
OTHER SECURITISED	10%
EMERGING MARKETS DEBT	4%
CASH & OTHER	13%

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 re-insurance; and
- other managers or mandates which do not align well with the principal sector strategies.

Our value-add comes in two forms:

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

We address the complexity and breadth of the Alternatives portfolio by focusing our internal efforts on long-term strategies which we expect will be enduring exposures (such as Macro Directional strategies or reinsurance).

We supplement this focused direct allocation activity with investment platforms operated by strategic partners, which thus far have taken the form of bespoke fund of hedge fund relationships. These partners are a partial extension of our team and provide us with operational leverage.

We recognise that active manager skill is scarce, and while we believe we can identify such skill we maintain a strong focus on our top-down strategy allocation and the look-through outcomes at a net asset exposure level and on a net of fees basis.

Report

During the year the Alternatives portfolio weighting within the total fund reduced from 13.5% to 12.7%. This drop in weighting largely reflects the strong relative performance of other investments in the Fund as well as the ongoing return of capital from our legacy distressed debt investments.

An overarching aim of our activity during the year was to improve portfolio flexibility, increase potential diversification and ensure appropriate terms. In negotiating terms we seek to ensure they align to our objective of paying an appropriate fee for genuinely differentiating and rare skill, without overpaying for access to common market returns.

The Macro-Directional allocation remains the largest strategic allocation within the Alternatives portfolio, comprising nearly 50% on an asset-weighted basis. We continue to believe exposure to Macro-Directional and other active trading strategies can provide meaningful diversification benefits relative to the traditional market betas that are well represented elsewhere in the Fund. Further, we believe that the forward environment for financial asset markets is potentially more volatile as the performance of regional economies diverges and central banks embark on heterogeneous paths. Allocations to managers and processes which can profit under these conditions are potentially attractive at the total portfolio level.

The 2014/15 year was an active period for the Macro-Directional sub-segment, as we added four new strategies, removed two and adjusted the structure and focus of another. These changes served to increase our exposure to tactical asset allocation and diversifying volatility-focused portfolios.

The Multi-Strategy portfolio was another focus of research. This work resulted in the removal of one strategy and the addition of another with the aim of reducing our structural exposure to broad asset market returns. We believe this may ultimately make the portfolio more resilient to a low or negative return environment for risk asset markets and further emphasises the diversification goal of the Alternatives allocation.

Another key area of research which has taken place over the last 18 months, with an express desire to add attractive diversification to the portfolio, has been within Alternative Risk Premia. This year we made an investment in the reinsurance field. This investment provides capital for potential property losses suffered in natural catastrophes such as hurricanes and earthquakes by investing in "insurance-linked securities" such as catastrophe bonds and collateralised reinsurance contracts.

We continue to analyse opportunities in diversifying alternative risk premia, both within traditional asset markets (for example, various "style premia" within equity markets), and in non-traditional markets (such as royalties and intellectual property). Where there is a clear economic rationale to expect a return (for bearing some risk) and that return is appropriately accessible and scalable it has potentially attractive qualities for the portfolio.

Our distressed debt program, which has been a large and successful allocation from the early stages of the Future Fund's evolution, has been consistently reduced over the past two years as both the opportunity set and the reward for bearing risk within the opportunity set has narrowed.

There has been a great deal of money raised into global distressed debt funds in anticipation of opportunities arising from the end of the long ongoing credit cycle. Additionally, many thematic funds have been raised in anticipation of distress in industries such as shipping and energy. We note these developments but to date have not made allocations due to low visibility over the cyclical drivers involved. We have, however, worked to create portfolio levers which should allow us to access attractive opportunities if and when they arise.

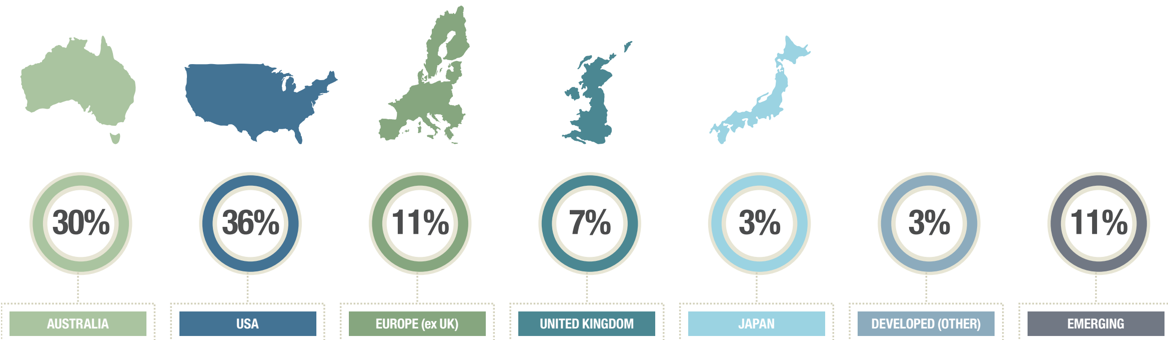
EXPOSURE AT 30 JUNE 2015

MULTI-STRATEGY/RELATIVE VALUE	14%
MACRO-DIRECTIONAL	49%
DISTRESSED AND EVENT-DRIVEN	35%
ALTERNATIVE RISK PREMIA	1%

A regional view of Alternatives exposures is not meaningful, given the nature of investment activity in this category.

INVESTMENT

TOTAL FUTURE FUND INVESTMENTS BY GEOGRAPHY 30 JUNE 2015



Data does not sum due to rounding. The geographical splits reflect physical investments only.

CURRENCY

In managing currency risk the Board considers offshore investments on a fully hedged basis and then separately evaluates to what extent it wishes to hold an exposure to foreign currencies. The Board explicitly manages the size and nature of the foreign currency exposures rather than allowing them to be shaped by the underlying investments.

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

At the end of the year, the Board held an exposure to foreign developed market currencies equivalent to 30.4% of the total portfolio. It also held 12.2% exposure to emerging market currencies which not only provides further diversification for the portfolio but also offers a source of additional return from the exposure to fast-growing economies.

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

INTEGRATING ENVIRONMENTAL, SOCIAL AND GOVERNANCE RISK MANAGEMENT INTO INVESTMENT DECISION-MAKING

The Board believes that effective management of material financial and reputational risks and opportunities related to environmental, social and governance (ESG) factors will support its requirement to maximise returns earned on the Funds. The integration of ESG factors enables investors and companies to better understand the full spectrum of future risks and opportunities to which assets are exposed. Beyond its impact on the specific investments of the Fund, sound management of ESG factors contributes to the development of a more efficient and sustainable system, in turn enhancing long-term return outcomes.

The Board focuses on those ESG factors that have the potential to materially impact the performance of the investment portfolio and/or the organisation's reputation. Relevant ESG factors vary by industry and across asset classes, but can include any of the following: environment, climate change, human and labour rights, supply chain, corruption, and corporate governance. The Board incorporates ESG into its own investment decision-making approach, both at individual investment and portfolio 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 its long-term investment approach, the Fund steers its focus towards the impact of ESG factors on long-term investment value and quality.

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

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

The Board's investment model relies heavily on external investment managers to make investment decisions based on the overall investment strategy determined by the Board. As such, these investment managers play an important role in implementing the ESG risk management strategy developed by the Board.

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

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

Given the Future Fund's status as a large, long-term asset owner with a globally diversified portfolio, top-down views on the strategic trends that will dominate outcomes for investors over the medium to long term are 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, the Fund has designed a number of specific investment strategies designed to target the returns associated with ESG-related long-term themes, such as the efficient use of scarce resources, increased life expectancy, and growing wealth and improving quality of life in emerging economies. This has resulted in investments in a range of clean technologies such as wind, solar and energy efficiency technologies.

Exercising ownership rights

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

Voting rights in publicly listed Australian companies are managed directly by the Fund and exercised by the Agency on behalf of the Board.

In exercising these voting rights the Agency applies the Board's voting principles, as detailed in its Statement of Investment Policies, while also drawing on the insight of relevant investment managers and research providers. These voting principles are summarised in the box below.

The way in which the Board exercised the voting rights attached to its holdings in publicly listed Australian companies is reported in aggregate each year. Activity for the 2014/15 financial year is summarised on page 41.

Where a company resolution is found in conflict with the Board's corporate governance principles or does not align with the Board's best interests, the Board will consider voting against the company board. In total in Australia in 2014/15, the Board voted against company boards in approximately 7.9% of all resolutions.

Given the scope and complexity of exercising voting rights in multiple international markets, the Board delegates the proxy voting of the international listed equities portfolio to its external investment managers. These managers, responsible for managing and enhancing investments on the Board's behalf, are well placed to promote good corporate governance at investee entities. Moreover, the Board reviews the ownership policies and practices of its managers and retains the right in all cases to override managers and determine voting decisions directly.

In 2014/15 the Board's international listed equities managers were eligible to exercise proxy votes in respect of 36,456 resolutions at 3,529 shareholder meetings. In the cases where the Board's votes were not exercised, generally the manager judged that it was not in the Board's best interests to vote given structural impediments to shareholder voting (such as share blocking/re-registration or power-of-attorney requirements), or that the Board was ineligible to vote.

Each investment manager has the discretion to vote with or against the recommendation of the board of directors of the company for each resolution on the ballot. In aggregate the Board's managers voted against company boards' recommendations in approximately 10.5% of resolutions voted.

FUTURE FUND VOTING PRINCIPLES

- Companies should disclose relevant and material information on a timely basis to allow shareholders to make informed decisions.
- Companies should respect shareholder rights and consult shareholders on major decisions.
- All shareholders should be treated equally and have the right to vote in proportion to their economic interest in the company.
- 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 to protect against takeovers are generally undesirable.
- Boards of directors should be composed to allow the exercise of objective independent judgement on corporate affairs.
- Companies should have appropriate performance evaluation and incentive systems that align with shareholder interests.

Exercise of voting rights in publicly listed Australian companies in 2014/15

RESOLUTION TYPE	NUMBER OF RESOLUTIONS	FF WITH COMPANY BOARD	FF ABSTAIN	FF AGAINST COMPANY BOARD
Elect Director	545	94.3%	0.4%	5.3%
Approve the Remuneration Report	199	89.9%	0.00%	10.1%
Approve Remuneration Grant	216	86.6%	0.00%	13.4%
Capital Management	49	95.9%	0.00%	4.1%
Fees For Directors	40	100.00%	0.00%	0.0%
Mergers & Acquisitions	27	96.30%	0.00%	3.7%
Other	134	88.8%	0.00%	11.2%
Total Resolutions Voted	**1,210**	**91.9%**	**0.2%**	**7.9%**
Total Meetings Participated	**228**			
Not Voted	1/1 (meetings/resolutions)			
Total Eligible (Resolutions)	1,211			
Total Eligible (Meetings)	229			

Exercise of voting rights in publicly listed overseas companies in 2014/15

RESOLUTION TYPE	NUMBER OF RESOLUTIONS	FF WITH COMPANY BOARD	FF ABSTAIN	FF AGAINST COMPANY BOARD
Elect Director	16,347	91.2%	0.9%	7.9%
Remuneration	3,589	89.4%	0.4%	10.2%
Capital Management	3,236	76.6%	0.9%	22.5%
Mergers & Acquisitions	259	93.4%	2.3%	4.3%
Other	11,933	87.1%	1.9%	11%
Total Resolutions Voted	**35,364**	**88.3%**	**1.2%**	**10.5%**
Total Meetings Participated	**3,453**			
Not Voted	76/1092 (meetings/resolutions)			
Total Eligible (Resolutions)	36,456			
Total Eligible (Meetings)	3,529			

Note: The above table provides a summary of proxy voting by the Fund for international equity holdings. Corporate governance and voting frameworks vary substantially across international jurisdictions. As such, this voting summary provides an overview of all lodged votes, but is not a suitable indicator for drawing comparisons between local and international governance quality and voting standards.

Engagement with investee entities

Engagement with the boards and executive management of the entities in which the Board invests on a broad range of ESG risks and opportunities is a valuable tool for protecting the Board's interests. Such contact is helpful to establishing a climate of long-term asset stewardship, with active oversight from investors and accountability of management to the provider of capital.

Engagement is also used as a complement to voting activities to improve analysis and the signalling power of the votes cast. In addition, maintaining open, constructive relationships with investee entities improves fundamental investors' understanding of the quality of management and the long-term drivers of value, including ESG risks and opportunities.

The Board's preferred mechanism is for its investment managers to be the front line of engagement, given their in-depth company knowledge and contacts. This applies to managers using both active asset selection strategies and those implementing passive or other rules-based strategies.

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

To help focus its direct engagement efforts, the organisation has identified a number of key engagement themes that are considered to have a potential meaningful impact on investment performance.

These themes will provide a foundation for engagement initiatives, but do not constitute a definitive list of ESG-related engagement themes.

The Board, through the Agency, regularly engages with investment managers to coordinate engagement activities with investee entities supporting a consistent and mutually reinforcing approach.

ENGAGEMENT THEMES	RATIONALE
Remuneration incentive schemes	Appropriate remuneration schemes align executive compensation with company performance and check perverse incentives which can adversely impact shareholder value.
Board composition and skills	Determines the board's ability to objectively oversee all relevant aspects of company strategy and performance now and in the future.
Bribery and corruption	Corruption poses material compliance and reputational risk; and can signal wider organisational and cultural problems.
Integrity of financial reporting	Impacts the board's (and shareholder's) ability to oversee the financial health of the organisation. Material issues can have a significant impact on shareholder value.

Ownership rights in private markets

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

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

Many of the private markets pooled vehicles in which the Board invests have advisory boards that give their investors a voice on certain key decisions. The Board has the right to appoint a representative to the advisory boards of many of the pooled vehicles in which it invests. This right was taken up wherever practical in 2014/15.

One of the most powerful expressions of ownership rights occurs where investors take up seats on the boards of unlisted entities. The Board has exercised the right to appoint directors to the boards of a number of the entities in which it invests as part of its private markets program.

In some cases, such as APAC (Melbourne and Launceston Airports), Gatwick Airport and Perth Airport, Agency staff themselves sit as directors. In other cases, such as Greensands Holdings (Southern Water) and Edinburgh Airport, the Board has appointed high-quality directors to act on its behalf. Those directors are either employees of the relevant external manager or suitably qualified third parties selected in consultation with the manager.

Collaboration and contributing to a stronger investment system

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

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

The organisation is an active participant in a number of investor collaborations that address some of the systemic challenges related to ESG factors, including the Council of Institutional Investors and the International Corporate Governance Network.

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

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

The organisation has also collaborated with the Sydney-based Centre for International Finance and Regulation on exploring the challenges and opportunities of long-term investment and how to address Principal–Agent misalignments.

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

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

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

INVESTMENT

PERFORMANCE

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

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

Capturing risk in a single number is problematic, but the table also shows the level of realised volatility in the portfolio. While not perfect, this measure of risk is the standard, and perhaps best understood, industry measure.

All returns are reported net of costs.

Benchmarking performance

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

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

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

The Future Fund's returns over various timeframes are set out below, together with the CPI+4.5% target for each period.

PERIOD	RETURN	BASELINE TARGET (CPI+4.5%)	VOLATILITY
May 2006 to 30 June 2015	8.0% pa	7.1% pa	4.3%
7 years to 30 June 2015	9.3% pa	6.8% pa	4.6%
5 years to 30 June 2015	11.9% pa	6.8% pa	3.4%
3 years to 30 June 2015	15.0% pa	6.8% pa	3.1%
2014/15 financial year	15.4% pa	6.0% pa	3.4%

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

During the financial year to 30 June 2015, the actual portfolio outperformed the policy portfolio by 1.4%. Over the last three years the actual portfolio outperformed the policy portfolio by 1.2% per annum. The extent to which management is able to produce a return in excess of the policy benchmark over rolling three year periods is incorporated into the organisation's performance-related pay framework.

COSTS

The Future Fund's management costs for 2014/15, as extracted from the audited financial statements, were $268 million compared with $501 million in 2013/14 and $555 million in 2012/13.

The indirect cost ratio, an industry standard measure of costs explained in detail below, was 0.243% in 2014/15 falling from 0.526% in 2013/14. In 2012/13 the indirect cost ratio was 0.670%.

The reduction in the management costs and indirect cost ratio in the 2014/15 year relative to previous years reflects a change in the applicable accounting standards. This has meant that subsidiary expenses are no longer consolidated into the overall profit and loss account. If this treatment had applied in the 2013/14 year the indirect cost ratio would have been 0.269% (0.526% reported).

For some years the Board has gone beyond the standard industry measure to report investment costs incurred indirectly through investment vehicles or where the fund is part of a co-mingled group of funds. With the change in accounting standards, many of the costs previously reported as management costs (and reported directly in the audited financial statements) are now reported in these additional 'look-through' costs.

The look-through costs are identified by making additional enquiries of managers of non-consolidated investment vehicles to estimate the underlying costs associated with managing investment via these entities. These costs added around 1.11% to the indirect cost ratio (2013/14: around 1.05%, 2012/13: around 0.93%). Again, based on the changed accounting standard referred to above these additional costs in 2013/14 would have been 1.31% (1.05% reported).

In providing this additional information, the Board seeks to provide a full and complete indication of costs. The Board notes that these additional cost disclosures are based on unaudited estimates and derived using a variety of methodologies particularly with regard to performance fees which may become payable.

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

All returns reported by the Board are net of costs.

Cost management

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

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

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

Indirect cost ratio

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

The disclosure measures report costs under the following categories:

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

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

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

Indirect cost ratio (using expenses reported in the audited financial statements)

	2012/13	2013/14	2014/15		
	Indirect cost ratio	Indirect cost ratio	Management costs	Transactional and operational costs	Indirect cost ratio
Future Fund	0.670%	0.526%	$267.6 million	$100.3 million	0.243%

Note: The reduction in the management costs and indirect cost ratio in the 2014/15 year relative to previous years reflects a change in the applicable accounting standards. On a like for like basis the indirect cost ratio in 2013/14 would have been 0.269%.

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

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

PURPOSE	AMOUNT DEBITED 2012/13	AMOUNT DEBITED 2013/14	AMOUNT DEBITED 2014/15
Contracts with investment managers	$256,807,440	$402,007,995	$306,448,408
Board remuneration and allowances	$844,583	$860,569	$851,573
Agency remuneration and allowances	$24,870,086	$27,868,431	$29,063,578
Consultants and advisers to the Board and Agency	$17,441,105	$13,153,499	$15,242,158
Agency operations	$14,247,126	$15,741,161	$22,463,821

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

NATION-BUILDING FUNDS

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

The three Funds came into existence on 1 January 2009.

Between January and June 2009 the Government contributed $10.9 billion into the Building Australia Fund including $2.5 billion from the Communications Fund and $966 million from the Telstra Sale Special Account, with the balance from the 2007/08 budget surplus. Since inception a total of $9.16 billion has been withdrawn from the Building Australia Fund including $185 million during the 2014/15 year. The Building Australia Fund stood at $3.61 billion at 30 June 2015.

On 1 January 2009, the Education Investment Fund was credited with $6.5 billion from the Higher Education Endowment Fund (HEEF) and the HEEF was discontinued. Since inception a total of $4.12 billion has been withdrawn from the Education Investment Fund including $217 million during the 2014/15 year. The Education Investment Fund stood at $3.69 billion at 30 June 2015.

The Health and Hospitals Fund received contributions totalling $5.0 billion from the 2007/08 budget surplus between 20 February and 12 June 2009. Since inception a total of $4.46 billion has been withdrawn from the Health and Hospitals Fund including $717 million during the 2014/15 year. The Health and Hospitals Fund stood at $1.51 billion at 30 June 2015.

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

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

Investment mandate and performance

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

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

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

INVESTMENT

Consistent with its obligations the Board has invested the assets of each of the Nation-building Funds in combinations of short- and medium-term debt instruments that reflect the specific withdrawal and liquidity expectations of each Fund.

The benchmark return for each Fund in the 2014/15 year was 2.9% (Australian bank bill swap rate + 0.3%). All three Nation-building Funds met this benchmark.

The management costs of each Fund are met from the assets of that Fund and were $3.4 million for the Building Australia Fund, $4.3 million for the Education Investment Fund and $2.0 million for the Health and Hospitals Fund. These costs include investment manager fees, core custody and portfolio administration charges as well as the costs of the Board and Agency. These costs, as a proportion of assets under management, make up the indirect cost ratio as described in the Investment Report for the Future Fund.

The indirect cost ratio for 2014/15 for the Building Australia Fund was 0.103%, for the Education Investment Fund it was 0.115% and for the Health and Hospitals Fund it was 0.108%.

The legislation also requires that the Board and Agency report on various aspects of the costs incurred in investing the assets of the Funds. These must be reported on a cash basis and are shown on page 49.

Indirect cost ratio

	2012/13 INDIRECT COST RATIO	2013/14 INDIRECT COST RATIO	MANAGEMENT COSTS	TRANSACTIONAL AND OPERATIONAL COSTS	2014/15 INDIRECT COST RATIO
Building Australia Fund	0.108%	0.101%	$3,438,706	$37,271	0.103%
Education Investment Fund	0.120%	0.116%	$4,317,625	$64,711	0.115%
Health and Hospitals Fund	0.113%	0.104%	$2,048,266	$33,989	0.108%

Cost disclosures under section 81 of 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 2012/13	AMOUNT DEBITED 2013/14	AMOUNT DEBITED 2014/15
Contracts with investment managers	$6,355,908	$4,643,597	$ 3,669,988
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$282,677	$284,370	$270,629
Total			**$3,940,617**

Education investment Fund

PURPOSE	AMOUNT DEBITED 2012/13	AMOUNT DEBITED 2013/14	AMOUNT DEBITED 2014/15
Contracts with investment managers	$5,216,227	$4,535,432	$4,587,586
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$282,895	$284,549	$270,836
Total			**$4,858,422**

Health and Hospitals Fund

PURPOSE	AMOUNT DEBITED 2012/13	AMOUNT DEBITED 2013/14	AMOUNT DEBITED 2014/15
Contracts with investment managers	$3,796,624	$2,729,234	$2,224,988
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$282,698	$284,331	$270,639
Total			**$2,495,627**

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

DISABILITYCARE AUSTRALIA FUND

The DisabilityCare Australia Fund was created by the *DisabilityCare Australia Fund Act 2013*.

The object of the Fund is to enhance the Commonwealth's ability to reimburse the Commonwealth, States and Territories for expenditure incurred in relation to the *National Disability Insurance Scheme Act 2013*.

The DisabilityCare Australia Fund came into existence on 1 July 2014. Revenue raised from an increase in the Medicare Levy is contributed to the DisabilityCare Australia Fund. An initial contribution of $828.75 million made on 26 November 2014. By 30 June 2015, a total of $2.49 billion had been contributed to the Fund and investment returns had seen the Fund grow to $2.52 billion.

The *DisabilityCare Australia Fund Act 2013* establishes the framework for credits and payments to and from the Fund and the responsibilities of the Treasurer, Finance Minister and National Disability Insurance Minister. The Treasurer is responsible for the crediting of amounts to the Fund on advice from the Australian Taxation Office and the Finance Minister is responsible for the debiting of the Fund on the advice of the National Disability Insurance Minister.

Investment mandate and performance

The Future Fund Board of Guardians (the Board) is responsible for growing the assets of DisabilityCare Australia Fund in line with the Investment Mandate from the responsible Ministers, but has no role in determining or advising on payments from the Fund.

The Board is required to seek to maximise returns on the Fund consistent with international best practice for institutional investment and to take all reasonable steps to ensure there is sufficient money in the Fund to cover authorised payments.

The Investment Mandate for the Fund was issued by the responsible Ministers on 1 July 2014 and set a target benchmark return of the Australian three month bank bill swap rate + 0.3% per annum calculated on a rolling 12 month basis (net of fees). The Board is required to invest in such a way as to minimise the probability of capital losses over a 12 month horizon.

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

Consistent with its obligations the Board has invested the assets of the Fund in combinations of short- and medium-term debt instruments that reflect the specific withdrawal and liquidity expectations of each Fund.

With the first contribution to the Fund received on 26 November 2014, the Fund has been invested for seven months. During this period the Fund generated a return of 1.6%, against a target return of 1.7%.

The management costs of the Fund are met from the assets of the Fund and were $1.0 million. These costs include investment manager fees, core custody and portfolio administration charges as well as the costs of the Board and Agency. These costs, as a proportion of assets under management, make up the indirect cost ratio as described in the Investment Report for the Future Fund.

The DisabilityCare Australia Fund's indirect cost ratio for seven months of operation was 0.056%. Further detail is provided below.

Indirect cost ratio

	1 DECEMBER 2014–30 JUNE 2015		
	MANAGEMENT COSTS (PART YEAR ONLY)	TRANSACTIONAL AND OPERATIONAL COSTS (PART YEAR ONLY)	INDIRECT COST RATIO (PART YEAR ONLY)
DisabilityCare Australia Fund	$1,031,506	$33,164	0.056%

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

DisabilityCare Australia Fund

PURPOSE	AMOUNT DEBITED 2014/15
Contracts with investment managers	$449,454
Board remuneration and allowances	-
Agency remuneration and allowances	-
Consultants and advisers to the Board and Agency	-
Agency operations	$118
Total	**$449,572**

INVESTMENT MANAGERS ENGAGED BY THE FUTURE FUND BOARD OF GUARDIANS AT 30 JUNE 2015

ASSET CLASS	MANAGER
EQUITIES	
Australian Equities	JCP Investment Partners Macquarie Investment Management Perennial Growth Management
Developed market equities	Altrinsic Global Advisors Blackstone Alternative Asset Management Global Thematic Partners Lazard Asset Management Pacific Co. Massachusetts Financial Services Schroder Investment Management Australia Southeastern Asset Management State Street Global Advisors
Emerging market equities	Mondrian Investment Partners Schroder Investment Management Australia State Street Global Advisors Trilogy Global Advisors
PRIVATE EQUITY	
Buy out	Advent International Corporation Apax Partners Archer Capital Bain Capital Berkshire Partners Charterhouse Capital Partners GI Partners Hellman & Friedman Quadrant Private Equity RCP Advisors Southern Cross Management Vitruvian Partners Waterland Private Equity Investments

ASSET CLASS	MANAGER
Venture and growth	Adams Street Partners Bessemer Venture Partners CDH Investments Columbia Capital FountainVest Partners Greenspring Associates Horsley Bridge Partners Insight Venture Partners New Enterprise Associates Quilvest
Special opportunities	Adams Street Partners HarbourVest Partners Oaktree Capital Management TowerBrook Capital Partners
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 Novion Property Group PEET Limited TIAA-CREF TIAA Henderson Real Estate The Townsend Group
Listed	CBRE Clarion Real Estate Securities

ASSET CLASS	MANAGER
INFRASTRUCTURE & TIMBERLAND	
Unlisted	AMP Capital Investors Campbell Global Corsair Infrastructure Management Global Infrastructure Partners HRL Morrison Oaktree Capital Management Starwood Energy UBS Global Asset Management
Listed	Deutsche Asset & Wealth Management RARE Infrastructure Limited
DEBT	
High grade debt	Colonial First State Global Asset Management Goldman Sachs Asset Management M&G Investment Management Limited Macquarie Investment Management PIMCO Australia
High yield debt	Ares Management Haymarket Financial Lazard Asset Management Oak Hill Advisors Oaktree Capital Management Pacific Alliance Investment Management Limited Quadrant Real Estate Advisors Sankaty Advisors Westbourne Credit Management Limited
Distressed and event driven	Centerbridge Partners L.P. Oaktree Capital Management Sankaty Advisors

ASSET CLASS	MANAGER
ALTERNATIVES	
Multi-strategy/relative value	Arrowgrass Capital Partners BlackRock Alternative Advisors Ionic Capital Management Makena Capital Management Och-Ziff Management Pacific Alliance Investment Management Limited
Macro-directional	AHL Partners BlackRock Alternative Advisors Brevan Howard Asset Management Bridgewater Associates Citadel Advisors Civic Capital GMO Australia
Alternative Risk Premia	Elementum Advisors
Overlay strategies	Ashmore Investment Management Limited BlackRock Investment Management Insight Investment Management (Global) Macquarie Investment Management PIMCO Australia State Street Global Advisors Limited UBS Securities Australia Limited
Cash	Colonial First State Global Asset Management Macquarie Investment Management PIMCO Australia

GOVERNANCE

ROBUST STATUTORY AND INVESTMENT GOVERNANCE ARRANGEMENTS ARE CENTRAL TO THE EFFECTIVE OPERATION OF THE ORGANISATION IN PURSUIT OF ITS INVESTMENT OBJECTIVES.

LEGISLATION ESTABLISHES THE INDEPENDENCE OF THE BOARD OF GUARDIANS AND ENSURES THAT INVESTMENT DECISIONS AND ACTIVITIES ARE CONDUCTED AT ARM'S LENGTH FROM GOVERNMENT.

Chris, *Finance*
Talla, *Legal*

STATUTORY FRAMEWORK

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

This core legislation sets out the roles and responsibilities of the government and of the Board and the Agency. From 1 July 2014, the *Public Governance, Performance and Accountability Act 2013* applied to the 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.

Withdrawals from the Future Fund may only occur once the Commonwealth's unfunded superannuation liability is fully offset or from 1 July 2020, whichever is earlier, although investment and administration expenses may be drawn from the Future Fund throughout its existence.

Withdrawals from the Building Australia Fund, Education Investment Fund and Health and Hospitals Fund are determined by government, subject to the advice of the relevant advisory board and oversight of the maximum spending from the Funds by Parliament through Appropriation Bills.

Withdrawals from the DisablityCare Australia Fund are managed in line with the arrangements set out in the *DisabilityCare Australia Fund Act 2013*.

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

This independence is emphasised in a number of ways, including:

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

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, the Board is a founding member of the International Forum of Sovereign Wealth Funds and fully implements the Santiago Principles[2]. 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 also provides accountability arrangements for the Board and Agency, including the tabling in Parliament of an annual report and audited financial statements. The Board has also decided to publish quarterly portfolio updates to provide details of the investment activity and performance of the Funds. Other public updates are provided in the form of published speeches and comment to the media.

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

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

The Agency routinely appears before Estimates hearings of the Senate Committee on Finance and Public Administration to provide the Committee with updates on its operations and the performance of the Funds. During the 2014/15 financial year, the Agency appeared at hearings in November 2014 and February 2015. These public hearings are based upon the Outcome and Output structure detailed in the Portfolio Budget Statements.

After year end, the Agency also appeared at a hearing of the Community Affairs Legislation Committee as part of its inquiry into the Medical Research Future Fund Bill 2015.

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

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

2 www.ifswf.org

BOARD OF GUARDIANS

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

Hon Peter Costello AC, Chairman

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

Mr Costello served as a member of the House of Representatives from 1990 to 2009 and was Treasurer of the Commonwealth of Australia from March 1996 to December 2007. He has been Chair of the G20 Central Bank Governors and Finance Ministers, the OECD Ministerial 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 a Director of Nine Entertainment Co and Chairman of ECG Financial Pty Ltd. Mr Costello was appointed a Companion of the Order of Australia in 2011 for eminent service to the Parliament of Australia through the development of landmark economic policy reforms.

Ms Carol Austin

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

Mr Stephen Fitzgerald

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

Mr Steven Harker

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

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. Ms Kay is currently a Director of Allens Linklaters, Brambles, John Swire & Sons P/L and a number of not-for-profit organisations. She was awarded a Centenary Medal for services to business.

Mr John Poynton AM

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

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

Dr Jane Wilson

Dr Wilson was appointed on 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 Deputy Chancellor of the University of Queensland, an independent Director of Sonic Healthcare Ltd and a member of the Prime Minister's Business Advisory Council. She also sits on the Winston Churchill Memorial Trust Board.

Ms Susan Doyle

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

Dr John Mulcahy

Dr Mulcahy was first appointed on 3 April 2006. His term concluded on 2 April 2015. Dr Mulcahy has broad corporate experience and expertise in financial services. He was Chief Executive Officer and Managing Director of Suncorp until March 2009 and has held a number of senior roles in the Commonwealth Bank including Group Executive, Investment and Insurance Services. He previously held the positions of Chief Executive of Lend Lease Property Investment Services and Chief Executive of Civil and Civic. Dr Mulcahy is a non-executive director of Mirvac Group, Coffey International, GWA International, ALS Limited and the Great Barrier Reef Foundation.

Future Fund Board of Guardians. Top from left to right: Hon Peter Costello AC, Chairman, Ms Carol Austin, Mr Stephen Fitzgerald, Mr Steven Harker, Ms Carolyn Kay, Mr John Poynton AM, Dr Jane Wilson, Ms Susan Doyle, Dr John Mulcahy.

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 2014/15

BOARD/COMMITTEE	MEMBERS
Board Responsible for the investment of the public asset funds in accordance with the relevant legislation and Directions.	Hon Peter Costello AC (Chair) Ms Carol Austin Ms Susan Doyle[1] Mr Stephen Fitzgerald Mr Steven Harker Ms Carolyn Kay[1] Dr John Mulcahy[1] Mr John Poynton AM Dr Jane Wilson[1]
Remuneration & Nominations Committee Focuses on remuneration and appointment matters for staff and appointments to investment companies and advisory Boards.	Hon Peter Costello AC (Chair) Ms Carol Austin Mr Steven Harker Mr John Poynton AM Ms Carolyn Kay[3]
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 Stephen Fitzgerald (Chair) Mr John Poynton AM Ms Susan Doyle[4] Dr Jane Wilson[3]
Audit & Risk Committee Focuses on the control framework, external accountability, legislative compliance, internal and external audit and the appropriate identification and management of risks.	Ms Carol Austin (Chair) Dr John Mulcahy[2] Mr Steven Harker Mr Stephen Fitzgerald Mr John Poynton AM Ms Carolyn Kay[2] Dr Jane Wilson[2] Hon Peter Costello attends meetings as observer Ms Susan Doyle[2] (Chair to 31 March 2015)
Transaction Committee Provides support and assistance to the Board in respect pf any transaction, matter or issue as referred to the Committee by the Board from time to time	Hon Peter Costello AC (Chair) Mr Stephen Fitzgerald Ms Carolyn Kay[3] Dr John Mulcahy[4]

1 Susan Doyle and John Mulcahy Board terms expired on 2 April 2015. Carolyn Kay and Jane Wilson appointed with effect from 14 April 2015.
2 Susan Doyle and John Mulcahy ceased membership of the Committee on 2 April 2015 due to Board terms expiring; Carolyn Kay and Jane Wilson were appointed with effect from 28 April 2015. Carol Austin was appointed Chair of the Audit and Risk Committee to succeed Susan Doyle with effect from 31 March 2015.
3 Appointed to Committees with effect from 28 April 2015.
4 Committee membership ceased as at 2 April 2015 due to Board term expiring.

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

GOVERNANCE

Board and Board committee attendance 2014/15

MEMBER	FUTURE FUND BOARD OF GUARDIANS		AUDIT & RISK COMMITTEE		REMUNERATION & NOMINATIONS COMMITTEE		CONFLICTS COMMITTEE		TRANSACTION COMMITTEE	
	Meetings held and eligible to attend	**Attended**	**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**	**Meetings held and eligible to attend as a member**	**Attended**
Hon Peter Costello AC	11	11	0	5	2	2	0	1	0	0
Ms Carol Austin	11	11	5	5	2	2				
Ms Susan Doyle[1]	8	7	5	4	0	1				
Mr Stephen Fitzgerald	11	11	5	4			1	1	0	0
Mr Steven Harker	11	9	5	4	2	2				
Ms Carolyn Kay[3]	3	3					0	1	0	0
Dr John Mulcahy[1]	8	7	5	4	0	1			0	0
Mr John Poynton AM	11	11	5	5	2	2	1	1		
Dr Jane Wilson[3]	3	2					1	1		

1 Susan Doyle and John Mulcahy Board terms expired on 2 April 2015. Carolyn Kay and Jane Wilson appointed with effect from 14 April 2015.
2 Susan Doyle and John Mulcahy ceased membership of the Committee on 2 April 2015 due to Board terms expiring; Carolyn Kay and Jane Wilson were appointed with effect from 28 April 2015. Carol Austin was appointed Chair of the Audit and Risk Committee to succeed Susan Doyle with effect from 31 March 2015.
3 Appointed to Committees with effect from 28 April 2015.
4 Committee membership ceased as at 2 April 2015 due to Board term expiring.

FUTURE FUND MANAGEMENT AGENCY

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

The Agency operates a Management Committee comprising the Managing Director, Chief Investment Officer, Chief Investment Strategy and Risk Officer, Chief Operating Officer, Chief Financial Officer, Chief People & Culture Officer and General Counsel.





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

Mr David Neal
Managing Director

Mr Neal took up his position as Managing Director on 4 August 2014 having previously served as Chief Investment Officer. Mr Neal joined the Future Fund as Chief Investment Officer in 2007 from Watson Wyatt Australia (now Towers Watson) where he was Head of Investment Consulting. He started his career with Watson Wyatt in the United Kingdom and led the establishment of the firm's investment consulting business in Australia.

Mr Cameron Price
General Counsel

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

Ms Elizabeth McPherson
Chief Human Resources Officer

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


Raphael Arndt (Chief Investment Officer), Stephen Gilmore (Chief Investment Strategy and Risk Officer).

Mr Gordon McKellar
Chief Operating Officer

Mr McKellar began with the Fund in 2007 and has over 20 years' experience in asset servicing including roles in Edinburgh, New York and Sydney. Previously he was Head of Operations at BNP Paribas Securities Services. He has also held operational and client management roles with Deutsche Bank and Bankers Trust Company.

Mr Paul Mann
Chief Financial Officer

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

Dr Raphael Arndt
Chief Investment Officer

Dr Arndt has held the role of Chief Investment Officer since 1 September 2014. Prior to this, he had been the Fund's Head of Infrastructure and Timberland since 2008. He has previously been an Investment Director with Hastings Funds Management and has also held infrastructure policy positions with both the private sector and the Victorian Department of Treasury and Finance. Raphael started his career as an engineer working with Ove Arup & Partners and holds engineering and economics degrees and a PhD from the University of Melbourne.

Mr Stephen Gilmore
Chief Investment Strategy and Risk Officer

Mr Gilmore joined the Future Fund in 2009 and joined the Management Committee in May 2015. Stephen joined the Future Fund after having previously worked in senior strategy roles in London and Hong Kong with AIG Financial Products and Morgan Stanley. Prior to that, Stephen worked with both the International Monetary Fund and the Reserve Bank of New Zealand.

RISK MANAGEMENT

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

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

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

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

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

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

These categories of risk shape the governance structure adopted by the Board and are incorporated into the way the organisation structures and controls its activity. The organisation maintains a Risk Register which documents the key risks and mitigating controls. The Agency's Operational Risk and Compliance Committee formally reviews each of the key risks documented in the Risk Register on an annual basis The outcome of these reviews are reported to the Board's Audit and Risk Committee together with any recommendations for change.

In addition, the Agency's Operational Risk and Compliance Committee specifically allocates part of its agenda to the discussion of emerging risk topics. On a quarterly basis the effectiveness of these key controls is assessed, with results reported to the Agency Operational Risk and Compliance Committee and the Board's Audit and Risk Committee.

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

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

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

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

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

The Agency Operational Risk and Compliance Committee reviews the fraud and corruption risk assessment and fraud and corruption control plan on an annual basis. There were no suspected or actual fraud incidents in 2014/15.

Fraud and corruption control initiatives are embedded into the Agency's internal control framework. Fraud risks identified include, but are not limited to: deliberate leaking of sensitive information; incorrect or falsified payment instructions; and theft or misuse of Commonwealth assets. Key controls such as segregation of duties, approval hierarchies, dual signatories and third party due diligence form part of the mitigation strategies. The effectiveness of these controls is assessed on a quarterly basis as part of the internal control assessment referred to above. No significant fraud incidents were identified during the reporting period.

During the year all staff attended Anti-bribery and Corruption awareness training which was conducted by an external legal firm. All new staff members are required to undertake on-line fraud awareness training as part of their induction.

The Board's Audit and Risk Committee has also reviewed the Agency's business continuity arrangements and insurance cover, which form part of its annual oversight program. During the year the Agency entered into an arrangement with a purpose built disaster recovery facility for dedicated and multi-share desks and completed a successful test of its disaster recovery capability at this facility.

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 originating internally, from third party suppliers, and partners, which manage Agency data are identified, managed and monitored. This includes formal processes for conducting IT-related due diligence, and identifying, managing, and monitoring the cybersecurity landscape, threats, technologies and controls.

PEOPLE

CENTRAL TO OUR INVESTMENT APPROACH IS MAINTAINING A HIGHLY COLLEGIATE, TEAM-BASED ENVIRONMENT THAT SUPPORTS EFFECTIVE DECISION-MAKING.

THE ORGANISATION MAINTAINS A RELATIVELY SMALL TEAM OF INVESTMENT AND OTHER PROFESSIONALS WHO WORK AS ONE TEAM TO POSITION AND MANAGE THE PORTFOLIOS TO MEET THEIR MANDATED OBJECTIVES.

Victoria, *Facilities*
Ankit, *Infrastructure and Timberland*

Supporting the investment effort are our operations, finance, IT, legal, human resources and public affairs teams, all focused on the ultimate objective of maximising returns while managing risk.

Our focus is on attracting, motivating and retaining high calibre people and on developing and challenging them to build the organisation's success.

The continued success of the organisation during 2014/15 is a direct result of the efforts of its people, their combined talents, their innovation, the excellence they bring to everything they do and their continued motivation to deliver exceptional results.

The organisation maintains its efforts to deliver initiatives to support and drive the capability, performance and engagement of staff; and the level of staff engagement has remained consistent at over 90 per cent since 2011.

THEME TEAMS PROJECT

One key initiative this year was the Theme Teams project. This initiative was introduced to support the implementation of a refreshed Business Strategy approved by the Board in September 2014. As part of this strategy, three key "Strategic Themes" were identified:

- Deepen our culture and develop our people;
- Enhance our core infrastructure and processes; and
- Nurture our relationships and strengthen our brand.

These themes describe the broad areas that will be emphasised for development over the next three years. The themes are deliberately broad.

> **Great experience and I am very happy to have been asked to participate as well as get a chance to make a difference to the long-term benefit of the Agency.**

The next stage towards implementing the strategy was to identify the range of initiatives that could be considered within each theme and prioritise them in terms of importance and impact on capability. The Theme Team project established four teams, one to look at each theme and one that, as "CEO for the day", could look at any theme or areas of the business it felt needed improvement.

The members of the teams came from across the business and included all levels; leaders of the teams were identified potential future leaders for the organisation. The construction of the teams was deliberate so as to take advantage of the Agency's diversity of gender, culture, experience, knowledge, education and ability.

Members of the Theme Teams put in a lot of personal time and effort to deliver their projects which resulted in a final report and presentation to the Management Committee. The final deliverables were thorough and impressive and have been used to inform our priorities.

In a survey conducted after the end of the project 83% of participants agreed or strongly agreed that they would recommend participation in the Theme Team project to others and 95% valued the opportunity to have their team's findings presented to the senior management group.

> **Overall an enjoyable project to be involved in. Enjoyed working with members across the organisation. Enjoyed the opportunity to be actively involved in providing input into the org's strategic priorities.**

PEOPLE

WORKFORCE PLANNING

There were 29 new starters in 2014/15; thirteen were replacements for existing roles; two were parental leave replacements; and fourteen were for new roles. There were five internal promotions. Given recruitment activity and departures, the workforce total at 30 June 2015 was 112 staff which is in line with the workforce plan.

DIVERSITY AND INCLUSION

The organisation places a high value on working together to provide a safe, flexible and inclusive environment for all staff. Respecting and valuing difference in all its forms, including diversity of background, diversity of experience and diversity of thought, is something that is actively promoted. Inclusion is key to success; valuing all contributions, challenging ideas respectfully, supporting one another as needed allows each person to contribute to their maximum potential.

There is a reasonable gender distribution across the organisation with an opportunity for improvement at lower levels for males and higher levels for females. No staff have identified as Indigenous.

WORK HEALTH AND SAFETY

A work health and safety committee operated through the year and undertook bi-annual reviews of the office space. Ergonomic principles are maintained by providing appropriate workspace and equipment and ensuring new staff are informed of the principles of work space management. First aid training was also provided.

CULTURE

A strong positive culture and high level of engagement is reflected in the three main Human Resource statistics: lost time injuries, absenteeism and turnover. There were no lost time injuries for 2014/15. Absenteeism rate is 1.5%, consistent with previous years.

Workforce distribution across the Agency

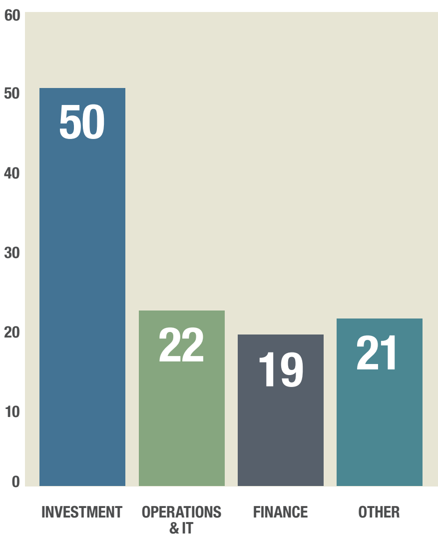
	FULL-TIME		PART-TIME		MALE		FEMALE	
CLASSIFICATION LEVEL OF WORK	FY13/14	FY14/15	FY13/14	FY14/15	FY13/14	FY14/15	FY13/14	FY14/15
FFMA 1	11	8	1	1	0	1	12	8
FFMA 2	14	27	0	0	8	11	6	16
FFMA 3	13	15	3	3	4	6	12	12
FFMA 4	23	23	0	0	15	14	8	9
FFMA 5	18	21	1	1	10	14	9	8
FFMA 6	9	6	0	0	8	5	1	1
FFMA 7	5	7	0	0	4	6	1	1
Total	**93**	**107**	**5**	**5**	**49**	**57**	**49**	**55**

At year end there were three SES officers and nine non-SES officers covered by AWAs.

Workforce distribution by Investment/ Non-Investment

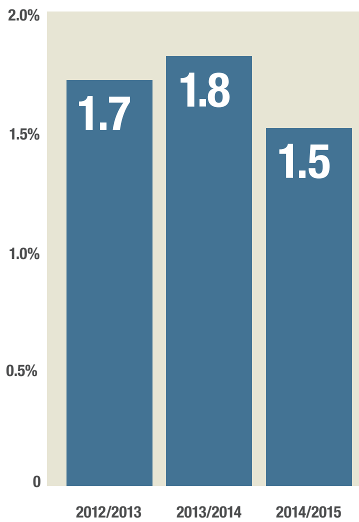
CLASSIFICATION	INVESTMENT		NON-INVESTMENT	
LEVEL OF WORK	FEMALE	MALE	FEMALE	MALE
FFMA 1	2	1	6	0
FFMA 2	7	4	9	7
FFMA 3	4	2	8	4
FFMA 4	3	9	6	5
FFMA 5	2	9	6	5
FFMA 6	1	3	0	2
FFMA 7	0	2	1	4
Total	**19**	**30**	**36**	**27**

HEADCOUNT BY BUSINESS AREA



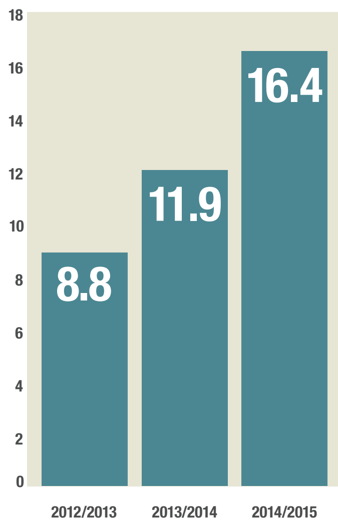
Other includes: Managing Director's Office, Public Affairs, Human Resources, Legal.

ABSENTEEISM RATE (%)



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

EMPLOYEE TURNOVER RATE (%)



Turnover in 2014/15, when adjusted for non-ongoing fixed end date contracts, is 11.5% which is consistent with 2013/14.

REMUNERATION STRATEGY

The Australian Public Sector Workplace Bargaining Policy (the "Bargaining Policy") was introduced in March 2014 to guide bargaining for Australian Public Service ("APS") enterprise agreements ("EAs") for re-negotiation from March 2014.

While the Agency operates on individual employment contracts rather than an EA, the Agency adjusted its practices to meet the requirements of the Bargaining Policy and associated Directions for fixed pay (which includes superannuation). This included providing demonstrated, genuine productivity gains (as specifically defined) to the value of any increase; and demonstrating how any increase will be paid for. The Bargaining Policy and Directives will apply for three years: 2014/15; 2015/16 and 2016/17.

PERFORMANCE RELATED PAY (PRP)

In addition to fixed pay, ongoing staff of the Agency have the opportunity to earn a variable pay component known as PRP which is based on personal performance and on investment performance.

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

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

The mix of variable pay based on personal performance and variable pay based on 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.

In the three years to 30 June 2015, the portfolio returned 15.0% per annum against its target of 6.8% per annum. Over three years the actual portfolio outperformed the policy portfolio by 1.24% per annum.

The payments detailed in the table opposite 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 and other staff are set out in the financial statements.

BOARD FEES

Fees payable to Board members are determined by the Remuneration Tribunal. The Tribunal's Determination 2014/08, taking effect from 1 July 2014, set the annual fee payable to the Chair at $198,310 and the fee for other members at $99,180. The official travel entitlement for Board members was set at tier 1. Board members are not eligible for performance-related payments.

PERFORMANCE PAY SUMMARY TABLE

FFMA CLASSIFICATION	EMPLOYEES WHO RECEIVED PAYMENTS	AGGREGATED PERFORMANCE PAY ($)	MINIMUM PERFORMANCE PAY ($)	MAXIMUM PERFORMANCE PAY ($)	AVERAGE PAYMENT ($)
FFMA band 1	9	56,082	5,186	8,254	6,231
FFMA band 2	15	160,647	1,334	21,213	10,710
FFMA band 3	16	415,270	3,176	62,855	25,954
FFMA band 4	23	1,551,429	235	134,084	67,453
FFMA band 5	22	2,763,574	6,349	327,458	125,617
FFMA band 6	7	2,298,568	100,685	492,451	328,367
FFMA band 7	7	2,448,895	112,062	661,844	349,842
Total	99	9,694,465			97,924

The payments above 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.

FINANCIALS

FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

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

I have audited the accompanying annual financial statements of the Future Fund Management Agency and the Board of Guardians for the year ended 30 June 2015, which comprise:

- 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, including a Summary of significant accounting policies.

Accountable Authority's Responsibility for the Financial Statements

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 that comply with Australian Accounting Standards and the rules made under that Act. The Chair of the Future Fund Board of Guardians is also responsible for such internal control as is necessary to enable the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Chair of the Future Fund Board of Guardians, as well as evaluating the overall presentation of the financial statements.

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

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19 National Circuit BARTON ACT
Phone (02) 6203 7500 Fax (02) 6273 5355
Email ian.mcphee@anao.gov.au

Independence

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

Opinion

In my opinion, the financial statements of the Future Fund Management Agency and the Board of Guardians:

(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 the Board of Guardians as at 30 June 2015 and its financial performance and cash flows for the year then ended.

Australian National Audit office

Rona Mellor PSM
Acting Auditor-General

Canberra

25 September 2015

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 2015 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
25 September 2015

Paul Mann

P Mann
Chief Financial Officer
25 September 2015

FINANCIALS

STATEMENT OF COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

	NOTES	YEAR ENDED 30 JUNE 2015 $'000	YEAR ENDED 30 JUNE 2014 $'000
INCOME			
Dividends & imputation credits	4	**3,215,937**	1,918,063
Distributions	4	**790,091**	271,723
Interest income from financial assets not held at fair value through profit or loss	3	**23,724**	25,780
Net gain/(loss) on financial instruments held at fair value through profit or loss	4	**14,660,159**	10,423,560
Net foreign currency gains/(losses)	4	**(2,717,504)**	455,553
Other income	5	**1,009**	909
TOTAL INCOME		**15,973,416**	13,095,588
EXPENSES			
Investment management fees and advisory fees		**160,322**	161,794
Investment manager performance fees		**26,783**	30,844
Custody fees		**13,975**	11,683
Brokerage, duties and other statutory charges		**45,246**	38,668
Other investment portfolio expenses		**16,300**	6,771
Agency employees' remuneration	6	**33,112**	28,770
Other expenses	6, 7	**19,929**	18,296
TOTAL EXPENSES		**315,667**	296,826
OPERATING RESULT FOR THE YEAR BEFORE TAX		**15,657,749**	12,798,762
Income tax expense	8	**52,216**	62,868
OPERATING RESULT FOR THE YEAR		**15,605,533**	12,735,894
Other comprehensive income for the year		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**15,605,533**	12,735,894

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

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015

	NOTES	YEAR ENDED 30 JUNE 2015 $'000	YEAR ENDED 30 JUNE 2014 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	16	**2,897,421**	2,440,440
Receivables	10	**3,453,271**	2,846,019
Investments	9	**112,083,017**	97,009,630
Other financial assets		**5,647**	5,099
Total financial assets		**118,439,356**	102,301,188
Non-financial assets			
Plant and equipment	11	**2,003**	1,072
Intangibles	11	**2,145**	1,762
Total non-financial assets		**4,148**	2,834
TOTAL ASSETS		**118,443,504**	102,304,022
LIABILITIES			
Financial liabilities			
Investments	9	**943,298**	428,147
Payables	12	**336,403**	321,664
Total financial liabilities		**1,279,701**	749,811
Non-financial liabilities			
Employee provisions	13	**18,078**	14,019
Total non-financial liabilities		**18,078**	14,019
TOTAL LIABILITIES		**1,297,779**	763,830
NET ASSETS		**117,145,725**	101,540,192
EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT			
Contributions by Government	14	**60,536,831**	60,536,831
Retained earnings		**56,608,894**	41,003,361
TOTAL EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT		**117,145,725**	101,540,192

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

STATEMENT OF CASH FLOWS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

	NOTES	YEAR ENDED 30 JUNE 2015 $'000	YEAR ENDED 30 JUNE 2014 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from sale of financial instruments held at fair value through profit or loss		**111,044,122**	98,780,783
Purchase of financial instruments held at fair value through profit or loss		**(113,412,579)**	(98,573,390)
Interest received		**23,549**	26,409
Interest received on loans from related parties		**1,077,318**	860,533
Dividends received		**2,387,523**	1,501,462
Distributions received		**783,760**	248,219
Franking credit refunds received		**399,862**	243,034
Net settlement of foreign exchange contracts		**(1,531,757)**	(3,420,027)
GST refund received		**10,933**	10,671
Other income received		**774**	759
Investment management fees and advisory fees paid		**(157,761)**	(168,858)
Investment manager performance fees paid		**(65,454)**	(90,713)
Custody fees paid		**(14,732)**	(13,280)
Brokerage, duties and other statutory charges paid		**(55,702)**	(47,476)
Taxes paid		**(4,834)**	(19,075)
Other expenses paid		**(75,588)**	(65,607)
Net cash provided by/(used by) operating activities	16	**409,434**	(726,556)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment and software		**(2,115)**	(892)
Net cash (used in)/provided by investing activities		**(2,115)**	(892)
CASH FLOWS FROM FINANCING ACTIVITIES			
Amounts contributed by Government		**-**	-
Net cash received from financing activities		**-**	-
Net increase/(decrease) in cash held		**407,319**	(727,448)
Cash at the beginning of the reporting period		**2,440,440**	3,266,032
Effects of exchange rate changes on the balance of cash held in foreign currencies		**49,662**	(98,144)
Cash at the end of the reporting period	16	**2,897,421**	2,440,440

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

STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2015

Year ended 30 June 2015

	CONTRIBUTED EQUITY $'000	RETAINED EARNINGS $'000	TOTAL EQUITY $'000
Opening balance	**60,536,831**	**41,003,361**	**101,540,192**
Net operating result	**-**	**15,605,533**	**15,605,533**
Other comprehensive income	**-**	**-**	**-**
Total comprehensive income	**-**	**15,605,533**	**15,605,533**
Contributions made by Government	**-**	**-**	**-**
Closing balance	**60,536,831**	**56,608,894**	**117,145,725**

Year ended 30 June 2014

	CONTRIBUTED EQUITY $'000	RETAINED EARNINGS $'000	TOTAL EQUITY $'000
Opening balance	60,536,831	28,267,467	88,804,298
Net operating result	-	12,735,894	12,735,894
Other comprehensive income	-	-	-
Total comprehensive income	-	12,735,894	12,735,894
Contributions made by Government	-	-	-
Closing balance	60,536,831	41,003,361	101,540,192

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

SCHEDULE OF COMMITMENTS AS AT 30 JUNE 2015

	NOTES	30 JUNE 2015 $'000	30 JUNE 2014 $'000
BY TYPE			
CAPITAL COMMITMENTS			
Collective investment vehicles	9	**16,265,430**	11,852,972
Corporate Credit (bank loans)		**4,687**	8,387
Total capital commitments		**16,270,117**	11,861,359
OTHER COMMITMENTS			
Operating leases[(a)]		**22,370**	2,481
Other commitments[(b)]		**5,006**	4,598
Total other commitments		**27,376**	7,079
BY MATURITY			
CAPITAL COMMITMENTS			
One year or less		**16,270,117**	11,861,359
Total capital commitments by maturity		**16,270,117**	11,861,359
OTHER COMMITMENTS			
Operating lease commitments			
One year or less		**2,636**	1,244
From two to five years		**12,977**	1,237
Five years and above		**6,757**	-
Total operating lease commitments by maturity		**22,370**	2,481
Other commitments			
One year or less		**3,097**	3,652
From two to five years		**1,909**	946
Total other commitments by maturity		**5,006**	4,598

Note: Commitments are GST inclusive.

(a) Operating lease commitments relate to rental commitments for the lease of property and for office equipment. Lease terms have 7 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 2015

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

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

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

Future Fund Management Agency (the Agency)

The Agency is a statutory agency for the purposes of the *Public Service Act 1999* (the Public Service Act) and is prescribed for the purposes of the *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, advisors and other service providers.

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

Future Fund Board of Guardians (the Board)

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

In line with subsection 18(1) of the Act, the Government issued the Board with a revised Investment Mandate direction for the Future Fund, effective 18 December 2014. The objective of these directions is to give guidance to the Board in relation to its investment strategy for the Future Fund.

The roles and responsibilities of the Board are set out in the 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 and DisabilityCare Australia Fund as set out in the *Nation-building Funds Act 2008* and the *DisabilityCare Australia Fund Act 2013*. 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.

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 2014; 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 Australia Accounting Standards. The effect of this exemption is that the Fund will present its financial report as a single entity.

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

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

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation of the financial statements (continued)

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

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 & 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 2015 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 and revised accounting standards in the current reporting period

The Fund has applied the following new and revised accounting standards which became effective for the annual reporting period commencing on 1 July 2014:

(i) AASB 2013-5 Amendments to Australian Accounting Standards – Investment Entities

The amendments made by AASB 2013-5 introduce an exception from the consolidation requirements for investment entities. The amendment provides relief from the requirement to consolidate investments in subsidiaries. There are three key requirements of an investment entity per paragraph 27 of the standard:

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Statement of compliance (continued)

The standard details key characteristics of an investment entity. One typical characteristic is that investors are not related parties of the entity. While this is not the case for the Fund, the only benefits obtained by the investor, being the Commonwealth, are capital appreciation and investment income. Further, the standard explicitly contemplates that an investment entity may be formed by a single investor and refers to the example of a government investment fund.

An assessment of this standard has been applied and the Fund meets the definition of an investment entity, therefore investments in subsidiaries must be measured at fair value through profit or loss. The adoption of the amendment has had an impact on the Fund's financial statements in terms of classification of income, expenses, assets and liabilities however the total comprehensive income and net assets have not been impacted. This standard has been retrospectively applied. Further details on the initial effect of application can be found in Note 2.16.

AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities, revised AASB 127 Separate Financial Statements, AASB 128 Investments in Associates and Joint Ventures, AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards and AASB 2012-10 Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments

The standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. The Fund has assessed all its investments under the new standards, however as the Fund is an Investment Entity as described above, it is not required to consolidate its controlled entities, therefore this standard has no material impact on the financial statements. Additional information in relation to subsidiaries and non-controlled structured entities has been presented in Note 15.

(ii) AASB 1055 Budgetary Reporting

The objective of this Standard is to specify budgetary disclosure requirements for the whole of government, General Government Sector (GGS) and not-for-profit entities within the GGS of each government. Disclosures made in accordance with this Standard provide users with information relevant to assessing performance of an entity, including accountability for resources entrusted to it. Refer to Note 23 for these disclosures.

There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2014 that have a material impact on the Fund.

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 2015 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.

(iii) 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.

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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 & 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 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.

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).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Financial assets and liabilities (continued)

2.3.3 Investments (continued)

- Derivative instruments including forward foreign exchange contracts, swaps, swaptions, futures, forward contracts on mortgage backed securities and options are recorded at their fair value on the date the contract is entered into and are subsequently re-measured to their fair values at each reporting date. The Fund has entered into derivative contracts to manage its exposure to foreign exchange risk, interest rate risk, equity market risk and credit risk. The Fund also uses derivatives to gain indirect exposure to market risks. The use of derivative financial instruments by the Fund is governed by the Act. 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

Whilst all investments are directly held by the Future Fund Board of Guardians, some investments are indirectly 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.

Loan assets are repayable on demand. 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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. These amounts are shown as Contributions by Government in Note 14.

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. The main purpose of the Fund Account is to discharge unfunded superannuation liabilities from whichever is the earlier of; (a) the time when the balance of the Fund is greater than or equal to the target asset level or (b) 1 July 2020.

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 nominal 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 2015. 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 (Defined Benefit), Public Sector Superannuation Scheme (Defined Benefit) or the Public Sector Superannuation Scheme (Accumulation Plan). Staff may join any other complying employee nominated schemes.

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

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.

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

2.12.2 Impairment of non-financial assets

All non-financial assets which are not held at fair value were assessed for impairment at 30 June 2015. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.12 Plant and equipment – non financial assets (continued)

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.

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.

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 incurred by the Fund are withheld at source (income net of taxes is received by the Fund) under the withholding regimes of the relevant jurisdiction. These withholding taxes are generally a final tax and no further amounts are payable. To the extent the Fund is entitled to a lower withholding 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.

Whilst 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.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Taxation (continued)

Deferred Tax

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

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

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

Whilst 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

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

(i) 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 financial statements are presented in Australian dollars, which is the Fund’s functional and presentation currency.

(ii) Transactions and balances

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Change in accounting standards

As mentioned in Note 2.2 the Fund has applied the Investment Entity exemption which had a retrospective application to the Fund's financial statements to 1 July 2013. The financial statements have been restated for all subsidiaries to be held at fair value through the profit and loss rather than be consolidated. The effect of application on the statement of comprehensive income and statement of financial position as a result of the Investment Entity exemption has resulted in the following:

STATEMENT OF COMPREHENSIVE INCOME	AUDITED 30 JUNE 2014 $'000	RESTATEMENT $'000	RESTATED 30 JUNE 2014 $'000
INCOME			
Dividends & imputation credits	1,389,508	528,555	1,918,063
Distributions	988,199	(716,476)	271,723
Interest income from financial assets not held at fair value through profit or loss	46,352	(20,572)	25,780
Net gain/(loss) on financial instruments held at fair value through profit or loss	11,062,233	(638,673)	10,423,560
Net foreign currency gains/(losses)	20,774	434,779	455,553
Other income	5,950	(5,041)	909
TOTAL INCOME/(LOSS)	13,513,016	(417,428)	13,095,588
EXPENSES			
Investment management fees and advisory fees	257,054	(95,260)	161,794
Investment manager performance fees	156,565	(125,721)	30,844
Custodian's fees	12,222	(539)	11,683
Brokerage, duties and other statutory charges	43,658	(4,990)	38,668
Other investment portfolio expenses	31,920	(25,149)	6,771
Agency employees' remuneration	28,770	-	28,770
Other expenses	20,700	(2,404)	18,296
TOTAL EXPENSES	550,889	(254,063)	296,826
Operating result for the year before tax	12,962,127	(163,365)	12,798,762
Income tax expense	114,808	(51,940)	62,868
Operating result for the year	12,847,319	(111,425)	12,735,894
Other comprehensive income			
Foreign currency translation differences for foreign operations	(111,425)	111,425	-
Total Comprehensive income/(loss)	12,735,894	-	12,735,894

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Change in accounting standards (continued)

STATEMENT OF FINANCIAL POSITION	AUDITED 30 JUNE 2014 $'000	RESTATEMENT $'000	RESTATED 30 JUNE 2014 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	3,292,103	(851,663)	2,440,440
Receivables	1,574,118	1,271,901	2,846,019
Investments	98,200,277	(1,190,647)	97,009,630
Other financial assets	17,595	(12,496)	5,099
Total financial assets	103,084,093	(782,905)	102,301,188
Non-financial assets			
Plant and equipment	1,072	-	1,072
Intangibles	1,762	-	1,762
Total non-financial assets	2,834	-	2,834
TOTAL ASSETS	103,086,927	(782,905)	102,304,022
LIABILITIES			
Financial liabilities			
Investments	482,218	(54,071)	428,147
Payables	663,746	(342,082)	321,664
Total financial liabilities	1,145,964	(396,153)	749,811
Non-financial liabilities			
Employee provisions	14,019	-	14,019
Total non-financial liabilities	14,019	-	14,019
Tax liabilities			
Current tax liabilities	343,215	(343,215)	-
Deferred tax liabilities	43,537	(43,537)	-
Total tax liabilities	386,752	(386,752)	-
TOTAL LIABILITIES	1,546,735	(782,905)	763,830
NET ASSETS	101,540,192	-	101,540,192
EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT			
Contributions by Government	60,536,831	-	60,536,831
Retained earnings	41,328,197	(324,836)	41,003,361
Foreign currency translation reserve	(324,836)	324,836	-
TOTAL EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT	101,540,192	-	101,540,192

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

	2015 $'000	2014 $'000
Interest income		
Interest income – cash at bank	**23,724**	25,780
Total interest income	**23,724**	25,780

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

	2015 $'000	2014 $'000
Dividend income and imputation credits		
Dividend income – domestic equities and listed managed investment scheme distributions	**458,093**	405,085
Imputation credits refunded or refundable under Section 30 of the *Future Fund Act 2006*	**763,683**	411,269
Dividend income – related entities (FFICs)	**1,302,286**	536,509
Dividend income – international equities	**691,875**	565,200
Total dividend and imputation credit income	**3,215,937**	1,918,063
Distribution income		
Distributions – collective investment vehicles	**790,091**	271,723
Total distribution income	**790,091**	271,723

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

	2015 $'000	2014 $'000
Net gain/(loss) on financial instruments held at fair value through profit or loss		
Net gain/(loss) on financial assets held at fair value through profit or loss	**15,296,707**	10,482,537
Net gain/(loss) on financial liabilities held at fair value through profit or loss	**(636,548)**	(58,977)
Total net gain/(loss) on financial instruments held at fair value through profit or loss*	**14,660,159**	10,423,560
Net gain/(loss) arising on foreign currency#	**(2,717,504)**	455,553

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

Net foreign currency losses of $2,717,504,000 (2014: gain $455,553,000) 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 $14,660,159,000.

NOTE 5: OTHER INCOME

	2015 $'000	2014 $'000
Other income		
Related party fee income for services provided (Note 22B)	**853**	759
Related party resources received free of charge (ANAO)	**156**	150
Total other income	**1,009**	909

NOTE 6: EXPENSES

	2015 $'000	2014 $'000
Agency employees' remuneration		
Wages and salaries	**30,387**	26,879
Superannuation	**1,756**	1,441
Leave and other entitlements payable	**969**	450
Total Agency employees' remuneration	**33,112**	28,770
Other expenses		
Board remuneration		
Wages and salaries	**789**	788
Superannuation	**75**	73
Total board remuneration	**864**	861
Depreciation & amortization		
Depreciation of infrastructure, plant and equipment	**558**	768
Amortisation of intangibles – computer software	**713**	611
Total depreciation & amortisation	**1,271**	1,379
Other operating expenses (including audit fees)	**17,794**	16,056
Total Other expenses	**19,929**	18,296

NOTE 7: REMUNERATION OF AUDITORS[1]

Included in other operating expenses is the financial statement audit services provided to the Fund which totaled $156,000 (2014: $150,000). These services were provided free of charge. The fair value of all audit services provided by the Australian National Audit Office (ANAO) was:

	2015 $	2014 $
Auditing the financial statements – Future Fund and subsidiaries	**230,250**	246,720

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% (2014: 0%).

	2015 $'000	2014 $'000
(a) Income tax expense		
Current tax	**52,216**	62,868
Deferred tax	**-**	-
Adjustments for current tax of prior periods	**-**	-
	52,216	62,868
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax	**15,657,749**	12,798,762
Tax at the applicable Australian tax rate of 0% (2014: 0%)	**-**	-
Tax effect of items which are not deductible/(taxable) in calculating taxable income:		
Imputation credits for Australian subsidiaries	**1,130,602**	578,638
Difference in tax rates for Australian subsidiaries	**(1,130,602)**	(578,638)
Withholding tax	**52,111**	62,204
Other foreign corporate tax expense	**105**	664
Total income tax expense	**52,216**	62,868

NOTE 9: INVESTMENTS

	2015 $'000	2014 $'000
Investment Summary		
Financial assets at fair value:		
Future Fund Investment Companies	**45,207,816**	35,371,230
Interest bearing securities	**20,612,939**	21,345,291
Listed equities and listed managed investment schemes	**37,812,623**	33,229,103
Collective investment vehicles	**6,854,580**	4,875,106
Derivatives	**1,146,183**	1,719,692
Restricted cash	**448,876**	469,208
Total financial asset investments	**112,083,017**	97,009,630
Financial liabilities at fair value:		
Derivatives	**(943,298)**	(428,147)
Total financial liability investments	**(943,298)**	(428,147)

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

	2015 $'000	2014 $'000
Future Fund Investment Companies (FFICs)		
At fair value:		
Loans provided to FFICs	**37,144,760**	29,805,237
Residual equity in FFICs	**8,063,056**	5,565,993
Total Future Fund Investment Companies[#]	**45,207,816**	35,371,230

[#] Please refer to 2.3.4 for more information regarding the FFICs and loan arrangements.

NOTE 9: INVESTMENTS (CONTINUED)

	2015 $'000	2014 $'000
Interest bearing securities		
At fair value:		
Bank bills – domestic	**-**	274,844
Bank bills – international	**6,835**	38,443
Negotiable certificates of deposit - domestic	**15,513,375**	14,180,950
Corporate debt securities – domestic	**9,692**	16,680
Corporate debt securities – international	**1,454,999**	1,236,875
Mortgage backed securities – international	**1,221,591**	2,402,711
Asset backed securities – international	**1,143,947**	1,294,618
Corporate credit (bank loans) – international	**1,071,159**	1,270,168
Government debt securities – international	**58,102**	340,089
Other interest bearing securities – international	**133,239**	289,913
Total interest bearing securities	**20,612,939**	21,345,291
Listed equities and listed managed investment schemes		
At fair value:		
Domestic listed equities and listed managed investment schemes	**9,845,786**	9,825,065
International listed equities and listed managed investment schemes	**27,966,837**	23,404,038
Total listed equities and listed managed investment schemes	**37,812,623**	33,229,103
Collective investment vehicles		
At fair value:		
Unlisted investments	**5,451,294**	3,142,904
Unlisted shares	**1,403,286**	1,732,202
Total collective investment vehicles	**6,854,580**	4,875,106

NOTE 9: INVESTMENTS (CONTINUED)

	2015 $'000	2014 $'000
Derivatives		
At fair value: - financial assets		
Currency contracts	**239,084**	949,488
Interest rate swap agreements and total return swaps	**21,818**	43,248
Interest rate options and swaptions	**-**	568
Interest rate futures	**21,943**	89,824
Equity swaps	**-**	7
Equity options and warrants	**691,788**	392,936
Equity futures	**80,226**	57,098
Credit default swaps	**10,875**	70,981
Currency swaps	**15,195**	104,567
Currency options	**65,254**	9,755
Forward contracts on mortgage backed securities	**-**	1,220
Total derivative financial assets	**1,146,183**	1,719,692
Derivatives		
At fair value: - financial liabilities		
Currency contracts	**(784,052)**	(260,733)
Interest rate swap agreements	**(10,573)**	(43,633)
Interest rate futures	**(1,974)**	(46)
Equity swaps	**(29)**	-
Equity futures	**(48,857)**	(19,712)
Credit default swaps	**(25,122)**	(104,023)
Currency swaps	**(72,691)**	-
Total derivative financial liabilities	**(943,298)**	(428,147)
Total derivatives	**202,885**	1,291,545

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.

NOTE 9: INVESTMENTS (CONTINUED)

FINANCIAL ASSETS	EFFECTS OF OFFSETTING ON THE BALANCE SHEET			RELATED AMOUNTS NOT OFFSET	
	GROSS AMOUNTS OF FINANCIAL ASSETS	GROSS AMOUNTS SET OFF IN THE BALANCE SHEET	NET AMOUNT OF FINANCIAL ASSETS PRESENTED IN THE BALANCE SHEET	AMOUNTS SUBJECT TO MASTER NETTING ARRANGEMENTS	NET AMOUNT
	$'000	$'000	$'000	$'000	$'000
2015					
Derivative financial instruments	**1,043,075**	**-**	**1,043,075**	**(874,226)**	**168,848**
Total	**1,043,075**	**-**	**1,043,075**	**(874,226)**	**168,848**
2014					
Derivative financial instruments	1,473,449	-	1,473,449	(265,891)	1,207,558
Total	1,473,449	-	1,473,449	(265,891)	1,207,558

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
2015					
Derivative financial instruments	**874,226**	**-**	**874,226**	**(874,226)**	**-**
Total	**874,226**	**-**	**874,226**	**(874,226)**	**-**
2014					
Derivative financial instruments	265,891	-	265,891	(265,891)	-
Total	265,891	-	265,891	(265,891)	-

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 2015, the Fund has $400,000 in cash which has been posted as collateral with counterparties, (2014: $nil) and has received $779,616,349 in cash and $63,468,118 in US Treasury Bills (2014: $1,029,033,817 in cash and $118,884,139 in US Treasury Bills).

Cash provided as margin on futures accounts

The Fund has posted cash with a futures broker to cover exchange traded futures positions as required under clearing house rules. As at 30 June 2015, the Fund had posted $405,318,668 (2014: $450,223,950) 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 2015, the Fund had posted $43,156,632 (2014: $18,984,392) 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.

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 2015 no assets are subject to the lien (30 June 14: 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 2015

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 $16,265 million (2014: $11,853 million). The Fund's commitment obligations, being capital calls, are set out in the various underlying subscription documents. Whilst the actual timing of the capital calls to be made by the managers of these vehicles is uncertain, as it is dependent on the managers sourcing suitable investment opportunities, the Fund has recorded the commitments as being current in accordance with the underlying legal documents (see the schedule of commitments). The Fund has appropriate liquidity planning in place to ensure a suitable allocation of resources will be available to cover these future commitments of capital.

NOTE 9: INVESTMENTS (CONTINUED)

Collective investment vehicles (continued)

Investment funds of the types the Fund invests in usually allow the fund's manager, general partner or other controlling entity to require repayment of distribution payments previously made to investors in order to cover certain fund liabilities (such as obligations to indemnify or to meet warranty claims on sold assets). In line with standard market practice, the Fund requires these "giveback" obligations to be limited in both total amount (eg. to between 10-25% of total distributions received) and liability period (eg. for no longer than 2 years after the distributions are received). The Fund is not aware of any giveback obligations at 30 June 2015 (or 30 June 2014).

30 June 2015 – directly held by the Fund

As at 30 June 2015, the Fund had made commitments to a number of collective investment vehicles. Capital commitments (local currency), the net cost of the current investments (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2015 are shown in the table below.

DESCRIPTION OF UNDERLYING STRATEGY	CAPITAL COMMITTED AS AT 30 JUNE 2015 LOCAL CURRENCY	OUTSTANDING COMMITMENT AS AT 30 JUNE 2015 AUD EQUIVALENT $'000	NET CAPITAL COST AS AT 30 JUNE 2015 AUD EQUIVALENT $'000	FAIR VALUE AS AT 30 JUNE 2015 AUD EQUIVALENT $'000
Alternative strategies	USD $200,019,823	-	2,086	2,744
Debt	AUD $834,590,311	500,000	334,590	372,636
Debt	EUR €551,500,000	223,101	564,560	592,894
Debt	USD $227,683,472	81,289	159,174	211,697
Global Infrastructure	AUD $837,917,846	-	837,918	1,223,347
Global Infrastructure	USD $1,249,212,201	458,227	579,851	665,974
Private Equity	EUR €169,982,055	15,067	283,148	186,893
Private Equity	USD $350,000,011	230,623	178,004	213,829
Property	AUD $551,934,669	-	467,213	492,134
Property	EUR €55,988,514	38,140	43,538	57,135
Property	GBP £339,413,861	463,601	149,892	247,703
Property	USD $3,323,338,948	1,899,949	1,894,754	2,587,594
Total		**3,909,997**		**6,854,580**

NOTE 9: INVESTMENTS (CONTINUED)

Collective investment vehicles (continued)

30 June 2015 – indirectly held via the FFICs

As at 30 June 2015, 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 (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2015 are shown in the table below.

DESCRIPTION OF UNDERLYING STRATEGY	CAPITAL COMMITTED AS AT 30 JUNE 2015 LOCAL CURRENCY	OUTSTANDING COMMITMENT AS AT 30 JUNE 2015 AUD EQUIVALENT $'000	NET CAPITAL COST AS AT 30 JUNE 2015 AUD EQUIVALENT $'000	FAIR VALUE AS AT 30 JUNE 2015 AUD EQUIVALENT $'000
Private Equity	EUR €1,390,570,820	617,913	844,610	1,495,786
Private Equity	GBP £100,000,000	142,085	57,494	61,839
Private Equity	USD $11,658,101,337	6,027,090	6,005,890	10,290,311
Private Equity	AUD $480,000,000	170,810	254,409	267,929
Debt	EUR €772,000,000	511,619	512,535	793,177
Debt	USD $3,028,887,535	967,125	1,837,304	2,683,287
Global Property	AUD $1,191,079,718	451,307	622,654	773,328
Global Property	EUR €843,975,000	866,162	290,517	240,620
Global Property	USD $547,146,593	136,658	512,090	549,138
Global Infrastructure	AUD $1,205,951,823	-	1,158,733	1,333,810
Global Infrastructure	GBP £530,028,692	-	771,190	1,458,006
Global Infrastructure	USD $1,385,883,680	388,702	1,255,226	1,236,938
Alternative Strategies	AUD $3,173,614,092	766,850	2,396,006	2,626,823
Alternative Strategies	JPY ¥55,626,295,644	-	644,605	750,572
Alternative Strategies	USD $15,324,189,565	1,309,112	7,494,387	12,082,609
Timberland	AUD $323,381,825	-	277,505	389,203
Listed Equities	USD $2,326,560,000	-	1,039,392	2,575,196
Total		12,355,433		39,608,572

NOTE 9: INVESTMENTS (CONTINUED)

Collective investment vehicles (continued)

30 June 2014 – directly held by the Fund

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

DESCRIPTION OF UNDERLYING STRATEGY	CAPITAL COMMITTED AS AT 30 JUNE 2014 LOCAL CURRENCY	OUTSTANDING COMMITMENT AS AT 30 JUNE 2014 AUD EQUIVALENT $'000	NET CAPITAL COST AS AT 30 JUNE 2014 AUD EQUIVALENT $'000	FAIR VALUE AS AT 30 JUNE 2014 AUD EQUIVALENT $'000
Private equity	EUR €140,368,247	-	266,961	167,296
Private equity	USD $350,000,011	261,823	99,127	105,949
Debt	EUR €2,600,000	-	4,026	3,772
Debt	USD $195,038,810	88,625	104,365	109,021
Global property	AUD $521,434,669	-	475,675	502,545
Global property	EUR €37,021,859	31,124	22,429	27,886
Global property	GBP £321,690,000	450,980	113,909	165,607
Global property	USD $2,205,182,780	790,897	1,772,308	2,065,700
Global infrastructure	AUD $725,797,475	-	725,797	1,030,500
Global infrastructure	USD $685,988,040	529,961	293,069	691,689
Alternative strategies	USD $200,000,000	-	2,985	3,215
Timberland	-	-	16,076	1,926
Total		2,153,410		4,875,106

NOTE 9: INVESTMENTS (CONTINUED)

Collective investment vehicles (continued)

30 June 2014 – indirectly held via the FFICs

As at 30 June 2014, 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 (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2014 are shown in the table below.

DESCRIPTION OF UNDERLYING STRATEGY	CAPITAL COMMITTED AS AT 30 JUNE 2014 LOCAL CURRENCY	OUTSTANDING COMMITMENT AS AT 30 JUNE 2014 AUD EQUIVALENT $'000	NET CAPITAL COST AS AT 30 JUNE 2014 AUD EQUIVALENT $'000	FAIR VALUE AS AT 30 JUNE 2014 AUD EQUIVALENT $'000
Private equity	AUD $510,000,000	297,069	203,801	194,377
Private equity	EUR €1,190,570,820	479,595	877,118	1,296,773
Private equity	GBP £100,000,000	178,582	2,677	39
Private equity	USD $9,710,640,717	4,530,040	4,756,465	6,707,318
Debt	EUR €1,122,000,000	1,065,336	553,191	784,358
Debt	USD $3,135,000,000	1,145,593	1,891,795	2,279,282
Global property	AUD $1,116,079,718	436,157	566,079	672,597
Global property	EUR €386,975,000	262,998	283,699	297,524
Global property	USD $137,146,593	24,744	100,705	130,610
Global infrastructure	AUD $1,156,057,268	-	1,128,069	1,311,210
Global infrastructure	GBP £530,028,692	-	771,526	1,269,581
Global infrastructure	USD $1,464,107,841	518,416	1,138,706	998,242
Listed equities	USD $2,326,560,000	-	1,537,901	2,371,868
Alternative strategies	AUD $1,007,123,092	-	961,649	1,021,694
Alternative strategies	JPY ¥55,626,295,644	-	644,605	694,512
Alternative strategies	USD $15,397,884,104	761,032	9,262,128	12,010,821
Timberland	AUD $323,381,825	-	277,505	138,081
Total		9,699,562		32,178,887

NOTE 10: RECEIVABLES

	2015 $'000	2014 $'000
Receivables		
Imputation credits refundable	**1,337,559**	764,325
Interest receivable	**1,867**	1,595
Interest receivable – related loans	**1,860,778**	1,764,527
Dividends & distributions receivable	**157,545**	128,062
Unsettled sales	**95,522**	187,510
Total Receivables	**3,453,271**	2,846,019

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

NOTE 11: NON-FINANCIAL ASSETS

	2015 $'000	2014 $'000
Plant and equipment		
Computers, plant and equipment	**4,979**	6,166
Accumulated depreciation	**(2,976)**	(5,094)
Total plant and equipment	**2,003**	1,072
Intangibles – software licences		
Computer software purchased – cost	**4,301**	3,205
Accumulated amortisation	**(2,156)**	(1,443)
Total intangibles – software licences	**2,145**	1,762

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 – SOFTWARE LICENCES	YEAR ENDING 30 JUNE 2015 PLANT & EQUIPMENT $'000	COMPUTER SOFTWARE $'000	TOTAL $'000
Opening balance as at 1 July 2014			
Gross book value	**6,166**	**3,205**	**9,371**
Accumulated depreciation/amortisation	**(5,094)**	**(1,443)**	**(6,537)**
Net book value as 1 July 2014	**1,072**	**1,762**	**2,834**
Additions:			
by purchase	**1,489**	**1,096**	**2,585**
Disposals:			
Gross value of disposals	**2,677**	**-**	**2,677**
Accumulated depreciation/amortisation	**(2,677)**	**-**	**(2,677)**
Depreciation/amortisation charge for the period	**(558)**	**(713)**	**(1,271)**
Net book value as of 30 June 2015	**2,003**	**2,145**	**4,148**
Represented by:			
Gross book value	**4,979**	**4,301**	**9,280**
Accumulated depreciation/amortisation	**(2,976)**	**(2,156)**	**(5,132)**
	2,003	**2,145**	**4,148**

ANALYSIS OF PLANT AND EQUIPMENT, AND INTANGIBLES – SOFTWARE LICENCES	YEAR ENDING 30 JUNE 2014 PLANT & EQUIPMENT $'000	COMPUTER SOFTWARE $'000	TOTAL $'000
Opening balance as at 1 July 2013			
Gross book value	5,939	2,734	8,673
Accumulated depreciation/amortisation	(4,520)	(832)	(5,352)
Net book value as 1 July 2013	1,419	1,902	3,321
Additions:			
by purchase	421	471	892
Disposals:			
Gross value of disposals	194	-	194
8Accumulated depreciation/amortisation	(194)	-	(194)
Depreciation/amortisation charge for the period	(768)	(611)	(1,379)
Net book value as of 30 June 2014	1,072	1,762	2,834
Represented by:			
Gross book value	6,166	3,205	9,371
Accumulated depreciation/amortisation	(5,094)	(1,443)	(6,537)
	1,072	1,762	2,834

NOTE 12: PAYABLES

	2015 $'000	2014 $'000
Payables		
Unsettled purchases*	**272,147**	220,928
Other accrued expenses including management and performance fees payable	**64,256**	100,736
Total Payables	**336,403**	321,664

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

NOTE 13: PROVISIONS

	2015 $'000	2014 $'000
Employee provisions		
Annual leave	**1,431**	1,290
Long service leave	**2,667**	2,033
Other employee liabilities	**13,980**	10,696
Total Employee provisions	**18,078**	14,019

NOTE 14: CONTRIBUTIONS BY GOVERNMENT

	2015 $'000	2014 $'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 2015 %	30 JUNE 2014 %
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
CIP Unit Trust No. 2	Australia	**100**	100
BlackRock Co-Investment Fund III (Parallel) LP	United States	**100**	100
FF Holdings 1 Pty Ltd	Australia	**100**	100
- FF Holdings Trust 1^	Australia	**100**	100
- FF Holdings 2 Pty Ltd^	Australia	**-**	100
Future Fund Investment Company No.4 Pty Ltd^	Australia	**100**	100
Future Fund Investment Company No.5 Pty Ltd^	Australia	**100**	100
Elementum Tranquilius Fund Ltd	United States	**100**	-
Future Fund Investment Company No.6 Pty Ltd (Dormant)	Australia	**100**	100
Future Fund Investment Trust No.1^	Australia	**100**	100
Westbourne Credit FFH3 Trust	Australia	**100**	-

^ Audited by the Australian National Audit Office.

NOTE 16: CASH FLOW RECONCILIATION

	2015 $'000	2014 $'000
(a) Reconciliation of operating result to net cash from operating activities:		
Operating result	**15,605,533**	12,735,894
Depreciation and amortisation	**1,271**	1,379
Purchase of investments	**(113,412,579)**	(98,573,390)
Proceeds from sale of investments	**111,044,119**	98,780,783
Net gain on revaluation of investments	**(13,265,304)**	(9,409,886)
Unrealised (gain)/loss on foreign currency	**1,169,073**	(3,899,031)
Increase in accrued income	**(699,240)**	(291,475)
(Increase)/decrease in other assets	**(548)**	(1,095)
Increase in employee provisions	**4,059**	914
(Decrease)/increase in other payables	**(36,950)**	(70,649)
Net cash (used by)/provided by operating activities	**409,434**	(726,556)

(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:

	2015 $'000	2014 $'000
Cash and cash equivalents	**2,897,421**	2,440,440

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: SENIOR MANAGEMENT PERSONNEL REMUNERATION

Remuneration of the Board members

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

Senior management personnel remuneration

	2015 $	2014 $
Short-term employee benefits:		
Salary (including payment for leave taken)	**4,859,901**	4,979,338
Performance related payments	**4,313,646**	3,793,161
Total short-term employee benefits	**9,173,547**	8,772,499
Post-employment benefits:		
Superannuation	**355,004**	292,568
Total post-employment benefits	**355,004**	292,568
Other long-term benefits:		
Long service leave	**241,312**	162,334
Annual leave	**410,564**	397,802
Total other long-term employee benefits	**651,876**	560,136
Total	**10,180,427**	9,625,203

The total number of senior management personnel that are included in the above table are 13 (2014: 15).

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

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

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

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 19C (i): Interest rate risk

Interest rate exposure tables

The exposure to interest rates as at 30 June 2015 of the Fund and the FFICs are set out below.

FINANCIAL ASSET	FLOATING INTEREST RATE 2015 $'000	FIXED INTEREST RATE 2015 $'000	NON–INTEREST BEARING 2015 $'000	TOTAL* 2015 $'000
Cash and cash equivalents	4,933,139	-	-	4,933,139
Bank bills	-	6,835	-	6,835
Negotiable certificates of deposit	-	15,513,375	-	15,513,375
Corporate debt securities	85,689	1,493,255	-	1,578,944
Mortgage backed securities	1,146,530	75,061	-	1,221,591
Asset backed securities	984,680	159,267	-	1,143,947
Corporate credit (bank loans)	1,263,154	484	-	1,263,637
Government debt securities	275,498	41,622	-	317,121
Other interest bearing securities	121,041	227,150	-	348,191
Other financial assets	-	-	92,112,576	92,112,576
Total financial assets	8,809,731	17,517,049	92,112,576	118,439,356
Notional value of derivative positions				
Interest rate swaps (notional amount) – pay	(3,493,502)	(205,486)	-	
Interest rate swaps (notional amount) – receive	205,486	3,493,502	-	
Equity index swaps (notional amount) – pay	-	-	-	
Equity index swaps (notional amount) – receive	17,825	-	-	
Currency swaps (notional amount) – pay	(1,753,815)	-	-	
Currency swaps (notional amount) – receive	1,750,000	-	-	

As at the reporting date the Fund's debt portfolio had an effective interest rate duration of 1.16 (2014: 2.16).

* Total balances will not agree to the investment balances reported in note 9 as this disclosure includes additional interest rate securities 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 2014 of the Fund and the FFICs are set out below.

FINANCIAL ASSET	FLOATING INTEREST RATE 2014 $'000	FIXED INTEREST RATE 2014 $'000	NON–INTEREST BEARING 2014 $'000	TOTAL* 2014 $'000
Cash and cash equivalents	2,846,677	-	-	2,846,677
Bank bills	-	313,287	-	313,287
Negotiable certificates of deposit	-	14,180,950	-	14,180,950
Corporate debt securities	203,693	1,049,862	-	1,253,555
Mortgage backed securities	2,105,380	297,331	-	2,402,711
Asset backed securities	1,212,744	81,874	-	1,294,618
Corporate credit (bank loans)	1,604,055	316	-	1,604,371
Government debt securities	76,265	263,824	-	340,089
Other interest bearing securities	174,033	350,192	-	524,225
Other financial assets	-	-	77,540,705	77,540,705
Total financial assets	8,222,847	16,537,636	77,540,705	102,301,188
Notional value of derivative positions				
Interest rate swaps (notional amount) – pay	(1,608,835)	(1,151,248)	-	
Interest rate swaps (notional amount) – receive	1,151,248	1,608,835	-	
Equity index swaps (notional amount) – pay	(32)	-	-	
Equity index swaps (notional amount) – receive	53	-	-	
Currency swaps (notional amount) – pay	(5,955,137)	-	-	
Currency swaps (notional amount) – receive	6,010,000	-	-	

* Total balances will not agree to the investment balances reported in note 9 as this disclosure includes additional interest rate securities 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, forward contracts on mortgage backed securities and interest rate option agreements as at 30 June 2015. The Act governs the use of financial derivatives.

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

The Fund transacts in interest rate derivatives in the following forms:

- bi-lateral over-the-counter contracts;
- centrally cleared over-the-counter contracts; and
- exchange traded derivatives.

The Fund's bi-lateral counterparties for interest rate swaps and options include major banking firms and their affiliates. The Fund diversifies its exposure by utilising multiple counterparties, by considering each counterparty's credit rating, and by executing such contracts pursuant to master netting agreements. All bi-lateral swap and option transactions which are not subject to mandatory central clearing are undertaken using ISDAs. Centrally cleared transactions are cash margined at least daily. The Fund's interest rate and bond futures contracts are cash margined daily with the relevant futures clearing exchange. The notional value of the open positions, impact on fixed interest exposure and their fair value are set out below:

	NOTIONAL VALUE 2015 $'000	FAIR MARKET VALUE 2015 $'000	NOTIONAL VALUE 2014 $'000	FAIR MARKET VALUE 2014 $'000
Buy domestic interest rate futures contracts	**9,089,807**	**18,303**	8,190,202	89,569
Buy international interest rate futures contracts	**1,913,036**	**1,678**	113,464	232
Sell domestic interest rate futures contracts	**(1,641,460)**	**87**	-	-
Sell international interest rate futures contracts	**(123,478)**	**(99)**	(135,551)	(23)
Receiver (fixed) interest rate swap agreements	**3,493,502**	**17,576**	1,608,835	40,873
Payer (fixed) interest rate swap agreements	**(205,486)**	**(6,331)**	(1,151,248)	(41,258)
Buy forward contracts on mortgage backed securities	**-**	**-**	327,628	1,768
Sell forward contracts on mortgage backed securities	**-**	**-**	(197,863)	(548)
Interest rate options - call swaptions	**-**	**-**	188,674	568
Interest rate options - put swaptions	**-**	**-**	(26,487)	-
Total		**31,214**		91,181

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 40 basis point (2014: 60 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 2015 and 30 June 2014) and there are concurrent movements in interest rates and parallel shifts in the yield curves. A 40 basis point (2014: 60 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 2015 IMPACT ON OPERATING RESULT $'000
+ 40 basis points	**(525,492)**
- 40 basis points	**543,966**

	30 JUNE 2014 IMPACT ON OPERATING RESULT $'000
+ 60 basis points	(324,755)
- 60 basis points	344,534

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 Fund's counterparties for foreign exchange contracts include major banking firms and their affiliates. The Fund diversifies its exposure by utilising multiple counterparties, by considering each counterparty's credit rating, and by executing such contracts pursuant to master netting agreements. All transactions (other than spot trades) are undertaken using ISDAs.

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

30 JUNE 2015	USD AUD $'000	EUR AUD $'000	GBP AUD $'000	JPY AUD $'000	OTHER[1] AUD $'000	TOTAL AUD $'000
Cash & cash equivalents	1,900,040	205,901	107,534	731,199	99,006	3,043,680
Listed equities and listed managed investment schemes	14,634,516	3,417,435	1,999,357	1,374,333	9,463,098	30,888,739
Interest bearing securities	5,138,411	137,842	216,216	-	154,433	5,646,902
Collective investment vehicles	33,093,526	3,366,506	1,767,548	750,572	-	38,978,152
Other investments	519,263	156,799	34,925	120,363	45,664	877,014
Receivables	1,441,401	14,626	10,057	5,654	73,047	1,544,785
Payables	(175,596)	(1,560)	(20,397)	(4,005)	(40,341)	(241,899)
Total physical exposure	56,551,561	7,297,549	4,115,240	2,978,116	9,794,907	80,737,373
Forward exchange contracts						
- buy foreign currency	6,225,309	1,568,737	766,729	4,605,827	6,321,816	19,488,418
- sell foreign currency	(30,737,171)	(9,130,846)	(5,677,316)	(689,032)	(4,058,695)	(50,293,060)
Currency options	(713,000)	-	-	-	-	(713,000)
Total derivative exposure	(25,224,862)	(7,562,109)	(4,910,587)	3,916,795	2,263,121	(31,517,642)
Total net exposure	31,326,699	(264,560)	(795,347)	6,894,911	12,058,028	49,219,731

(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 2014 was as follows:

30 JUNE 2014	USD AUD $'000	EUR AUD $'000	GBP AUD $'000	JPY AUD $'000	OTHER[1] AUD $'000	TOTAL AUD $'000
Cash & cash equivalents	1,399,544	103,422	130,434	13,802	29,844	1,677,046
Listed equities and listed managed investment schemes	12,046,612	3,037,996	1,879,861	948,801	8,293,406	26,206,676
Interest bearing securities	6,062,264	193,357	584,503	-	388,914	7,229,038
Collective investment vehicles	27,245,257	2,573,838	1,435,226	694,512	-	31,948,833
Other investments	499,718	106,308	30,781	39,645	48,650	725,102
Receivables	346,761	21,406	9,723	1,394	44,769	424,053
Payables	(151,152)	(80,227)	(10,890)	-	(7,989)	(250,258)
Total physical exposure	47,449,004	5,956,100	4,059,638	1,698,154	8,797,594	67,960,490
Forward exchange contracts						
- buy foreign currency	7,387,462	1,234,664	748,732	5,844,695	7,172,842	22,388,395
- sell foreign currency	(21,926,024)	(7,454,180)	(4,929,910)	(1,532,104)	(3,730,686)	(39,572,904)
Currency options	24,000	-	-	-	-	24,000
Total derivative exposure	(14,514,562)	(6,219,516)	(4,181,178)	4,312,591	3,442,156	(17,160,509)
Total net exposure	32,934,442	(263,416)	(121,540)	6,010,745	12,239,750	50,799,981

(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 10.9% (2014: 11.5%) movement in exchange rates relative to the Australian dollar at 30 June 2015, 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 2015 IMPACT ON OPERATING RESULT $'000
+ 10.9% movement	**4,666,574**
- 10.9% movement	**(4,586,560)**

	30 JUNE 2014 IMPACT ON OPERATING RESULT $'000
+ 11.5% movement	5,459,892
- 11.5% movement	(5,410,627)

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:

	30 JUNE 2015* $'000	30 JUNE 2014* $'000
Domestic listed equities and listed managed investment schemes	**11,000,812**	11,177,563
International listed equities and listed managed investment schemes	**30,882,762**	26,197,151
Total equity price risk exposure	**41,883,574**	37,374,714

* Total balances will not agree to 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 2015. The Act governs the use of financial derivatives. Equity futures, swaps and options are used to manage market exposures to equity price risk and to ensure that asset allocations remain within approved limits. The Fund's counterparties for over the counter equity options and swaps include major banking firms and their affiliates. The Fund diversifies its exposure by utilising multiple counterparties, by considering each counterparty's credit rating, and by executing such contracts pursuant to master netting agreements. All transactions are undertaken using ISDAs. The Fund's equity futures contracts are cash margined daily with the relevant futures clearing exchange. The notional value of the open contracts and their fair value are set out below:

	NOTIONAL VALUE 2015 $'000	FAIR MARKET VALUE 2015 $'000	NOTIONAL VALUE 2014 $'000	FAIR MARKET VALUE 2014 $'000
Buy domestic equity futures contracts	**219,523**	**(4,781)**	99,584	31
Sell domestic equity futures contracts	**(2,233,009)**	**43,910**	(496,851)	(79)
Buy international equity futures contracts	**2,705,437**	**(44,069)**	7,115,233	37,434
Sell international equity futures contracts	**(1,680,994)**	**36,310**	-	-
Buy equity index swap agreements	**-**	**-**	32	7
Sell equity index swap agreements	**(17,825)**	**(29)**	(53)	-
Exchange traded international volatility index call options	**1,398**	**637**	845	134
Over the counter domestic equity index put options	**(45,537)**	**3,162**	(8,417)	277
Over the counter domestic equity index call options	**281,409**	**20,987**	214,231	16,474
Over the counter international equity index put options	**(1,060,306)**	**70,171**	(420,038)	25,966
Over the counter international equity index call options	**4,536,880**	**596,831**	2,815,063	350,085
Total		**723,129**		430,329

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 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.

	30 JUNE 2015 IMPACT ON OPERATING RESULT $'000	30 JUNE 2014 IMPACT ON OPERATING RESULT $'000
20% increase in Australian equities	**2,869,243**	3,045,247
15% increase in International equities	**9,259,366**	8,327,481
Total	**12,128,609**	11,372,728
20% decrease in Australian equities	**(2,724,108)**	(2,986,191)
15% decrease in International equities	**(8,542,702)**	(7,915,574)
Total	**(11,266,810)**	(10,901,765)

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 are 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 Short-term Liquidity Risk 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.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Note 19D: Liquidity risk management (continued)

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

- A daily stress test that is designed to ensure that the Fund and the FFICs hold enough at-call liquidity to meet our short-term obligations at all times. If the level of at-call liquidity in the Fund and the FFICs is insufficient to pass this test, it must be replenished;
- A portfolio projection model that forecasts the prospective build of the Fund and the FFICs, based on cash flow projections in a range of different market conditions;
- A commitment register of all contractual and discretionary capital commitments that may need to be funded with at-call liquidity in the future;
- A contingency plan that is designed to expedite access to alternative forms of at-call liquidity should access to traditional sources be constrained.

The following tables summarise the maturity profile of the Fund and FFICs' financial liabilities, net and gross settled derivative financial liability instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The tables have been drawn up based on the contractual discounted cash flows. As the majority of payments occur within 1 year, the difference between discounted and undiscounted cashflows is immaterial.

As at 30 June 2015:

2015	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
Non-derivatives						
Unsettled purchases	282,371	-	-	-	282,371	282,371
Other payables	87,533	-	-	-	87,533	87,533
Total non-derivatives	369,904	-	-	-	369,904	369,904*
Derivatives						
Net settled (interest rate swaps, credit default swaps, interest rate options)	3,140,464	1,284,114	-	-	4,424,578	4,424,578
Gross settled (forward foreign exchange contracts, cross currency swaps)						
- (inflow)	(25,618,432)	(9,945,599)	-	-	(35,564,031)	(35,564,031)
- outflow	23,178,135	8,904,616	-	-	32,082,751	32,082,751
Total derivatives	700,167	243,131	-	-	943,298	943,298

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 to 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 2014:

2014	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
Non-derivatives						
Unsettled purchases	220,928	-	-	-	220,928	220,928
Other payables	100,736	-	-	-	100,736	100,736
Total non-derivatives	321,664	-	-	-	321,664	321,664
Derivatives						
Net settled (interest rate swaps, credit default swaps, interest rate options)	125,477	41,937	-	-	167,414	167,414
Gross settled (forward foreign exchange contracts, cross currency swaps)						
- (inflow)	(13,157,667)	(3,355,127)	(3,778)	(40,616)	(16,557,188)	(16,557,188)
- outflow	13,397,679	3,375,456	4,000	40,792	16,817,927	16,817,927
Total derivatives	365,489	62,266	222	176	428,153	428,153

* Total balances do not agree to the investment balances reported in note 9 as the FFICs held derivatives as at 30 June 2014.

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 2015, an exposure of 13.24% (2014: 14.2%) of its net assets to interest bearing securities issued by domestic banks. Exposures to individual counterparties are separately identified in the table below.

DOMESTIC INTEREST BEARING SECURITIES ISSUED BY:	$'000
Commonwealth Bank of Australia	3,781,342
Westpac Banking Corporation	3,373,902
National Australia Bank Limited	3,948,197
Australia and New Zealand Banking Group Limited	4,290,405
Other domestic banks	119,529
Non-bank issued	9,692
Total	**15,523,067**

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

DOMESTIC INTEREST BEARING SECURITIES ISSUED BY:	$'000
Bank bills - domestic	-
Negotiable certificates of deposit - domestic	15,513,375
Corporate debt securities - domestic	9,692
Total	**15,523,067**

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Note 19E: Credit risk (continued)

Exposures as at 30 June 2014:

DOMESTIC INTEREST BEARING SECURITIES ISSUED BY:	$'000
Commonwealth Bank of Australia	3,538,574
Westpac Banking Corporation	3,646,757
National Australia Bank Limited	3,489,064
Australia and New Zealand Banking Group Limited	3,668,566
Other domestic banks	119,552
Non-bank issued	9,961
Total	14,472,474

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

DOMESTIC INTEREST BEARING SECURITIES ISSUED BY:	$'000
Bank bills - domestic	274,844
Negotiable certificates of deposit - domestic	14,180,950
Corporate debt securities - domestic	16,680
Total	14,472,474

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

Credit risk derivatives

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

The Fund transacts in credit default swaps in the following forms:

- bi-lateral over-the-counter contracts; and
- centrally cleared over-the-counter contracts.

The Fund's bi-lateral counterparties for credit default swaps include major banking firms and their affiliates. The Fund diversifies its exposure by utilising multiple counterparties, by considering each counterparty's credit rating, and, where contracts are not subject to mandatory clearing arrangements, by executing such contracts pursuant to master netting agreements. All transactions which are not centrally cleared are undertaken using ISDAs approved by the Fund. Centrally cleared transactions are cash margined at least daily. Managers are required to fully cash back all sold credit protection positions. Outstanding positions are marked to market and collateralisation of out of the money positions is required by each counterparty or the central clearing exchange.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Note 19E: Credit risk (continued)

Credit risk derivatives (continued)

The notional value of the open credit default swap positions, the impact on increasing or reducing credit exposures and their fair value are set out below:

	NOTIONAL VALUE 2015 $'000	FAIR MARKET VALUE 2015 $'000	NOTIONAL VALUE 2014 $'000	FAIR MARKET VALUE 2014 $'000
Buy Credit Protection	**522,894**	**(18,769)**	1,467,362	(103,370)
Sell Credit Protection	**(194,392)**	**4,520**	(937,060)	70,328
Total		**(14,249)**		(33,042)

No credit risk derivative contracts are held by the FFICs.

Credit exposure by credit rating

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

	2015 $'000	2014 $'000
Long term rated securities		
AAA	**184,308**	302,610
AA	**5,376,823**	2,882,191
A	**172,946**	203,576
BBB	**183,236**	260,242
Below Investment grade / not rated#	**4,878,319**	6,590,420
Short term rated securities		
A-1+/A-3/P-1	**15,513,375**	14,455,794
Other		
US Government Guaranteed	**17,773**	65,650
Total debt securities and cash held	**26,326,780**	24,760,483
Other non-debt financial assets	**92,112,576**	77,540,705
Total financial assets	**118,439,356**	102,301,188

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

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

There are no overdue contractual receipts due from counterparties as at 30 June 2015 (30 June 2014: nil).

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

(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 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

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 by the Fund and the FFICs at year end that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities and exchange traded derivatives.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable market data are classified within level 2. These include both investment grade and non-investment grade interest bearing securities and over the counter derivatives.

The Fund must appoint investment managers to invest the assets of the Fund under the Act. A significant proportion of these investments are made via pooled investment vehicles which in turn invest in a variety of underlying investments. Such pooled investments are classified as Level 3 investments in these financial statements. The diverse nature of the investments they make on the Fund's behalf means it is not possible to provide additional information in these financial statements regarding how inputs into the valuation of Level 3 investments might change nor the resultant impact on the statement of comprehensive income that such changes to valuation inputs might trigger.

The Fund ensures that valuation techniques used by managers are consistent with the Fund's accounting policy.

As noted in Note 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.

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Note 19G: Fair value hierarchy (continued)

As at 30 June 2015:

	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	62,032	20,473,501	858,108	21,393,641
Listed equities and listed managed investment schemes	41,786,438	107	123,816	41,910,361
Collective investment vehicles	-	-	47,183,956	47,183,956
Derivatives	83,780	1,061,766	637	1,146,183
Restricted Cash	448,876	-	-	448,876
Total	42,381,126	21,535,374	48,166,517	112,083,017
Financial liabilities at fair value through profit or loss:				
Derivatives	-	943,298	-	943,298
Investments sold, not yet purchased	-	-	-	-
Total	-	943,298	-	943,298

The following table presents the transfers between levels for the year ended 30 June 2015:

	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000
Transfers between levels 1 and 2	-	-	-
Transfers between levels 1 and 3	(18,910)	-	18,910
Transfers between levels 2 and 3	-	99,412	(99,412)

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 2015 by class of financial instrument.

	INTEREST BEARING SECURITIES $'000	LISTED EQUITIES AND LISTED MANAGED INVESTMENT SCHEMES $'000	COLLECTIVE INVESTMENT VEHICLES $'000	DERIVATIVES $'000	TOTAL $'000
Financial assets at fair value through profit or loss:					
Opening balance	**1,658,441**	**219,412**	**35,532,065**	**6**	**37,409,924**
Purchases	**168,450**	**30,667**	**13,820,617**	**484**	**14,020,218**
Sales	**(965,611)**	**(178,196)**	**(12,495,651)**	**-**	**(13,639,458)**
Transfers into level 3	**24,810**	**18,910**	**-**	**-**	**43,720**
Gains and losses recognised in the statement of comprehensive income	**96,240**	**33,023**	**10,326,925**	**147**	**10,456,335**
Transfers out of level 3	**(124,222)**	**-**	**-**	**-**	**(124,222)**
Closing balance	**858,108**	**123,816**	**47,183,956**	**637**	**48,166,517**

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 Funds investments it is not possible to list the ranges of the inputs.

As at 30 June 2015:

	FAIR VALUE $'000	VALUATION TECHNIQUE	UNOBSERVABLE INPUTS
Recurring fair value measurements			
Financial assets at fair value through profit or loss:			
Interest bearing securities	**21,331,609**	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	**123,923**	Discounted cash flow	Discount Rate
		Market Approach	Earnings Multiple
			Price to book ratio
		Recent Transaction	N/A
		Recovery Value	Recovery Rate
Collective investment vehicles	**47,183,956**	Market Approach	Earnings Multiple
			Net Asset Value
		Discounted cash flow	Discount Rate
Derivatives	**1,062,403**	Independent Pricing Services	N/A
		Broker Quotations	N/A
Total	**69,701,891**		
Financial liabilities at fair value through profit or loss:			
Derivatives	**943,298**	Independent Pricing Services	N/A
		Broker Quotations	N/A
Total	**943,298**		

NOTE 19: FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Note 19G: Fair value hierarchy (continued)

As at 30 June 2014:

	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
Recurring fair value measurements				
Financial assets at fair value through profit or loss:				
Interest bearing securities	42,515	20,212,850	1,658,441	21,913,806
Listed equities and listed managed investment schemes	37,144,680	10,622	219,412	37,374,714
Collective investment vehicles	-	-	35,532,065	35,532,065
Derivatives	146,801	1,573,030	6	1,719,837
Restricted Cash	469,208	-	-	469,208
Total	37,803,204	21,796,502	37,409,924	97,009,630
Financial liabilities at fair value through profit or loss:				
Derivatives	19,712	408,441	-	428,147
Total	19,712	408,441	-	428,147

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

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

NOTE 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 2014 by class of financial instrument.

	INTEREST BEARING SECURITIES $'000	LISTED EQUITIES AND LISTED MANAGED INVESTMENT SCHEMES $'000	COLLECTIVE INVESTMENT VEHICLES $'000	DERIVATIVES $'000	TOTAL $'000
Financial assets at fair value through profit or loss:					
Opening balance	2,289,232	398,304	32,389,050	-	35,076,586
Purchases	469,949	90,925	12,740,184	6	13,301,064
Sales	(961,241)	(205,359)	(12,669,446)	-	(13,836,046)
Transfers into level 3	320,192	-	-	-	320,192
Gains and losses recognised in the statement of comprehensive income	(21,700)	21,038	3,072,277	-	3,071,615
Transfers out of level 3	(437,991)	(85,496)	-	-	(523,487)
Closing balance	1,658,441	219,412	35,532,065	6	37,409,924

	INTEREST BEARING SECURITIES $'000	LISTED EQUITIES AND LISTED MANAGED INVESTMENT SCHEMES $'000	COLLECTIVE INVESTMENT VEHICLES $'000	DERIVATIVES $'000	TOTAL $'000
Financial liabilities at fair value through profit or loss:					
Opening balance	-	-	-	(966)	(966)
Purchases	-	-	-	1,059	1,059
Sales	-	-	-	-	-
Transfers into level 3	-	-	-	-	-
Gains and losses recognised in the statement of comprehensive income	-	-	-	(93)	(93)
Transfers out of level 3	-	-	-	-	-
Closing balance	-	-	-	-	-

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 Funds investments it is not possible to list the ranges of the inputs.

As at 30 June 2014:

	FAIR VALUE $'000	VALUATION TECHNIQUE	UNOBSERVABLE INPUTS
Recurring fair value measurements			
Financial assets at fair value through profit or loss:			
Interest bearing securities	21,871,291	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	230,034	Discounted cash flow	Discount Rate
schemes		Market Approach	Earnings Multiple
			Price to book ratio
		Recent Transaction	N/A
		Recovery Value	Recovery Rate
Collective investment vehicles	35,532,065	Market Approach	Earnings Multiple
			Net Asset Value
		Discounted cash flow	Discount Rate
Derivatives	1,573,036	Independent Pricing Services	N/A
		Broker Quotations	N/A
Total	59,206,426		
Financial liabilities at fair value through profit or loss:			
Derivatives	408,441	Independent Pricing Services	N/A
		Broker Quotations	N/A
Total	408,441		

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 2014 TO 30 JUNE 2015 $'000	PERIOD FROM 1 JULY 2013 TO 30 JUNE 2014 $'000
Balance carried from previous period	**-**	-
Bank interest amounts credited	**-**	-
Appropriations for reporting period	**-**	-
Other Receipts:		
GST credits	**10,933**	10,671
Amounts transferred from investment account [(a)]	**365,252**	395,230
Amounts credited to the special account	**-**	-
Total Credits	**376,185**	405,901
Available for payments	**376,185**	405,901
Payments made:		
Investments debited from the Special Account (FFA s17)	**-**	-
Payments made		
- Remuneration of Agency staff	**29,064**	27,868
- Remuneration of Board members	**852**	860
- Suppliers	**45,672**	36,879
- Investment expenses	**298,483**	339,402
- Purchase of capital equipment and software	**2,114**	892
Total Debits	**376,185**	405,901
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 2014 TO 30 JUNE 2015 $'000	PERIOD FROM 1 JULY 2013 TO 30 JUNE 2014 $'000
Opening balance	**87,213,484**	82,292,516
Investments made on transfer of funds from the Special Account	**-**	-
Realised investments reinvested	**116,355,216**	104,010,065
Interest earned reinvested	**935,089**	1,336,988
Dividends received reinvested	**2,946,319**	1,749,681
Franking credits received reinvested	**624,826**	243,034
Foreign currency realised reinvested	**(1,531,757)**	(3,420,027)
Amounts transferred to operations[a]	**(365,252)**	(395,230)
Investments realised	**(110,947,961)**	(98,603,543)
Closing Balance	**95,229,964**	87,213,484

(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 and DisabilityCare Australia Fund, in line with the Government's investment mandates.

	OUTCOME 1 2015 $'000	OUTCOME 1 2014 $'000
Expenses		
Investment related expenses	**262,626**	249,760
Depreciation and amortisation	**1,271**	1,379
Agency and Board remuneration expenses	**33,976**	29,631
Other expenses	**17,794**	16,056
Income tax expense	**52,216**	62,868
Total expenses	**367,883**	359,694
Costs recovered from provision of goods and services to the non-government sector		
Income		
Interest	**23,724**	25,780
Dividends, distributions and imputation credits	**4,006,028**	2,189,786
Realised and unrealised investment gains and losses	**11,942,655**	10,879,113
Other income	**1,009**	909
Total income	**15,973,416**	13,095,588
Net cost (contribution) of outcome	**(15,605,533)**	(12,735,894)

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, Health and Hospitals Fund and DisabilityCare Australia Fund.

Program 1.1 Management of the investment of the Future Fund.

The Agency supports the Board in investing to accumulate assets for the purpose of offsetting the unfunded superannuation liabilities of the Commonwealth which will fall due on future generations. The net cost of this output delivery is presented above in Note 22A.

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

Under the *Nation-building Funds Act 2008*, the role of the Agency was extended to include supporting the Board in the investment of the assets of the BAF, EIF and HHF (each a "fund") and subsequently by the *National Disability Insurance Scheme Act 2013* to support the Board in the investment of the assets of the DCAF. The Agency charges a monthly fee to each fund to reimburse the Agency for shared costs paid by the Agency, as agreed with the Department of Finance and Deregulation. This is shown as other income in the income statement. Direct costs to the BAF, EIF, HHF and DCAF, 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 2014 – 15 Portfolio Budget Statements (PBS) to the 2014 – 15 final outcome as presented in accordance with Australian Accounting Standards for the entity. The budget is not audited.

The 2014 – 15 budget is 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, is based on the estimated mandated return. Actual results will always deviate from these assumed returns. For 2014 – 15, the Fund generated a net of costs return of $15.61b (15.4%), a 123% increase over the budgeted amount. For comparative purposes, the mandated return for the equivalent period using actual CPI was 6.01%.

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 2015	30 JUNE 2015	30 JUNE 2015	30 JUNE 2015
	$'000	$'000	$'000	$'000
Total income	15,973,416	7,751,407	46,558	8,175,451
Total expenses including income tax	367,883	744,159	46,558	422,834#
OPERATING RESULT FOR THE YEAR	**15,605,533**	**7,007,248**	**-**	**8,598,285**

STATEMENT OF FINANCIAL POSITION	YEAR ENDED	PBS - ADMINISTERED	PBS - DEPARTMENTAL	VARIANCE
	30 JUNE 2015	30 JUNE 2015	30 JUNE 2015	30 JUNE 2015
	$'000	$'000	$'000	$'000
Total assets	118,443,504	106,963,255	18,246	11,462,003
Total liabilities	1,297,779	515,628	18,246	(763,905)*
TOTAL EQUITY AND AMOUNT ATTRIBUATBLE TO THE GOVERNMENT	**117,145,725**	**106,447,627**	**-**	**10,698,098**

Total expenses were lower than budgeted mainly due to performance fee estimates based on the consolidation of subsidiaries under accounting standards which existed at the time of budget preparation. As the Fund applies the investment entity standard, these expenses are no longer 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.

* Difference is primarily related to derivative liability positions which are included in Total assets for PBS purposes.

RESOURCE STATEMENT AND OTHER MANDATORY REPORTS

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 appropriations through Parliament. The Board monitors the annual operating budget of the Agency to ensure the appropriate use of resources consistent with the organisation's objectives.

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

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 Nation-building Funds, and the DisabilityCare Australia Fund in line with the Government's investment mandate.

AGENCY RESOURCE STATEMENT

	ACTUAL AVAILABLE APPROPRIATIONS FOR 2014/15 $'000	PAYMENTS MADE 2014/15 $'000	BALANCE REMAINING
Special Accounts			
Opening balance	-	-	-
Non-appropriation receipts to Special Accounts	376,185	376,185	-
Total Resourcing and Payments	**376,185**	**376,185**	**-**

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 2014/15 $'000	ACTUALEXPENSES 2014/15 $'000	VARIATION $'000
Program 1.1 Management of the investment of the Future Fund			
Advances from the Special Account	45,769	44,362	1,407
Total for Program 1.1	**45,769**	**44,362**	**1,407**
Program 1.2 Management of the investment of the Building Australia Fund, Education Investment Fund and Health and Hospitals Fund			
Advances from Special Account	789	853	(64)
Total for Program 1.2	**789**	**853**	**(64)**
Total for Outcome 1	**46,558**	**45,215**	**1,343**

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 at: www.tenders.gov.au. Given the Agency's purpose no campaign advertising was undertaken during the year and no reportable recruitment costs were incurred.

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

During 2014/15 seven new consultancy contracts were entered into involving total actual expenditure of $149,864. In addition nine ongoing consultancy contracts were active during the 2014/15 year, involving total actual expenditure of $999,306.

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: www.finance.gov.au/procurement/statistics-on-commonwealth-purchasing-contracts/

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.

ADVERTISING AND MARKET RESEARCH

During the 2014/15 year the Agency undertook recruitment advertising. The total cost of this was $5,935. No campaign advertising was undertaken.

GRANT PROGRAMS

The organisation does not administer any grant programs.

ECOLOGICALLY SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL PERFORMANCE

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

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

As a small tenant in a large multi-tenancy office building it is difficult to establish meaningful metrics for energy and water use or to establish appropriate benchmarking and monitoring arrangements. The building from which the Agency operates has a NABERS 3 star rating. Building management continues to implement a range of energy, waste recycling and water initiatives throughout the building including the Agency's tenancy.

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.

APPENDICES

FUTURE FUND INVESTMENT MANDATE DIRECTIONS

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.

BUILDING AUSTRALIA FUND INVESTMENT MANDATE DIRECTIONS 2009[1]

Part 1 – Preliminary

1. NAME OF DIRECTIONS

These Directions are the Building Australia Fund Investment Mandate Directions 2009.

2. COMMENCEMENT

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

Note: Section 42 of the *Legislative Instruments Act 2003* (which deals with the disallowance of legislative instruments) does not apply to this instrument: see section 44 of that Act. Part 6 of that Act (which deals with the sunsetting of legislative instruments) does not apply to this instrument: see section 54 of that Act.

3. DEFINITIONS

In these Directions:

Act means the *Nation-building Funds Act 2008*.
Board means the Future Fund Board of Guardians.
Fund means the Building Australia Fund.
responsible Ministers has the same meaning as in the Act.

4. OBJECT OF THESE DIRECTIONS

(1) The Building Australia Fund is a financing source to enhance the Commonwealth's ability to make payments in relation to the creation or development of transport, communications, energy and water infrastructure, and eligible national broadband network matters.

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

(3) These Directions are given under subsection 35(1) of the Act to articulate the Australian Government's expectations of how the Fund will be invested and managed by the Board.

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

Part 2 – Directions

5. BENCHMARK RETURN

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

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

6. BOARD MUST CONSIDER IMPACTS FROM ITS INVESTMENT STRATEGY

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

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

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

Note

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

EDUCATION INVESTMENT FUND INVESTMENT MANDATE DIRECTIONS 2009[1]

Part 1 – Preliminary

1. NAME OF DIRECTIONS

These Directions are the Education Investment Fund Investment Mandate Directions 2009.

2. COMMENCEMENT

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

Note: Section 42 of the *Legislative Instruments Act 2003* (which deals with the disallowance of legislative instruments) does not apply to this instrument: see section 44 of that Act. Part 6 of that Act (which deals with the sunsetting of legislative instruments) does not apply to this instrument: see section 54 of that Act.

3. DEFINITIONS

In these Directions:

Act means the *Nation-building Funds Act 2008*.
Board means the Future Fund Board of Guardians.
Fund means the Education Investment Fund.
responsible Ministers has the same meaning as in the Act.

4. OBJECT OF THESE DIRECTIONS

(1) The Education Investment Fund is a financing source to enhance the Commonwealth's ability to make payments in relation to the creation or development of higher education, research, vocational education and training and eligible education infrastructure, and to make transitional Higher Education Endowment Fund payments.

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

(3) These Directions are given under subsection 154 (1) of the Act to articulate the Australian Government's expectations of how the Fund will be invested and managed by the Board.

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

Part 2 – Directions

5. BENCHMARK RETURN

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

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

6. BOARD MUST CONSIDER IMPACTS FROM ITS INVESTMENT STRATEGY

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

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

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

Note

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

HEALTH AND HOSPITALS FUND INVESTMENT MANDATE DIRECTIONS 2009[1]

Part 1 – Preliminary

1. NAME OF DIRECTIONS

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

2. COMMENCEMENT

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

Note: Section 42 of the *Legislative Instruments Act 2003* (which deals with the disallowance of legislative instruments) does not apply to this instrument: see section 44 of that Act. Part 6 of that Act (which deals with the sunsetting of legislative instruments) does not apply to this instrument: see section 54 of that Act.

3. DEFINITIONS

In these Directions:

Act means the *Nation-building Funds Act 2008*.
Board means the Future Fund Board of Guardians.
Fund means the Health and Hospitals Fund.
responsible Ministers has the same meaning as in the Act.

4. OBJECT OF THESE DIRECTIONS

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

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

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

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

Part 2 – Directions

5. BENCHMARK RETURN

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

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

6. BOARD MUST CONSIDER IMPACTS FROM ITS INVESTMENT STRATEGY

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

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

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

Note

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

DISABILITYCARE AUSTRALIA FUND INVESTMENT MANDATE DIRECTIONS 2014[1]

Part 1 – Preliminary

1. NAME OF DIRECTIONS

These Directions are the DisabilityCare Australia Fund Investment Mandate Directions 2014.

2. COMMENCEMENT

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

Note
Section 42 of the *Legislative Instruments Act 2003* (which deals with the disallowance of legislative instruments) does not apply to this instrument: see section 44 of that Act. Part 6 of that Act (which deals with the sunsetting of legislative instruments) does not apply to this instrument: see section 54 of that Act.

3. DEFINITIONS

In these Directions:

Act means the *DisabilityCare Australia Fund Act 2013*.
Board means the Future Fund Board of Guardians.
Fund means the DisabilityCare Australia Fund.
responsible Ministers has the same meaning as in the Act.

4. OBJECT OF THESE DIRECTIONS

(1) The DisabilityCare Australia Fund is a financing source to enhance the Commonwealth's ability to reimburse the States and Territories and the Commonwealth for the expenditure incurred in relation to the *National Disability Insurance Scheme Act 2013*.
(2) The object of these Directions is to give guidance to the Board in relation to its investment strategy for the Fund. The Board is required by the Act to seek to maximise the return earned on the Fund, consistent with international best practice for institutional investment, subject to its obligations under the Act and any directions given by the responsible Ministers under the Act.
(3) These Directions are given under subsection 29(1) of the Act to articulate the Government's expectations for how the Fund will be invested and managed by the Board.
(4) The responsible Ministers may review these Directions, in consultation with the Board, including after any request by the Board in the context of any material changes to either the prevailing investment conditions or the cashflow position of the Fund.

Part 2 – Directions

5. INVESTMENT OBJECTIVES

(1) The Board should invest in such a way as to minimise the probability of capital losses over a 12 month horizon.
(2) Subject to the Board's obligations under section 23 of the Act and to (1) above, the Board is to adopt a benchmark return on the Fund of the Australian three month bank bill swap rate + 0.3 per cent per annum, calculated on a rolling 12-month basis (net of fees).

6. THE BOARD MUST CONSIDER IMPACTS FROM ITS INVESTMENT STRATEGY

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

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

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

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IMPLEMENTATION OF THE SANTIAGO PRINCIPLES

The Santiago Principles are a voluntary set of principles and practices developed by the International Working Group of Sovereign Wealth Funds during 2008. The Principles identify a framework of generally accepted principles and practices that properly reflect appropriate governance and accountability arrangements as well as the conduct of investment practices by Sovereign Wealth Funds (SWFs) on a prudent and sound basis.

The International Forum of Sovereign Wealth Funds (IFSWF) was formed as a voluntary group of SWFs in 2009, 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 was a founding member of the International Forum of Sovereign Wealth Funds and remains an active participant.

This document focuses primarily on the implementation of the Santiago Principles in the context of the Future Fund. This reflects the fact that the Nation-building Funds and the DisabilityCare Australia Fund draw on the legal, institutional and investment and risk management framework of the Future Fund and that their principle distinguishing characteristic is their shorter-term focus.

PRINCIPLE	IMPLEMENTATION AND REFERENCE MATERIAL
1 The legal framework should be sound and support the SWF's effective operation and the achievement of its stated objectives. 1.1 The legal framework should ensure the legal soundness of the SWF and its transactions. 1.2 The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.	The legal framework for the Board of Guardians and the Agency, together with arrangements for the governance and operation of the public asset funds for which the Board of Guardians is responsible, are detailed in the *Future Fund Act 2006* and *Nation-building Funds Act 2008*. The framework is designed specifically to establish the sound and effective operation of the Fund and achievement of its objectives. The legal basis and structure and the legal relationships between the Board, Agency and government is detailed in the legislation which is publicly available. Additional detail and discussion of the basis and operation of the Board, Agency and the Funds themselves is available from the Board's annual report and website. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.futurefund.gov.au/investment/investment_mandate*
2. The SWF's policy purpose should be being clearly defined and publicly disclosed.	The Future Fund was established to meet unfunded superannuation liabilities that will become payable during a period when an ageing population is likely to place significant pressure on Commonwealth finances. The Nation-building Funds were established to provide financing resources to meet the Australian Government's commitment to Australia's future through investment in critical areas of infrastructure such as transport, communications, energy, water, education, research and health. The DisablityCare Australia Fund was established by legislation with the object of reimbursing States, Territories and the Commonwealth for expenditure incurred in relation to the *National Disability Insurance Scheme Act 2013* and to fund implementation of the *National Disability Insurance Scheme Act 2013* in its initial period of operation. The Board of Guardians is responsible for the investment of the assets in each of the funds, not for disbursements or other policy issues. Detail on the policy purpose for each of the Funds is provided in the relevant legislation, annual reports and the organisation's website. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.futurefund.gov.au/investment/investment_mandate* *www.futurefund.gov.au/annual_reports*

PRINCIPLE	IMPLEMENTATION AND REFERENCE MATERIAL
3 Where the SWF has significant direct domestic macroeconomic implications, those activities should be closely coordinated with domestic fiscal and monetary authorities so as to ensure consistency with the overall macroeconomic policies.	The Australian Government is responsible for determining the timing and extent of withdrawals from the Future Fund, Nation-building Funds and DisabilityCare Australia Fund, subject to legislative constraints. The Commonwealth's financial position, including the assets of the Future Fund, the Commonwealth's unfunded superannuation liabilities and the assets held in other Funds invested by the Board of Guardians, is a matter for government. Full details are published annually in the Australian Government Budget Papers and other related documents. The Board of Guardians does not have control or influence over management of the liabilities and frames its investment strategy around the Investment Mandate Directions issued by the responsible Ministers under the legislation. The Investment Mandate does not direct the Board to invest in particular sectors or asset classes domestically or internationally. Based on its mandate the Board manages a diversified global portfolio seeking to maximise returns with an acceptable but not excessive level of risk. In establishing the Nation-building Funds the Australian Government made a commitment that spending proposals would be delivered in line with prevailing macroeconomic conditions. Spending from the Nation-building Funds is undertaken consistent with the legislated process and as part of the usual Budget process within the limits of the legislated General Drawing Rights Limit. Coordination with all relevant fiscal and monetary authorities, and relevant departments, is undertaken as part of this process. Withdrawals from the DisabilityCare Australia Fund will be made in accordance with the governing legislation. *www.futurefund.gov.au/about_the_future_fund/legislation* *http://www.budget.gov.au/2014-15/content/bp1/download/BP1_BS7.pdf*
4 There should be clear and publicly disclosed policies, rules, procedures, or arrangements in relation to the SWF's approach to funding, withdrawal and spending operations. 4.1 The source of SWF funding should be publicly disclosed. 4.2 The general approach to withdrawals from the SWF and spending on behalf of the government should be disclosed.	The legislation publicly sets out the funding, withdrawal and spending arrangements and procedures for the funds, including arrangements for Parliamentary oversight and public disclosure of funding, withdrawals and spending. The source of funding is publicly disclosed together with the approach to withdrawals and spending of monies. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.finance.gov.au/investment-funds/future-fund/transfers.html* *www.finance.gov.au/investment-funds/NBF/NBF_transfers.html*
5 The relevant statistical data pertaining to the SWF should be reported on a timely basis to the owner, or otherwise as required, for inclusion where appropriate in macroeconomic data sets.	Statistical data is consolidated in national financial accounts, government financial statistics, the balance of payments and international investment position by the Australian Bureau of Statistics in accordance with its regular data collection and reporting arrangements. Data is also incorporated into the government's budget statements. Audited annual financial statements are tabled in Parliament and quarterly updates on the portfolio are released publicly. *www.abs.gov.au* *http://www.futurefund.gov.au/investment/portfolio_updates*

PRINCIPLE	IMPLEMENTATION AND REFERENCE MATERIAL
6 The governance framework for the SWF should be sound and establish clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.	The roles and responsibilities of the government, as asset owner, and the Board (supported by the Agency), as asset manager are detailed in the legislation. Further detail is provided by the Investment Mandates and the Statement of Expectations and Statement of Intent exchanged between the government and the Board and the Agency. Internal policies, procedures and protocols have been established to further delineate roles and responsibilities at the operational level. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.futurefund.gov.au/__data/assets/pdf_file/0016/3571/SoE_-_Final.pdf* *www.futurefund.gov.au/__data/assets/pdf_file/0017/3572/SoI_Final_300909.pdf*
7 The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.	The objective for each fund, the procedures for the appointment of the Board of Guardians by government and arrangements for the exercise of oversight are detailed in the legislation. *www.futurefund.gov.au/about_the_future_fund/legislation*
8 The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.	The Board is bound by the legislation and Investment Mandates set by government to pursue the investment objectives detailed in the legislation and to act in good faith. The legislation also provides the Board with the necessary powers to undertake its mandated activities and sets out the experience, expertise and credibility required of appointees to the Board. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.futurefund.gov.au/investment/investment_mandate*
9 The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.	The Board is responsible for investing the assets of the funds in accordance with the legislation and makes decisions independently of government. The legislation establishes the Agency to provide support and advice to the Board and to assist in giving effect to the Board's decisions. Clear internal policies, procedures and protocols have been established to further delineate roles and responsibilities at the operational level. *www.futurefund.gov.au/about_the_future_fund/legislation*
10 The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.	Accountability arrangements, including the requirement for publication of an annual report and arrangements for the provision of reports and information to the responsible Minister, are detailed in the legislation. Board members are held accountable through the requirements imposed on them through the legislation with civil and criminal penalties applying for breach of specific duties and obligations Further accountability is also provided through the operation of the *Public Governance, Performance and Accountability Act 2013* governing the establishment and operation of Special Accounts for each Fund. *www.futurefund.gov.au/about_the_future_fund/legislation*

PRINCIPLE	IMPLEMENTATION AND REFERENCE MATERIAL
11 An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognised internal or national accounting standards in a consistent manner.	The annual report and financial statements are prepared in accordance with the Finance Minister's Orders and the Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board (AASB). The legislation requires that the annual report and audited financial statements are presented to the responsible Minister as soon as practicable after the end of each financial year and tabled in Parliament within 15 sitting days of each House of Parliament. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.futurefund.gov.au/annual_reports*
12 The SWF's operations and financial statements should be audited annually in accordance with recognised international or national auditing standards in a consistent manner.	Internal audit services are provided by an external firm reporting to the Board's Audit Committee. The Australian National Audit Office is responsible for an annual independent external audit conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate Australian Auditing Standards. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.anao.gov.au*
13 Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management and staff.	The duties and obligations of members of the Board of Guardians are detailed in the legislation together with arrangements for the management of conflicts of interest. The legislation also includes details of the civil and criminal penalties applying for breach of specific duties and obligations. Persons are eligible for appointment to the Board only if the responsible Ministers are satisfied the person has substantial experience or expertise and professional credibility and significant standing in investing in financial assets, managing investments in financial assets or corporate governance. Staff of the Agency are employed under the *Public Service Act 1999* and are bound by the Australian Public Service Values and Code of Conduct. Details of these obligations are included in internal policies and training activities. *www.futurefund.gov.au/about_the_future_fund/legislation* *http://www.apsc.gov.au/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 Board's approach to the engagement of third parties, including advisors and investment managers, is outlined in its Statement of Investment Policies available on the internet. Engagement of third parties is based on economic and financial grounds. The purchase of goods and services by the Agency is consistent with the Commonwealth Procurement Guidelines and governed by clear internal policies and procedures to encourage value for money, open and effective competition and fair dealing and ethics. *www.futurefund.gov.au/investment/investment_policies*

PRINCIPLE	IMPLEMENTATION AND REFERENCE MATERIAL
15 SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.	The Board of Guardians requires that all investment activities are undertaken in accordance with applicable regulatory and disclosure requirements. Detailed due diligence and reporting is in place to monitor compliance. The legislation requires the Board of Guardians to act in a way that is unlikely to cause any diminution of the Australian Government's reputation in international financial markets. *www.futurefund.gov.au/about_the_future_fund/legislation*
16 The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.	The governance framework and objectives of the Board and the Agency are set out in the legislation and in public annual reports. The framework clearly establishes the independence and accountability arrangements for the Fund, the Board and the Agency. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.futurefund.gov.au/annual_reports*
17 Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in internal financial markets and enhance trust in recipient countries.	An annual report and audited annual financial statements are tabled in Parliament and published via the website. The Board also issues public quarterly updates on performance and asset allocation. *www.futurefund.gov.au/annual_reports* *www.futurefund.gov.au/investment/portfolio_updates*
18 The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner of the governing body(ies), and be based on sound portfolio management principles. 18.1 The investment policy should guide the SWF's financial risk exposures and possible use of leverage. 18.2 The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored. 18.3 A description of the investment policy of the SWF should be publicly disclosed.	The Board's Statement of Investment Policies, published on the internet as required by legislation, details its investment strategy and risk tolerance and its application of portfolio investment principles. Annual reports provide additional insight and discussion of the investment strategy. These documents address matters relating to financial risk, leverage, the use of and extent of the activities and authority of internal/external managers as well as the process for their appointment and monitoring of their performance. The policies and practices detailed by these documents are consistent with the obligations contained in the legislation. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.futurefund.gov.au/investment/investment_policies* *www.futurefund.gov.au/annual_reports*

PRINCIPLE	IMPLEMENTATION AND REFERENCE MATERIAL
19 The SWF's investment decisions should aim to maximise risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds. 19.1 If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed. 19.2 The management of the SWF's assets should be consistent with what is generally accepted as sound asset management principles.	The Board's obligation to seek to maximise risk-adjusted financial returns is established in the legislation with return and risk parameters detailed through investment mandates created under the legislation. The Board is required to operate in a manner consistent with international best practice for institutional investment. The limited set of restrictions on the Board's investment activities, such as limits on the size of stakes in Australian and foreign listed companies, are clearly expressed in the legislation. The Board's approach to consideration of environmental, social and governance matters in its investments, and to the universe of investments it considers, is detailed in its Statement of Investment policies and reflects the Board's focus on acting as a prudent investor seeking to maximise risk-adjusted returns. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.futurefund.gov.au/investment/investment_policies*
20 The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.	The Board does not seek or have a right of access to privileged information from, or inappropriate influence by, the government in competing with private entities. Under the statutory governance framework the Board operates and makes decisions independently of government. Policies and processes are in place to restrict and coordinate engagement with the government in relation to Board and Agency matters. Board members are not permitted to be employees of the Commonwealth or to be a holder of a full-time office under a law of the Commonwealth. Agency staff are bound by the Australian Public Service Code of Conduct. The Future Fund investment mandate also requires the Board, when undertaking its investment activities, to act in a way that is unlikely to cause any diminution of the government's reputation in Australian and international financial markets. *www.futurefund.gov.au/about_the_future_fund/legislation* *www.futurefund.gov.au/investment/investment_mandate*
21 SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.	The Board is required to have regard to international best practice for institutional investment in determining its approach to corporate governance principles, including in relation to its voting policy. The Board's approach to the exercise of ownership and voting rights is detailed in its Statement of Investment Policies. The annual report discusses the application of the Board's policy including reporting in aggregate of how voting rights have been exercised. *www.futurefund.gov.au/investment/investment_policies* *www.futurefund.gov.au/investment/investment_mandate*

PRINCIPLE	IMPLEMENTATION AND REFERENCE MATERIAL
22 The SWF should have a framework that identifies, assesses, and manages the risks of its operations. 22.1 The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function. 22.2 The general approach to the SWF's risk management framework should be publicly disclosed.	Consistent with the legislation, investment mandates and obligation to have regard to international best practice for institutional investment, the Board and Agency have established a framework for the identification, assessment and management of the risks of its operations, including appropriate reporting and monitoring arrangements. Policies and procedures are in place to support the risk management framework. The approach to risk management is detailed in the Statement of Investment Policies and the annual report. *www.futurefund.gov.au/investment/investment_policies* *www.futurefund.gov.au/annual_reports*
23 The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.	The assets and investment performance of the Funds, including performance against the benchmarks established in the Investment Mandate are reported to the responsible Ministers and publicly through the annual report and audited financial statements. *www.futurefund.gov.au/annual_reports*
24 A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.	The Board undertook its first review of its implementation of the Santiago Principles in June 2010 and has repeated the review annually. The Board contributed to the IFSWF's report "Members' Experiences in the Application of the Santiago Principles" published in July 2011 and in 2014 was featured as a case study in a publication by the IFSWF on the Future Fund's application of the Santiago Principles. *www.futurefund.gov.au/about_the_future_fund/governance* *www.ifswf.org/pst/stp070711.pdf* *http://www.ifswf.org/pst/SantiagoP15CaseStudies1.pdf*

LIST OF REQUIREMENTS

This list of requirements is provided as a checklist against the requirements detailed in the Requirements for Annual Report for Departments, Executive Agencies and other non-corporate Commonwealth entities as approved by the Joint Committee of Public Accounts and Audit.

REF*	PART OF REPORT	DESCRIPTION	REQUIREMENT	LOCATION IN ANNUAL REPORT
8(3) & A.4		Letter of transmittal	Mandatory	p1
A.5		Table of contents	Mandatory	inside front cover
A.5		Index	Mandatory	p162
A.5		Glossary	Mandatory	p161
A.5		Contact officer(s)	Mandatory	inside front cover
A.5		Internet home page address and Internet address for report	Mandatory	inside front cover
9	**Review by Secretary**			
9(1)		Review by departmental secretary	Mandatory	p6-9
9(2)		Summary of significant issues and developments	Suggested	p6-9
9(2)		Overview of department's performance and financial results	Suggested	p4-9
9(2)		Outlook for following year	Suggested	p6-9
9(3)		Significant issues and developments – portfolio	Portfolio departments – suggested	p6-9
10	**Departmental Overview**			
10(1)		Role and functions	Mandatory	p2-3
10(1)		Organisational structure	Mandatory	p56-65
10(1)		Outcome and programme structure	Mandatory	
10(2)		Where outcome and programme structures differ from PB Statements/PAES or other portfolio statements accompanying any other additional appropriation bills (other portfolio statements), details of variation and reasons for change	Mandatory	not applicable
10(3)		Portfolio structure	Portfolio departments – mandatory	not applicable
11	**Report on Performance**			
11(1)		Review of performance during the year in relation to programmes and contribution to outcomes	Mandatory	p10 - 55
11(2)		Actual performance in relation to deliverables and KPIs set out in PB Statements/PAES or other portfolio statements	Mandatory	p10 - 55

REF*	PART OF REPORT	DESCRIPTION	REQUIREMENT	LOCATION IN ANNUAL REPORT
11(2)		Where performance targets differ from the PBS/PAES, details of both former and new targets, and reasons for the change	Mandatory	not applicable
11(2)		Narrative discussion and analysis of performance	Mandatory	p10-55
11(2)		Trend information	Mandatory	p10-55
11(3)		Significant changes in nature of principal functions/services	Suggested	not applicable
11(3)		Performance of purchaser/provider arrangements	If applicable, suggested	not applicable
11(3)		Factors, events or trends influencing departmental performance	Suggested	p10-55
11(3)		Contribution of risk management in achieving objectives	Suggested	p10-55
11(4)		Performance against service charter customer service standards, complaints data, and the department's response to complaints	If applicable, mandatory	not applicable
11(5)		Discussion and analysis of the department's financial performance	Mandatory	p10-55
11(6)		Discussion of any significant changes in financial results from the prior year, from budget or anticipated to have a significant impact on future operations.	Mandatory	p10-55
11(7)		Agency resource statement and summary resource tables by outcomes	Mandatory	p142
12	**Management and Accountability**			
	Corporate Governance			
12(1)		Agency heads are required to certify their agency's actions in dealing with fraud.	Mandatory	p1
12(2)		Statement of the main corporate governance practices in place	Mandatory	p56 - 65
12(3)		Names of the senior executive and their responsibilities	Suggested	p59 - 63
12(3)		Senior management committees and their roles	Suggested	p59 - 63
12(3)		Corporate and operational plans and associated performance reporting and review	Suggested	p10 - 55
12(3)		Internal audit arrangements including approach adopted to identifying areas of significant financial or operational risk and arrangements to manage those risks	Suggested	p64 - 65
12(3)		Policy and practices on the establishment and maintenance of appropriate ethical standards	Suggested	p64 - 65
12(3)		How nature and amount of remuneration for SES officers is determined	Suggested	p70

REF*	PART OF REPORT	DESCRIPTION	REQUIREMENT	LOCATION IN ANNUAL REPORT
	External Scrutiny			
12(4)		Significant developments in external scrutiny	Mandatory	p58
12(4)		Judicial decisions and decisions of administrative tribunals and by the Australian Information Commissioner	Mandatory	not applicable
12(4)		Reports by the Auditor-General, a Parliamentary Committee, the Commonwealth Ombudsman or an agency capability review	Mandatory	not applicable
	Management of Human Resources			
12(5)		Assessment of effectiveness in managing and developing human resources to achieve departmental objectives	Mandatory	p66 - 71
12(6)		Workforce planning, staff retention and turnover	Suggested	p66 - 71
12(6)		Impact and features of enterprise or collective agreements, individual flexibility arrangements (IFAs), determinations, common law contracts and Australian Workplace Agreements (AWAs)	Suggested	p66 - 71
12(6)		Training and development undertaken and its impact	Suggested	p66 - 71
12(6)		Work health and safety performance	Suggested	p66 - 71
12(6)		Productivity gains	Suggested	p66 - 71
12(7)		Statistics on staffing	Mandatory	p66 - 71
12(8)		Statistics on employees who identify as Indigenous	Mandatory	p66 - 71
12(9)		Enterprise or collective agreements, IFAs, determinations, common law contracts and AWAs	Mandatory	p66 - 71
12(10) & B		Performance pay	Mandatory	p70 - 71
12(11)-(12)	Assets management	Assessment of effectiveness of assets management	If applicable, mandatory	not applicable
12(13)	Purchasing	Assessment of purchasing against core policies and principles	Mandatory	p143
12(14)-(23)	Consultants	The annual report must include a summary statement detailing the number of new consultancy services contracts let during the year; the total actual expenditure on all new consultancy contracts let during the year (inclusive of GST); the number of ongoing consultancy contracts that were active in the reporting year; and the total actual expenditure in the reporting year on the ongoing consultancy contracts (inclusive of GST). The annual report must include a statement noting that information on contracts and consultancies is available through the AusTender website.	Mandatory	p143

REF*	PART OF REPORT	DESCRIPTION	REQUIREMENT	LOCATION IN ANNUAL REPORT
12(24)	Australian National Audit Office Access Clauses	Absence of provisions in contracts allowing access by the Auditor-General	Mandatory	not applicable
12(25)	Exempt contracts	Contracts exempted from publication in AusTender	Mandatory	not applicable
12(26)-(28)	Small business	Procurement initiatives to support small business	Mandatory	p143
13	Financial Statements	Financial Statements	Mandatory	p72
	Other Mandatory Information			
14(1) & C.1		Work health and safety (Schedule 2, Part 4 of the *Work Health and Safety Act 2011*)	Mandatory	p68
14(1) & C.2		Advertising and Market Research (Section 311A of the *Commonwealth Electoral Act 1918*) and statement on advertising campaigns	Mandatory	p143
14(1) & C.3		Ecologically sustainable development and environmental performance (Section 516A of the *Environment Protection and Biodiversity Conservation Act 1999*)	Mandatory	p143
14(1)		Compliance with the agency's obligations under the *Carer Recognition Act 2010*	If applicable, mandatory	not applicable
14(2) & D.1		Grant programmes	Mandatory	p143
14(3) & D.2		Disability reporting – explicit and transparent reference to agency level information available through other reporting mechanisms	Mandatory	p143
14(4) & D.3		Information Publication Scheme statement	Mandatory	p143
14(5)		Correction of material errors in previous annual report	If applicable, mandatory	not applicable
E		Agency Resource Statements and Resources for Outcomes	Mandatory	p142
F		List of Requirements	Mandatory	p157

* The reference is to the location of the item in the requirements – e.g. 'A.4' refers to the fourth item in Attachment A.

ABBREVIATIONS

AASB	Australian Accounting Standards Board
AC	Companion of the Order of Australia
AM	Member of the Order of Australia
ANAO	Australian National Audit Office
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
CPGs	Commonwealth Procurement Guidelines
CPI	Consumer Price Index
FFMA	Future Fund Management Agency
FMA Act	*Financial Management and Accountability Act 1997*
FMOs	Finance Minister's Orders
FoI Act	*Freedom of Information Act 1982*
GST	Goods and Services Tax
HEEF	Higher Education Endowment Fund
PGPA	*Public Governance, Performance and Accountability Act 2013*

INDEX

A

B

C

D

INDEX

E

F

G

H

I

K

INDEX

L

M

N

O

P

R

INDEX

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