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**Department of Finance and Deregulation**



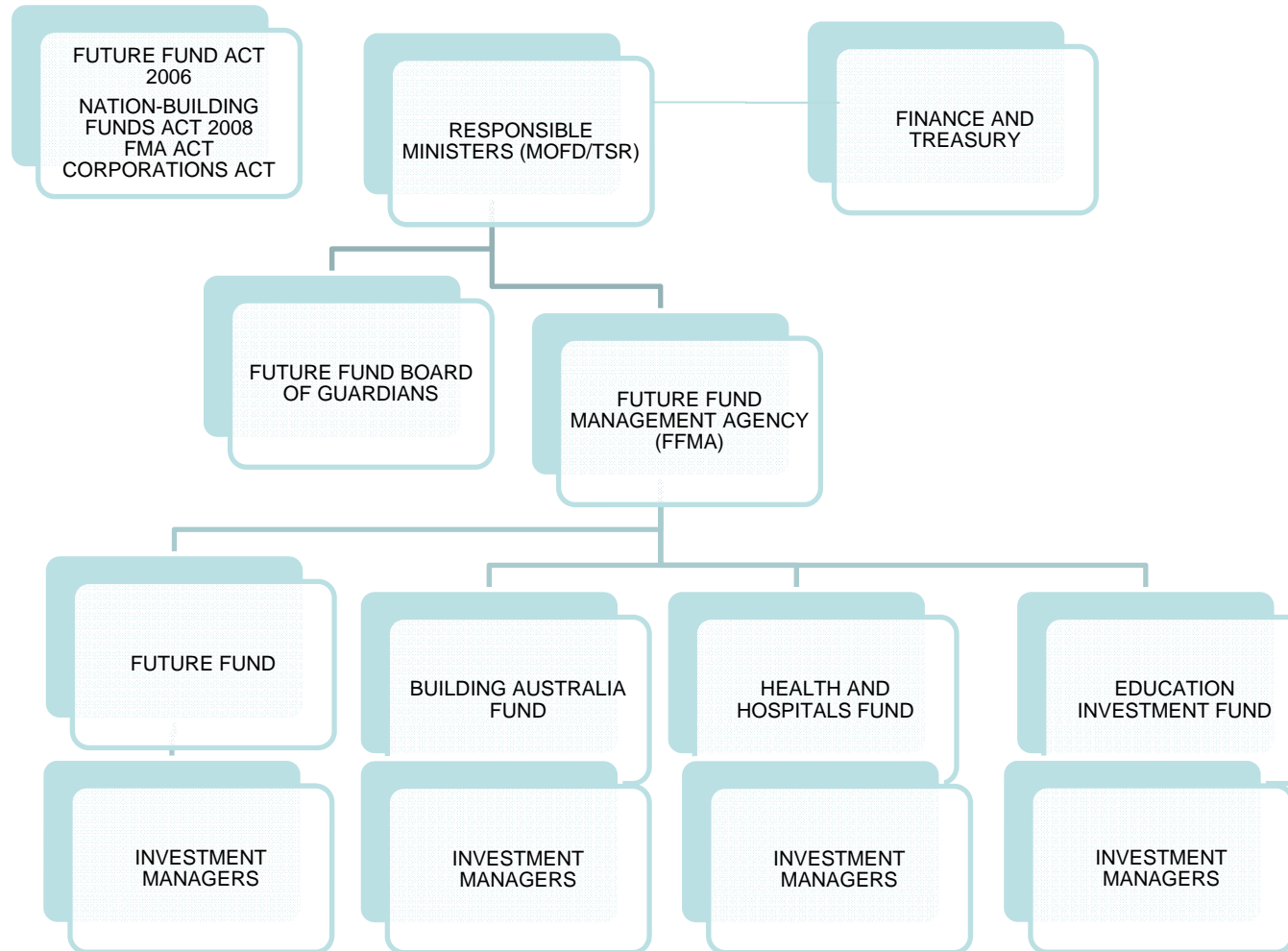
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# **AUSTRALIA FUTURE FUND AND NATION- BUILDING FUNDS**

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# Governance of the Future Fund





## Future Fund

- The Future Fund was established by the *Future Fund Act 2006* to strengthen the Australian Government's long-term financial position
- Provision for unfunded superannuation liabilities that will become payable during a period when an ageing population is likely to place significant pressure on the Australian Government's finances.
- The legislation stipulates that money may not be withdrawn from the Future Fund before 2020, unless the Future Fund's balance exceeds the target asset level.
- The Future Fund has received contributions from a combination of budget surpluses, proceeds from the sale of the Government's holding of Telstra and the transfer of remaining Telstra shares.



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## Nation-building Funds

- The Nation-building Funds, established on 1 January 2009 by the *Nation-building Funds Act 2008* to finance investment in important areas of infrastructure
- **Building Australia Fund (BAF)**: for payments in relation to the creation or development of transport, communications, energy, and water infrastructure.
- **Education Investment Fund (EIF)**: for payments in relation to the creation or development of research, and vocational education and training infrastructure.
- **Health and Hospitals Fund (HHF)**: for payments in relation to the creation or development of health infrastructure.



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## Legal Structure

- The legal structure under which the Board of Guardians and the Future Fund Management Agency operate is complex and unique within the Australian Government.
- The Future Fund Board of Guardians (the Board) is a body corporate with perpetual succession and is therefore a separate legal entity to the Commonwealth.
- The Board is responsible for deciding how to invest the Future Fund and the Nation-building Funds subject to Investment Mandates given to it by the responsible Ministers.
- The Future Fund Act and the Nation-building Funds Act stipulates that investments are to be made in the name of the Board rather than the Australian Government to reinforce that the Board manages the Funds at arms length from the Government; however, beneficial ownership of the Funds remains with the Government at all times.



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## Legal Structure (Cont'd)

- The Future Fund Management Agency (FFMA) was established to provide executive support to the Board and is responsible for the operational activities associated with the Future Fund and Nation-building Funds.
- The FFMA must act consistently with any directions or policies provided by the Board, including acting on the investment decisions of the Board. The FFMA does not have a separate legal identity to the Commonwealth.

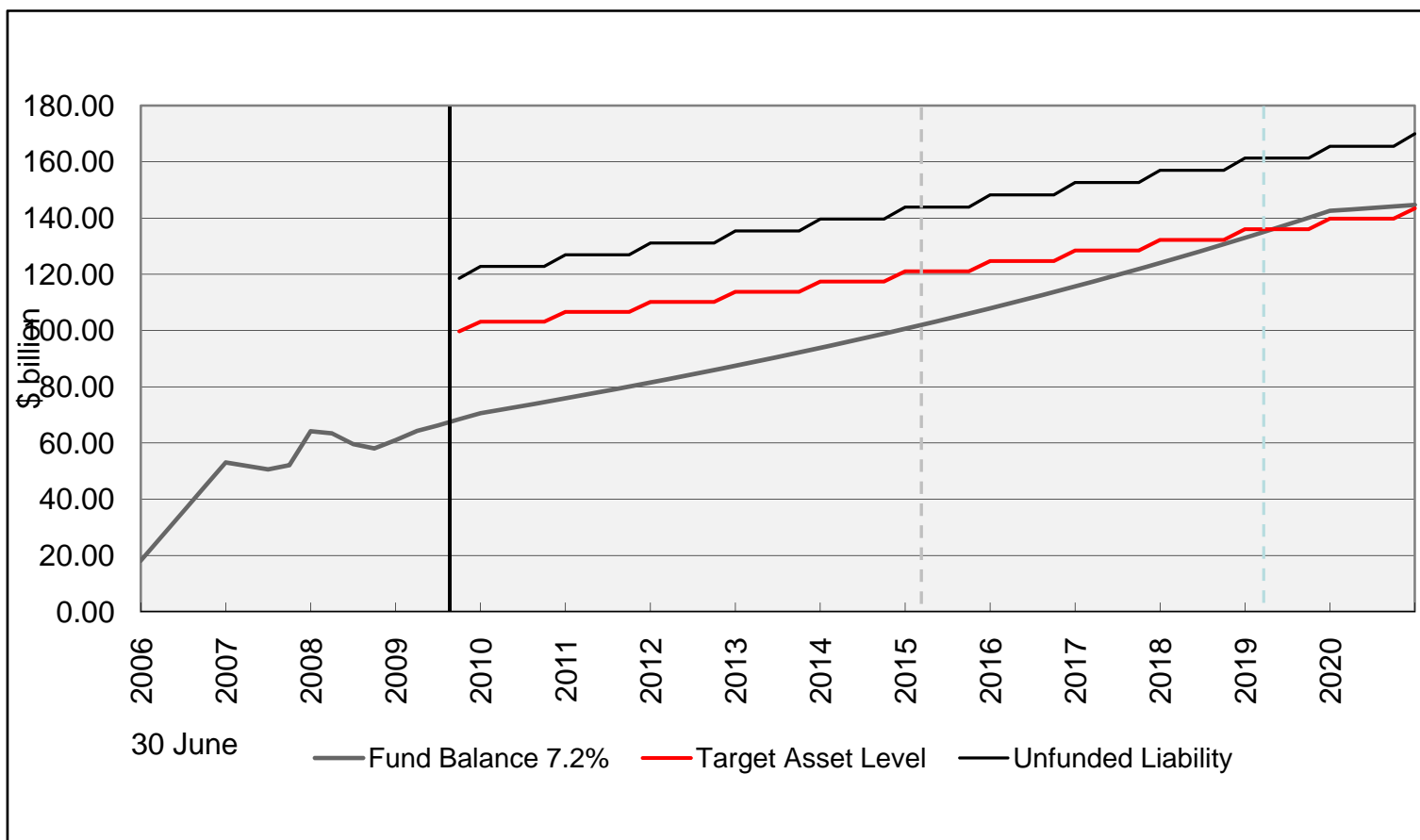


## Investment Mandates

- The Future Fund Investment Mandate sets a long term benchmark of an average real return of at least 4.5 to 5.5% per annum.
- The Investment Mandate also requires the Future Fund Board of Guardians to take an acceptable but not excessive level of risk for the Fund, measured in terms of the probability of losses in a particular year.
- The Investment Mandates for the Nation-building Funds set a benchmark return of the Australian three month bank bill swap rate +0.3% per annum calculated on a rolling 12 month basis. The Mandates require that investments minimise the probability of capital loss over a 12 month horizon.



# Balance of the Future Fund







## Balance of the Nation-building Funds

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- The Nation-building Funds have been credited with A\$22.4 billion to meet the Government's infrastructure priorities:
  - BAF: A\$10.9 billion
  - EIF: A\$6.5 billion
  - HHF: A\$5.0 billion
- The Australian Government has announced infrastructure commitments from the Nation-building Funds totalling A\$18.0 billion, which comprises:
  - A\$10.6 billion from the BAF
  - A\$4.2 billion from the EIF
  - A\$3.2 billion from the HHF



## Investment Performance

- The Future Fund returned 2.8% for the quarter ending 31 March 2010 and 11.8% for the first three quarters of 2009-10. The annualised return (ex Telstra) since the effective start of the Future Fund's investment program on 1 July 2007 is 3.1%.
- Each of the Nation-building Funds returned 1.3% for the quarter ending 31 March 2010. Since inception the EIF has returned 4.2% per annum while the BAF and HHF have returned 4.1% per annum.



## Future Fund Asset Allocation

Asset class	A\$ million	Percentage of Fund (ex Telstra)
<b>Australian equities</b>	8,145	12.8
<b>Global equities</b>		
Developed markets	14,997	23.5
Developing markets	2,162	3.4
<b>Private equity</b>	1,482	2.3
<b>Property</b>	2,538	4.0
<b>Infrastructure</b>	2,066	3.2
<b>Debt securities</b>	13,985	22.0
<b>Alternative assets</b>	7,832	12.3
<b>Cash</b>	10,484	16.5
<b>Total (ex Telstra)</b>	63,692	100
<b>Telstra holding</b>	3,930	-
<b>Total Future Fund assets</b>	67,622	-



## Investment Strategy – Future Fund

- The Board has settled on the following long-term asset allocation:
  - ❑ Equities – 35%
  - ❑ Tangible Assets – 30%
  - ❑ Debt Securities – 20%
  - ❑ Alternatives – 15%
- Reflecting the fact than the characteristics of sectors change over time, the Board takes a dynamic approach to building the portfolio and adjusts the combination of exposures over the medium term