2019–2020
Annual Report

Investing for the benefit of future generations of Australians.

Australian Government
Future Fund

futurefund
Australia's Sovereign Wealth Fund

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Guide to reading this report

This report describes the governance, operations and performance of the Future Fund Board of Guardians and the Future Fund Management Agency over the 2019-20 financial year. Additional information, including periodic investment and operational updates, policies and plans, is available at www.futurefund.gov.au.

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

Data in this report may not sum due to rounding.

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

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

Material used 'as supplied'

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

Feedback

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

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Letter of transmittal

29 September 2020

Dear Minister

I am pleased to present the Annual Report of the Future Fund Board of Guardians (Board) and the Future Fund Management Agency (Agency) for the 2019-20 financial year.

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

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

As Accountable Authority of the Agency, I certify that:

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

Yours sincerely

P Costello

Hon Peter Costello AC

Chairman
Future Fund Board of Guardians

Report from the Chairman

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

As Australia's Sovereign Wealth Fund, the Future Fund has strengthened the Government's balance sheet by delivering strong long-term risk-adjusted returns. It is globally recognised as a respected investment institution.

Performance

2019-20 was a challenging year for investors across the globe as the economic fallout of the COVID-19 pandemic rippled across investment markets. In Australia, the economy moved into recession for the first time in 30 years.

The Future Fund weathered the storm well and proved resilient through unprecedented levels of market turbulence.

In 2019-20 the Fund's diversified portfolio protected its assets from significant losses, with a return of -0.9% for the year to 30 June. It is well positioned for a recovery in markets.

The Future Fund is a long-term fund. Over 10 years the Fund has achieved a return of 9.2% per annum, exceeding its benchmark of 6.1% per annum. Since the Fund was established in 2006, it has added $100.6 billion in earnings.

The Medical Research Future Fund generates earnings to support grants to support medical research. The Fund delivered a return of 0.2% in 2019-20 and was valued at $17.2 billion as at 30 June 2020.

Since 2019 the Commonwealth has entrusted the Board with the management of three new funds – the Aboriginal and Torres Strait Islander Land and Sea Future Fund, the Future Drought Fund and the Emergency Response Fund.

We have made good progress in diversifying and building out exposures for these new funds and they are performing as intended. The DisabilityCare Australia Fund continued to perform in line with its mandate.

At 30 June 2020 the Board of Guardians invested over $200 billion across the six public asset funds for the benefit of future generations of Australians.

Outlook

For some time, we have warned about the risks to markets and the need to position the portfolio for a range of uncertainties. Over the past few years, the Board sold a number of illiquid exposures due to high pricing and to increase portfolio flexibility.

Our dynamic approach has been extremely valuable in helping us navigate the historic dislocation brought about by COVID-19.

The Board is focused on positioning for what remains a challenging and volatile environment.

Economies across the globe are embarking on a period of significant change. We have seen a very significant period of monetary policy easing with progressive cuts in interest rates helping bring forward economic activity through borrowing.

Governments around the world have responded to the economic impact of COVID-19 with significant fiscal stimulus programs. This response has helped in the short term but will need to be paid back in the future.

The factors that have fuelled strong investment performance in the past may not be as significant in the future. Investors, including the Future Fund, will need to be more strategic in how they go about delivering long-term returns in the future.

In this environment, the Board will continue to prioritise portfolio flexibility, ensuring the portfolio is robust to a range of possible scenarios and has significant liquidity. This will open up opportunities from the current market to position ourselves for long-term returns.

Acknowledgements

In February, David Neal resigned as Chief Executive Officer. I thank David for his valuable contribution to the Fund's long-term success as Chief Executive Officer and Chief Investment Officer and wish him the best for his future.

Cameron Price served as acting Chief Executive Officer from March to June following David's departure. Cameron did an outstanding job, serving with poise and skill over four very trying months.

I congratulate Raphael Arndt who was appointed as the Agency's new Chief Executive Officer effective 1 July 2020. Raphael, previously our Chief Investment Officer, has a deep knowledge of the organisation. His global perspective and thoughtful leadership will stand him in good stead as he takes the organisation forward.

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

I thank the members of the Board of Guardians for their contributions throughout the year and for their diligence and expertise in overseeing the investment of the portfolios and the activities of the Agency.

Finally, on behalf of the Board I thank the staff of the Future Fund Management Agency for their efforts through a particularly challenging year. There will be both challenges and opportunities ahead and with commitment and hard work under Raphael's leadership I am confident we will navigate the future successfully.

Hon Peter Costello AC

Chairman
Future Fund Board of Guardians

Report from the Chief Executive Officer

What a year 2019-20 has been. We are living through a one-in-100 year event in markets and the real economy, compounded by a significant public health event that is changing how society operates and profoundly affecting how we live and work.

Our purpose has never been more important than it is today. The value we add to the funds we manage will strengthen the Australian Government's long-term financial position, support medical research, assist Indigenous Australians, support drought resilience and communities impacted by natural disaster, and help fund Australia's National Disability Insurance Scheme.

I was honoured to be appointed as Chief Executive Officer earlier this year. I have been with the organisation for over 12 years, joining as Head of Infrastructure and Timberland in 2008 and going on to serve as Chief Investment Officer from 2014. I am thrilled to now serve as Chief Executive Officer and to bring both continuity and commitment to evolving the organisation for the new challenges ahead.

I would like to acknowledge my predecessor, colleague and friend David Neal, who has left a tremendous legacy at the Future Fund as its former Chief Executive Officer. David was instrumental in designing and implementing the Future Fund's investment strategy and in building a robust and effective organisation underpinned by a strong and positive culture.

We came into the current period of market disruption in a strong position. Our investment strategy and processes continue to work well and our organisation has proved its resilience.

As the economic impact of COVID-19 was felt in investment markets across the globe and flowed through to our own portfolios, the strength of our joined-up investment approach was on full display. Our team came together, singularly focused on making the best investment decisions for the funds we manage. The entire organisation was dedicated to supporting this outcome, a true testament to the 'one team, one purpose' philosophy that underpins our culture.

We are reaping the benefits of our strategic program of work over the last few years to upgrade our investment data and technology capabilities. This enabled our staff to transition seamlessly to working from home and gave our investment team real time insights into our portfolios as the investment impact of COVID-19 unfolded.

Looking ahead

Looking ahead, we have identified three strategic focus areas. We will focus on maximising the benefits of our multi-year Investment Data and Analytics Program and bedding in the adjustments to the structure of our investment team, while also moving into new offices that will help us strengthen collaboration. We will continue to respond to changing opportunities presented by technology and data. Alongside this we recognise the evolving nature of the workplace and expectations of employees, and the way in which the pandemic has accelerated these changes and may transform existing business and investment frameworks and approaches.

This approach will maximise the long-term contribution we can make to Australia.

I thank the Board of Guardians for its strong support and guidance as I have stepped into the role of Chief Executive Officer.

I also acknowledge and thank the team at the Future Fund Management Agency. I am proud of how the team has worked together throughout the year. They have demonstrated great resilience and flexibility. I'm tremendously grateful for their efforts and proud of what we have achieved in a challenging investment environment.

Dr Raphael Arndt

Chief Executive Officer
Future Fund Management Agency

01

Organisation overview

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

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

Established in 2006, we invest the assets of six special purpose public asset funds: the Future Fund, the Medical Research Future Fund, the Aboriginal and Torres Strait Islander Land and Sea Future Fund, the Future Drought Fund, the Emergency Response Fund and the DisabilityCare Australia Fund.

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

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

Our funds

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

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

Future Fund

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

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

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

From 1 July 2017, the long-term benchmark return target was reduced by the responsible Ministers to CPI + 4.0% to 5.0% per annum, reflecting the changed investment environment. The return objective must continue to be pursued with acceptable but not excessive levels of risk.

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

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

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

Medical Research Future Fund

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

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

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

Aboriginal and Torres Strait Islander Land and Sea Future Fund

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

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

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

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

Future Drought Fund

The Future Drought Fund was established in September 2019 to support initiatives that enhance the drought resilience of Australian farms and communities.

The Future Drought Fund was established with a capital contribution of $4.0 billion, transferred from the Building Australia Fund, which was closed on 1 September 2019.

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

Payments from the Future Drought Fund are to be managed in line with the *Future Drought Fund Act 2019.*

Emergency Response Fund

The Emergency Response Fund was established in December 2019 to support communities impacted by natural disasters.

The Emergency Response Fund was established with a capital contribution of $4.0 billion, transferred from the Education Investment Fund, which was closed in December 2019.

The Emergency Response Fund allows the Government to draw up to $200 million in any given year beyond what is already available to fund emergency response and natural disaster recovery and preparedness, where it determines the existing recovery and resilience-building programs are insufficient to provide an appropriate response to natural disasters.

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

Payments from the Emergency Response Fund are to be managed in line with the *Emergency Response Fund Act 2019.*

DisabilityCare Australia Fund

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

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

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

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

Discontinued funds

The two Nation-building Funds, the Building Australia Fund and the Education Investment Fund, were discontinued during 2019-20 and their assets transferred to the newly established Future Drought Fund and Emergency Response Fund respectively.

Our purpose

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

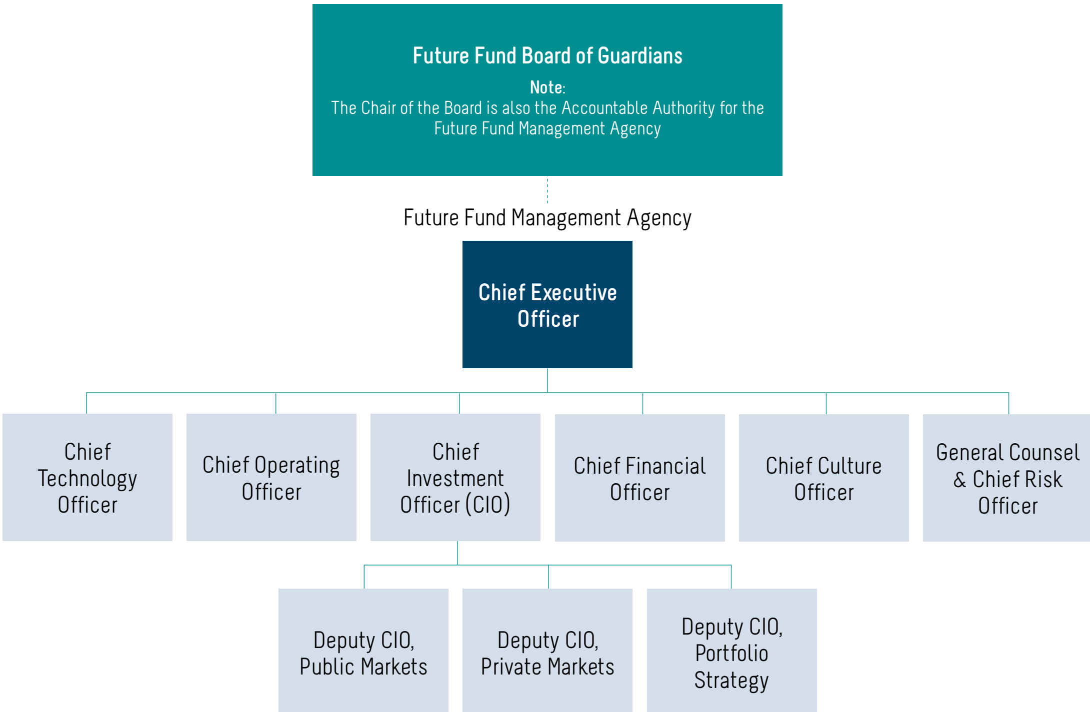
Everything we do is aligned to achieving our purpose. It provides a focus for our people, their efforts and our priorities.

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

Our organisational structure

Below is the high level structure of our organisation at 30 June 2020.

Learn more about our Board and Management Committee in the 'Governance' section of this report.



Our business strategy

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

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

Strategic imperatives

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

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

Culture and values

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

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

Strategic pillars

There are three key pillars to our business strategy:

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

Strategic activities in 2019-20

To deliver our business strategy in 2019-20 we continued to focus on, and made good progress in, three priority areas:

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

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

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

Strategic activities in the year ahead

In 2020-21, our strategic focus is evolving to focus on three refreshed priority areas:

- **Consolidation** – embed and integrate our recent changes.
- **Technology** – unlock potential and realise opportunities.
- **Future of work** – adapt and enhance our capability.

Our business strategy

OUR PURPOSE IS **WHY** WE EXIST

Investing for the Benefit of Future Generations of Australians

OUR **STRATEGIC IMPERATIVES** DEFINE **WHAT** WE MUST DO TO SUCCEED

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

HOW WE WILL ACHIEVE OUR PURPOSE IS BY UPHOLDING OUR **VALUES**

- **Focus on what matters**
- **Do the right thing**
- **Work together**

OUR **STRATEGIC PILLARS** ARE THE **STRENGTH** BEHIND OUR PURPOSE

- **One team, one purpose**
- **Nimble and flexible**
- **Leveraging the best in the world**

OUR **STRATEGIC FOCUS** HAS BEEN...

- Materially upgrade our investment data and analytics
- Drive greater efficiency and productivity
- Invest in our people and culture

IN 2020-21 OUR **STRATEGIC FOCUS** IS EVOLVING TO...

- **Consolidation** Embed and integrate our recent changes
- **Technology** Unlock potential and realise opportunities
- **Future of work** Adapt and enhance our capabilities

02

How we invest

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

Working together with world-class external investment managers, our team collectively channels its best ideas, irrespective of asset class, up to the total portfolio to achieve the investment objective of each fund.

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

For our long-term funds, we construct highly diversified portfolios that are as robust as possible to a range of plausible scenarios.

The DisabilityCare Australia Fund has a shorter-term investment horizon. The assets of these funds are invested in a combination of short and medium-term debt instruments.

Investment categories

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

Joined-up investment approach

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

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

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

Dynamic investment process

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

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

The key elements of our investment process are:

1. Foundation inputs

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

2. Analysis of the investment environment

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

3. Risk management and budgeting

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

4. Investment analysis and selection

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

Investment Committee at 30 June 2020

Raphael Arndt
Chief Investment Officer (Chair)

Sue Brake
Deputy Chief Investment Officer, Portfolio Strategy

Sarah Carne
Head of Listed Tangibles

David George
Deputy Chief Investment Officer, Public Markets

Hugh Murray
Head of Overlays

Wendy Norris
Deputy Chief Investment Officer, Private Markets

Cameron Price
Acting Chief Executive Officer

Ben Samild
Head of Alternatives

Decision making

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

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

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

Investment beliefs

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

We believe that:

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

Partnering with investment managers

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

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

A list of our external managers at 30 June 2020 is available at Appendix A.

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

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

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

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

Appropriately experienced investment professionals are responsible for undertaking investment manager and asset due diligence. These professionals apply a structured framework to assess the manager or asset and bring forward a recommendation to the Manager Review Committee or Asset Review Committee as appropriate. We undertake regular reviews of external managers after appointment.

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

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

Where we invest

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

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

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

Managing currency

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

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

Currency exposure for our long-term funds in 2019-20 is discussed in the Investment Performance section of this report. In the case of the DisabilityCare Australia Fund, given its higher domestic weighting and the conservative nature of its investment programs, we fully hedge all foreign currency exposures back to Australian dollars.

Managing tax arrangements

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

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

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

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

Management of environmental, social and governance issues

Our approach

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

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

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

We integrate ESG factors into our investment decision-making processes, including the process for selecting the external investment managers responsible for individual investment decisions; due diligence for direct investments; investment stewardship activities; and the macroeconomic scenarios that inform our strategic asset allocation.

Governance

Our framework for managing ESG issues is articulated in our ESG Policy and incorporated in the Statement of Investment Policies available on our website. Our ESG Policy is consistent with our obligations under the *Future Fund Act 2006*, our investment mandates, beliefs and strategy. The Future Fund Board of Guardians is responsible for the oversight of our ESG Policy. Our investment teams are tasked with implementing the policy in our investment activities. They are assisted by a dedicated internal ESG team which reports directly to the Chief Investment Officer.

Integrating ESG into the investment process

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

Transactional due diligence

Where we make direct investments, such as for direct infrastructure or property investments, or for any other investment decisions that fall outside the investment mandates with our investment managers, the evaluation of ESG factors is conducted internally. These assessments are conducted by the relevant sector team using tailored ESG review tools, and supported by our ESG team with line of sight over all investment activities.

In partnership with our investment managers, we may engage third party consultants for investments where ESG factors are especially complex or material. We also source ESG data and research from several specialist providers to enable us to better monitor and benchmark the ESG performance of our investment portfolios.

Partnering with our managers

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

This model requires careful coordination and alignment between our organisation and our managers. As part of our manager selection and monitoring process, we consider the extent to which the manager is effectively managing financial and reputational risks and opportunities that may arise from ESG issues. This process is underpinned by dedicated and ongoing engagement and monitoring in accordance with our Manager ESG Review Framework. Specifically, these tailored discussions with our managers focus on whether their capacity and commitment to managing ESG issues on our behalf is commensurate with the ESG risk of their portfolios.

Long-term investment themes

As a large, long-term asset owner with a globally diversified portfolio, top-down views on the strategic trends that will influence outcomes for investors over the medium to long term are an important component in our capital allocation process. Many of those trends have a strong ESG component, both in terms of system inputs (such as demography and resource scarcity) and regulatory and consumer responses to those inputs (such as policies to limit global carbon emissions).

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

Climate risk

For long-term investors, climate change presents risks and opportunities. From a risk management perspective, we consider material climate risks in our investment process, including the following:

- **Carbon price risk:** The risk that markets in which we invest will introduce a price on carbon emissions.
- **Transition risk:** The risk of potential changes in regulatory standards, public policy, technology and customer preferences in response to climate change.
- **Physical risk:** The risk of damage or disruption to assets, supply chains and economies more broadly from changes in weather patterns, both acute and chronic.

We expect that over the medium term, climate-related price and transition risks could be material especially for carbon intensive sectors of the economy. Over the longer term, the physical implications of climate change are also considered material, particularly for tangible assets. Climate-related risks may also materialise at a macro level, through changes in macroeconomic conditions and financial stability.

We consider climate change from a risk-adjusted returns perspective and integrate material risks and opportunities into our investment processes. This includes reviewing climate risk during due diligence for specific investments or periodic industry assessments, monitoring how our investment managers are addressing climate risk, engaging with the assets and companies we invest in, considering climate-related risks in our proxy voting activities, and monitoring climate performance in our portfolios. We are also enhancing our understanding of the impact of climate risk at a whole-of-portfolio level.

We source climate research from several market providers to support these activities and use benchmarking platforms like GRESB for private market tangible assets. The GRESB survey includes detailed questions on the management of carbon risk by fund managers and specific operating assets. We actively encourage our external investment managers to participate in this survey, as it helps us to further build our understanding of their climate governance, risk management practices and performance.

To enhance the ability by financial markets to accurately identity and price carbon risk, we support the Taskforce on Climate-related Financial Disclosures (TCFD) and engage with our investment managers and the companies that we invest in to advocate for the adoption of TCFD recommendations where appropriate.

As part of our diversified investment portfolio, we also invest in a range of clean technologies such as wind, solar and energy efficiency technologies, including more than $500 million of committed investment in renewable energy in our unlisted infrastructure portfolio. The expected returns of these investments, over an appropriate time horizon, are attractive on a risk-adjusted basis.

Disruptive innovation

We consider a wide set of non-linear disruption trends that could materially impact our investment portfolios. These trends are not typically limited to a specific industry or asset class, and pose both opportunities and risks to investors. In addition to technological innovation, disruption can be driven by social issues, demographics, regulation, policy, economics and 'black swan' events.

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

For example, we are an active investor in technological disruption, primarily through our multibillion-dollar venture capital program but also through our hedge fund exposures. These programs provide us access to fund managers with insights into the forefront of new global technological trends.

Predicting the impacts from disruption is inherently challenging given the shear breadth of potential disruption issues, uncertain event timelines and probabilities, market and policy responses. The recent COVID-19 pandemic is an example of the profound impact these unexpected events can have on financial markets and society more broadly. This highlights the need for a dynamic framework that enables us to prioritise and integrate potential disruption trends in a thoughtful and consistent manner.

Disruption assessment is integrated into our investment decision frameworks, prompting the investment team to consider thematic risks and opportunities in their investment strategies and during idea generation. By identifying materially impactful disruptive trends at an early stage, the investment team can work with investment managers to accurately price risks and evaluate opportunities that can enhance the value of our portfolios over the long-term. Our dedicated disruption team works closely with the investment staff throughout the transaction process to analyse the materiality of trend impacts and potential scenarios. This collaboration continues through the life cycle of each investment, with periodic assessments of assets' exposure to disruption themes and of managers' capacity to manage related risks and opportunities.

Over time, we expect that these insights will be a key input into our portfolio construction activities.

Modern slavery

The *Modern Slavery Act 2018* requires certain entities to undertake work to identify and report on potential modern slavery risks. The overall aim of the Act is to shine a light on the issue and influence positive change across economies both here and overseas.

The process for identifying and managing modern slavery risks has been integrated into our existing ESG frameworks. During the year, we also undertook a thematic risk assessment across the first tier of the investment portfolio to identify potential exposures to geographies or sectors with elevated modern slavery risks.

Information on our approach has been integrated into the Commonwealth Government's Modern Slavery Statement, which covers all Commonwealth procurement and investment activities. The Commonwealth statement is due to be published in late 2020.

Portfolio exclusions

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

Since 2009, we have restricted all managers of directly held investments from investing in securities issued by companies that are involved in activities that are limited by the 2008 Convention on Cluster Munitions or the 1997 Anti-Personnel Mines Convention. In February 2013, we also restricted investment in entities directly involved in the manufacture of complete tobacco products.

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

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

Our investment stewardship activities

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

We exercise all eligible voting rights in publicly listed companies. We do not engage in share lending which might reduce our voting rights and create misalignment with our corporate governance priorities.

We have formulated our view on key corporate governance issues in our Voting Principles. We prioritise the application of these principles in our proxy voting decisions. We also receive voting recommendations from our investment managers and proxy advisers for all shareholder meetings.

We value the ability of our investment managers to effectively juxtapose corporate governance issues with investment performance considerations, and draw on these insights frequently.

We oversee the quality of our investment managers' insights into corporate governance and proxy voting as part of our Manager ESG Review Framework, and by regularly evaluating their ownership policies and proxy voting recommendations.

A summary of our Australian and international voting activity during 2019-20, and a detailed report outlining how we voted at each Australian shareholder meeting can be found on our website.

Our voting principles

- Companies should disclose accurate and material information on a timely basis to allow shareholders to make informed decisions.
- Companies should respect shareholder rights and their directors should engage shareholders, particularly on major decisions.
- All shareholders should be treated equally and have the right to vote in proportion to their economic interest in the company.
- Companies should compose high calibre, commercially experienced and diverse boards of directors to provide superior business leadership and integrity.
- Boards should appropriately balance measures to protect the capital adequacy of the company with equitable treatment of shareholders.
- Companies should establish a sound system of oversight, management and control of business risks.
- Structures that transfer power from shareholders to management or third parties to protect against takeovers are generally undesirable.
- Boards of directors should be composed to ensure the exercise of objective independent judgement on corporate affairs.
- Companies should have appropriate performance evaluation and incentive systems that align executives with long-term shareholder interests and company strategy.

Voting our Australian equities shares

Voting rights in publicly listed Australian companies are exercised directly by our organisation. Where a company resolution is found to be in conflict with our corporate governance principles or does not align with our best interests, we will consider voting against the company board.

During 2019-20, we participated in 205 shareholder meetings and voted against Australian company boards in 6.9% of all resolutions.

Voting our international listed equities shares

Given the scope and complexity of corporate governance and proxy voting regimes in multiple international markets, our external investment managers advise us in exercising these voting rights. These managers, responsible for managing investments on our behalf, are well placed to evaluate good corporate governance in investee entities. We retain the ability in all cases to override our managers' recommendations.

In the cases where our votes were not exercised, generally our investment manager judged that it was not in our best interests to vote given structural impediments to shareholder voting such as share blocking/re-registration or power-of-attorney requirements, or that we were ineligible to vote.

In aggregate, we participated in 4,298 shareholder meetings and voted against company boards' recommendations in 12.2% of all international resolutions.

Ownership rights in private markets

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

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

Engagement with investee entities

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

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

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

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

Our engagement meetings are tailored to each organisation. Issues frequently tabled for discussion include: board and executive management quality, strategic priorities, remuneration, environmental and social issues, culture and long-term value creation. Over the last five years, we have engaged with board representatives from a broad range of Australian listed companies, including a majority of the ASX 50.

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

Collaboration and contributing to a stronger investment system

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

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

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

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

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

03

Investment performance

Investment environment

The COVID-19 pandemic and its economic and market impacts dominated the latter half of the 2019-20 financial year after positive economic and market conditions in the first half. The impacts of the pandemic are expected to be long lasting and a steady state solution unclear, which makes the medium to long-term investment outlook very uncertain and unusually risky.

Ongoing trade and geopolitical tensions between the US and China were the key drivers of the global economy and financial markets as 2019 progressed, weighing on the global economy and prompting a fresh round of monetary policy easing to support economic activity. As 2020 dawned, these moves, reinforced by a 'Phase 1' trade deal between the US and China, appeared to set a solid foundation for an ongoing expansion of the business cycle.

However, this foundation was shattered by the outbreak and rapid spread of the COVID-19 pandemic in 2020. The onset of the pandemic drove a record-breaking contraction in global economic activity as authorities imposed severe economic shut-downs and brought non-essential activity to a near-standstill across the globe in an ongoing effort to control the spread of the virus.

Facing these unprecedented circumstances, fiscal and monetary policymakers rapidly introduced a range of historic policy responses. These included accelerated and expanded central bank interventions in financial markets, widely expanded unemployment support and the direct fiscal funding of employee wages in a number of major economies. These emergency policy responses have mitigated the immediate impacts on the real economy, although further policy initiatives will be required until a steady state solution to the pandemic is reached. Challenges remain for policy makers in balancing the need for further income support during this period, potential fiscal cliffs as support is unwound, minimising distortions from extended policy intervention and long-term debt sustainability issues.

Financial markets responded to the unfolding pandemic with extreme and historic levels of volatility across almost every financial asset over the course of March 2020. Buoyed by the fiscal and monetary policy responses and optimism about an economic recovery, risk assets have rallied strongly to end the financial year. This stands in stark contrast to the economic reality, which remains severely challenged.

Indeed, the world continues to contend with the healthcare and human impacts of COVID-19, and while there is optimism that a vaccine may soon be widely available, until this or an alternative is found the long-run economic costs and impacts from the pandemic will continue to mount. Extended periods of unemployment will harm job prospects and, combined with lost incomes, cause substantial damage to household and business balance sheets that will take years to work through and also impair long-run economic growth prospects. Changes to household and corporate behaviour, combined with public health policy initiatives to either contain this pandemic or prevent future issues, will also have significant implications for certain sectors of economies and overall economic wellbeing.

Beyond its immediate effects, the COVID-19 shock and associated economic dislocations have likely accelerated and exacerbated existing vulnerabilities and trends within the global order. These include:

- The global political and geopolitical landscape.
- How economies and societies function and interact with each other.
- How and what global policy tools are used to manage economies going forward.
- How financial markets function and how portfolios should be constructed.

The resolution of these various uncertainties may fundamentally alter the global economic and investment environment in the years to come.

Uncertainty on the near-term trajectory of the pandemic combined with medium to long-term issues regarding economic policy, the costs of the pandemic, behavioural changes and possible paradigm shifts in the global economic and investment environment all combine to make for a particularly challenging investment environment, albeit one in which dislocations also create opportunities for investors. This backdrop suggests a moderate exposure to risk assets is warranted to balance mandate achievability and not taking excessive risk. Given these uncertainties, it is also important to maintain portfolio flexibility and approach new opportunities prudently.

Portfolio activity in 2019-20

Our objective is to invest for the long term, and the Future Fund was well positioned as we entered the dislocation associated with COVID-19.

In investing for the long term, we are very conscious of avoiding downside risk, and we regularly review our portfolio composition to ensure exposures in the portfolio are as attractive or more attractive than opportunities we are looking at that aren't in the portfolio.

When assets become mature and the expected look-forward return has decreased, we may choose to sell them to generate flexibility and re-deploy the capital into new opportunities.

We have continued to reduce the size of our Debt portfolio as both available credit spreads and credit standards deteriorated, particularly in more liquid sectors. Through March 2020, this created some capacity to re-enter such credit strategies, as well as for some opportunistic Alternatives allocations to strategies aimed at capitalising on dislocations in high-quality, fixed-income markets.

Over recent years, we have sold or reduced our exposure to more than 30 individual illiquid positions across Private Equity, Infrastructure and Property as asset valuations rose and look-forward returns contracted.

This year, we undertook a material rebalance of the Private Equity portfolio, reducing some of our exposure to international growth and buyout managers following a period of very strong performance. We also completed the sale of Gatwick Airport and deployed some of that capital into new infrastructure themes, including fibre and data centres both in Australia and offshore.

Although we have actively reduced the size of our Unlisted Property portfolio as we have neared the end of the property cycle, we continue to hold unlisted property exposures in Australia and offshore. This includes some retail properties that are being actively managed to address structural headwinds which have been exacerbated by COVID-19.

The defensive positions in the portfolio provided downside protection through the year consistent with our expectations, including in foreign currency, fixed-income and some hedging strategies.

The period of relative strength for the Australian dollar toward the end of the year has offset some of the gains of the recovery in equity markets. We remain of the view that a meaningful level of foreign currency exposure, to each of developed and emerging markets countries, can provide valuable diversification.

Significant portfolio activity occurred for the Medical Research Future Fund, the Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILS Fund), the Future Drought Fund and the Emergency Response Fund.

The Medical Research Future Fund received additional inflows during the year and the ATSILS Fund, Future Drought Fund and Emergency Response Funds were all invested during the year. We made significant progress in diversifying these four funds, building our exposures to capacity constrained managers and taking advantage of opportunities that have arisen in this period of market dislocation.

Future Fund

Interpreting the Investment Mandate

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

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

A new Investment Mandate came into effect from 1 July 2017, which reduced the long-term benchmark return target to CPI + 4.0% to 5.0% per annum, reflecting the changed investment environment.

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

The Fund's Investment Mandate is available on our website.

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

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

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

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

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

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

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

Risk positioning

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

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

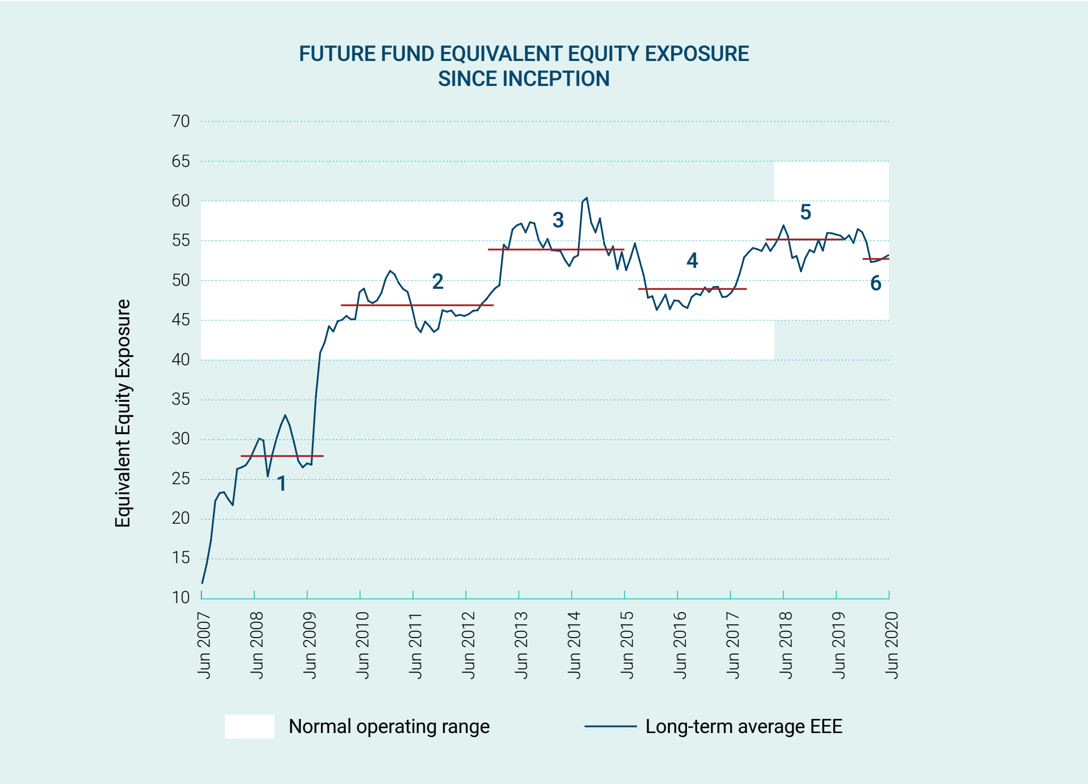
Our outlook on the global economy and markets is explored in more detail in our investment environment report on pages 24-25.

The broad focus of our portfolio construction in 2019-20 has been to retain high levels of portfolio flexibility to both withstand and potentially take advantage of any market dislocations that might arise.

Measuring risk

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

EEE estimates the amount of market exposure we have when looking through the whole portfolio. Our EEE range for the Future Fund is 45-65. The average EEE in 2019-20 was 55, and at 30 June 2020 the EEE stood at 53.



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

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

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

1. Soon after inception in 2006, the build of the Future Fund portfolio was suspended in late 2007 due to concerns over financial stability and the sustainability of high asset prices, and a very low risk profile was maintained into the global financial crisis.
2. Portfolio risk exposure was increased as extraordinary and globally coordinated economic policies were implemented to fight the crisis.
3. Risk levels were raised further as the European crisis subsided and the President of the European Central Bank, Mario Draghi, committed to 'do whatever it takes' to underwrite the integrity of the Euro.
4. As expected returns declined (given strong market performance supported by low interest rates), portfolio risk was gradually reduced to moderately below normal levels.

5. Risk levels were increased towards more normal levels, reflecting the emergence of strong economic growth and corporate earnings and central banks signalling an extension of accommodative monetary policies, together with the decision to increase the Fund's structural risk appetite.
6. Risk levels were reduced to moderately below neutral, reflecting the elevated risk environment resulting from the COVID-19 pandemic and policy response.

Currency

As discussed on page 18 we explicitly manage the size and composition of the foreign currency exposures in the portfolio rather than allowing them to be shaped by our underlying investments.

At 30 June 2020, we held an exposure to foreign developed market currencies equivalent to 33.7% of the total Future Fund. We expect our basket of developed market currencies to diversify the portfolio against broad market risk and generate liquidity in adverse conditions.

We also held an exposure of 10.7% of the Future Fund to emerging market currencies at 30 June 2020. We expect a diversified exposure to emerging market currencies to deliver a modest excess return through some combination of gradual real effective exchange rate appreciation and/or positive real interest rate differentials relative to the Australian dollar. Given that we expect its performance to be uncorrelated with broad market risk over the long term, we consider our basket of emerging market currencies to be an attractive risk-adjusted exposure at portfolio level.

Performance

At 30 June 2020 the Future Fund delivered a 10-year return of 9.2% per annum, exceeding its target of 6.1% per annum.

The Fund stood at $161.1 billion at 30 June 2020 with investment returns adding $100.6 billion to the seed capital from the Australian Government.

Investment returns to 30 June 2020 are shown on this page, together with the target benchmark return set by the Investment Mandate.

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

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

All returns are reported net of costs.

Future Fund returns, target benchmark and levels of risk at 30 June 2020

Period to 30 June 2020	Return (% pa)	Target return (% pa)	Volatility (%)	Sharpe ratio
Since inception (May 2006)	7.5	6.5	4.3	1.0
Ten years	9.2	6.1	3.9	1.7
Seven years	8.9	5.8	4.1	1.7
Five years	6.6	5.5	4.3	1.2
Three years	6.5	5.1	4.6	1.2
2019-20 financial year	-0.9	3.7	5.2	-0.3

Note:
The Investment Mandate sets a benchmark target return of at least CPI + 4.5% to 5.5% per annum to 30 June 2017 and CPI + 4.0% to 5.0% per annum thereafter.

Portfolio exposures

Asset allocation at 30 June 2020

Asset class	$m	% of Fund
Australian equities	11,012	6.8
Global equities		
Developed markets	30,810	19.1
Emerging markets	13,074	8.1
Private equity	24,424	15.2
Property	9,285	5.8
Infrastructure & Timberland	11,420	7.1
Debt securities	12,852	8.0
Alternatives	20,832	12.9
Cash	27,404	17.0
Total	**161,112**	**100.0**

Asset class exposures at 30 June 2020

Listed equities	
Sector	**Exposure (%)**
Energy	4
Materials	8
Industrials	9
Consumer discretionary	11
Consumer staples	9
Health care	12
Real estate	2
Financials	17
Information technology	18
Communication services	9
Utilities	2
Private equity	
Strategy	**Exposure (%)**
Buyout	33
Distressed	1
Venture and growth	66
Property	
Sector	**Exposure (%)**
Retail	29
Office	18
Industrial	12
Residential	12
Diversified	17
Seniors living	6
Healthcare	2
Hospitality	3

Infrastructure & Timberland	
Sector	**Exposure (%)**
Airports	30
Electricity, oil and gas	27
Transport	18
Timberland	11
Water	3
Communications	11
Debt	
Strategy	**Exposure (%)**
Private debt	42
Investment grade corporate	1
Sub-investment grade corporate	29
Mortgage backed securities	2
Other securitised	6
Emerging markets debt	20
Cash and other	1
Alternatives	
Strategy	**Exposure (%)**
Equitised	7
Multi-strategy/Relative value	23
Macro-directional	51
Alternative risk premia	19

Asset class exposures by geography at 30 June 2020

Region	Listed equities (%)	Private equity (%)	Property (%)	Infrastructure & Timberland (%)	Debt (%)	Alternatives (%)
Australia	21	2	6	53	5	2
United States of America	34	73	58	28	38	56
Europe (ex UK)	7	4	13	5	12	15
United Kingdom	2	5	8	8	13	4
Japan	8	-	4	-	1	5
Developed (other)	3	4	6	7	5	5
Emerging	26	12	5	-	25	13

Portfolio by geography at 30 June 2020[1]

Region	Total Exposure (%)
Australia	25
United States of America	37
Europe (ex UK)	7
United Kingdom	4
Japan	9
Developed (other)	4
Emerging	15

Note:

1. Reflects physical investments only.

Costs

Cost management

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

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

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

Direct costs

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

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

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

Look-through costs

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

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

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

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

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

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

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

Summary of direct costs and direct cost ratio

	2017-18	2018-19	2019-20
Direct costs	$319.2 million	$311.2 million	$326.1 million
Direct cost ratio	0.231%	0.203%	0.197%

Summary of look-through costs

	2017-18	2018-19	2019-20
Look-through costs	1.34%	1.42%	0.93%

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 2017-18	Amount debited 2018-19	Amount debited 2019-20
Contracts with investment managers	$291,006,497	$218,414,544	$224,666,952
Board remuneration and allowances	$852,505	$886,580	$976,260
Agency remuneration and allowances	$43,663,298	$46,856,999	$49,890,000
Consultants and advisers to the Board and Agency	$14,339,000	$16,266,996	$20,969,639
Agency operations	$23,564,832	$39,295,413	$73,390,442

Note:

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

Interpreting the Investment Mandate

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

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

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

The Board is required to conduct itself in a manner that:

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

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

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

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

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

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

Risk positioning

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

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

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

Our expected EEE range for the Medical Research Future Fund is 20 to 35. The average EEE in 2019-20 was 28 and at 30 June 2020 the EEE stood at 27, which is the middle of the range.

Currency

As discussed on page 18, we explicitly manage the size and composition of the foreign currency exposures in the portfolio rather than allowing them to be shaped by our underlying investments.

At 30 June 2020, we held an exposure to foreign developed market currencies equivalent to 16.0% of the total Medical Research Future Fund. We expect our basket of developed market currencies to diversify the portfolio against broad market risk and generate liquidity in adverse conditions.

We also held an exposure of 6.1% of the Fund to emerging market currencies at 30 June 2020. We expect a diversified exposure to emerging market currencies to deliver a modest excess return through some combination of gradual (but incremental) real effective exchange rate appreciation and/or positive real interest rate differentials relative to the Australian dollar.

Performance

Investment returns at 30 June 2020 are shown below, together with the target benchmark return set by the Investment Mandate.

The Fund received a contribution of $7.8 billion in 2019-20, and at 30 June 2020 was valued at $17.2 billion.

Medical Research Future Fund returns, target benchmark and levels of risk at 30 June 2020

Period to 30 June 2020	Return (% pa)	Target return (% pa)	Volatility (%)	Sharpe ratio
Since inception (September 2015)	3.6	2.9	2.9	0.7
Three years	3.4	2.7	3.5	0.6
2019-20 financial year	0.2	2.1	5.1	-0.1

Portfolio exposures

Asset allocation at 30 June 2020

Asset class	$m	% of Fund
Australian equities	674	3.9
Global equities		
Developed markets	1,603	9.3
Emerging markets	817	4.7
Private equity	659	3.8
Property	494	2.9
Infrastructure	557	3.2
Debt securities	2,072	12.0
Alternatives	1,702	9.9
Cash	8,654	50.2
Total	**17,232**	**100.0**

Asset class exposures at 30 June 2020

Listed equities	
Sector	**Exposure (%)**
Energy	4
Materials	8
Industrials	8
Consumer discretionary	12
Consumer staples	7
Health care	12
Real estate	2
Financials	18
Information technology	17
Communication services	9
Utilities	3

Private equity	
Strategy	**Exposure (%)**
Buyout	66
Secondaries	26
Venture and growth	8

Property	
Sector	**Exposure (%)**
Retail	12
Office	13
Industrial	19
Residential	16
Diversified	31
Healthcare	6
Hospitality	3

Infrastructure	
Sector	**Exposure (%)**
Airports	3
Electricity, oil and gas	37
Transport	14
Water	5
Communications	42

Debt	
Strategy	**Exposure (%)**
Private debt	4
Investment grade corporate	17
Sub-investment grade corporate	39
Mortgage backed securities	5
Other securitised	8
Emerging markets debt	22
Cash and other	4

Alternatives	
Strategy	**Exposure (%)**
Equitised	11
Multi-strategy/Relative value	25
Macro-directional	38
Alternative risk premia	27

Asset class exposures by geography at 30 June 2020

Region	Listed equities (%)	Private equity (%)	Property (%)	Infrastructure (%)	Debt (%)	Alternatives (%)
Australia	21	4	3	33	7	3
United States of America	36	62	58	36	50	54
Europe (ex UK)	6	3	9	13	10	15
United Kingdom	3	1	4	2	5	5
Japan	4	-	8	4	-	5
Developed (other)	4	23	12	11	4	5
Emerging	26	7	6	-	24	13

Portfolio by geography at 30 June 2020[1]

Region	Total exposure (%)
Australia	52
United States of America	24
Europe (ex UK)	5
United Kingdom	2
Japan	5
Developed (other)	4
Emerging	9

Note:

1. Reflects physical investments only.

Costs

Cost management

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

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

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

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

Direct costs

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

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

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

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

Look-through costs

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

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

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

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

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

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

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

Summary of direct costs and direct cost ratio

	2017-18	2018-19	2019-20
Direct costs	$11.8 million	$14.0 million	$25.4 million
Direct cost ratio	0.168%	0.145%	0.148%

Summary of look-through costs

	2017-18	2018-19	2019-20
Look-through costs	0.61%	0.46%	0.59%

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 2017-18	Amount debited 2018-19	Amount debited 2019-20
Contracts with investment managers	$9,390,187	$9,805,622	$17,927,465
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$2,271,251	$3,685,575	$5,062,432

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

Aboriginal and Torres Strait Islander Land and Sea Future Fund
Future Drought Fund
Emergency Response Fund

Investing our new funds

Since 2019, the Australian Government has entrusted our organisation with the management of three new return seeking funds: the Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILS Fund), Future Drought Fund and the Emergency Response Fund.

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

At the same time, it adds to the complexity of our investment task; investing six funds of varying sizes, each with an individual investment mandate and inflow and outflow arrangements, is challenging.

A co-mingled arrangement has been established between the Medical Research Future Fund and the ATSILS Fund, Future Drought Fund and Emergency Response Fund.

The arrangement has allowed these portfolios to gain rapid exposure to a more diversified, risk-managed investment program. Building exposures in a standalone portfolio would be slower and less efficient, while exposing the portfolios to additional risk during the build period. The scale of each portfolio would also limit the ability to access some diversifying strategies.

The ATSILS Fund gained access to the co-mingled arrangement on 1 October 2019 and the Future Drought Fund and Emergency Response Fund gained access on 1 April 2020. Measurement against their respective mandates commenced on those dates.

ATSILS Fund

Interpreting the Investment Mandate

The ATSILS Fund's Investment Mandate was issued to the Board by the responsible Ministers in March 2019, and is available on our website.

Following its establishment, the ATSILS Fund was in an initial transition phase while the Board developed a long-term investment strategy.

Measurement of performance against the Investment Mandate commenced on 1 October 2019.

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

In determining an acceptable but not excessive level of risk for the ATSILS Fund, the Board notes that in the Mandate the Government acknowledges that targeting the long-term benchmark return implies accepting the risk of capital losses, in adverse markets, that may be 15-20% of the portfolio over a three-year period. The Board has interpreted this statement as including the effect of the annual payments.

The Mandate also notes that the Board must have regard to its obligations under section 17 of the Act to take all reasonable steps to ensure that the balance of the ATSILS Fund Special Account is sufficient to cover debits of amounts as set up under the ATSILS Fund Act.

The Board is also required to conduct itself in a manner that:

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

Risk positioning

The Board manages the structural risk exposure of the ATSILS Fund such that there is a relatively high probability of exceeding the benchmark return on a prospective basis over the long term, noting the high level of uncertainty associated with any return forecast.

The Board believes that an EEE of 36 corresponds to a structural risk level for the ATSILS Fund that is consistent with a relatively high probability of achieving the CPI + 2.0% over the long term, at the lower end of the benchmark return range.

In accordance with our investment process, we aim to build a portfolio with a relatively high degree of resilience to the investment environment. We seek genuine diversification that achieves greater balance in portfolio construction while allocating risk in a flexible and dynamic manner.

Currency

As discussed on page 18, we explicitly manage the size and composition of the foreign currency exposures in the portfolio rather than allowing them to be shaped by our underlying investments.

At 30 June 2020, we held an exposure to foreign developed market currencies equivalent to 20.5% of the total ATSILS Fund. We expect our basket of developed market currencies to diversify the portfolio against broad market risk and generate liquidity in adverse conditions.

We also held an exposure of 7.7% of the ATSILS Fund to emerging market currencies at 30 June 2020. We expect a diversified exposure to emerging market currencies to deliver a modest excess return through some combination of gradual real effective exchange rate appreciation and/or positive real interest rate differentials relative to the Australian dollar. Given that we expect its performance to be uncorrelated with broad market risk over the long term, we consider our basket of emerging market currencies to be an attractive risk-adjusted exposure at portfolio level.

Performance

Following its establishment on 1 February 2019, the ATSILS Fund was in an initial transition phase while the Board developed a long-term investment strategy.

On 1 October 2019, the Fund gained exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund. The Fund's asset allocation is shown below.

Measurement of performance against the Investment Mandate commenced on 1 October 2019.

ATSILS Fund returns at 30 June 2020 are shown. At 30 June 2020, the ATSILS Fund was valued at $2.0 billion.

ATSILS Fund returns and target benchmark at 30 June 2020

Period to 30 June 2020	Return (%)	Target return (%)
Initial transition period (1 February to 30 September 2019)	1.3	n/a
From inception (1 October 2019)	-1.3	0.6

Portfolio exposures

Asset allocation at 30 June 2020[1]

Asset class	$m	% of Fund
Australian equities	98	5.0
Global equities		
Developed markets	234	12.0
Emerging markets	118	6.1
Private equity	95	4.9
Property	72	3.7
Infrastructure	81	4.1
Debt securities	300	15.4
Alternatives	246	12.6
Cash	709	36.3
TOTAL	**1,953**	**100.0**

Note:

1. Exposures on a look-through basis.

Asset class exposures at 30 June 2020[1]

Listed equities	
Sector	**Exposure (%)**
Energy	4
Materials	8
Industrials	8
Consumer discretionary	12
Consumer staples	7
Health care	12
Real estate	2
Financials	18
Information technology	17
Communication services	9
Utilities	3
Private equity	
Strategy	**Exposure (%)**
Buyout	66
Secondaries	26
Venture and growth	8
Property	
Sector	**Exposure (%)**
Retail	12
Office	13
Industrial	19
Residential	16
Diversified	31
Healthcare	6
Hospitality	3

Infrastructure	
Sector	**Exposure (%)**
Airports	3
Electricity, oil and gas	37
Transport	14
Water	5
Communications	42
Debt	
Strategy	**Exposure (%)**
Private debt	4
Investment grade corporate	17
Sub-investment grade corporate	39
Mortgage backed securities	5
Other securitised	8
Emerging markets debt	22
Cash and other	4
Alternatives	
Strategy	**Exposure (%)**
Equitised	11
Multi-strategy/Relative value	25
Macro-directional	38
Alternative risk premia	27

Note:

1. Exposures on a look-through basis.

Asset class exposures by geography at 30 June 2020

Region	Listed equities (%)	Private equity (%)	Property (%)	Infrastructure (%)	Debt (%)	Alternatives (%)
Australia	21	4	3	33	7	3
United States of America	36	62	58	36	50	54
Europe (ex UK)	6	3	9	13	10	15
United Kingdom	3	1	4	2	5	5
Japan	4	-	8	4	-	5
Developed (other)	4	23	12	11	4	5
Emerging	26	7	6	-	24	13

Portfolio by geography at 30 June 2020[1]

Region	Total exposure (%)
Australia	39
United States of America	31
Europe (ex UK)	6
United Kingdom	2
Japan	6
Developed (other)	4
Emerging	12

Note:

1. Reflects physical investments only.

Costs

Cost management

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

All returns reported are net of costs.

Direct costs

Direct costs reflect all directly incurred costs associated with the management of the ATSILS Fund.

The ATSILS Fund's direct costs for 2019-20 are shown on this page. This includes the direct cost ratio (direct costs divided by the average net assets for the financial year).

Summary of direct costs and direct cost ratio

	2018-19 (1 February to 30 June 2019)	2019-20
Direct costs	$0.3 million	$4.3 million
Direct cost ratio	0.037%	0.216%

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

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

Purpose	Amount debited 2018-19 (1 February to 30 June 2019)	Amount debited 2019-20
Contracts with investment managers	$77,496	$369,936
Board remuneration and allowances	-	-
Agency remuneration and allowances	-	-
Consultants and advisers to the Board and Agency	-	-
Agency operations	$64,383	$380,305

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

Future Drought Fund

Interpreting the Investment Mandate

The Future Drought Fund's Investment Mandate was issued to the Board by the responsible Ministers in December 2019, and is available on our website.

The Fund was established with a capital contribution of $4 billion transferred from the Building Australia Fund.

Following its establishment, the Future Drought Fund was in an initial transition phase while the Board developed a long-term investment strategy.

Measurement of performance against the Investment Mandate commenced on 1 April 2020.

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

In constructing the portfolio, the Mandate notes that the Board must have regard to its obligations under section 18 of the Act to take all reasonable steps to ensure that the balance of the Future Drought Fund Special Account is sufficient to cover debits of amounts for the purposes specified in the Act.

The Board is also required to conduct itself in a manner that:

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

Risk positioning

The Board manages the structural risk exposure of the Future Drought Fund such that there is a relatively high probability of exceeding the benchmark return on a prospective basis over the long term (noting the high level of uncertainty associated with any return forecast).

The Board believes that an EEE of 36 corresponds to a structural risk level for the Future Drought Fund that is consistent with a relatively high probability of achieving the CPI + 2.0% over the long term, at the lower end of the benchmark return range.

In accordance with our investment process, we aim to build a portfolio with a relatively high degree of resilience to the investment environment. We seek genuine diversification that achieves greater balance in portfolio construction, while allocating risk in a flexible and dynamic manner.

Currency

As discussed on page 18, we explicitly manage the size and composition of the foreign currency exposures in the portfolio rather than allowing them to be shaped by our underlying investments.

At 30 June 2020, we held an exposure to foreign developed market currencies equivalent to 20.5% of the total Future Drought Fund. We expect our basket of developed market currencies to diversify the portfolio against broad market risk and generate liquidity in adverse conditions.

We also held an exposure of 7.8% of the Future Drought Fund to emerging market currencies at 30 June 2020. We expect a diversified exposure to emerging market currencies to deliver a modest excess return through some combination of gradual real effective exchange rate appreciation and/or positive real interest rate differentials relative to the Australian dollar. Given that we expect its performance to be uncorrelated with broad market risk over the long term, we consider our basket of emerging market currencies to be an attractive risk-adjusted exposure at portfolio level.

Performance

Following its establishment on 1 September 2019, the Future Drought Fund was in an initial transition phase while the Board developed a long-term investment strategy.

On 1 April 2020, the Fund gained exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund.

Measurement of performance against the Investment Mandate commenced on 1 April 2020.

Future Drought Fund returns at 30 June 2020 are shown on the following page. At 30 June 2020, the Fund was valued at $4.1 billion.

Future Drought Fund returns at 30 June 2020

Period to 30 June 2020	Return (%)
Initial transition period (1 September 2019 to 30 March 2020)	0.7
From inception (1 April 2020)	3.4

Note:
The Future Drought Fund has a long-term target return. Given that measurement against the Fund's Investment Mandate commenced on 1 April 2020, it is not appropriate to assess short-term performance against a long-term target.

Portfolio exposures

Asset allocation at 30 June 2020[1]

Asset class	$m	% of Fund
Australian equities	207	5.0
Global equities		
Developed markets	493	11.9
Emerging markets	251	6.1
Private equity	203	4.9
Property	152	3.7
Infrastructure	172	4.2
Debt securities	638	15.4
Alternatives	524	12.7
Cash	1,492	36.1
Total	**4,133**	**100.0**

Note:

1. Exposures on a look-through basis.

Asset class exposures at 30 June 2020[1]

Listed equities	
Sector	**Exposure (%)**
Energy	4
Materials	8
Industrials	8
Consumer discretionary	12
Consumer staples	7
Health care	12
Real estate	2
Financials	18
Information technology	17
Communication services	9
Utilities	3
Private equity	
Strategy	**Exposure (%)**
Buyout	66
Secondaries	26
Venture and growth	8
Property	
Sector	**Exposure (%)**
Retail	12
Office	13
Industrial	19
Residential	16
Diversified	31
Healthcare	6
Hospitality	3

Infrastructure	
Sector	**Exposure (%)**
Airports	3
Electricity, oil and gas	37
Transport	14
Water	5
Communications	42
Debt	
Strategy	**Exposure (%)**
Private debt	4
Investment grade corporate	17
Sub-investment grade corporate	39
Mortgage backed securities	5
Other securitised	8
Emerging markets debt	22
Cash and other	4
Alternatives	
Strategy	**Exposure (%)**
Equitised	11
Multi-strategy/Relative value	25
Macro-directional	38
Alternative risk premia	27

Note:

1. Exposures on a look-through basis.

Asset class exposures by geography at 30 June 2020

Region	Listed equities (%)	Private equity (%)	Property (%)	Infrastructure (%)	Debt (%)	Alternatives (%)
Australia	21	4	3	33	7	3
United States of America	36	62	58	36	50	54
Europe (ex UK)	6	3	9	13	10	15
United Kingdom	3	1	4	2	5	5
Japan	4	-	8	4	-	5
Developed (other)	4	23	12	11	4	5
Emerging	26	7	6	-	24	13

Portfolio by geography at 30 June 2020[1]

Region	Total exposure (%)
Australia	38
United States of America	31
Europe (ex UK)	6
United Kingdom	2
Japan	6
Developed (other)	4
Emerging	12

Note:

1. Reflects physical investments only.

Costs

Cost management

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

All returns reported are net of costs.

Direct costs

Direct costs reflect all directly incurred costs associated with the management of the Future Drought Fund.

The Future Drought Fund's direct costs for 2019-20 are shown below. This includes the direct cost ratio (direct costs divided by the average net assets for the financial year).

Summary of direct costs and direct cost ratio

	2019-20 (1 September 2019 to 30 June 2020)
Direct costs	$8.5 million
Direct cost ratio	0.255%

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 2019-20 (1 September 2019 to 30 June 2020)
Contracts with investment managers	$857,345
Board remuneration and allowances	-
Agency remuneration and allowances	-
Consultants and advisers to the Board and Agency	-
Agency operations	$178,922

Note:

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

Emergency Response Fund

Interpreting the Investment Mandate

The Emergency Response Fund's Investment Mandate was issued to the Board by the responsible Ministers in February 2020, and is available on our website.

The Fund was established with a capital contribution of $4 billion transferred from the Education Investment Fund.

Following its establishment, the Emergency Response Fund was in an initial transition phase while the Board developed a long-term investment strategy.

Measurement of performance against the Investment Mandate commenced on 1 April 2020.

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

In constructing the portfolio, the Mandate notes that the Board must have regard to its obligations under section 17 of the Act to take all reasonable steps to ensure that the balance of the Emergency Response Fund Special Account is sufficient to cover debits of amounts for the purposes specified in the Act.

The Board is also required to conduct itself in a manner that:

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

Risk positioning

The Board manages the structural risk exposure of the Emergency Response Fund such that there is a relatively high probability of exceeding the benchmark return on a prospective basis over the long term (noting the high level of uncertainty associated with any return forecast).

The Board believes that an EEE of 36 corresponds to a structural risk level for the Emergency Response Fund that is consistent with a relatively high probability of achieving the CPI + 2.0% over the long term, at the lower end of the benchmark return range.

In accordance with our investment process, we aim to build a portfolio with a relatively high degree of resilience to the investment environment. We seek genuine diversification that achieves greater balance in portfolio construction while allocating risk in a flexible and dynamic manner.

Currency

As discussed on page 18, we explicitly manage the size and composition of the foreign currency exposures in the portfolio rather than allowing them to be shaped by our underlying investments.

At 30 June 2020, we held an exposure to foreign developed market currencies equivalent to 20.5% of the total Emergency Response Fund. We expect our basket of developed market currencies to diversify the portfolio against broad market risk and generate liquidity in adverse conditions.

We also held an exposure of 7.8% of the Emergency Response Fund to emerging market currencies at 30 June 2020. We expect a diversified exposure to emerging market currencies to deliver a modest excess return through some combination of gradual real effective exchange rate appreciation and/or positive real interest rate differentials relative to the Australian dollar. Given that we expect its performance to be uncorrelated with broad market risk over the long term, we consider our basket of emerging market currencies to be an attractive risk-adjusted exposure at portfolio level.

Performance

Following its establishment on 12 December 2019, the Emergency Response Fund was in an initial transition phase while the Board developed a long-term investment strategy.

On 1 April 2020, the Fund gained exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund.

Measurement of performance against the Investment Mandate commenced on 1 April 2020.

Emergency Response Fund returns at 30 June 2020 are shown below. At 30 June 2020, Emergency Response Fund was valued at $4.1 billion.

Emergency Response Fund returns at 30 June 2020

Period to 30 June 2020	Return (%)
Initial transition period (12 December 2019 to 30 March 2020)	0.4
From inception (1 April 2020)	3.4

Note:
The Emergency Response Fund has a long-term target return. Given that measurement against the Fund's Investment Mandate commenced on 1 April 2020, it is not appropriate to assess short-term performance against a long-term target.

Portfolio exposures

Asset allocation at 30 June 2020[1]

Asset class	$m	% of Fund
Australian equities	207	5.0
Global equities		
Developed markets	493	11.9
Emerging markets	251	6.1
Private equity	203	4.9
Property	152	3.7
Infrastructure	171	4.2
Debt securities	638	15.4
Alternatives	524	12.7
Cash	1,491	36.1
Total	**4,130**	**100.0**

Note:

1. Exposures on a look-through basis.

Asset class exposures at 30 June 2020[1]

Listed equities	
Sector	**Exposure (%)**
Energy	4
Materials	8
Industrials	8
Consumer discretionary	12
Consumer staples	7
Health care	12
Real estate	2
Financials	18
Information technology	17
Communication Services	9
Utilities	3
Private equity	
Strategy	**Exposure (%)**
Buyout	66
Secondaries	26
Venture and growth	8
Property	
Sector	**Exposure (%)**
Retail	12
Office	13
Industrial	19
Residential	16
Diversified	31
Healthcare	6
Hospitality	3

Infrastructure	
Sector	**Exposure (%)**
Airports	3
Electricity, oil and gas	37
Transport	14
Water	5
Communications	42
Debt	
Strategy	**Exposure (%)**
Private debt	4
Investment grade corporate	17
Sub-investment grade corporate	39
Mortgage backed securities	5
Other securitised	8
Emerging markets debt	22
Cash and other	4
Alternatives	
Strategy	**Exposure (%)**
Equitised	11
Multi-strategy/Relative value	25
Macro-directional	38
Alternative risk premia	27

Note:
1. Exposures on a look-through basis.

Asset class exposures by geography at 30 June 2020

Region	Listed equities (%)	Private equity (%)	Property (%)	Infrastructure (%)	Debt (%)	Alternatives (%)
Australia	21	4	3	33	7	3
United States of America	36	62	58	36	50	54
Europe (ex UK)	6	3	9	13	10	15
United Kingdom	3	1	4	2	5	5
Japan	4	-	8	4	-	5
Developed (other)	4	23	12	11	4	5
Emerging	26	7	6	-	24	13

Portfolio by geography at 30 June 2020[1]

Region	Total exposure (%)
Australia	38
United States of America	31
Europe (ex UK)	6
United Kingdom	2
Japan	6
Developed (other)	4
Emerging	12

Note:

1. Reflects physical investments only.

Costs

Cost management

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

All returns reported are net of costs.

Direct costs

Direct costs reflect all directly incurred costs associated with the management of the Emergency Response Fund.

The Emergency Response Fund's direct costs for 2019-20 are shown below. This includes the direct cost ratio (direct costs divided by the average net assets for the financial year).

Summary of direct costs and direct cost ratio

	2019-20 (12 December 2019 to 30 June 2020)
Direct costs	$8.4 million
Direct cost ratio	0.359%

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 2019-20 (12 December 2019 to 30 June 2020)
Contracts with investment managers	$703,456
Board remuneration and allowances	-
Agency remuneration and allowances	-
Consultants and advisers to the Board and Agency	-
Agency operations	$93,562

Note:

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

DisabilityCare Australia Fund

Interpreting the Investment Mandate

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

In summary, the Mandate:

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

Risk positioning

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

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

Performance

In 2019-20, the DisabilityCare Australia Fund generated an investment return of 1.3%, exceeding its target return of 1.1%.

The Fund received a capital contribution of $4.6 billion from the Australian Government in 2019-20. The value of the Fund was $16.5 billion at 30 June 2020.

Portfolio exposures

Asset class exposures at 30 June 2020

Debt	
Strategy	**Exposure (%)**
Investment grade corporate	9
Mortgage backed securities	11
Other securitised	1
Cash and other	79

Portfolio by geography at 30 June 2020

Region	Exposure (%)
Australia	77
United States of America	10
Europe (ex UK)	5
United Kingdom	4
Japan	4
Developed (other)	1

Costs

Cost management

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

All returns reported are net of costs.

Direct costs

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

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

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

Summary of direct costs and direct cost ratio

	2017-18	2018-19	2019-20
Direct costs	$7.0 million	$10.8 million	$12.6 million
Direct cost ratio	0.065%	0.073%	0.077%

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 2017-18	Amount debited 2018-19	Amount debited 2019-20
Contracts with investment managers	$5,836,281	$7,568,294	$12,727,730
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$748,573	$1,065,443	$1,260,811

Note:

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

Nation-building Funds

Closure of funds

On 1 September 2019, the Building Australia Fund was closed, and its assets transferred to the Future Drought Fund.

On 12 December 2019, the Education Investment Fund was closed, and its assets were transferred to the Emergency Response Fund.

Investment Mandate

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

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

Performance

From 1 July 2019 to 31 August 2019, the Building Australia Fund delivered a return of 0.3%, meeting its benchmark target of 0.3%.

From 1 July 2019 to 11 December 2019, the Education Investment Fund delivered a return of 0.6%, meeting its benchmark target of 0.6%.

The value of each of the Building Australia Fund and Education Investment Funds at the time of their closure was $4.0 billion.

Costs

Cost management

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

All returns reported are net of costs.

Direct costs

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

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

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

Summary of direct costs and direct cost ratio

Building Australia Fund

	2017-18	2018-19	2019-20 (1 July to 31 August 2019)
Direct costs	$3.8 million	$3.7 million	$0.5 million
Direct cost ratio	0.098%	0.095%	0.077%

Education Investment Fund

	2017-18	2018-19	2019-20 (1 July to 11 December 2019)
Direct costs	$4.1 million	$4.2 million	$1.3 million
Direct cost ratio	0.107%	0.108%	0.081%

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

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

Building Australia Fund

Purpose	Amount debited 2017-18	Amount debited 2018-19	2019-20 (1 July to 31 August 2019)
Contracts with investment managers	$3,676,473	$3,180,068	$1,873,714
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$294,829	$312,791	$126,928

Note:

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

Education Investment Fund

Purpose	Amount debited 2017-18	Amount debited 2018-19	2019-20 (1 July to 11 December 2019)
Contracts with investment managers	$3,993,854	$3,795,379	$2,630,501
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$295,548	$307,433	$212,464

Note:

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

04

Governance and accountability

The statutory governance arrangements for the funds we manage are set out primarily in the *Future Fund Act 2006*, the *Medical Research Future Fund Act 2015*, the *Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018*, the *Future Drought Fund Act 2019*, the *Emergency Response Fund Act 2019* and the *DisabilityCare Australia Fund Act 2013*.

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

The core legislation provides the Australian Government, through the responsible Ministers, with oversight of the funds subject to the arrangements that establish the independence of the Board. The Government's role includes the appointment of Board members and the establishment of investment mandates for each of the funds. The legal framework retains beneficial ownership of the assets of each fund in the Commonwealth. It also clearly states the purpose of each fund and sets out the arrangements for contributions to, and withdrawals from, the various funds.

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

The Board operates independently from the Government. This independence is emphasised in a number of ways, including:

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

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

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

Accountability

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

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

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

We routinely appear before public Estimates Hearings of the Senate Committee on Finance and Public Administration to provide the Committee with updates on our operations and the performance of the funds. In 2019-20, we appeared at hearings in October 2019 and March 2020. These public hearings are based upon the Outcome and Output structure detailed in the Portfolio Budget Statements.

Board of Guardians

At 30 June 2020, the Board consisted of a Chair and six other members.

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

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

Hon Peter Costello AC, Chairman

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

Mr Costello served as a member of the House of Representatives from 1990 to 2009 and was Treasurer of the Commonwealth of Australia from March 1996 to December 2007. He has been Chair of the G20 Central Bank Governors and Finance Ministers, the OECD Ministerial Council, the APEC Finance Ministers, and a Governor of the IMF, World Bank and Asian Development Bank.

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

Mr Costello is the Chairman of Nine Entertainment Co. Mr Costello was appointed a Companion of the Order of Australia in 2011 for eminent service to the Parliament of Australia through the development of landmark economic policy reforms.

Ms Erin Flaherty

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

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

Her current appointments include Chair of Moorebank Intermodal Company, Non-Executive Director of Primewest Group Limited and Non-Executive Director of the Police & Citizens Youth Clubs NSW, the Australian Chamber Orchestra and a Trustee of the Sydney Cricket & Sports Grounds Trust. Ms Flaherty is also National Chair, Professional Scholarship Selection Committee for the Australian-American Fulbright Commission. She holds a Bachelor of Arts (Politics) and a Bachelor of Jurisprudence and Law from the University of Western Australia and a Masters of Law from Sydney University.

Mr John Fraser

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

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

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

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

Ms Carolyn Kay

Ms Kay was appointed with effect from 14 April 2015 for a five-year term. She was reappointed for a further three-year term with effect from 14 April 2020.

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

Ms Kay is currently a Director of Scentre Group and Myer Family Investments and in the not-for-profit sector, the General Sir John Monash Scholarship Foundation and Sydney Grammar School. Most recently Ms Kay served on the Panel of the Commonwealth Government's Retirement Income Review. She was awarded a Centenary Medal for services to business.

Mr John Poynton AO

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

Mr Poynton is Chairman of Poynton Stavrianou, Strike Energy Limited and Crown Perth. He is Deputy Chair of Sapien Cyber Limited and a Director of Crown Resorts Limited. He has previously served on the boards of a number of ASX listed companies, Federal Government boards, education institutions and not-for-profit enterprises.

Mr Poynton was appointed an Officer of the Order of Australia for services to the community and business and is a past recipient of a Western Australian Citizen of the Year award in the Industry and Commerce category. From 2014 to 2018, Mr Poynton was Chair of Giving West and Chair of the Council of Christ Church Grammar School. He holds a Bachelor of Commerce and an honourary Doctor of Commerce from the University of Western Australia.

Mr Michael Wachtel

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

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

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

Dr Jane Wilson

Dr Wilson was appointed with effect from 14 April 2015 for a five-year term. She was reappointed for a further one-year term with effect from 14 April 2020.

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

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

Board and Board Committee membership 2019-20

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

Note:

1. Hon Peter Costello AC attends meetings as an observer. The Audit & Risk Committee charter is available at www.futurefund.gov.au/about-us/access-to-information/parliamentary-and-statutory-reporting

Board and Board Committee attendance 2019-20

	Future Fund Board of Guardians		Audit & Risk Committee		Remuneration & Nominations Committee		Transaction Committee	
Member	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	10	10	0	5	5	5	1	1
Ms Erin Flaherty	10	10	5	5	0	3	0	0
Mr John Fraser	10	10	5	5	5	5	1	1
Ms Carolyn Kay	10	10	5	5	5	5	1	1
Mr John Poynton AO	10	9	5	4	0	3	0	0
Mr Michael Wachtel	10	10	5	5	5	5	0	0
Dr Jane Wilson	10	9	5	3	0	3	0	0

Notes:

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

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

Future Fund Management Agency

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

The Chair of the Board is the Accountable Authority for the Agency, although operational management has been delegated to the Chief Executive Officer. In 2019-20, the Chair of the Board and the Accountable Authority for the Agency was Hon Peter Costello AC.

The Agency's Management Committee, led by the Chief Executive Officer, is accountable for the operations of the Agency. In 2019-20, the Management Committee comprised the Chief Executive Officer, General Counsel and Chief Risk Officer, Chief Culture Officer, Chief Operating Officer, Chief Financial Officer, Chief Investment Officer, and Chief Technology Officer.

Following the resignation of former Chief Executive Officer David Neal, Cameron Price served as Acting Chief Executive Officer and General Counsel from 2 March to 30 June 2020. Paul Mann served as Chief Financial Officer and Acting Chief Risk Officer for the same period.

On 1 July 2020, Dr Raphael Arndt commenced as Chief Executive Officer of the Future Fund Management Agency. At that time, Cameron Price returned to his substantive role as General Counsel and Chief Risk Officer, and Paul Mann returned to his substantive role as Chief Financial Officer.

Dr Raphael Arndt

Chief Investment Officer – 1 July 2019 to 30 June 2020
Chief Executive Officer – at 1 July 2020

Dr Raphael Arndt commenced as the Chief Executive Officer of the Future Fund on 1 July 2020. He served as the Chief Investment Officer of the Future Fund from 2014 – 2020 and was previously the Future Fund's Head of Infrastructure and Timberland, where he was responsible for establishing both the Infrastructure and Timberland investment programs.

Dr Arndt is also Chairman of the Investment Committee and a Board Member of the Melbourne Lord Mayor's Charitable Foundation, Australia's largest community foundation.

Dr Arndt started his career as an engineer working with Ove Arup & Partners in Melbourne and London. He holds Engineering and Commerce degrees and a PhD from the University of Melbourne, which focused on risk allocation in Public Private Partnerships.

Mr Richard Large

Chief Technology Officer

Mr Large joined the Future Fund in 2019. He was formerly Global Head of Business Systems at Aberdeen Asset Management for 15 years and has over 25 years of experience in the investment management industry. Mr Large has implemented investment capabilities to support portfolio management for a wide range of asset types including equities, fixed-income, multi-asset, quants, private equity, fund of funds and property. He previously held senior technology and operations roles at Prudential Portfolio Managers and M&G Investments.

Mr Paul Mann

Chief Financial Officer – 1 July 2019 to 30 June 2020
Acting Chief Risk Officer – 2 March 2020 to 30 June 2020

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

Mr Gordon McKellar

Chief Operating Officer

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

Ms Elizabeth McPherson

Chief Culture Officer

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

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

Mr Cameron Price

General Counsel – 1 July 2019 to 30 June 2020
Chief Risk Officer – 1 July 2019 to 2 March 2020
Acting Chief Executive Officer – 2 March 2020 to 30 June 2020

Mr Price joined the Future Fund in March 2014 as General Counsel. He took up the additional position of Chief Risk Officer in March 2018. Mr Price served as Acting Chief Executive Officer from 2 March to 30 June 2020.

Previously, he was a Partner and Board member at law firm Allens Linklaters, where he had 25 years of experience in corporate law, with particular expertise in mergers and acquisitions, private equity, equity capital markets and corporate governance.

Risk management

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

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

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

Monitoring and managing risk

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

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

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

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

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

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

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

Risk culture

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

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

Internal audit

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

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

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

External audit

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

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

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

Fraud control

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

The Agency introduced the Future Fund Disclosure Service as a new channel for staff to raise any concerns of serious misconduct (e.g. fraud) in the workplace via an independent third party. This is in addition to our existing reporting channels, and allows staff to raise concerns anonymously if they wish.

Cyber security

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

05

Our people

Life at the Future Fund

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

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

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

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

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

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

Investing in our people and culture

As an investment institution, returns are an important measure of success. The strength and quality of our organisation are important contributors to this.

2019-20 was a demanding year for our people, as the economic impact of COVID-19 affected investment markets and our workforce shifted to working from home.

It was also a year that demonstrated the success of a series of strategic initiatives we have been focused on executing in recent years. From technology to developing our leaders, 2019-20 was a year where we reaped the benefits of many years of hard work.

Our progress

Investing in our leaders

We recognise the critical importance of leadership in building and maintaining a strong culture and positive working environment, and in supporting our workforce to do their best.

The role of leaders has been brought into focus during a significant period of disruption in 2019-20 that has impacted all areas of society on a global scale. Over the last three years, we have invested in and developed our leaders to ensure they are well equipped to shape our organisation and support our staff as we embark on a changing operating environment. This has included delivering in-house training for managers on leadership fundamentals and project leadership.

In 2019-20, we built on the investment in our leadership layer through a comprehensive, multi-module leadership program designed specifically for our context and needs. During the year, 45 members of our leadership group completed the training program.

Supporting our people during COVID-19

As the COVID-19 pandemic unfolded and restrictions were introduced across the country, we prioritised a range of measures to support our people to deal with the challenges of working from home.

This included a buddy program that connected team members from different parts of the business, and a significant increase in internal communication activity to ensure our staff felt connected as a team. We established a professional coaching program to support our people to adjust to the new remote working environment. We also delivered a series of webinars designed to help our people deal with the challenges of balancing mental and physical wellbeing and productivity, enhance self-awareness, and improve communication and decision making, which is especially critical during these challenging times.

Supporting our people with technology

Over the last three years, we have been focused on driving greater efficiency and productivity improvements across the business. This has included an uplift of our workplace technology, ensuring we have robust and fit-for-purpose systems and devices to support our people.

The uplift of our workplace technology allowed our people to transition seamlessly to working from home as COVID-19 restrictions were introduced.

Flexible working

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

Our *mytime* policy enables staff to make choices about when, where and for how long they engage in work-related tasks, supporting staff to manage their own time to balance the multiple demands from life and work. During 2019-20, 13 employees accessed *mytime* arrangements.

In addition to *mytime*, formal flexible work arrangements are available to all staff. This includes personal leave arrangements for primary and secondary carers. At 30 June 2020, 22 employees had flexible work arrangements in place.

Looking forward, while the move to working from home was driven by necessity as social distancing measures were introduced, we are focused on using the experience to shape our approach to flexible working for years to come.

Our people have learned new ways of working. More remote working and greater flexibility offer the potential to support diversity and inclusion, and this is an opportunity we want to harness.

Diversity and inclusion

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

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

The strategies and initiatives we have put in place include:

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

Work, health and safety

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

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

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

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

We recorded no lost-time injuries for the period.

Our workforce

Our workforce at 30 June 2020 was 188 staff.

We welcomed 52 new starters during the year: 11 were replacements for existing roles, and 41 were for new roles. We had 17 internal promotions and five internal secondments.

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

A strong positive culture and high level of engagement is reflected in the Human Resource statistics: lost time injuries are nil, an absentee rate of 1.5% and a turnover rate of 10.8%.

Headcount by business area at 30 June 2020	
Investment	68
Operations & IT	60
Finance	23
Other	37

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

Absenteeism rate (%) over time	
2017-18	1.9
2018-19	1.7
2019-20	1.5

Turnover rate (%) over time	
2017-18	5.2
2018-19	18.6
2019-20	10.8

Note:
Our turnover rate increased in 2018-19 as a result of a restructure. The rate of 18.6% included positions made redundant as a result of the restructure.

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

Management of Human Resources : reporting under the PGPA Act

Ongoing employees at 30 June 2020

	Male			Female			Indeterminate			Total
	Full-time	Part-time	**Total male**	Full-time	Part-time	**Total female**	Full-time	Part-time	**Total indeterminate**	
NSW	1	0	1	4	0	4	0	0	0	5
QLD	0	0	0	0	0	0	0	0	0	0
SA	0	0	0	0	0	0	0	0	0	0
TAS	0	0	0	0	0	0	0	0	0	0
VIC	82	1	83	84	10	94	0	0	0	177
WA	0	0	0	0	0	0	0	0	0	0
ACT	0	0	0	0	0	0	0	0	0	0
NT	0	0	0	0	0	0	0	0	0	0
External territories	0	0	0	0	0	0	0	0	0	0
Overseas	0	0	0	0	0	0	0	0	0	0
Total	**83**	**1**	**84**	**88**	**10**	**98**	**0**	**0**	**0**	**182**

Non-ongoing employees at 30 June 2020

	Male			Female			Indeterminate			Total
	Full-time	Part-time	**Total male**	Full-time	Part-time	**Total female**	Full-time	Part-time	**Total indeterminate**	
NSW	0	0	0	0	0	0	0	0	0	0
QLD	0	0	0	0	0	0	0	0	0	0
SA	0	0	0	0	0	0	0	0	0	0
TAS	0	0	0	0	0	0	0	0	0	0
VIC	3	0	3	3	0	3	0	0	0	6
WA	0	0	0	0	0	0	0	0	0	0
ACT	0	0	0	0	0	0	0	0	0	0
NT	0	0	0	0	0	0	0	0	0	0
External territories	0	0	0	0	0	0	0	0	0	0
Overseas	0	0	0	0	0	0	0	0	0	0
Total	**3**	**0**	**3**	**3**	**0**	**3**	**0**	**0**	**0**	**6**

Ongoing employees at 30 June 2019

	Male			Female			Indeterminate			Total
	Full-time	Part-time	**Total male**	Full-time	Part-time	**Total female**	Full-time	Part-time	**Total indeterminate**	
NSW	2	0	2	2	1	3	0	0	0	5
QLD	0	0	0	0	0	0	0	0	0	0
SA	0	0	0	0	0	0	0	0	0	0
TAS	0	0	0	0	0	0	0	0	0	0
VIC	66	3	69	58	13	71	0	0	0	140
WA	0	0	0	0	0	0	0	0	0	0
ACT	0	0	0	0	0	0	0	0	0	0
NT	0	0	0	0	0	0	0	0	0	0
External territories	0	0	0	0	0	0	0	0	0	0
Overseas	0	0	0	0	0	0	0	0	0	0
Total	**68**	**3**	**71**	**60**	**14**	**74**	**0**	**0**	**0**	**145**

Non-ongoing employees at 30 June 2019

	Male			Female			Indeterminate			Total
	Full-time	Part-time	**Total male**	Full-time	Part-time	**Total female**	Full-time	Part-time	**Total indeterminate**	
NSW	0	0	0	0	0	0	0	0	0	0
QLD	0	0	0	0	0	0	0	0	0	0
SA	0	0	0	0	0	0	0	0	0	0
TAS	0	0	0	0	0	0	0	0	0	0
VIC	4	0	4	4	2	6	0	0	0	10
WA	0	0	0	0	0	0	0	0	0	0
ACT	0	0	0	0	0	0	0	0	0	0
NT	0	0	0	0	0	0	0	0	0	0
External territories	0	0	0	0	0	0	0	0	0	0
Overseas	0	0	0	0	0	0	0	0	0	0
Total	**4**	**0**	**4**	**4**	**2**	**6**	**0**	**0**	**0**	**10**

Australian Public Service Act ongoing employees at 30 June 2020

	Male			Female			Indeterminate			Total
	Full-time	Part-time	**Total male**	Full-time	Part-time	**Total female**	Full-time	Part-time	**Total indeterminate**	
SES 3	0	0	0	0	0	0	0	0	0	0
SES 2	3	0	3	0	0	0	0	0	0	3
SES 1	0	0	0	0	0	0	0	0	0	0
EL 2	25	1	26	12	0	12	0	0	0	38
EL 1	9	0	9	6	0	6	0	0	0	15
APS 6	23	0	23	19	3	22	0	0	0	45
APS 5	15	0	15	22	2	24	0	0	0	39
APS 4	8	0	8	27	4	31	0	0	0	39
APS 3	0	0	0	1	1	2	0	0	0	2
APS 2	0	0	0	1	0	1	0	0	0	1
APS 1	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Total	**83**	**1**	**84**	**88**	**10**	**98**	**0**	**0**	**0**	**182**

Australian Public Service Act non-ongoing employees at 30 June 2020

	Male			Female			Indeterminate			Total
	Full-time	Part-time	**Total male**	Full-time	Part-time	**Total female**	Full-time	Part-time	**Total indeterminate**	
SES 3	0	0	0	0	0	0	0	0	0	0
SES 2	0	0	0	0	0	0	0	0	0	0
SES 1	0	0	0	0	0	0	0	0	0	0
EL 2	1	0	1	0	0	0	0	0	0	1
EL 1	2	0	2	0	0	0	0	0	0	2
APS 6	0	0	0	1	0	1	0	0	0	1
APS 5	0	0	0	0	0	0	0	0	0	0
APS 4	0	0	0	2	0	2	0	0	0	2
APS 3	0	0	0	0	0	0	0	0	0	0
APS 2	0	0	0	0	0	0	0	0	0	0
APS 1	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Total	**3**	**0**	**3**	**3**	**0**	**3**	**0**	**0**	**0**	**6**

Australian Public Service Act ongoing employees at 30 June 2019

	Male			Female			Indeterminate			Total
	Full-time	Part-time	**Total male**	Full-time	Part-time	**Total female**	Full-time	Part-time	**Total indeterminate**	
SES 3	1	0	1	0	0	0	0	0	0	1
SES 2	3	0	3	0	0	0	0	0	0	3
SES 1	0	0	0	0	0	0	0	0	0	0
EL 2	26	3	29	12	0	12	0	0	0	41
EL 1	8	0	8	3	0	3	0	0	0	11
APS 6	12	0	12	11	7	18	0	0	0	30
APS 5	12	0	12	13	2	15	0	0	0	27
APS 4	6	0	6	18	4	22	0	0	0	28
APS 3	0	0	0	1	1	2	0	0	0	2
APS 2	0	0	0	2	0	2	0	0	0	2
APS 1	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Total	**68**	**3**	**71**	**60**	**14**	**74**	**0**	**0**	**0**	**145**

Australian Public Service Act non-ongoing employees at 30 June 2019

	Male			Female			Indeterminate			Total
	Full-time	Part-time	**Total male**	Full-time	Part-time	**Total female**	Full-time	Part-time	**Total indeterminate**	
SES 3	0	0	0	0	0	0	0	0	0	0
SES 2	0	0	0	0	0	0	0	0	0	0
SES 1	0	0	0	0	0	0	0	0	0	0
EL 2	1	0	1	0	0	0	0	0	0	1
EL 1	1	0	1	0	0	0	0	0	0	1
APS 6	0	0	0	2	0	2	0	0	0	2
APS 5	0	0	0	0	0	0	0	0	0	0
APS 4	0	0	0	2	1	3	0	0	0	3
APS 3	1	0	1	0	1	1	0	0	0	2
APS 2	1	0	1	0	0	0	0	0	0	1
APS 1	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Total	**4**	**0**	**4**	**4**	**2**	**6**	**0**	**0**	**0**	**10**

Australian Public Service Act employees by full-time and part-time status at 30 June 2020

	Ongoing			Non-ongoing			Total
	Full-time	Part-time	**Total ongoing**	Full-time	Part-time	**Total non-ongoing**	
SES 3	0	0	0	0	0	0	0
SES 2	3	0	3	0	0	0	3
SES 1	0	0	0	0	0	0	0
EL 2	37	1	38	1	0	1	39
EL 1	15	0	15	2	0	2	17
APS 6	42	3	45	1	0	1	46
APS 5	37	2	39	0	0	0	39
APS 4	35	4	39	2	0	2	41
APS 3	1	1	2	0	0	0	2
APS 2	1	0	1	0	0	0	1
APS 1	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0
Total	**171**	**11**	**182**	**6**	**0**	**6**	**188**

Australian Public Service Act employees by full-time and part-time status at 30 June 2019

	Ongoing			Non-ongoing			Total
	Full-time	Part-time	**Total ongoing**	Full-time	Part-time	**Total non-ongoing**	
SES 3	1	0	1	0	0	0	1
SES 2	3	0	3	0	0	0	3
SES 1	0	0	0	0	0	0	0
EL 2	38	3	41	1	0	1	42
EL 1	11	0	11	1	0	1	12
APS 6	23	7	30	2	0	2	32
APS 5	25	2	27	0	0	0	27
APS 4	24	4	28	2	1	3	31
APS 3	1	1	2	1	1	2	4
APS 2	2	0	2	1	0	1	3
APS 1	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0
Total	**128**	**17**	**145**	**8**	**2**	**10**	**155**

Australian Public Service Act employment type by location at 30 June 2020

	Ongoing	Non-ongoing	Total
NSW	5	0	5
QLD	0	0	0
SA	0	0	0
TAS	0	0	0
VIC	177	6	183
WA	0	0	0
ACT	0	0	0
NT	0	0	0
External territories	0	0	0
Overseas	0	0	0
Total	**182**	**6**	**188**

Australian Public Service Act employment type by location at 30 June 2019

	Ongoing	Non-ongoing	Total
NSW	5	0	5
QLD	0	0	0
SA	0	0	0
TAS	0	0	0
VIC	140	10	150
WA	0	0	0
ACT	0	0	0
NT	0	0	0
Overseas	0	0	0
Total	**145**	**10**	**155**

Australian Public Service Act Indigenous employment at 30 June 2020

	Total
Ongoing	0
Non-ongoing	0
Total	**0**

Australian Public Service Act Indigenous employment at 30 June 2019

	Total
Ongoing	0
Non-ongoing	0
Total	**0**

Australian Public Service Act Employment arrangements at 30 June 2020

	SES	Non-SES	Total
Individual employment contract	3	185	188

Remuneration report

Remuneration strategy

Remuneration for all Agency staff, including members of the Agency Management Committee, is consistent with the Australian Public Sector Workplace Bargaining Policy (the Bargaining Policy).

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

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

Variable pay

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

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

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

Variable pay tied to personal performance

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

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

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

Variable pay tied to investment performance

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

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

Impact of COVID-19 on remuneration arrangements

The Government announced in April 2020 that pay increases for members of the Australian Public Service should be deferred by six months. As a result, a 2.0% increase in fixed pay for Agency staff, approved by the Australian Public Service Commissioner, that would ordinarily have been applied from 1 July 2020 has been deferred and will not be applied until the end of February 2021.

Variable pay for the 2019-20 financial year has also been reduced relative to 2018-19.

The strong three-year return of 9.8% per annum reported in 2018-19 saw 100% of the available investment performance component paid. With a lower three-year return of 6.5% per annum achieved in 2019-20, the investment performance component of variable pay has been reduced to 71% of the maximum.

Consequently, aggregate variable pay paid to staff has fallen from $13.2 million in 2018-19 to $12 million in 2019-20.

With growth in our workforce resulting in the number of staff eligible for variable pay rising from 147 in 2018-19 to 183 in 2019-20, per capita average variable pay has fallen by 27%.

The use of a rolling three-year period to assess investment performance means that the negative return delivered in 2019-20 will feed into variable pay calculations for the next two years.

Remuneration of Key Management Personnel in 2019-20

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

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

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

The Tribunals' Determination 2019, taking effect from 1 July 2019 set the annual fee payable to the Chair at $214,670 and the fee for other members at $107,340.

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

During 2019-20, the Guardians of the Fund were as follows:

Future Fund Board of Guardians

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

During 2019-20, the Agency's Management Committee comprised the following:

Management Committee

Name	Title
Mr David Neal[1]	Chief Executive Officer
Dr Raphael Arndt	Chief Investment Officer
Mr Richard Large	Chief Technology Officer
Mr Paul Mann[2]	Chief Financial Officer
Mr Gordon McKellar	Chief Operating Officer
Ms Elizabeth McPherson	Chief Culture Officer
Mr Cameron Price[3]	General Counsel and Chief Risk Officer

Notes:

1. David Neal resigned as Chief Executive Officer, effective 28 February 2020.
2. Paul Mann was Acting Chief Risk Officer from 2 March 2020 to 30 June 2020.
3. Cameron Price was Acting Chief Executive Officer from 2 March 2020 to 30 June 2020.

Remuneration mix for Management Committee

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

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

The following table summarises the composition of variable related pay for each member of the Management Committee.

Variable pay composition for Management Committee

Name	Maximum variable pay as a % of fixed remuneration	% of variable pay tied to investment performance (Fund Plan)	% of variable pay tied to personal performance (Individual Plan)
Mr David Neal[1]	–	–	–
Dr Raphael Arndt	120	70	30
Mr Richard Large	45	25	75
Mr Paul Mann[2]	55	25	75
Mr Gordon McKellar	55	25	75
Ms Elizabeth McPherson	45	25	75
Mr Cameron Price[3]	45	25	75

Notes:

1. David Neal resigned as Chief Executive Officer, effective 28 February 2020 and was not eligible for variable pay in 2019-20.
2. Paul Mann was Acting Chief Risk Officer from 2 March 2020 to 30 June 2020.
3. Cameron Price was Acting Chief Executive Officer from 2 March 2020 to 30 June 2020.

Remuneration outcomes for Key Management Personnel in 2019-20

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

Remuneration outcomes for members of the Management Committee reflect the combination of fixed pay and variable pay as outlined on the previous page.

The use of rolling three-year periods for the calculation of absolute investment performance aligns to the organisation's long-term investment objective. It also means that weaker investment performance achieved during 2019-20 will feed into variable pay not only in 2019-20, but also in 2020-21 and 2021-22.

At 30 June 2020, over three years the Future Fund earned $27.7 billion, returning 6.5% per annum, against a target of 5.1% per annum.

Remuneration outcomes for Key Management Personnel in 2019-20

		Short-term benefits		Post employment benefits	Other long-term benefits			Termination benefits	Total remuneration
Name	Position title	Base salary ($)	Variable pay ($)	Other benefits and allowances ($)	Superannuation contributions ($)	Long service leave ($)	Other long term benefits[1] ($)		
David Neal[2]	Chief Executive Officer	436,980	-	-	18,750	-6,459	-	-	449,271
Raphael Arndt	Chief Investment Officer	690,689	628,940	-	21,003	45,427	-	-	1,386,059
Richard Large	Chief Technology Officer	513,865	171,308	-	34,046	11,235	-	-	730,454
Paul Mann	Chief Financial Officer	566,312	-	-	34,046	32,074	231,077	-	863,509
Gordon McKellar	Chief Operating Officer	521,851	238,009	-	34,046	25,765	-	-	819,671
Elizabeth McPherson	Chief Culture Officer	523,444	175,381	-	24,999	35,009	-	-	758,833
Cameron Price	General Counsel and Chief Risk Officer	558,591	214,478	-	34,046	25,771	-	-	832,886
Peter Costello	Chairman	215,790	-	249	20,326	-	-	-	236,365
Erin Flaherty	Board Member	107,997	-	893	13,562	-	-	-	122,452
John Fraser	Board Member	107,900	-	703	10,163	-	-	-	118,766
Carolyn Kay	Board Member	107,997	-	513	13,562	-	-	-	122,072
John Poynton	Board Member	107,997	-	862	14,048	-	-	-	122,907
Michael Wachtel	Board Member	107,997	-	131	14,048	-	-	-	122,176
Jane Wilson	Board Member	107,949	-	811	16,475	-	-	-	125,235

Notes:

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

1. Under the Agency's Deferred Earnings Plan, staff are able to defer receipt of a proportion of their variable pay payable to them in a given financial year and have this treated as a notional investment in the Future Fund.
2. David Neal resigned as Chief Executive Officer, effective 28 February 2020.

Remuneration of other highly paid staff in 2019-20

Remuneration outcomes for other highly paid staff in 2019-20

		Short-term benefits			Post employment benefits	Other long-term benefits		Termination benefits	Total remuneration
Total remuneration bands	Number of other highly paid staff ($)	Average base salary ($)	Average variable pay ($)	Average other benefits and allowances ($)	Average superannuation contributions ($)	Average long service leave ($)	Average other long-term benefits[1] ($)	Average termination benefits ($)	Average total remuneration ($)
$225,001-$245,000	3	176,657	32,814	-	20,154	6,026	-	-	235,652
$245,001-$270,000	11	197,386	19,426	2,849	21,045	4,438	14,621	-	259,764
$270,001-$295,000	6	200,709	16,641	-	21,638	5,798	16,170	20,111	281,066
$295,001-$320,000	7	206,655	52,213	-	21,144	11,281	17,245	-	308,539
$320,001-$345,000	3	221,130	75,293	-	19,446	10,072	-	-	325,940
$345,001-$370,000	5	249,938	46,281	-	21,782	12,753	24,722	-	355,475
$370,001-$395,000	5	242,100	79,501	-	20,905	18,655	13,514	-	374,674
$395,001-$420,000	1	309,900	-	-	24,999	7,840	52,667	-	395,406
$420,001-$445,000	2	306,730	82,325	-	24,999	18,567	-	-	432,621
$445,001-$470,000	2	327,753	77,320	-	23,001	21,256	-	-	449,329
$470,001-$495,000	0	-	-	-	-	-	-	-	-
$495,001 -$520,000	3	313,778	64,988	-	23,667	17,976	91,781	-	512,191
$520,001 -$545,000	4	353,492	128,747	-	30,787	15,489	-	-	528,515
$545,001 -$570,000	4	323,400	185,033	-	25,000	19,836	-	-	553,268
$570,001 -$595,000	2	364,910	119,155	-	29,523	16,183	46,934	-	576,704
$595,001 -$620,000	0	-	-	-	-	-	-	-	-
$620,001 -$645,000	0	-	-	-	-	-	-	-	-
$645,001 -$670,000	1	382,118	224,047	-	24,999	14,032	-	-	645,196
$670,001 -$695,000	1	326,452	252,056	-	60,487	32,234	-	-	671,229
$695,001 -$720,000	2	396,266	265,210	-	24,999	19,694	-	-	706,169
$720,001 -$745,000	0	-	-	-	-	-	-	-	-

		Short-term benefits			Post employment benefits	Other long-term benefits		Termination benefits	Total remuneration
Total remuneration bands	Number of other highly paid staff ($)	Average base salary ($)	Average variable pay ($)	Average other benefits and allowances ($)	Average superannuation contributions ($)	Average long service leave ($)	Average other long-term benefits[1] ($)	Average termination benefits ($)	Average total remuneration ($)
$745,001 - $770,000	0	-	-	-	-	-	-	-	-
$770,001 - $795,000	1	411,595	326,835	-	24,999	14,747	-	-	778,176
$795,001 - $820,000	0	-	-	-	-	-	-	-	-
$820,001 - $845,000	0	-	-	-	-	-	-	-	-
$845,001 - $870,000	1	461,709	340,622	-	24,999	22,620	-	-	849,950
$870,001 - $895,000	0	-	-	-	-	-	-	-	-
$895,001 - $920,000	0	-	-	-	-	-	-	-	-
$920,001 - $945,000	1	471,945	403,559	-	24,999	37,303	-	-	937,806
$945,001 - $970,000	1	480,738	201,504	-	34,046	50,719	201,503	-	968,510
$970,001 - $995,000	1	528,751	421,997	-	34,046	10,059	-	-	994,853
$995,001 - $1,020,000	1	489,446	456,323	-	24,999	33,043	-	-	1,003,811
$1,020,001 - $1,045,000	0	-	-	-	-	-	-	-	-
$1,045,001 - $1,070,000	0	-	-	-	-	-	-	-	-
$1,070,001 - $1,095,000	1	515,841	495,087	-	24,999	36,732	-	-	1,072,659
$1,095,001 - $1,120,000	0	-	-	-	-	-	-	-	-
$1,120,001 - $1,145,000	0	-	-	-	-	-	-	-	-
$1,145,001 - $1,170,000	1	596,907	512,092	-	24,999	11,970	-	-	1,145,968

Note:

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

Remuneration of all staff in 2019-20

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

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

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

Salary ranges by classification level in 2019-20

	Minimum salary	Maximum salary
SES 3	402,000	709,000
SES 2	402,000	709,000
SES 1	402,000	709,000
EL 2	276,000	594,000
EL 1	203,000	343,000
APS 6	151,000	261,000
APS 5	118,000	197,000
APS 4	85,000	142,000
APS 3	58,000	102,000
APS 2	58,000	102,000
APS 1	0	0
Other	0	0
Minimum/Maximum range	58,000	709,000

Notes:

The Future Fund Management Agency operates a classification system that ranges from FFMA1 – FFMA7. In line with reporting requirements under the PGPA Act remuneration information is now reported in accordance with the Australian Public Service classification system.

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

Variable pay

As highlighted previously, in addition to fixed pay, ongoing staff have the opportunity to earn a variable pay component, which is based on both individual performance and fund performance.

The use of rolling three-year periods for the calculation of absolute investment performance aligns to the organisation's long-term investment objective. It also means that weaker investment performance achieved during 2019-20 will feed into variable pay not only in 2019-20 but also in 2020-21 and 2021-22.

At 30 June 2020, over three years the Future Fund earned $27.7 billion, returning 6.5% per annum, against a target of 5.1% per annum.

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

Variable pay by classification level in 2019-20

	Number of employees receiving variable pay ($)	Aggregated (sum total) of all payments made ($)	Average of all payments made ($)	Minimum payment made to employees ($)	Maximum payment made to employees ($)
SES 3	0	-	-	-	-
SES 2	3	1,098,026	366,009	231,077	628,940
SES 1	0	-	-	-	-
EL 2	39	7,256,805	186,072	24,735	512,092
EL 1	15	984,206	65,614	8,711	202,686
APS 6	45	1,671,878	37,153	842	119,458
APS 5	39	717,431	18,396	1,142	52,879
APS 4	39	234,159	6,004	20	18,120
APS 3	2	10,279	5,140	2,594	7,685
APS 2	1	5,367	5,367	5,367	5,367
APS 1	0	-	-	-	-
Other	0	-	-	-	-
TOTAL	**183**	**11,978,151**	**65,454**	**20**	**628,940**

Note:

The Future Fund Management Agency operates a classification system that ranges from FFMA1 – FFMA7. In line with reporting requirements under the PGPA Act, remuneration information is now reported in accordance with the Australian Public Service classification system.

06

Financial statements

For the financial year ended 30 June 2020

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

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance

Opinion

In my opinion, the financial statements of the Future Fund Management Agency and Board of Guardians (together, the Entity) for the year ended 30 June 2020:

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

(b) present fairly the financial position of the Entity as at 30 June 2020 and its financial performance and cash flows for the year then ended.

The financial statements of the Entity, which I have audited, comprise the following statements as at 30 June 2020 and for the year then ended:

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

Basis for opinion

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

Key audit matters

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

Key audit matter	How the audit addressed the matter
Valuation of collective investment vehicles held at fair value through profit or loss *Refer to Note 16.7 Fair Value Hierarchy (Collective Investment Vehicles)* As at 30 June 2020, collective investment vehicles (as	To assess the controls over the valuation of all collective investment vehicles, I: • inspected the custodian's independent auditor's assurance report in respect of the design and operating effectiveness of relevant controls over the valuation of investments by the custodian;

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defined in Note 7.3) totaled $72 billion.

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

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

I consider the valuation of collective investment vehicles to be a key audit matter due to the size of the investments and the inherent subjectivity, significant judgements and estimates required where market data is not available to determine the fair value of these investments. The COVID-19 pandemic and the associated economic downturn has also caused significant volatility and uncertainty and this has impacted the valuation of collective investment vehicles as at 30 June 2020.

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

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

I assessed, on a sample basis, the valuation of indirectly held single infrastructure and timberland investments as at 30 June 2020. To do so I:

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

To assess the valuation of all other collective investment vehicles as at 30 June 2020, on a sample basis, I:

- agreed the fair value to capital account statements received from the underlying investment manager;
- obtained audited financial statements of each underlying collective investment vehicle as at 30 June 2020, where available, and agreed the audited net asset value to the capital account statement;
- where 30 June 2020 audited financial statements were unavailable, investigated significant movements from the date of the most recent audited financial statements, obtained any additional information and assessed management's process to confirm that the increase in uncertainty as a result of the current economic conditions had been appropriately considered; and
- performed an assessment of the audited financial statements of the collective investment vehicles which included;
    - considering the regulatory framework under which the financial statements were prepared and the accounting policies adopted; and

	o evaluating the qualifications, competence and objectivity of the audit firm performing the audit and the opinion provided. I assessed the appropriateness of the related disclosures in Note 16.7 to the financial statements.

Other information

The Accountable Authority is responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020 but does not include the financial statements and my auditor's report thereon.

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

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

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

Accountable Authority's responsibility for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Accountable Authority;

- conclude on the appropriateness of the Accountable Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern; and
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Australian National Audit Office

Grant Hehir

Grant Hehir
Auditor-General for Australia

Canberra

30 September 2020

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 2020 comply with subsection 42(2) of the *Public Governance, Performance and Accountability Act 2013* (**"PGPA Act"**), and are based on properly maintained financial records as per subsection 41(2) of the PGPA Act.

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

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

Hon P Costello AC
Chair of the Board of Guardians
29 September 2020

P Mann
Chief Financial Officer
29 September 2020

Statement of comprehensive income

for the financial year ended 30 June 2020

	Notes	Year ended 30 June 2020 $'000	Year ended 30 June 2019 $'000
INCOME			
Dividends and imputation credits	3	**2,564,835**	6,078,029
Distributions	3	**794,642**	1,140,860
Interest income from financial assets not at fair value through profit or loss		**24,800**	44,957
Net (losses)/gains on financial instruments at fair value through profit or loss	3	**(4,185,198)**	9,664,012
Net foreign currency (losses)/gains	3	**(317,775)**	93,080
Other income		**16,354**	14,249
TOTAL INCOME		**(1,102,342)**	17,035,187
EXPENSES			
Investment management fees and advisory fees		**83,169**	81,932
Investment manager performance fees		**906**	13,356
Custody fees		**22,162**	16,691
Brokerage, duties and other statutory charges		**24,764**	21,332
Other investment portfolio expenses		**4,974**	4,676
Agency employees' remuneration	4	**51,438**	47,657
Other expenses	4,5	**84,208**	57,078
TOTAL EXPENSES		**271,621**	242,722
OPERATING RESULT FOR THE YEAR BEFORE TAX		**(1,373,963)**	16,792,465
Income tax expense	6	**54,487**	65,004
OPERATING RESULT FOR THE YEAR		**(1,428,450)**	16,727,461
Other comprehensive income for the year		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(1,428,450)**	16,727,461

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

Statement of financial position

as at 30 June 2020

	Notes	As at 30 June 2020 $'000	As at 30 June 2019 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	13	**3,206,425**	1,781,107
Receivables	8	**868,999**	1,515,267
Investments	7	**158,175,808**	160,309,641
Other financial assets		**9,685**	2,991
Total financial assets		**162,260,917**	163,609,006
Non-financial assets			
Right of use assets		**16,424**	-
Plant and equipment		**2,754**	3,752
Intangibles		**2,088**	2,944
Total non-financial assets		**21,266**	6,696
TOTAL ASSETS		**162,282,183**	163,615,702
LIABILITIES			
Financial liabilities			
Investments	7	**951,338**	563,459
Payables	9	**236,732**	529,352
Lease liability		**16,622**	-
Total financial liabilities		**1,204,692**	1,092,811
Non-financial liabilities			
Employee provisions	10	**31,294**	29,736
Total non-financial liabilities		**31,294**	29,736
Tax liabilities			
Deferred tax liabilities		**16**	18,524
Total tax liabilities		**16**	18,524
TOTAL LIABILITIES		**1,236,002**	1,141,071
NET ASSETS		**161,046,181**	162,474,631
EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT			
Contributions by Government	11	**60,536,831**	60,536,831
Retained earnings		**100,509,350**	101,937,800
TOTAL EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT		**161,046,181**	162,474,631

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

Statement of cash flows

for the financial year ended 30 June 2020

	Notes	Year ended 30 June 2020 $'000	Year ended 30 June 2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from sale of financial instruments at fair value through profit or loss		**130,530,931**	122,555,198
Purchase of financial instruments at fair value through profit or loss		**(128,314,152)**	(128,016,348)
Interest received		**27,697**	57,237
Dividends received		**2,238,624**	4,891,472
Distributions received		**754,152**	1,093,576
Franking credit refunds received		**1,242,956**	952,916
Net settlement of foreign exchange contracts		**(4,679,970)**	(1,816,670)
GST refund received		**4,833**	2,936
Other income received		**15,576**	4,200
Investment management fees and advisory fees paid		**(83,802)**	(86,555)
Investment manager performance fees paid		**(5,251)**	(7,187)
Custody fees paid		**(21,843)**	(14,309)
Brokerage, duties and other statutory charges paid		**(30,037)**	(37,970)
Taxes paid		**(72,995)**	(65,180)
Interest paid on right of use asset leases		**(153)**	-
Other expenses paid		**(155,811)**	(110,520)
Net cash provided by/(used in) operating activities	13	**1,450,755**	(597,204)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment and software		**(1,207)**	(1,603)
Lease liability principal payments		**(3,021)**	-
Net cash used in investing activities		**(4,228)**	(1,603)
Net increase/(decrease) in cash held		**1,446,527**	(598,807)
Cash at the beginning of the reporting period		**1,781,107**	2,418,038
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(21,209)**	(38,124)
Cash at the end of the reporting period	13	**3,206,425**	1,781,107

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

Statement of changes in equity

for the financial year ended 30 June 2020

	Contributed equity $'000	Retained earnings $'000	Total Equity $'000
Year ended 30 June 2020			
Opening balance	**60,536,831**	**101,937,800**	**162,474,631**
Net operating result	**-**	**(1,428,450)**	**(1,428,450)**
Other comprehensive income	**-**	**-**	**-**
Total comprehensive income	**-**	**(1,428,450)**	**(1,428,450)**
Contributions made by Government	**-**	**-**	**-**
Closing balance	**60,536,831**	**100,509,350**	**161,046,181**
Year ended 30 June 2019			
Opening balance	60,536,831	85,210,339	145,747,170
Net operating result	-	16,727,461	16,727,461
Other comprehensive income	-	-	
Total comprehensive income	-	16,727,461	16,727,461
Contributions made by Government		-	-
Closing balance	60,536,831	101,937,800	162,474,631

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

Schedule of commitments
as at 30 June 2020

	Notes	30 June 2020 $'000	30 June 2019 $'000
BY TYPE			
CAPITAL COMMITMENTS			
Collective investment vehicles	7.3	**18,241,341**	20,493,662
Corporate Credit (bank loans)		**31,036**	-
Total capital commitments		**18,272,377**	20,493,662
OTHER COMMITMENTS			
Operating leases[1]		-	12,237
Other commitments[2]		**39,400**	10,226
Total other commitments		**39,400**	20,290
BY MATURITY			
CAPITAL COMMITMENTS			
One year or less		**18,272,377**	20,493,662
Total capital commitments by maturity		**18,272,377**	20,493,662
OTHER COMMITMENTS			
Operating lease commitments			
One year or less		-	4,270
From two to five years		-	7,967
Five years and above		-	-
Total operating lease commitments by maturity		-	12,237
Other commitments			
One year or less		**18,556**	8,184
From two to five years		**20,844**	2,042
Total other commitments by maturity		**39,400**	10,226

Note:

Commitments are GST inclusive.

1. Operating lease commitments relate to rental commitments for the lease of property. Under AASB 16 Leases the lease liability is on the statement of financial position beginning 1 July 2019 and no longer disclosed as a commitment.

2. Other commitments relate to contractual obligations for the provision of services for the Board and Agency.

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 2020

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 main object of this Act is to strengthen the Commonwealth's long-term financial position by establishing the Future Fund.

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.

Future Fund Management Agency

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

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

The Agency also supports the Board in the investment of the assets of the DisabilityCare Australia Fund ("**DCAF**") as set out in the *DisabilityCare Australia Fund Act 2013*, the Medical Research Future Fund ("**MRFF**") as set out in the *Medical Research Future Fund Act 2015*, the Aboriginal and Torres Strait Islander Land and Sea Future Fund ("**ATSILSFF**") as set out in the *Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018*, the Future Drought Fund ("**FDF**") as set out in the *Future Drought Fund Act 2019* and the Emergency Response Fund ("**ERF**") as set out in the *Emergency Response Fund Act 2019.*

Future Fund Board of Guardians

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

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

The Board is also responsible for the investment of the assets of the DCAF, MRFF, ATSILSFF, FDF and ERF. The assets and financial results of these funds do not form part of these financial statements.

Note 2
Summary of significant accounting policies

2.1 Basis of preparation of the financial statements

These financial statements comprise the Agency and the Board, collectively referred to as the Future Fund, 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 2019; and
- Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("**AASB**") that apply for the reporting period.

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

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

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

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

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

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

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

Note 2
Summary of significant accounting policies (continued)

2.1 Basis of preparation of the financial statements (continued)

Coronavirus impact

Coronavirus ("**COVID-19**"), which is a respiratory illness caused by a new virus was declared a worldwide pandemic by the World Health Organisation in March 2020. COVID-19 and the measures implemented to slow the spread of the virus have had a significant impact on global economies and equity, debt and commodity markets.

The Board has considered the impact of COVID-19 and other market volatility in preparing its financial statements.

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 impact of COVID-19 has resulted in further judgement needing to be applied compared to the prior year. The impacts of COVID-19 vary between jurisdictions and industries and the Investment Managers have taken the observed and expected impact of COVID-19 into account in the 30 June 2020 valuations of the underlying investments where relevant including:

- reference to observable listed market multiples and comparables;
- adjustments to expected net future cashflows (revenues and costs); and
- adjustments to discount rates.

The Fund ensures that valuation principles applied are materially compliant with industry guidelines and are consistently applied and there has been no change in the application of these principles to 30 June 2020 valuations. Further details surrounding the judgements and estimates used to value these investments are disclosed in Note 16.6 and 16.7.

Consolidation exemption for investment entities

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

An investment entity is defined as an entity that:

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

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

Note 2
Summary of significant accounting policies (continued)

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 2020 made under the *Public Governance, Performance and Accountability Act 2013*.

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

Adoption of new accounting standards in the current reporting period

The Fund has applied the following new and revised accounting standard and interpretation which became effective for the annual reporting period commencing on 1 July 2019:

AASB 16 Leases

The purpose of this standard is to provide a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. Lessees are required to recognise all leases on the statement of financial position, except for short-term leases and leases of low value assets. The new standard has not had a material impact on the operating result of the Fund and the prior year results have not been restated under the modified retrospective approach under the standard.

AASB Interpretation 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how to account for current and deferred tax assets and liabilities pursuant to *AASB 112 Income Taxes* where there is uncertainty over the income tax treatment. The Fund has assessed the tax balances and considers there are no uncertain tax positions that are not probable of being accepted by a tax authority in the relevant jurisdiction.

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 2020 reporting period and have not been early adopted by the Fund. None of these are expected to have a material effect on the financial statements of the Fund.

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 16.6 and 16.7.

2.3.1 Cash and cash equivalents

Cash means notes and coins held and any deposits held at call with a bank. Deposits held with a bank that are not at call are classified as financial assets at fair value through profit and loss.

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

2.3.2 Receivables

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

2.3.3 Investments

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

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. Investments are initially measured at fair value.

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

Note 2
Summary of significant accounting policies (continued)

2.3.3 Investments (continued)

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

- Listed securities, exchange traded futures and options, and investments in listed managed investment schemes are recorded at the quoted market prices on relevant stock exchanges.
- Unlisted managed investment schemes and collective investment vehicles are re-measured by the Fund based on the estimated fair value of the net assets of each scheme or vehicle at the reporting date. Collective investment vehicles are entities that enable investors to pool their money and invest the pooled funds, rather than buying securities directly. Collective investment vehicles are used to invest in private equity funds, hedge funds, debt funds, listed equity funds, infrastructure funds and property funds and are usually structured as interests in limited partnerships and limited liability companies.
- In determining the fair value of the net assets of unitised unlisted managed investment schemes and collective investment vehicles, reference is made to the underlying unit price provided by the Manager (where available), associated Manager or independent expert valuation reports and capital account statements and the most recent audited financial statements of each scheme or vehicle.
- Manager valuation reports are reviewed to ensure the underlying valuation principles are materially compliant with Australian Accounting Standards and applicable industry standards including International Private Equity and Venture Capital Valuation Guidelines as endorsed by the Australian Investment Council. For the year ended 30 June 2020, Investment Manager valuation reports were reviewed to ensure the impact of COVID-19 on the fair values of the underlying investments was considered.
- Derivative instruments are used by the Fund in accordance with the Act to manage its exposure to foreign exchange risk, interest rate risk, equity market risk and credit risk and to gain indirect exposure to market risks. The Fund uses forward foreign exchange contracts, swaps, futures, exchange traded and over the counter options and forward contracts on mortgage backed securities which are recorded at their fair value on the date the contract is entered into and are subsequently re-measured to their fair values at each reporting date. Further disclosure regarding the use of derivatives by the Fund is presented in Note 16.
- Asset backed securities, bank bills, negotiable certificates of deposit and corporate debt securities which are traded in active markets are valued at the quoted market prices. Securities for which no active market is observable are valued at current market rates using broker sourced market quotations and/or independent pricing services as at the reporting date.

The fair value of financial assets and financial liabilities that are not traded in an active market are determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent arm's-length transactions, reference to other instruments that are substantially the same including those on traded markets, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of observable market inputs and relying as little as possible on entity-specific inputs. Note 16.6 has further information surrounding the determination of fair values for investments.

Note 2
Summary of significant accounting policies (continued)

2.3.4 Future Fund Investment Companies

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

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

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

As the FFICs hold a substantial portion of the investments of the Fund, disclosures in the financial instruments and financial risk management notes (Note 16) include the underlying investments of the FFICs on a look-through basis as this provides users of the financial statements with more relevant information in relation to the investment portfolio. The Note clearly states where this look-through has been applied. Additional disclosures regarding collective investment vehicles held in the FFICs have been included in Note 7.

2.4 Revenue

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

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

Interest revenue is recognised in the statement of comprehensive income for all financial instruments that are not at fair value through profit or loss using the effective interest method as set out in *AASB 9 Financial Instruments.* Interest income on assets at fair value through profit or loss is included in the net gains/(losses) on financial instruments at fair value through profit or loss in the statement of comprehensive income.

2.5 Other income

Services and resources received free of charge

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

Other income

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

Note 2
Summary of significant accounting policies (continued)

2.6 Transactions with the Government as owner

2.6.1 Credits to the Fund Account

From time to time the responsible Ministers may determine that additional amounts are to be credited to the Fund Account. In addition, the responsible Ministers may transfer Commonwealth-owned financial assets to the Fund Account. As shown in Note 11 there were no contributions received during the year. No contributions were received in the previous financial year.

2.6.2 Debits to the Fund Account

Amounts may be debited from the Fund Account in accordance with the purposes of the Fund Account as set out in the Act. Under the Act debits can be made to the extent of unfunded superannuation liabilities from whichever is the earlier of:

(1) the time when the balance of the Fund is greater than or equal to the target asset level; or

(2) 1 July 2020. In May 2017 the Government announced there would be no draw down from the Fund until at least 2026-27.

2.7 Employee entitlements

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

2.7.1 Leave

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

The leave liabilities are calculated on the basis of employees' remuneration at the end of the financial year, adjusted for expected increases in remuneration effective from 1 July 2020. Liabilities for short-term employee benefits (i.e. wages and salaries, annual leave, performance payments, expected to be settled within 12 months from the reporting date) are measured at their nominal amounts.

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

2.7.2 Superannuation

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

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

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

Note 2
Summary of significant accounting policies (continued)

2.7.3 Performance related payments

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

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

2.8 Leases

Under *AASB16 Leases* the Fund recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying asset for all leases except short-term and low-value leases.

The Fund recognises right-of-use assets at the commencement date of the lease (i.e. The date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

The Fund measures lease liabilities at the present value of lease payments to be made over the lease term. The lease payments include fixed payments less any incentives receivable and variable lease payments that depend on an index or a rate. In calculating the present value of lease payments, the Fund uses its incremental borrowing rate (Australian Government Bond rate) at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments.

2.9 Financial risk management

Disclosures regarding the Fund's financial risks are presented in Note 16.

2.10 Taxation

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

Note 2
Summary of significant accounting policies (continued)

2.10 Taxation (continued)

Current Tax

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

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

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

Deferred Tax

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

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

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

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

Fringe Benefits Tax and Goods and Services Tax

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

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

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

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

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

Note 2
Summary of significant accounting policies (continued)

2.11 Foreign currency

Functional and presentation currency

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

Transactions and balances

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

2.12 Rounding of amounts

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

Note 3
Dividends, distributions and net gains/(losses)

	2020 $'000	2019 $'000
Dividend income and imputation credits		
Dividend income – domestic equities and listed managed investment scheme distributions	**415,514**	793,513
Imputation credits refunded or refundable under Section 30 of the *Future Fund Act 2006*	**453,089**	1,235,195
Dividend income – related entities (FFICs)[1]	**676,547**	2,092,632
Dividend income – international equities	**1,019,685**	1,956,689
Total dividend and imputation credit income	**2,564,835**	6,078,029
Distribution income		
Distributions – collective investment vehicles	**794,642**	1,140,860
Total distribution income	**794,642**	1,140,860

1. There are no dividends receivable from FFIC related entities.

	2020 $'000	2019 $'000
Net gains/(losses) on financial instruments at fair value through profit or loss		
Net (losses)/gains on financial assets at fair value through profit or loss	**(2,771,897)**	8,463,365
Net (losses)/gains on financial liabilities at fair value through profit or loss	**(1,413,301)**	1,200,647
Total net (losses)/gains on financial instruments at fair value through profit or loss [1]	**(4,185,198)**	9,664,012
Net (losses)/gains arising on foreign currency	**(317,775)**	93,080

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

Note 4
Expenses

	2020 $'000	2019 $'000
Agency employees' remuneration		
Wages and salaries	**46,265**	44,155
Superannuation	**3,000**	2,675
Leave and other entitlements payable	**2,173**	827
Total Agency employees' remuneration	**51,438**	47,657
Other expenses		
Board remuneration		
Wages and salaries	**863**	801
Superannuation	**103**	82
Total board remuneration	**966**	883
Depreciation & amortisation		
Depreciation of right of use assets, plant and equipment	**5,008**	1,826
Amortisation of intangibles – computer software	**1,272**	1,328
Total depreciation & amortisation	**6,280**	3,154
Other operating expenses (including audit fees)	**76,962**	53,041
Total other expenses	**84,208**	57,078

Note 5
Remuneration of Auditors

Included in other operating expenses is the financial statement audit services provided to the Fund which totaled $169,000 (2019: 156,000) by the Australian National Audit Office ("**ANAO**") at no cost to the Fund. The fair value of all audit services provided by the ANAO, including the services provided free of charge and for the audits of the FFICs was:

	2020 $	2019 $
Auditing the financial statements – Future Fund and FFICs	**239,000**	216,500

No other services were provided by the ANAO.

The Fund's auditor is the ANAO who has contracted Ernst & Young (2019: Ernst & Young) to assist with the assignment.

Note 6
Income tax expense

As per Note 2.10, the Fund is exempt from federal Australian income taxation. Tax expense reflects foreign withholding tax on income and other capital gains or corporate taxes where imposed by certain countries. Accordingly, the Australian tax rate for the Fund is 0% (2019: 0%).

	2020 $'000	2019 $'000
Income tax expense		
Current tax	**72,995**	65,180
Deferred tax	**(18,508)**	(176)
Adjustments for current tax of prior periods	**-**	-
	54,487	65,004
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax	**(1,373,963)**	16,792,465
Tax at the applicable Australian tax rate of 0% (2019: 0%)	**-**	-
Tax effect of items which are not deductible/(taxable) in calculating taxable income:		
Imputation credits earned from Australian subsidiaries	**534,229**	897,711
Difference in tax rates on Australian subsidiaries	**(534,229)**	(897,711)
Withholding tax	**72,986**	66,218
Other foreign corporate tax benefit	**(18,499)**	(1,214)
Total income tax expense	**54,487**	65,004

Note 7
Investments

	2020 $'000	2019 $'000
Investment summary		
Financial assets at fair value:		
Future Fund Investment Companies (FFICs)	**53,366,575**	60,233,281
Interest bearing securities	**32,127,065**	22,566,125
Listed equities and listed managed investment schemes	**42,595,723**	50,589,214
Collective investment vehicles	**26,061,596**	24,867,550
Derivatives	**3,090,906**	1,326,678
Restricted cash	**933,943**	726,793
Total financial asset investments	**158,175,808**	160,309,641
Financial liabilities at fair value:		
Derivatives	**(951,338)**	(563,459)
Total financial liability investments	**(951,338)**	(563,459)

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

The table below shows the FFICs balance split between loans and equity:

	2020 $'000	2019 $'000
FFICs		
At fair value:		
Loans provided to FFICs[1]	**42,875,284**	46,941,046
Residual equity in FFICs[2]	**10,491,291**	13,292,235
Total FFICs[3]	**53,366,575**	60,233,281

1. The FFIC loans would be classified as Level 2 in accordance with Note 16.7
2. The residual equity in the FFICs would be classified as Level 3 in accordance with Note 16.7. Movement in residual equity for FFIC's is due to changes in retained earnings and the current year surplus
3. Refer to Note 2.3.4 for more information regarding the FFICs and loan arrangements.

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

	2020 $'000	2019 $'000
FFICs		
Beginning of the year	**46,941,046**	42,954,427
Loans advanced	**8,420,935**	15,612,033
Loan repayments received	**(14,406,952)**	(15,594,996)
Interest charged[1]	**944,881**	1,075,470
Interest repayments received	**(950,023)**	(947,211)
Fair value gain/(loss)	**1,925,397**	3,841,323
End of year	**42,875,284**	46,941,046

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

Note 7
Investments (continued)

	2020 $'000	2019 $'000
Interest bearing securities		
At fair value:		
Bank bills – international	-	4,619
Negotiable certificates of deposit – domestic	**15,676,293**	10,187,948
Negotiable certificates of deposit – international	**699,503**	-
Corporate debt securities – international	**880,857**	1,017,906
Mortgage backed securities – international	**140,057**	322,838
Asset backed securities – international	**518,358**	678,956
Corporate credit (bank loans) – international	**632,146**	909,084
Government debt securities – domestic	**3,470,458**	731,644
Government debt securities – international	**9,465,276**	8,073,914
Other interest-bearing securities – domestic	**902**	-
Other interest-bearing securities – international	**643,215**	639,216
Total interest bearing securities	**32,127,065**	22,566,125
Listed equities and listed managed investment schemes		
At fair value:		
Domestic listed equities and listed managed investment schemes	**10,381,095**	11,012,903
International listed equities and listed managed investment schemes	**32,214,628**	39,576,311
Total listed equities and listed managed investment schemes	**42,595,723**	50,589,214
Collective investment vehicles		
At fair value:		
Unlisted investments	**23,713,615**	22,868,026
Unlisted shares	**2,347,981**	1,999,524
Total collective investment vehicles	**26,061,596**	24,867,550

Note 7
Investments (continued)

	2020 $'000	2019 $'000
Derivatives		
At fair value: – financial assets		
Currency contracts	**1,846,619**	640,948
Interest rate swap agreements	**83,260**	50,492
Interest rate futures	**68,380**	277,113
Interest rate options	**3,188**	2,919
Equity options, rights and warrants	**7,795**	132,555
Equity futures	**14,817**	76,900
Equity swaps	**462,150**	-
Commodity futures	**87,146**	-
Credit default swaps	**4,067**	14,179
Currency swaps	**427,248**	102,496
Currency options	**86,236**	28,875
Forward contracts on mortgage backed securities	**-**	201
Total derivative financial assets	**3,090,906**	1,326,678

	2020 $'000	2019 $'000
Derivatives		
At fair value: – financial liabilities		
Currency contracts	**(785,962)**	(468,530)
Interest rate swap agreements	**(75,669)**	(18,822)
Interest rate futures	**(2,484)**	(3,058)
Equity futures	**(9,009)**	(221)
Commodity futures	**(2,451)**	-
Credit default swaps	**(1,160)**	(28,862)
Currency swaps	**(36,365)**	(43,966)
Currency options	**(38,238)**	-
Total derivative financial liabilities	**(951,338)**	(563,459)
Total derivatives	**2,139,568**	763,219

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.

Note 7
Investments (continued)

The gross and net positions of financial assets and liabilities that have been offset in the statement of financial position are disclosed in the first three columns of the following table where a netting arrangement is in place. Under the terms of the ISDA agreements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. The fourth column in the tables below show the amounts which could be offset at the counterparty level. As the Fund does not presently have a legally enforceable right of set-off, these amounts have not been offset in the statement of financial position.

Financial assets	Effects of offsetting on the statement of financial position			Related amounts not offset	
	Gross amounts of financial assets $'000	Gross amounts set off in the statement of financial position $'000	Net amount of financial assets presented in the statement of financial position $'000	Amounts subject to master netting arrangements $'000	Net amount $'000
2020					
Derivative financial instruments	**2,829,594**	**-**	**2,829,594**	**(935,228)**	**1,894,366**
Total	**2,829,594**	**-**	**2,829,594**	**(935,228)**	**1,894,366**
2019					
Derivative financial instruments	950,645	-	950,645	(554,256)	396,389
Total	950,645	-	950,645	(554,256)	396,389

Financial liabilities	Effect of offsetting on the statement of financial position			Related amounts not offset	
	Gross amounts of financial liabilities $'000	Gross amounts set off in the statement of financial position $'000	Net amount of financial liabilities presented in the statement of financial position $'000	Amounts subject to master netting arrangements $'000	Net amount $'000
2020					
Derivative financial instruments	**935,288**	**-**	**935,288**	**(935,228)**	**-**
Total	**935,288**	**-**	**935,288**	**(935,228)**	**-**
2019					
Derivative financial instruments	554,256	–	554,256	(554,256)	–
Total	554,256	–	554,256	(554,256)	–

Note 7
Investments (continued)

7.1 Restrictions on investments – cash

Cash provided and received as collateral

The Fund has entered into various derivative contracts which require the Fund to post or receive collateral with counterparties under certain circumstances based on minimum transfer limits. The Fund provides cash as collateral when legally required and counterparties also post collateral when legally required. Any cash provided as collateral remains a financial asset of the Fund, however, any alternate use of this cash is restricted as it is held by the counterparty. Any cash received by the Fund from counterparties is not included in the net assets of the Fund. As at 30 June 2020, the Fund has $2,682,643 in cash which has been posted as collateral with counterparties, (2019: $0) and has received $1,408,511,495 in cash (2019: $425,687,588).

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 2020, the Fund had posted $885,701,852 (2019: $577,589,714) 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 2020, the Fund had posted $45,558,308 (2019: $24,202,559) in swap margins to cover open positions. This cash also remains a financial asset of the Fund, however any alternate use of this cash is also restricted.

Cash prepayments for investments

The Fund prepays cash for applications into some Alternative investments in advance of the effective date for allocation of units as set out in the legal documents. Therefore, the cash remains a financial asset of the Fund, however, any alternate use of this cash is restricted. As at 30 June 2020, the Fund had not prepaid any applications (2019: $125,000,000).

7.2 Restrictions on investments – listed equities

The Fund has in place an automatic contractual lien over the Fund's listed equities with a counterparty when the Fund's exposure to that counterparty exceeds the base unsecured threshold. At 30 June 2020 no assets are subject to the lien (2019: no assets subject to the lien).

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

7.3 Collective investment vehicles

Commitments made to collective investment vehicles as at 30 June 2020

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 $18,241 million (2019: $20,494 million). The Fund's commitment obligations, being capital calls, are set out in the various underlying subscription documents. While the actual timing of the capital calls to be made by the managers of these vehicles is uncertain, as it is dependent on the managers sourcing suitable investment opportunities, the Fund has recorded the commitments as being current in accordance with the underlying legal documents (see the schedule of commitments). The Fund has appropriate liquidity planning in place to ensure a suitable allocation of resources will be available to cover these future commitments of capital.

Note 7
Investments (continued)

7.3 Collective investment vehicles (continued)

Investment funds of the types the Fund invests in usually allow the fund's manager, general partner or other controlling entity to require repayment of distribution payments previously made to investors in order to cover certain fund liabilities (such as obligations to indemnify or to meet warranty claims on sold assets). The Fund negotiates where possible, for these 'giveback' obligations to be limited in both total amount (e.g. to between 10-25% of total distributions received) and liability period (e.g. for no longer than two years after the distributions are received). The Fund is not aware of any giveback obligations at 30 June 2020 (or 30 June 2019).

30 June 2020 – directly held by the Fund

As at 30 June 2020, the Fund had made commitments to a number of collective investment vehicles. Capital commitments (local currency), the net cost of the current investments net of returns of capital (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2020 are shown in the table below.

Description of underlying strategy	Contractual capital committed as at 30 June 2020 Local Currency '000	Outstanding commitment as at 30 June 2020 AUD equivalent $'000	Net capital cost[1] as at 30 June 2020 AUD equivalent $'000	Fair value as at 30 June 2020 AUD equivalent $'000
Alternative strategies	AUD $9,236,027	-	7,744,919	6,951,893
Alternative strategies	USD $1,566,962	-	2,279,616	2,523,906
Debt	AUD $2,201,714	143,201	1,710,648	1,677,904
Debt	EUR €1,116,376	835,225	720,175	918,297
Debt	USD $2,189,775	529,572	1,935,737	2,268,481
Global infrastructure	AUD $1,334,335	-	1,280,513	2,322,741
Global infrastructure	EUR €66,930	-	119,936	108,796
Global infrastructure	USD $2,105,672	1,434,081	1,107,104	1,281,567
Listed equities	AUD $1,130,967	-	1,089,707	1,118,657
Listed equities	USD $518,073	-	714,367	954,319
Private equity	EUR €169,987	-	196,746	136,099
Private equity	USD $250,018	6,421	270,676	521,985
Property	AUD $405,500	-	59,022	94,486
Property	EUR €87,124	16,296	80,398	90,467
Property	GBP £552,332	602,516	234,541	364,003
Property	USD $5,390,241	2,455,755	3,740,349	4,447,598
Timberlands	USD $167,561	-	221,205	280,397
Total		6,023,067	23,505,659	26,061,596

1. Net capital cost includes all capital contributed less capital returned at 30 June 2020

Note 7
Investments (continued)

7.3 Collective investment vehicles (continued)

30 June 2020 – indirectly held via the FFICs

As at 30 June 2020, the Fund had made commitments to a number of collective investment vehicles via its FFICs. Capital commitments (local currency), the net cost of the current investments net of returns of capital (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2020 are shown in the table below.

Description of underlying strategy	Contractual capital committed as at 30 June 2020 Local Currency '000	Outstanding commitment as at 30 June 2020 AUD equivalent $'000	Net capital cost[1] as at 30 June 2020 AUD equivalent $'000	Fair value as at 30 June 2020 AUD equivalent $'000
Alternative strategies	AUD $8,567,093	378,882	7,148,218	7,703,401
Alternative strategies	USD $5,256,478	126,707	2,931,140	3,653,046
Debt	AUD $59,750	-	31,206	49,745
Debt	EUR €1,032,622	822,875	23,112	76,634
Debt	USD $9,438,397	2,037,239	2,366,112	3,442,170
Global infrastructure	AUD $2,762,082	175,298	1,944,778	2,421,973
Global infrastructure	GBP £262,029	-	103,559	383,598
Global infrastructure	USD $982,466	154,181	613,242	772,083
Listed equities	USD $2,798,370	-	550,853	1,882,186
Private equity	AUD $875,747	143,936	487,315	380,323
Private equity	EUR €1,486,674	969,026	878,821	1,281,916
Private equity	GBP £303,604	11,938	490,712	512,165
Private equity	USD $18,004,471	6,216,045	13,614,614	21,484,840
Property	AUD $287,150	-	293,452	354,126
Property	EUR €1,073,975	690,715	671,083	735,249
Property	USD $781,786	491,432	283,266	321,577
Timberlands	AUD $511,827	-	258,148	535,826
Total		12,218,274	32,689,631	45,990,858

1. Net capital cost includes all capital contributed less capital returned at 30 June 2020

Note 7
Investments (continued)

7.3 Collective investment vehicles (continued)

30 June 2019 – directly held by the Fund

As at 30 June 2019, the Fund had made commitments to a number of collective investment vehicles. Capital commitments (local currency), the net cost of the current investments net of returns of capital (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2019 are shown in the table below.

Description of underlying strategy	Contractual capital committed as at 30 June 2019 Local Currency '000	Outstanding commitment as at 30 June 2019 AUD equivalent $'000	Net capital cost[1] as at 30 June 2019 AUD equivalent $'000	Fair value as at 30 June 2019 AUD equivalent $'000
Alternative strategies	AUD $8,870,307	-	8,311,643	8,489,600
Debt	AUD $2,201,714	204,201	1,771,772	1,767,859
Debt	EUR €1,116,376	830,062	711,574	1,036,127
Debt	USD $2,372,947	1,136,206	1,697,662	2,079,488
Global infrastructure	AUD $837,918	-	837,918	1,979,134
Global infrastructure	USD $2,090,648	1,559,491	931,291	1,180,690
Listed equities	AUD $643,147	-	626,256	608,699
Listed equities	USD $601,103	-	798,525	937,762
Private equity	EUR €169,984	-	205,857	182,335
Private equity	USD $287,281	62,249	287,600	571,465
Property	AUD $551,935	-	76,615	109,056
Property	EUR €87,124	16,577	93,765	116,938
Property	GBP £453,832	443,662	234,819	386,684
Property	USD $5,239,870	2,021,351	4,006,313	5,138,081
Timberlands	USD $167,561	-	221,205	283,632
Total		6,273,799	20,812,815	24,867,550

1. Net capital cost includes all capital contributed less capital returned at 30 June 2019

Note 7
Investments (continued)

7.3 Collective investment vehicles (continued)

30 June 2019 – indirectly held via the FFICs

As at 30 June 2019, the Fund had made commitments to a number of collective investment vehicles via its FFICs. Capital commitments (local currency), the net cost of the current investments net of returns of capital (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2019 are shown in the table below.

Description of underlying strategy	Contractual capital committed as at 30 June 2019 Local Currency '000	Outstanding commitment as at 30 June 2019 AUD equivalent '000	Net capital cost[1] as at 30 June 2019 AUD equivalent $'000	Fair value as at 30 June 2019 AUD equivalent $'000
Alternative strategies	AUD $9,830,000	589,526	8,240,512	8,684,895
Alternative strategies	USD $6,319,197	105,565	3,755,691	4,784,700
Debt	EUR €1,009,368	811,887	12,337	114,968
Debt	USD $9,757,927	1,440,815	2,492,103	4,093,608
Global infrastructure	AUD $2,765,477	196,498	2,255,741	2,513,379
Global infrastructure	GBP £262,029	-	168,789	895,208
Global infrastructure	USD $882,333	153,677	625,050	882,775
Listed equities	USD $2,623,370	-	750,257	2,279,506
Private equity	AUD $875,747	222,961	435,207	414,554
Private equity	EUR €1,648,438	1,263,773	831,227	1,328,322
Private equity	GBP £303,604	13,959	494,706	516,240
Private equity	USD $19,975,395	8,270,611	13,613,700	21,889,415
Property	AUD $287,150	-	293,452	450,767
Property	EUR €955,791	587,174	604,424	668,274
Property	USD $809,656	563,417	277,032	375,500
Timberlands	AUD $511,827	-	258,148	563,716
Total		14,219,863	35,108,376	50,455,827

1. Net capital cost includes all capital contributed less capital returned at 30 June 2019

Note 8
Receivables

	2020 $'000	2019 $'000
Receivables		
Imputation credits refundable	**713,695**	1,260,150
Interest receivable	**136**	3,026
Dividends & distributions receivable	**105,337**	177,987
Unsettled sales	**49,831**	74,104
Total Receivables	**868,999**	1,515,267

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

Note 9
Payables

	2020 $'000	2019 $'000
Payables		
Unsettled purchases[1]	**174,598**	461,665
Other accrued expenses including management and performance fees payable	**62,134**	67,687
Total Payables	**236,732**	529,352

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

Note 10
Provisions

	2020 $'000	2019 $'000
Employee provisions		
Annual leave	**2,985**	2,187
Long service leave	**6,300**	5,361
Other employee liabilities	**22,009**	22,188
Total Employee provisions	**31,294**	29,736

Note 11
Contributions by Government

	2020 $'000	2019 $'000
Opening balance	**60,536,831**	60,536,831
Contribution from Government – cash	**-**	-
Closing balance	**60,536,831**	60,536,831

Contributions are made under Schedule 1 of the Act.

Note 12
Unconsolidated subsidiaries and interests in unconsolidated structured entities

As an investment entity, the Fund does not consolidate any of the subsidiaries listed below.

The Fund also invests via non-controlled structured entities. As these are investments of the Fund they are at their fair value and any undrawn capital is shown as an outstanding commitment which equates to the Fund's maximum exposure to loss from its investment in these entities.

All entities (controlled or non-controlled) have some or all of the following characteristics:

- the requirement for the Fund (or a FFIC entity) to fund future commitments to the entity as called by the investment manager or general partner. These amounts are limited in terms of total value and callable only in accordance with the underlying legal arrangements. These amounts are disclosed in Note 7.3;
- the lack of control over the payment of dividends, distributions or the return of capital from the entity. These are controlled by the general partner or the investment manager in accordance with the legal arrangements entered into upon initial investment;
- limitations on transfer or redemption of the interest in the entity. The Fund ensures that these are normal commercial arrangements for investments of this type, typically existing to protect and treat all investors in an equitable manner; and
- limited recourse to the Fund (ordinarily capped at the commitment or invested capital value) for any claims or liabilities incurred by these entities.

Name of entity	Country of incorporation/ domicile	Equity holding	
		30 June 2020 %	30 June 2019 %
Future Fund Investment Company No.1 Pty Ltd^[1]	**Australia**	**100**	**100**
Future Fund Investment Company No.2 Pty Ltd^[1]	**Australia**	**100**	**100**
Global Hedged Strategies Fund Ltd[2]	Cayman Islands	**100**	100
Future Fund Investment Company No.3 Pty Ltd^[1]	**Australia**	**100**	**100**
GWII Unit Trust 2[2]	Australia	**100**	100
Co-Investment Fund (Parallel) LP[2]	United States	**100**	100
Future Fund Investment Company No.4 Pty Ltd^[1]	**Australia**	**100**	**100**
Future Fund Investment Company No.5 Pty Ltd^[1]	**Australia**	**100**	**100**
Blue Jay Fund Ltd[2]	Bermuda	**100**	100
Elementum Tranquillus Fund Ltd[2]	Bermuda	**100**	100
Clocktower FF LP[2]	Cayman Islands	**100**	100
Future Fund Investment Company No.6 Pty Ltd (Dormant)[1]	**Australia**	**100**	**100**
FFH No.3 Trust[1]	**Australia**	**100**	**100**
Queenscliff Trust[1]	**Australia**	**100**	**100**
Bain Capital Distressed and Special Situations 2016 (F) LP[1]	**United States**	**100**	**100**
Bain Capital Distressed and Special Situations 2016 (F-EU), LP[1]	**England**	**100**	**100**
Heathcote Fund Ltd[1]	**Cayman Islands**	**100**	**100**

^ Audited by the Australian National Audit Office.

1. Held directly by the Future Fund

2. Held indirectly by a Future Fund subsidiary

Note 13
Cash flow reconciliation

	2020 $'000	2019 $'000
Reconciliation of operating result to net cash from operating activities:		
Operating result	**(1,428,450)**	16,727,461
Depreciation and amortisation	**6,280**	3,154
Purchase of investments	**(128,314,152)**	(128,016,348)
Proceeds from sale of investments	**130,530,931**	122,555,198
Net loss/(gain) on revaluation of investments	**931,311**	(11,021,173)
Unrealised gain on foreign currency	**(867,963)**	(1,051,164)
Decrease in accrued income	**621,995**	193,809
Increase in other assets	**(6,694)**	(1,180)
Increase in employee provisions	**1,558**	776
(Decrease)/increase in other payables	**(5,553)**	12,439
Decrease in deferred tax liability	**(18,508)**	(176)
Net cash provided by/(used in) operating activities	**1,450,755**	(597,204)

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:

	2020 $'000	2019 $'000
Cash and cash equivalents	**3,206,425**	1,781,107

Note 14
Contingent liabilities and assets

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

Note 15
Related party transactions

Parent entity

The ultimate controlling entity of the Fund is the Commonwealth of Australia.

Subsidiaries

Interests in subsidiaries are set out in Note 12.

Key management personnel

Key management personnel are defined as the Board, members of the Agency's Management Committee which includes the Chief Executive Officer, Chief Investment Officer, Chief Operating Officer, Chief Financial Officer, Chief Culture Officer, General Counsel & Chief Risk Officer and Chief Technology Officer and the Finance Minister and the Treasurer. These persons are the only persons considered to have the capacity and responsibility for decision making that can have a material impact on the strategic direction and financial performance of the Fund.

Remuneration of the Finance Minister, Treasurer and Board members is independently determined by the Australian Government Remuneration Tribunal. No member of the Board nor the statutory Accountable Authority receive any entitlement to performance related payments in undertaking their roles. The remuneration of the Finance Minister and Treasurer is not paid by the Fund and is therefore excluded from the compensation disclosed in Note 15.4.

Key management personnel compensation

	2020 $	2019 $
Short-term employee benefits	**6,107,637**	6,667,334
Post-employment benefits	**303,120**	276,540
Other long-term benefits	**399,899**	332,869
Termination benefits	**-**	-
Total Compensation	**6,810,656**	7,276,743

The total number of key management personnel that are included in the above table are 14 (2019: 14).

Transactions with related parties

	2020 $'000	2019 $'000
Subscriptions for capital and expenses[1]		
Subsidiaries	**462,591**	433,063
Dividend and distribution revenue[1]		
Subsidiaries	**220,907**	240,713
Sale of investments	**587,095**	-

1. FFBG subsidiaries excluding FFIC entities. FFIC transactions reflected in FFIC loans (Note 7) and FFIC dividend income (Note 3).

Note 15
Related party transactions (continued)

Terms and conditions

Transactions relating to dividends, distributions and funding of capital and expenses with related parties were made in accordance with the individual legal agreements.

Transactions with government-related entities

Transactions with other Australian government-controlled entities for normal day-to-day business operations were provided under normal terms and conditions. This includes the payment of workers compensation and insurance premiums and superannuation. They are not considered significant individually to warrant separate disclosure as related party transactions. See Note 3 for details regarding the imputation credits refundable from the Australian Taxation Office.

Note 16
Financial instruments and financial risk management

16.1 Risk management framework

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

16.2 Financial risk management objectives

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

16.3 Market risk

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

Note 16
Financial instruments and financial risk management (continued)

16.3.1 Interest rate risk

Interest rate exposure tables

The exposure to interest rates as at 30 June 2020 of the Fund and the FFICs are set out below:

Financial asset	Floating interest rate 2020 $'000	Fixed interest rate 2020 $'000	Non-interest bearing 2020 $'000	Total[1] 2020 $'000
Cash and cash equivalents	3,945,939	-	-	3,945,939
Bank bills	-	-	-	-
Negotiable certificates of deposit	-	16,375,796	-	16,375,796
Corporate debt securities	1,237,791	268,151	-	1,505,942
Mortgage backed securities	140,057	-	-	140,057
Asset backed securities	518,358	-	-	518,358
Corporate credit (bank loans)	843,401	-	-	843,401
Government debt securities	-	13,432,346	-	13,432,346
Other interest-bearing securities	649,453	607,329	-	1,256,782
Other financial assets	-	-	124,612,266	124,612,266
Total financial assets	7,334,999	30,683,622	124,612,266	162,630,887
Notional value of derivative positions				
Interest rate swaps (notional amount) – pay	(799,934)	(3,772,201)		
Interest rate swaps (notional amount) – receive	3,772,201	799,934		
Currency swaps (notional amount) – pay	(7,832,266)	-		
Currency swaps (notional amount) – receive	10,027,030	-		

1. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes additional interest rate securities and cash and cash equivalents held by the FFICs.

As at the reporting date the Fund's debt portfolio had an effective interest rate duration of 0.95 (2019: 0.90).

Note 16
Financial instruments and financial risk management (continued)

16.3.1 Interest rate risk (continued)

The exposure to interest rates as at 30 June 2019 of the Fund and the FFICs are set out below:

Financial asset	Floating interest rate 2019 $'000	Fixed interest rate 2019 $'000	Non-interest bearing 2019 $'000	Total[1] 2019 $'000
Cash and cash equivalents	2,687,312	-	-	2,687,312
Bank bills	-	4,619	-	4,619
Negotiable certificates of deposit	-	10,187,948	-	10,187,948
Corporate debt securities	179,056	1,416,926	-	1,595,982
Mortgage backed securities	304,170	18,668	-	322,838
Asset backed securities	647,485	31,471	-	678,956
Corporate credit (bank loans)	1,153,630	-	-	1,153,630
Government debt securities	38,208	9,504,528	-	9,542,736
Other interest-bearing securities	662,451	583,622	-	1,246,073
Other financial assets	-	-	136,250,568	136,250,568
Total financial assets	5,672,312	21,747,782	136,250,568	163,670,662
Notional value of derivative positions				
Interest rate swaps (notional amount) – pay	(3,192,569)	(1,731,890)		
Interest rate swaps (notional amount) – receive	1,731,890	3,192,569		
Currency swaps (notional amount) – pay	(9,753,225)	-		
Currency swaps (notional amount) – receive	9,686,858	-		

1. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes additional interest rate securities and cash and cash equivalents held by the FFICs.

Note 16
Financial instruments and financial risk management (continued)

16.3.1 Interest rate risk (continued)

Interest rate derivative contracts

The Fund had open positions in exchange traded interest rate futures contracts and interest rate swap agreements as at 30 June 2020. The Act governs the use of financial derivatives as detailed in Note 2.3.3.

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

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

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

The Fund's bi-lateral counterparties for interest rate swaps 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 transactions which are not subject to mandatory central clearing are undertaken using ISDAs. Centrally cleared transactions are cash margined at least daily. The Fund's interest rate futures contracts are cash margined daily with the relevant futures clearing exchange. The notional value of the open positions, impact on fixed interest exposure and their fair value are set out below:

	Notional value 2020 $'000	Fair market value 2020 $'000	Notional value 2019 $'000	Fair market value 2019 $'000
Buy domestic interest rate futures contracts	**7,204,580**	**47,351**	4,771,222	24,098
Buy international interest rate futures contracts	**6,227,916**	**18,960**	13,765,701	253,015
Sell domestic interest rate futures contracts	**(972,688)**	**(120)**	(4,521,736)	(1,580)
Sell international interest rate futures contracts	**(124,522)**	**(295)**	(140,815)	(1,478)
Receiver (fixed) interest rate swap agreements	**799,934**	**38,160**	3,192,569	43,957
Payer (fixed) interest rate swap agreements	**3,772,201**	**(30,569)**	1,731,890	(12,287)
Total		**73,487**		305,725

No interest rate derivatives are held by the FFICs.

Note 16
Financial instruments and financial risk management (continued)

16.3.1 Interest rate risk (continued)

Interest rate sensitivity analysis

The following table demonstrates the impact on the operating result of the Fund and the FFICs for a 9 basis point (2019: 20 basis point) change in bond yields with all other variables held constant. It is assumed that the basis point change occurs as at the reporting date (30 June 2020 and 30 June 2019) and there are concurrent movements in interest rates and parallel shifts in the yield curves. A 9 basis point (2019: 20 basis point) movement would result in the following impact on the debt portfolios (including interest rate derivatives) contribution to the Fund and FFICs' operating result. The impact on the operating result includes the increase/(decrease) in interest income on floating rate securities from the basis point change.

	30 June 2020 Impact on operating result $'000
+ 9 basis points	**(136,083)**
– 9 basis points	**137,662**

	30 June 2019 Impact on operating result $'000
+ 20 basis points	(371,306)
– 20 basis points	379,140

Note 16
Financial instruments and financial risk management (continued)

16.3.2 Foreign currency risk management

The Fund and the FFICs undertake certain transactions denominated in foreign currencies and accordingly are exposed to the effects of exchange rate fluctuations. The Board sets a target exposure to foreign currency risk and this is managed utilising forward foreign exchange contracts and other derivatives including commodity futures.

Foreign exchange contracts are used by the Fund's investment managers to manage the exposure to foreign exchange and to ensure it remains within Board approved limits. The Act governs the use of financial derivatives as detailed in Note 2.3.3. The Fund's counterparties for foreign exchange contracts include major banking firms and their affiliates. The Fund diversifies its exposure by utilising major banking firms, by considering each counterparty's credit rating, and by executing such contracts pursuant to master netting agreements. All transactions (other than spot trades) are undertaken using ISDAs.

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

30 June 2020	USD	EUR	GBP	JPY	Other[1]	Total
	AUD $'000	AUD $'000	AUD $'000	AUD $'000	AUD $'000	AUD $'000
Cash & cash equivalents	2,976,955	60,335	87,717	137,307	69,203	3,331,517
Listed equities and listed managed investment schemes	17,006,570	2,462,780	1,305,659	4,228,037	11,915,694	36,918,740
Interest bearing securities	3,809,629	130,442	148,977	8,643,068	1,513,241	14,245,357
Collective investment vehicles	43,834,156	3,347,457	1,259,765	-	-	48,441,378
Other investments	1,137,721	65,800	13,096	4,478	44,666	1,265,761
Receivables	52,570	116,833	4,161	5,624	56,103	235,291
Payables	(138,902)	(1,788)	(1,814)	(2,153)	(32,096)	(176,753)
Total physical exposure	68,678,699	6,181,859	2,817,561	13,016,361	13,566,811	104,261,291
Forward exchange contracts & currency swaps						
› buy foreign currency	16,349,313	2,838,089	983,573	1,517,548	16,542,467	38,230,990
› sell foreign currency	(49,972,931)	(2,893,707)	(2,588,016)	(2,456,053)	(13,757,267)	(71,667,974)
Currency options	42,304	-	-	53	-	42,357
Commodity futures	-	-	-	-	2,408,881	2,408,881
Total derivative exposure	(33,581,314)	(55,618)	(1,604,443)	(938,452)	5,194,081	(30,985,746)
Total net exposure	35,097,385	6,126,241	1,213,118	12,077,909	18,760,892	73,275,545

1. Other includes AUD equivalent exposures to other currencies which, when considered individually, are immaterial and an exposure to gold included in the Commodity futures derivative exposure balance.

Note 16
Financial instruments and financial risk management (continued)

16.3.2 Foreign currency risk management (continued)

The Fund and FFICs' exposure in Australian equivalents to foreign currency risk at 30 June 2019 was as follows:

30 June 2019	USD	EUR	GBP	JPY	Other[1]	Total
	AUD $'000	AUD $'000	AUD $'000	AUD $'000	AUD $'000	AUD $'000
Cash & cash equivalents	1,517,010	158,917	331,830	158,833	244,355	2,410,945
Listed equities and listed managed investment schemes	20,334,421	3,180,889	1,684,541	4,347,801	16,189,180	45,736,832
Interest bearing securities	4,640,850	276,691	197,592	8,010,562	59,453	13,185,148
Collective investment vehicles	44,496,621	3,446,964	1,798,131	-	-	49,741,716
Other investments	745,529	54,874	15,514	17,300	73,621	906,838
Receivables	280,314	20,848	17,848	5,788	83,116	407,914
Payables	(101,470)	(19,454)	-	(349,143)	-	(470,067)
Total physical exposure	71,913,275	7,119,729	4,045,456	12,191,141	16,649,725	111,919,326
Forward exchange contracts and currency swaps						
› buy foreign currency	13,056,401	3,422,131	616,800	668,774	15,757,389	33,521,495
› sell foreign currency	(55,632,676)	(5,778,800)	(4,747,047)	(2,902,132)	(10,495,688)	(79,556,343)
Currency options	30,884	-	-	-	-	30,884
Total derivative exposure	(42,545,391)	(2,356,669)	(4,130,247)	(2,233,358)	5,261,701	(46,003,964)
Total net exposure	29,367,884	4,763,060	(84,791)	9,957,783	21,911,426	65,915,362

1. Other includes AUD equivalent exposures to other currencies which, when considered individually, are immaterial.

Foreign currency sensitivity analysis

The following table demonstrates the impact on the Fund and the FFICs' operating result of a 8.41% (2019: 8.7%) movement in exchange rates relative to the Australian dollar at 30 June 2020, with all other variables held constant. If the foreign currency rises against the Australian dollar there will be a positive impact on the operating result. It is assumed that the relevant change occurs as at the reporting date and the results presented are shown after taking into account the implementation of the Board's foreign currency exposure policy (that is, the sensitivity is calculated on the net exposure presented on the two previous tables).

	30 June 2020 Impact on operating result $'000
+ 8.41% movement	**7,480,923**
– 8.41% movement	**(7,406,090)**

Note 16
Financial instruments and financial risk management (continued)

16.3.2 Foreign currency risk management (continued)

	30 June 2019 Impact on operating result $'000
+ 8.7% movement	8,211,055
– 8.7% movement	(8,073,499)

16.3.3 Equity price risk

Public markets equity price risk

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

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

	2020[1]	2019[1]
	$'000	**$'000**
Domestic listed equities and listed managed investment schemes	**10,585,204**	12,388,540
International listed equities and listed managed investment schemes	**36,918,739**	44,590,317
Total equity price risk exposure	**47,503,943**	56,978,857

1. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes additional public market equities held by the FFICs.

Equity derivative contracts

The Fund had open positions in exchange traded equity futures contracts, exchange traded and over the counter warrants, and over the counter equity option contracts and equity swap contracts as at 30 June 2020. The Act governs the use of financial derivatives as detailed in Note 2.3.3. Equity futures, options and warrants are used to manage market exposures to equity price risk and to ensure that asset allocations remain within approved limits. The Fund's counterparties for over the counter equity options include major banking firms and their affiliates. The Fund diversifies its exposure by utilising multiple counterparties, by considering each counterparty's credit rating, and by executing such contracts pursuant to master netting agreements. All over the counter transactions are undertaken using ISDAs. The Fund's equity futures contracts are cash margined daily with the relevant futures clearing exchange.

Note 16
Financial instruments and financial risk management (continued)

16.3.3 Equity price risk (continued)

The notional value of the open contracts and their fair value are set out below:

	Notional value 2020 $'000	Fair market value 2020 $'000	Notional value 2019 $'000	Fair market value 2019 $'000
Buy domestic equity futures contracts	**454,126**	**2,401**	112,487	1,350
Buy international equity futures contracts	**3,187,287**	**3,407**	3,688,533	75,329
Over the counter international equity index put options	**(676,006)**	**2,670**	(3,062,571)	41,333
Over the counter international equity index call options	**-**	**-**	2,712,134	85,426
Over the counter total return international equity swaps	**4,892,070**	**462,150**	-	-
Exchange traded warrants international	**385**	**1,627**	9,538	5,889
Over the counter warrants international	**9,722**	**3,618**	-	-
Total		**475,873**[1]		209,327[1]

1. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes additional equity derivatives held by the FFICs.

Equity price sensitivity analysis

The analysis below demonstrates the impact on the Fund and FFICs' operating result of the following movements:

- +/ – 20% on Australian equities
- +/ – 15% on International equities

The sensitivity analysis has been performed to assess the direct risk of holding equity instruments and associated derivatives. The analysis is undertaken on the base currency values of the underlying exposures. Currency risk sensitivity is considered separately in the currency sensitivity table presented in Note 16.3.2. The percentage change for each sub-class noted in the table below is measured with reference to each underlying security's forward looking beta, which is a measure of how the underlying security price would change relative to an absolute increase or decrease in the market portfolio which has a beta of 1.

	2020 Impact on operating result $'000	2019 Impact on operating result $'000
20% increase in Australian equities	**3,634,493**	3,624,788
15% increase in International equities	**15,013,131**	15,004,158
Total	**18,647,624**	18,628,946
20% decrease in Australian equities	**(3,634,493)**	(3,624,788)
15% decrease in International equities	**(15,006,110)**	(14,731,977)
Total	**(18,640,603)**	(18,356,765)

Note 16
Financial instruments and financial risk management (continued)

16.3.4 Other price risk (collective investment vehicles)

The Fund and FFICs are exposed to other price risks arising from its investments in collective investment vehicles. The Fund and FFICs mitigate this risk through diversification of its investments.

As noted in Note 16.6, in the absence of active markets for a particular investment, judgement is required in determining fair value which introduces an increased element of uncertainty in the determination of that fair value. Collective investment vehicle pricing requires this judgement to be exercised in determining appropriate market reference transactions, pricing or earnings multiples, cash flow estimates and market discount rates including the impacts of COVID-19 as outlined in Note 16.6.

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

Private real estate proxy

A proxy index of publicly traded real estate investment trusts ("**REITs**") has been created that is appropriate for the geographical exposure of the portfolio.

Private equity proxy

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

Infrastructure proxy

Utilisation of an appropriate index of publicly traded infrastructure companies in the appropriate geography and sector is used as a proxy.

Alternative strategy funds

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

Other price risk sensitivity analysis

The sensitivity analysis for other price risk using the proxies noted above is incorporated within the interest rate sensitivity analysis and equity risk sensitivity analysis presented earlier in Notes 16.3.1 and 16.3.3.

16.4 Liquidity risk management

Liquidity risk is the vulnerability of portfolio cash-flow management to compromise or failure. In particular, it is the risk that insufficient at-call liquidity is available to meet the Fund's liabilities and obligations as they fall due.

The Fund devotes considerable resources to liquidity risk management and the Liquidity Risk Management Policy is one of four main investment policies that support the investment process and help to ensure that the Fund and the FFICs takes 'acceptable but not excessive' risk.

Note 16
Financial instruments and financial risk management (continued)

16.4 Liquidity risk management (continued)

The implementation of the Liquidity Risk Management Policy relies upon the following primary inputs:

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

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

As at 30 June 2020:

	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
2020						
Non-derivatives						
Unsettled purchases	181,799	-	-	-	-	181,799
Other payables	108,635	-	-	-	-	108,635
Total non-derivatives	290,434	-	-	-	-	290,434
Derivatives						
Net settled (interest rate swaps, credit default swaps, interest rate options)	127,470	4,683	33,223	-	-	165,376
Gross settled (forward foreign exchange contracts, cross currency swaps)						
> (inflow)	(27,278,239)	(4,637,322)	-	-	-	(31,915,561)
> outflow	28,017,433	4,684,090	-	-	-	32,701,523
Total derivatives	866,664	51,451	33,223	-	-	951,338[1]

1. Total balances do not agree with the investment balance reported in Note 7 and the payables balances reported in Note 9 as the FFICs are included in this disclosure.

The Fund may be required to provide cash as collateral to counterparties under legal agreements when derivatives are in a net liability position. Refer to Note 7 for details on cash provided as collateral.

Note 16
Financial instruments and financial risk management (continued)

16.4 Liquidity risk management (continued)

As at 30 June 2019:

	Less than 3 months $'000	3 months to 1 year $'000	1 to 5 Years $'000	> 5 Years $'000	Total contractual cashflows $'000	Carrying amount (assets)/ liabilities $'000
2019						
Non-derivatives						
Unsettled purchases	479,820	-	-	-	479,820	479,820
Other payables	108,438	-	-	-	108,438	108,438
Total non-derivatives	588,258	-	-	-	588,258	588,258 [1]
Derivatives						
Net settled (interest rate swaps, credit default swaps, interest rate options)	9,783	85,146	-	-	94,929	94,929
Gross settled (forward foreign exchange contracts, cross currency swaps)						
› (inflow)	(26,055,932)	(8,832,863)	-	-	(34,888,795)	(34,888,795)
› outflow	26,430,009	8,927,322	-	-	35,357,331	35,357,331
Total derivatives	383,860	179,605	-	-	563,465	563,465 [1]

1. Total balances do not agree with the investment balance reported in Note 7 and the payables balances reported in Note 9 as the FFICs are included in this disclosure.

Note 16
Financial instruments and financial risk management (continued)

16.5 Credit risk

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

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

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

The Fund had, at 30 June 2020, an exposure of 9.73% (2019: 6.27%) 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:	2020 $'000	2019 $'000
Westpac Banking Corporation	**3,470,237**	2,546,334
Australia and New Zealand Banking Group Limited	**3,964,219**	2,125,653
National Australia Bank Limited	**4,163,876**	2,918,285
Commonwealth Bank of Australia	**4,027,973**	2,547,760
Other domestic banks	**49,988**	49,916
Total	**15,676,293**	10,187,948

The exposures presented above reconcile to Note 7 of the financial statements as follows:

Domestic interest bearing securities issued by:	2020 $'000	2019 $'000
Negotiable certificates of deposit – domestic	**15,676,293**	10,187,948
Total	**15,676,293**	10,187,948

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

Note 16
Financial instruments and financial risk management (continued)

16.5 Credit risk (continued)

Credit risk derivatives

The Funds' managers utilise credit default swaps to gain exposure to credit risk. The Act governs the use of financial derivatives as detailed in Note 2.3.3.

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

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

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

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 2020 $'000	Fair market value 2020 $'000	Notional value 2019 $'000	Fair market value 2019 $'000
Buy credit protection	**79,056**	**(741)**	594,173	(16,965)
Sell credit protection	**255,058**	**3,648**	46,876	2,282
Total		**2,907**		(14,683)

No credit risk derivative contracts are held by the FFICs.

Note 16
Financial instruments and financial risk management (continued)

16.5 Credit risk (continued)

Credit exposure by credit rating

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

	2020 $'000	2019 $'000
Long term rated securities		
AAA	**3,916,475**	61,993
AA	**179,366**	140,277
A	**12,930,501**	3,062,713
BBB	**668,702**	226,972
Below Investment grade / not rated[1]	**3,924,200**	5,907,472
Short term rated securities		
A-1+/A-1/A-2	**16,375,796**	17,964,742
Other		
US Government Guaranteed	**23,581**	55,925
Total debt securities and cash	**38,018,621**	27,420,094
Other non-debt financial assets	**124,612,266**	136,250,568
Total financial assets	**162,630,887**	163,670,662[2]

1. The Fund and FFICs have a number of mandates with managers specialising in managing distressed debt and corporate loans portfolios.
2. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes cash and financial assets held by the FFICs.

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

There are no overdue contractual receipts due from counterparties as at 30 June 2020 (2019: nil).

Note 16
Financial instruments and financial risk management (continued)

16.6 Fair values of financial assets and liabilities

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

Financial assets and liabilities at fair value through profit or loss are measured initially at fair value. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

16.6.1 Fair value in an active market

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

The Fund values its investments in accordance with the accounting policies set out in Note 2. For the majority of its public market investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis.

16.6.2 Fair value in an inactive or unquoted market

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

Where discounted cash flow techniques are used, estimated future cash flows are based on best estimates and the discount rate used is a market rate at the balance date applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at balance date. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The impact of COVID-19 has been taken into account based on the information and conditions at the reporting date and COVID-19 specific assumptions and adjustments have been included in the valuation techniques as outlined above. The processes applied included the following:

- review of the areas of judgement and estimation impacted by COVID-19
- changes in cashflow and discount rate assumptions where relevant for the impact of COVID-19 in discounted cash flow models
- additional due diligence on the reports received from the Managers of the Collective Investment Vehicles to ensure the fair value estimates account for COVID-19 where relevant especially where the audit period is not 30 June 2020
- review of listed market movements against the movements in the investments held in unquoted markets

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).

Note 16
Financial instruments and financial risk management (continued)

16.6.2 Fair value in an inactive or unquoted market (continued)

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.

16.7 Fair value hierarchy

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The following tables provide an analysis of financial instruments held at year end that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

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

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

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

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

As noted in Note 16.3.4 for collective investments, the Fund has used proxy investment exposures to provide sensitivity information surrounding the possible impact on the income of the Fund should equity or interest rate markets move up or down by a specified amount.

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the beginning of the reporting period. The Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole).

Note 16
Financial instruments and financial risk management (continued)

16.7 Fair value hierarchy (continued)

The tables below provide information on the fair value hierarchy for the Fund and FFICs as at 30 June 2020:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total[1] $'000
Recurring fair value measurements				
Financial assets at fair value through profit or loss:				
Interest bearing securities	8,414	32,490,055	1,574,213	34,072,682
Listed equities and listed managed investment schemes	47,302,655	79,091	122,197	47,503,943
Collective investment vehicles	–	–	72,052,453	72,052,453
Derivatives	103,590	2,983,818	3,618	3,091,026
Restricted cash	933,943	–	–	933,943
Total	48,348,602	35,552,964	73,752,481	157,654,047
Financial liabilities at fair value through profit or loss:				
Derivatives	11,460	939,878	–	951,338
Total	11,460	939,878	–	951,338

1. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes the investment related assets and liabilities held by the FFICs. The difference between the table above and Note 7 is financial asset investments of $521,761,000 and financial liability investments of $0.

The following table presents the transfers between levels for the year ended 30 June 2020:

	Level 1 $'000	Level 2 $'000	Level 3 $'000
Transfers between Levels 1 and 2	-	-	-
Transfers between Levels 1 and 3	(35,499)	-	35,499
Transfers between Levels 2 and 3	-	6,609	(6,609)

Note 16
Financial instruments and financial risk management (continued)

16.7 Fair value hierarchy (continued)

The following table presents the movement in Level 3 instruments for the year ended 30 June 2020 by class of financial instrument:

	Interest bearing securities $'000	Equities and listed managed investment schemes $'000	Collective investment vehicles $'000	Derivatives $'000	Total $'000
Financial assets at fair value through profit or loss:					
Opening balance	1,707,848	636,134	75,323,374	4,228	77,671,584
Purchases	131,446	48,539	18,835,865	29	19,015,879
Sales	(267,433)	(255,740)	(19,381,924)	-	(19,905,097)
Transfers into Level 3	655	37,963	-	-	38,618
Gains and losses recognised in the statement of comprehensive income	8,961	(342,235)	(2,724,862)	(639)	(3,058,775)
Transfers out of Level 3	(7,264)	(2,464)	-	-	(9,728)
Closing balance	1,574,213	122,197	72,052,453	3,618	73,752,481

There were no Level 3 financial liabilities.

Note 16
Financial instruments and financial risk management (continued)

16.7 Fair value hierarchy (continued)

The Fund must invest all the assets of the Fund via investment managers. Listed below are the valuation techniques and significant unobservable inputs for the investments classified in Level 2 and Level 3. Due to the diverse nature of the Fund's investments it is not possible to list the ranges of the inputs.

As at 30 June 2020:

	Fair value $'000	Valuation technique	Unobservable inputs
Recurring fair value measurements			
Financial assets at fair value through profit or loss:			
Interest bearing securities	**34,064,268**	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	**201,288**	Discounted cash flow	Discount rate
		Independent pricing services	N/A
		Recent transaction	N/A
		Recovery value	Recovery rate
Collective investment vehicles	**71,621,383**	Market approach	Earnings multiple
			Net asset value
	431,070	Discounted cash flow	Discount rate
Derivatives	**2,987,436**	Independent pricing services	N/A
		Broker quotations	N/A
Total	**109,305,444**		
Financial liabilities at fair value through profit or loss:	**(939,878)**		
Derivatives		Independent pricing services	N/A
		Broker quotations	N/A
Total	**(939,878)**		

Note 16
Financial instruments and financial risk management (continued)

16.7 Fair value hierarchy (continued)

The tables below provide information on the fair value hierarchy for the Fund and FFICs as at 30 June 2019:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total[1] $'000
Recurring fair value measurements				
Financial assets at fair value through profit or loss:				
Interest bearing securities	–	23,024,934	1,707,848	24,732,782
Listed equities and listed managed investment schemes	56,312,307	30,416	636,134	56,978,857
Collective investment vehicles	–	–	75,323,374	75,323,374
Derivatives	102,660	1,219,883	4,228	1,326,771
Restricted cash	726,793	–	–	726,793
Total	57,141,760	24,275,233	77,671,584	159,088,577
Financial liabilities at fair value through profit or loss:				
Derivatives	(1,801)	(561,664)	–	(563,465)
Total	(1,801)	(561,664)	–	(563,465)

1. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes the investment related assets and liabilities held by the FFICs. The difference the table above and Note 7 is financial asset investments of $1,221,934,000 and financial liability investments of $6,000.

The following table presents the transfers between levels for the year ended 30 June 2019:

	Level 1 $'000	Level 2 $'000	Level 3 $'000
Transfers between Levels 1 and 2	-	-	-
Transfers between Levels 1 and 3	14,090	-	(14,090)
Transfers between Levels 2 and 3	-	69,647	(69,647)

Note 16
Financial instruments and financial risk management (continued)

16.7 Fair value hierarchy (continued)

The following table presents the movement in Level 3 instruments for the year ended 30 June 2019 by class of financial instrument:

	Interest bearing securities $'000	Equities and listed managed investment schemes $'000	Collective investment vehicles $'000	Derivatives $'000	Total $'000
Financial assets at fair value through profit or loss:					
Opening balance	1,401,375	92,775	67,883,206	1,202	69,378,558
Purchases	396,266	253,622	17,787,280	813	18,437,981
Sales	(48,843)	(21,192)	(14,693,183)	-	(14,763,218)
Transfers into Level 3	4,670	34,656	-	-	39,326
Gains and losses recognised in the statement of comprehensive income	29,506	324,210	4,346,071	2,213	4,702,000
Transfers out of Level 3	(75,126)	(47,937)	-	-	(123,063)
Closing balance	1,707,848	636,134	75,323,374	4,228	77,671,584

There were no Level 3 financial liabilities.

Note 16
Financial instruments and financial risk management (continued)

16.7 Fair value hierarchy (continued)

The Fund must invest all the assets of the Fund via investment managers. Listed below are the valuation techniques and significant unobservable inputs for the investments classified in Level 2 and Level 3. Due to the diverse nature of the Fund's investments it is not possible to list the ranges of the inputs.

As at 30 June 2019:

	Fair value $'000	Valuation technique	Unobservable inputs
Recurring fair value measurements			
Financial assets at fair value through profit or loss:			
Interest bearing securities	24,732,782	Discounted cash flow	Discount rate
		Market approach	Earnings multiple
		Broker quotations	N/A
		Independent pricing services	N/A
		Recovery rate	Illiquidity discount
Equities and listed managed investment schemes	666,550	Discounted cash flow	Discount rate
		Independent pricing services	N/A
		Recent transaction	N/A
		Recovery value	Recovery rate
Collective investment vehicles	74,760,388	Market approach	Earnings multiple
			Net asset value
	562,986	Discounted cash flow	Discount rate
Derivatives	1,224,111	Independent pricing services	N/A
		Broker quotations	N/A
Total	101,946,817		
Financial liabilities at fair value through profit or loss:			
Derivatives	(561,664)	Independent pricing services	N/A
		Broker quotations	N/A
Total	(561,664)		

Note 17
Events occurring after reporting date

The Board acknowledges the on-going outbreak of COVID-19 is an additional risk factor which could impact the operations and valuation of the Fund's assets after the year end.

The Board is actively monitoring developments closely. Given the nature of the outbreak and the on-going developments, there is a high degree of uncertainty and it is not possible at this time to predict the extent and nature of the overall future impact on the Fund.

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

Note 18
Special accounts

18.1 Special accounts: Future Fund special account

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

Appropriation authority – section 80 of the PGPA Act.

Purpose – establishment and ongoing operation of the Fund.

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

Future fund special account	Period from 1 July 2019 to 30 June 2020 $'000	Period from 1 July 2018 to 30 June 2019 $'000
Balance carried from previous period	-	-
Bank interest amounts credited	-	-
Appropriations for reporting period	-	-
Other receipts:		
GST credits	**4,833**	2,936
Amounts transferred from investment account[1]	**369,287**	320,388
Amounts credited to the special account	-	-
Total Credits	**374,120**	323,324
Available for payments	**374,120**	323,324
Payments made:		
Investments debited from the Special Account (FFA s17)		
Payments made		
– Remuneration of Agency staff	**49,890**	46,857
– Remuneration of Board members	**976**	887
– Suppliers	**104,945**	62,776
– Investment expenses	**213,928**	211,201
– Purchase of capital equipment and software	**1,207**	1,603
– Lease liability principal and interest payments	**3,174**	-
Total debits	**374,120**	323,324
Balance carried forward to next year[2]	-	-

1. The operations of the Fund are funded via the investment revenue generated.
2. Excluding investments balances, see Note 18.2.

Note 18
Special accounts (continued)

18.2 Special accounts: investment of public money

Disclosures below are on a cash basis:

Future Fund Special Account: Investment of Public Money under section 17 of the Future Fund Act 2006 (as amended)	Period from 1 July 2019 to 30 June 2020 $'000	Period from 1 July 2018 to 30 June 2019 $'000
Opening balance	**131,868,470**	121,792,123
Investments made on transfer of funds from the Special Account		
Realised investments reinvested	**135,158,753**	126,741,470
Interest earned reinvested	**757,477**	1,393,850
Dividends received reinvested	**2,992,776**	5,985,048
Franking credits received reinvested	**1,242,956**	952,916
Foreign currency realised reinvested	**(4,679,970)**	(1,816,670)
Amounts transferred to operations1	**(369,287)**	(320,388)
Investments realised	**(130,530,931)**	(122,859,879)
Closing balance	**136,440,244**	131,868,470

1. The operations of the Fund are funded via the investment revenue generated.

Note 19
Reporting of outcomes

19.1 Net cost of outcome delivery

Outcome 1: Strengthen the Commonwealth's financial position for the benefit of the Australian people, by managing the investment activities of the Future Fund and certain other Australian Government investment funds in line with their Investment Mandates.

The Fund's net contribution to outcome 1 is disclosed in the Statement of comprehensive income.

19.2 Net cost of outcome delivery – Programs

The Agency has two programs: the management of the investment of the Future Fund and the management of the investment of the Australian Government Investment Funds. These investments are held for and on behalf of the Commonwealth of Australia.

Program 1.1 Management of the investment of the Future Fund.

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

Program 1.2 Management of the investment of the Australian Government Investment Funds.

The role of the Agency was extended to include supporting the Board in the investment of the assets by the *DisabilityCare Australia Fund Act 2013,* the *Medical Research Future Fund Act 2015,* the *Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018,* the *Future Drought Fund Act 2019* and the *Emergency Response Fund Act 2019* to support the Board in the investment of the assets of the DCAF, MRFF, ATSILSFF, FDF and ERF. The Agency charges a monthly fee to each fund to reimburse the Agency for shared costs paid by the Agency, as agreed with the Department of Finance. During the year the Agency charged the funds a combined amount of $7,802,000 (2019:$4,510,000) which is included in other income in the statement of comprehensive income and the amount owing to the Agency at 30 June 2020 was $2,333,577 (2019: $1,181,839). Direct costs to the DCAF, MRFF, ATSILSFF, FDF and ERF, such as investment management and custody fees, were charged directly to each fund's Special Account and are not reported as part of these financial statements.

Note 20
Maturity disclosure

AASB 101 requires that for each asset and liability line item, the amount expected to be recovered or settled beyond 12 months is disclosed as set out in the table below:

	As at 30 June 2020 12 months $'000	As at 30 June 2020 12 months $'000	As at 30 June 2019 12 months $'000	As at 30 June 2019 12 months $'000
Financial assets				
Cash and cash equivalents	**3,206,425**	**-**	1,781,107	-
Receivables	**868,999**	**-**	1,515,267	-
Investments	**52,995,625**	**105,180,183**	39,596,394	120,713,247
Other financial assets	**9,685**	**-**	2,991	-
Non-financial assets				
Right of use assets	**-**	**16,424**	-	-
Plant and equipment	**-**	**2,754**	-	3,752
Intangibles	**-**	**2,088**	-	2,944
TOTAL ASSETS	**57,080,734**	**105,201,449**	42,895,759	120,719,943
LIABILITIES				
Financial liabilities				
Investments	**951,338**	**-**	563,459	-
Payables	**236,732**	**-**	529,352	-
Lease liability	**3,464**	**13,158**	-	-
Non-financial liabilities				
Employee provisions	**25,439**	**5,855**	22,736	7,000
Tax liabilities				
Deferred tax liabilities	**-**	**16**	-	18,524
TOTAL LIABILITIES	**1,216,973**	**19,029**	1,115,547	25,524

Note 21
Budgetary reports

The following tables provide a comparison of the original budget as presented in the 2019 – 20 Portfolio Budget Statements ("**PBS**") to the 2019 – 20 final outcome as presented in accordance with Australian Accounting Standards for the entity. The budget is not audited.

The 2019 – 20 budget was based on the assumption that the mandated return is achieved for each forward estimates year. CPI is estimated in these budget numbers. In that context, the budget construct, including related investment costs, was based on the estimated mandated return therefore the actual results will always deviate from these assumed returns.

Due to the volatile nature of investment markets, it is difficult to accurately predict the financial outcomes of the Fund. Further, as PBS financial information is presented in a concise format which differs to the level of information presented in this financial report, the tables below compare actual and budgeted information for the statement of comprehensive income and statement of financial position.

STATEMENT OF COMPREHENSIVE INCOME	Year ended 30 June 20 $'000	PBS – Administered 30 June 20 $'000	PBS – Departmental 30 June 20 $'000	Variance 30 June 20 $'000
Total income	(1,102,342)	9,795,861	92,284	(10,990,487)
Total expenses including income tax	326,108	452,604	92,284	(218,780)[1]
OPERATING RESULT FOR THE YEAR	**(1,428,450)**	**9,343,257**	**-**	**(10,771,707)**

STATEMENT OF FINANCIAL POSITION	As at 30 June 20 $'000	PBS – Administered 30 June 20 $'000	PBS – Departmental 30 June 20 $'000	Variance 30 June 20 $'000
Total assets	162,282,183	163,625,099	34,796	(1,377,712)
Total liabilities	1,236,002	981,980	34,796	219,226
TOTAL EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT	**161,046,181**	**162,643,119**	**-**	**(1,596,938)**

1. Total expenses were lower than budgeted mainly due to the total budgeted expense estimate based on the consolidation of subsidiaries under accounting standards which is required for budget preparation. As the Fund applies the investment entity standard, expenses incurred in subsidiaries are not included in the financial statements as separate expenses but are included in the change in fair value of the investment entities in which the expenses are incurred.

07

Other mandatory reporting

Resource statement

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

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

The Future Fund was established in 2006 to strengthen the Australian Government's long-term financial position. The outcome for the Agency is: Strengthen the Commonwealth's financial position for the benefit of the Australian people, by managing the investment activities of the Future Fund and certain other Australian Government investment funds in line with their Investment Mandates.

Future Fund Management Agency resource statement

	Actual available appropriation - current year (a)	Payments made (b)	Balance remaining (a)-(b)
	$'000	$'000	$'000
Administered			
Special accounts	374,120	374,120	–
Total special accounts receipts	374,120	374,120	–
Total resourcing and payments for Future Fund Management Agency	**374,120**	**374,120**	**–**

Procurement

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

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

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

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

During 2019-20, 14 new consultancy contracts were entered into involving a total actual expenditure of $1,950,692. In addition, 18 ongoing consultancy contracts were active during 2019-20, involving a total actual expenditure of $3,594,875.

A summary of expenditure on consultants in 2019-20 is below:

	Total
Number of new contracts entered into during the period	14
Total actual expenditure during the period on new contracts (inc. GST)	$1,950,692
Number of ongoing contracts engaging consultants that were entered into during a previous period	18
Total actual expenditure during the period on ongoing contracts (inc. GST)	$3,594,875

The Agency supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprises (SMEs) and Small Enterprise participation statistics are available on the Department of Finance's website.

The Agency recognises the importance of ensuring that small businesses are paid on time. The results of the survey of Australian Government Payments to Small Business are available on the Treasury's website.

The Agency's support for small business includes using the Commonwealth Contracting Suite for procurements under $200,000 in accordance with applicable Department of Finance resource management guidance.

Freedom of Information

Agencies subject to the *Freedom of Information Act 1982* (FOI Act) are required to publish information to the public as part of the Information Publication Scheme (IPS). This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a Section 8 Statement in an Annual Report.

Each agency must display on its website a plan showing what information it publishes in accordance with the IPS requirements. Information regarding the Agency's Information Public Scheme Plan is available at www.futurefund.gov.au/about-us/access-to-information/information-publication-scheme.

Advertising and market research

During 2019-20, the Agency undertook recruitment advertising. The total cost of this was nil for this year.

No campaign advertising was undertaken.

Grant programs

The organisation does not administer any grant programs.

Ecologically sustainable development and environmental performance

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

The 'How we invest' section of this report refers to how environmental, social and governance matters are incorporated into the investment decision making which is the central purpose of the organisation.

As a small tenant in a large multi-tenancy office building it is difficult to establish meaningful metrics for energy and water use or to establish appropriate benchmarking and monitoring arrangements. The building from which the Agency operates has a 4.0–Star NABERS Energy rating and a 3.5–Star NABERS Water rating. Building management continues to implement a range of energy, waste recycling and water initiatives throughout the building, including, the Agency's tenancy.

Disability reporting mechanisms

Since 1994, Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy.

In 2007-08, reporting on the employer role was transferred to the Australian Public Service Commission's State of the Service Report and the APS Statistical Bulletin. These reports are available at www.apsc.gov.au. From 2010-11, departments and agencies have no longer been required to report on these functions.

The Commonwealth Disability Strategy has been overtaken by a new National Disability Strategy 2010–2020, which sets out a 10-year national policy framework to improve the lives of people with disabilities, 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 disabilities are faring. The first of these reports can be found at www.dss.gov.au.

2019-20 annual performance statement

Introductory statement

As required by the *Future Fund Act 2006* and the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), this annual performance statement relates to the Future Fund Management Agency (Agency) and the Future Fund Board of Guardians (Board) as if they were a single Commonwealth entity (collectively referred to as the 'organisation').

As the Accountable Authority of the organisation for this purpose, I present the annual performance statement of the organisation, as required under paragraph 39(1)(a) of the PGPA Act. In my opinion, this annual performance statement is based on properly maintained records, accurately reflects the performance of the organisation, and complies with subsection 39(2) of the PGPA Act.

Hon Peter Costello AC

Accountable Authority, Future Fund Management Agency
Chair, Future Fund Board of Guardians

29 September 2020

Purpose

The organisation is responsible for investing for the benefit of future generations of Australians. Established in 2006 as Australia's sovereign wealth fund, its main objective is to strengthen the Commonwealth's long-term financial position.

The Board has responsibility for investing the assets of special purpose public asset funds including: the Future Fund, the Medical Research Future Fund, the Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILS Fund) and the DisabilityCare Australia Fund.

The Board took on management of the Future Drought Fund and the Emergency Response Fund during 2019-20. The funds were seeded from the assets of the Building Australia Fund and the Education Investment Fund respectively, which the Board had also been responsible for and which were closed.

Each fund is established by legislation and the risk and return objectives for each of the funds are set by Investment Mandate Directions issued by the Treasurer and Minister for Finance to the Board.

The Agency supports the Board with investing funds for which the Board is responsible in line with the Investment Mandate Directions for each fund.

The Portfolio Budget Statements identify the Outcome as: Strengthen the Commonwealth's financial position for the benefit of the Australian people, by managing the investment activities of the Future Fund and certain other Australian Government investment funds in line with their Investment Mandates (Outcome 1).

Results

As an investment institution, the achievement of the return and risk objectives set by the Government for each special purpose public fund is the key measure of performance. These expectations are set out in the Investment Mandate Directions issued by the responsible Ministers.

The Future Drought Fund and Emergency Response Fund were established during 2019-20 and are not reflected in the performance criteria set out in 2019-20 Portfolio Budget Statements or the organisation's 2019-20 Corporate Plan. Noting that measurement against each fund's investment mandate commenced shortly prior to the end of the financial year, their performance is discussed at a high level in the 'analysis of performance against purpose' section of this statement.

Analysis of performance against purpose

Performance criterion one – management of the investment of the Future Fund

Provide assistance and advice to the Board in pursuit of achieving the Investment Mandate target return over the long term (interpreted as rolling 10-year periods) with acceptable but not excessive risk.

The target return set out in the Investment Mandate is an average of at least the Consumer Price Index (CPI) + 4.0% to 5.0% per annum over the long term.

Criterion source

2019-20 performance criteria outlined in the 2019-20 Portfolio Budget Statements (Outcome 1, Program 1.1) and the 2019-20 Corporate Plan (Section 5, Performance).

Result against performance criterion

Performance against the Future Fund Investment Mandate Direction is set out in the table below.

Returns: Future Fund		
Period to 30 June 2020	**Return (% pa)**	**Target return[1] (% pa)**
From May 2006	7.5	6.5
10 years	9.2	6.1
Seven years	8.9	5.8
Five years	6.6	5.5
Three years	6.5	5.1
One year	-0.9	3.7

1. The Investment Mandate sets a benchmark target return of at least CPI + 4.5% to 5.5% per annum to 30 June 2017 and CPI + 4.0% to 5.0% per annum thereafter.

Performance criterion two – management of the investment of the Australian Government investment funds

Provide assistance and advice to the Board in pursuit of achieving the Investment Mandate Direction target returns as follows:

- For each of the Nation-building Funds and the DisabilityCare Australia Fund, the Australian three-month bank bill swap rate + 0.3% per annum, calculated on a rolling 12-month basis while minimising the probability of capital loss over a 12-month horizon.
- For the Medical Research Future Fund, an average return of at least the Reserve Bank of Australia Cash Rate target + 1.5% to 2.0% per annum, net of investment fees, over a rolling 10-year term with acceptable but not excessive risk.
- For the ATSILS Fund an average return over the long term of at least the Consumer Price Index + 2.0% to 3.0% per annum, net of costs with an acceptable but not excessive level of risk including having regard to the plausible capital loss from investment returns over the forward three-year period. During the initial transition period (up to 31 January 2020) a return lower than the benchmark return is anticipated.

Criterion source

2019-20 performance criteria outlined in the 2019-20 Portfolio Budget Statements (Outcome 1, Program 1.2) and the 2019-20 Corporate Plan (Section 5, Performance).

Result against performance criterion

Nation-building Funds and the DisabilityCare Australia Fund

On 1 September 2019, the Building Australia Fund was closed and its assets were transferred to the Future Drought Fund. From 1 July 2019 to 31 August 2019, the Building Australia Fund delivered a return of 0.3%, meeting its benchmark target of 0.3%.

On 12 December 2019, the Education Investment Fund was closed and its assets were transferred to the Emergency Response Fund. From 1 July 2019 to 11 December 2019 the Education Investment Fund delivered a return of 0.6%, meeting its target return of 0.6%.

In 2019-20, the DisabilityCare Australia Fund generated a return of 1.3%, exceeding its benchmark target of 1.1%

Medical Research Future Fund

Performance against the Medical Research Future Fund Investment Mandate Direction is set out in the table below.

Returns: Medical Research Future Fund		
Period to 30 June 2020	**Return (% pa)**	**Target return[1] (% pa)**
From inception (September 2015)	3.6	2.9
Three years	3.4	2.7
One year	0.2	2.1

1. RBA cash rate + 1.5% to 2.0% per annum over the long term, with an acceptable but not excessive level of risk.

ATSILS Fund

Following its establishment on 1 February 2019, the ATSILS Fund was in an initial transition phase while the Board developed a long-term investment strategy.

On 1 October 2019, the Fund gained exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund. Measurement of performance against the Investment Mandate commenced on 1 October 2019.

Returns: ATSILS Fund		
Period to 30 June 2020	**Return (%)**	**Target return[1] (%)**
Initial transition period	1.3	n/a
From inception (1 October 2019)	-1.3	0.6

1. CPI + 2.0% to 3.0% per annum over the long term, with acceptable but not excessive level of risk

Analysis of performance against purpose

The organisation is performing well against its stated purpose.

2019-20 was a challenging year for investors across the globe as the economic fallout of the COVID-19 pandemic impacted investment markets.

The Future Fund has exceeded its 10-year target benchmark return, adding $100.6 billion to the value of the Fund since it was established in 2006. The Fund's diversified portfolio protected its assets from significant losses in 2019-20.

The Medical Research Future Fund has exceeded its target benchmark return since inception. As with the Future Fund, the Fund's diversified portfolio protected its assets from significant losses in 2019-20.

The ATSILS Fund took on investment risk during the year with measurement against the Fund's Investment Mandate commencing from 1 October 2019. We have made good progress in diversifying and building out exposures for the Fund and it is performing as intended.

The DisabilityCare Australia Fund continued to perform in line with its mandate.

The Nation-building Funds also performed as intended and were closed in 2019-20.

Following the closure of the Nation-building Funds, the Board took on management of the Future Drought Fund and the Emergency Response Fund during 2019-20, gaining access to investment risk from 1 April 2020. Measurement against each funds' Investment Mandate commenced on that date. For the period 1 April 2020 to 30 June 2020 each fund delivered a return of 3.4%.

The COVID-19 pandemic and its economic and market impacts dominated the latter half of the 2019-20 financial year after positive economic and market conditions in the first half. The impacts of the pandemic are expected to be long lasting and a steady state solution unclear, which makes the medium to long-term investment outlook very uncertain and unusually risky.

We are focused on positioning for what will be a challenging and volatile environment in the future. The factors that have fuelled strong performance in the past may not be there any longer. We will continue to exercise patience and diligence in investing the assets of the funds in line with their relevant Investment Mandate Directions.

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References and index

Appendix A

Investment managers engaged by the Future Fund Board of Guardians at 30 June 2020

Table: Investment managers at 30 June 2020

Asset Class	Manager	
Equities		
Australian equities	Macquarie Investment Management UBS	
Developed market equities	Blackstone Alternative Asset Management BlackRock Alternative Advisors Insight Investment Management	Man GLG State Street Global Advisors UBS
Emerging market equities	Insight Investment Management State Street Global Advisors UBS	
Private equity		
Buy out	Advent International Corporation American Industrial Partners Apax Partners Archer Capital Bain Capital Berkshire Partners Charterhouse Capital Partners Citic Capital GI Partners Hellman & Friedman	Quadrant Private Equity RCP Advisors Seidler Equity Partners Siris Capital Southern Cross Management The Growth Fund Vitruvian Investment Partners Whitehorse Liquidity Partners
Venture and growth	Adams Street Partners Bessemer Venture Partners CDH Investments Columbia Capital FountainVest Partners Greenspring Associates Hillhouse Capital	Horsley Bridge Partners Lightspeed Venture Partners New Enterprise Associates Playground Global Quilvest Sequoia Capital Xiang He Capital
Special opportunities	Adams Street Partners Oaktree Capital Management TowerBrook Capital Partners	
Property		
Unlisted	Altarea Cogedim Berkshire Property Advisors BlackRock Brookfield Asset Management Columbia Pacific Advisors Garrison Investment Group LP Harbert Management Corporation	Hillwood Investment Properties ICAMAP Advisory Lend Lease Investment Management Morgan Stanley Real Estate Investing PEET Limited The Townsend Group Vicinity Centres

Asset Class	Manager	
Listed	State Street Global Advisors	
Infrastructure & Timberland		
Unlisted	AMP Capital Investors Campbell Global Corsair Infrastructure Management Global Infrastructure Partners HRL Morrison & Co	Morgan Stanley Infrastructure Oaktree Capital Management Starwood Energy QIC Global Infrastructure
Listed	DWS State Street Global Advisors	
Debt		
High-grade debt	First Sentier Investors Goldman Sachs Asset Management M&G Investment Management Limited	Macquarie Investment Management PIMCO Australia
High-yield debt	Ares Management Bain Capital Credit BlackRock Investment Management Glen Point Capital Hayfin Asset Management Lazard Asset Management	Oak Hill Advisors Oaktree Capital Management PAG Holdings Limited Quadrant Real Estate Advisors Westbourne Credit Management Limited
Distressed and event-driven	Bain Capital Credit Centerbridge Partners L.P	Oak Hill Advisors Oaktree Capital Management
Alternatives		
Multi-strategy/Relative value	Citadel Advisors Dymon Asia Capital	Schonfeld Strategic Advisors Wellington Investment Management
Macro-directional	Athanor Capital L.P. BlackRock Alternative Advisors Bridgewater Associates, Inc Citadel Advisors Clocktower Group L.P. Glen Point Capital	GMO Australia Ionic Capital Management Key Square Capital Management LLC MAN AHL Partners LLP Pendal Group Wellington Investment Management
Alternative risk premia	Atom Investors L.P. Elementum Advisors Hiscox Re Insurance Linked Strategies Ltd	MAN FRM Wellington Investment Management
Overlays		
Overlay strategies	Ashmore Investment Management Limited Insight Investment Management (Global) Legal & General Investment Management Limited Macquarie Investment Management	PIMCO Australia State Street Global Advisors Limited UBS Securities Australia Limited
Cash		
Cash	First Sentier Investors Macquarie Investment Management	PIMCO Australia

Appendix B

List of requirements

Below is the table set out in Schedule 2 of the PGPA Rule. Section 17AJ(d) requires this table be included in entities' annual reports as an aid of access.

PGPA Rule reference	Part of report	Description	Requirement
17AD(g)	**Letter of transmittal**		
17AI	P4	A copy of the letter of transmittal signed and dated by accountable authority on date final text approved, with statement that the report has been prepared in accordance with section 46 of the Act and any enabling legislation that specifies additional requirements in relation to the annual report.	Mandatory
17AD(h)	**Aids to access**		
17AJ(a)	P3	Table of contents.	Mandatory
17AJ(b)	P163-165	Alphabetical index.	Mandatory
17AJ(c)	P162	Glossary of abbreviations and acronyms.	Mandatory
17AJ(d)	P157-161	List of requirements.	Mandatory
17AJ(e)	Inside front cover	Details of contact officer.	Mandatory
17AJ(f)	Inside front cover	Entity's website address.	Mandatory
17AJ(g)	Inside front cover	Electronic address of report.	Mandatory
17AD(a)	**Review by accountable authority**		
17AD(a)	P5-6	A review by the accountable authority of the entity.	Mandatory
17AD(b)	**Overview of the entity**		
17AE(1)(a)(i)	P9-13	A description of the role and functions of the entity.	Mandatory
17AE(1)(a)(ii)	P11, P55-61	A description of the organisational structure of the entity.	Mandatory
17AE(1)(a)(iii)	P9-13, P24-54, P151-153	A description of the outcomes and programmes administered by the entity.	Mandatory
17AE(1)(a)(iv)	P9-13, P151-153	A description of the purposes of the entity as included in corporate plan.	Mandatory
17AE(1)(aa)(i)	P60	Name of the accountable authority or each member of the accountable authority.	Mandatory
17AE(1)(aa)(ii)	P60	Position title of the accountable authority or each member of the accountable authority.	Mandatory
17AE(1)(aa)(iii)	P60	Period as the accountable authority or member of the accountable authority within the reporting period.	Mandatory
17AE(1)(b)	Not applicable	An outline of the structure of the portfolio of the entity.	Portfolio departments mandatory

PGPA Rule reference	Part of report	Description	Requirement
17AE(2)	Not applicable	Where the outcomes and programs administered by the entity differ from any Portfolio Budget Statement, Portfolio Additional Estimates Statement or other portfolio estimates statement that was prepared for the entity for the period, include details of variation and reasons for change.	If applicable, Mandatory
17AD(c)	**Report on the performance of the entity**		
	Annual performance statements		
17AD(c)(i); 16F	P150-153	Annual performance statement in accordance with paragraph 39(1)(b) of the Act and section 16F of the Rule.	Mandatory
17AD(c)(ii)	**Report on financial performance**		
17AF(1)(a)	P24-54	A discussion and analysis of the entity's financial performance.	Mandatory
17AF(1)(b)	P148	A table summarising the total resources and total payments of the entity.	Mandatory
17AF(2)	Not applicable	If there may be significant changes in the financial results during or after the previous or current reporting period, information on those changes, including: the cause of any operating loss of the entity; how the entity has responded to the loss and the actions that have been taken in relation to the loss; and any matter or circumstances that it can reasonably be anticipated will have a significant impact on the entity's future operation or financial results.	If applicable, Mandatory.
17AD(d)	**Management and accountability**		
	Corporate governance		
17AG(2)(a)	P63	Information on compliance with section 10 (fraud systems)	Mandatory
17AG(2)(b)(i)	P4	A certification by accountable authority that fraud risk assessments and fraud control plans have been prepared.	Mandatory
17AG(2)(b)(ii)	P4	A certification by accountable authority that appropriate mechanisms for preventing, detecting incidents of, investigating or otherwise dealing with, and recording or reporting fraud that meet the specific needs of the entity are in place.	Mandatory
17AG(2)(b)(iii)	P4	A certification by accountable authority that all reasonable measures have been taken to deal appropriately with fraud relating to the entity.	Mandatory
17AG(2)(c)	P55-63	An outline of structures and processes in place for the entity to implement principles and objectives of corporate governance.	Mandatory
17AG(2)(d) – (e)	Not applicable	A statement of significant issues reported to Minister under paragraph 19(1)(e) of the Act that relates to non-compliance with Finance law and action taken to remedy non-compliance.	If applicable, Mandatory
	Audit committee		
17AG(2A)(a)	P59	A direct electronic address of the charter determining the functions of the entity's audit committee.	Mandatory
17AG(2A)(b)	P59	The name of each member of the entity's audit committee.	Mandatory
17AG(2A)(c)	P57-58	The qualifications, knowledge, skills or experience of each member of the entity's audit committee.	Mandatory

PGPA Rule reference	Part of report	Description	Requirement
17AG(2A)(d)	P59	Information about the attendance of each member of the entity's audit committee at committee meetings.	Mandatory
17AG(2A)(e)	P74-75	The remuneration of each member of the entity's audit committee.	Mandatory
	External scrutiny		
17AG(3)	P55-56	Information on the most significant developments in external scrutiny and the entity's response to the scrutiny.	Mandatory
17AG(3)(a)	Not applicable	Information on judicial decisions and decisions of administrative tribunals and by the Australian Information Commissioner that may have a significant effect on the operations of the entity.	If applicable, Mandatory
17AG(3)(b)	Not applicable	Information on any reports on operations of the entity by the Auditor-General (other than report under section 43 of the Act), a Parliamentary Committee, or the Commonwealth Ombudsman.	If applicable, Mandatory
17AG(3)(c)	Not applicable	Information on any capability reviews on the entity that were released during the period.	If applicable, Mandatory
	Management of human resources		
17AG(4)(a)	P55-63	An assessment of the entity's effectiveness in managing and developing employees to achieve entity objectives.	Mandatory
17AG(4)(aa)	P67-72	Statistics on the entity's employees on an ongoing and nonongoing basis, including the following: a. Statistics on fulltime employees. b. Statistics on parttime employees. c. Statistics on gender. d. Statistics on staff location.	Mandatory
17AG(4)(b)	P67-72	Statistics on the entity's APS employees on an ongoing and nonongoing basis; including the following: › Statistics on staffing classification level; › Statistics on fulltime employees; › Statistics on parttime employees; › Statistics on gender; › Statistics on staff location; › Statistics on employees who identify as Indigenous.	Mandatory
17AG(4)(c)	P73	Information on any enterprise agreements, individual flexibility arrangements, Australian workplace agreements, common law contracts and determinations under subsection 24(1) of the Public Service Act 1999.	Mandatory
17AG(4)(c)(i)	P72	Information on the number of SES and non-SES employees covered by agreements etc. identified in paragraph 17AG(4)(c).	Mandatory
17AG(4)(c)(ii)	P78	The salary ranges available for APS employees by classification level.	Mandatory
17AG(4)(c)(iii)	P78	A description of non salary benefits provided to employees.	Mandatory
17AG(4)(d)(i)	P79	Information on the number of employees at each classification level who received performance pay.	If applicable, Mandatory
17AG(4)(d)(ii)	P79	Information on aggregate amounts of performance pay at each classification level.	If applicable, Mandatory

PGPA Rule reference	Part of report	Description	Requirement
17AG(4)(d)(iii)	P79	Information on the average amount of performance payment, and range of such payments, at each classification level.	If applicable, Mandatory
17AG(4)(d)(iv)	P79	Information on aggregate amount of performance payments.	If applicable, Mandatory
	Assets management		
17AG(5)	Not applicable	An assessment of effectiveness of assets management where asset management is a significant part of the entity's activities	If applicable, Mandatory
	Purchasing		
17AG(6)	P148	An assessment of entity performance against the Commonwealth Procurement Rules.	Mandatory
	Consultants		
17AG(7)(a)	P148	A summary statement detailing the number of new contracts engaging consultants entered into during the period; the total actual expenditure on all new consultancy contracts entered into during the period (inclusive of GST); the number of ongoing consultancy contracts that were entered into during a previous reporting period; and the total actual expenditure in the reporting year on the ongoing consultancy contracts (inclusive of GST).	Mandatory
17AG(7)(b)	P148	A statement that *"During [reporting period], [specified number] new consultancy contracts were entered into involving total actual expenditure of $[specified million]. In addition, [specified number] ongoing consultancy contracts were active during the period, involving total actual expenditure of $[specified million]"*.	Mandatory
17AG(7)(c)	P148	A summary of the policies and procedures for selecting and engaging consultants and the main categories of purposes for which consultants were selected and engaged.	Mandatory
17AG(7)(d)	P148	A statement that *"Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website."*	Mandatory
	Australian National Audit Office Access Clauses		
17AG(8)	Not applicable	If an entity entered into a contract with a value of more than $100 000 (inclusive of GST) and the contract did not provide the Auditor-General with access to the contractor's premises, the report must include the name of the contractor, purpose and value of the contract, and the reason why a clause allowing access was not included in the contract.	If applicable, Mandatory
	Exempt contracts		
17AG(9)	Not applicable	If an entity entered into a contract or there is a standing offer with a value greater than $10 000 (inclusive of GST) which has been exempted from being published in AusTender because it would disclose exempt matters under the FOI Act, the annual report must include a statement that the contract or standing offer has been exempted, and the value of the contract or standing offer, to the extent that doing so does not disclose the exempt matters.	If applicable, Mandatory

PGPA Rule reference	Part of report	Description	Requirement
	Small business		
17AG(10)(a)	P148	A statement that *"[Name of entity] supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprises (SME) and Small Enterprise participation statistics are available on the Department of Finance's website."*	Mandatory
17AG(10)(b)	P148	An outline of the ways in which the procurement practices of the entity support small and medium enterprises.	Mandatory
17AG(10)(c)	P148	If the entity is considered by the Department administered by the Finance Minister as material in nature—a statement that *"[Name of entity] recognises the importance of ensuring that small businesses are paid on time. The results of the Survey of Australian Government Payments to Small Business are available on the Treasury's website."*	If applicable, Mandatory
	Financial statements		
17AD(e)	P80-146	Inclusion of the annual financial statements in accordance with subsection 43(4) of the Act.	Mandatory
	Executive remuneration		
17AD(da)	P73-77	Information about executive remuneration in accordance with Subdivision C of Division 3A of Part 23 of the Rule.	Mandatory
17AD(f)	**Other mandatory information**		
17AH(1)(a)(i)	Not applicable	If the entity conducted advertising campaigns, a statement that *"During [reporting period], the name of entity conducted the following advertising campaigns: name of advertising campaigns undertaken. Further information on those advertising campaigns is available at address of entity's website and in the reports on Australian Government advertising prepared by the Department of Finance. Those reports are available on the Department of Finance's website."*	If applicable, Mandatory
17AH(1)(a)(ii)	P149	If the entity did not conduct advertising campaigns, a statement to that effect.	If applicable, Mandatory
17AH(1)(b)	Not applicable	A statement that *"Information on grants awarded by name of entity during reporting period is available at address of entity's website."*	If applicable, Mandatory
17AH(1)(c)	P149	Outline of mechanisms of disability reporting, including reference to website for further information.	Mandatory
17AH(1)(d)	P149	Website reference to where the entity's Information Publication Scheme statement pursuant to Part II of FOI Act can be found.	Mandatory
17AH(1)(e)	Not applicable	Correction of material errors in previous annual report.	If applicable, Mandatory
17AH(2)	P24-54	Information required by other legislation.	Mandatory

Appendix C

Glossary of abbreviations and acronyms

AASB	Australian Accounting Standards Board
AC	Companion of the Order of Australia
ANAO	Australian National Audit Office
AO	Officer of the Order of Australia
APS	Australian Public Service
ATO	Australian Taxation Office
ATSILS Fund	Aboriginal and Torres Strait Islander Land and Sea Future Fund
CPI	Consumer Price Index
EEE	Equivalent Equity Exposure
ESG	Environmental, social and governance (risk management)
FFIC	Future Fund Investment Company
FFMA	Future Fund Management Agency
FoI Act	*Freedom of Information Act 1982*
GST	Goods and Services Tax
IFSWF	International Forum of Sovereign Wealth Funds
KMP	Key Management Personnel
MRFFIC	Medical Research Future Fund Investment Company
OECD	Organisation for Economic Co-operation and Development
PGPA Act	*Public Governance, Performance and Accountability Act 2013*

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