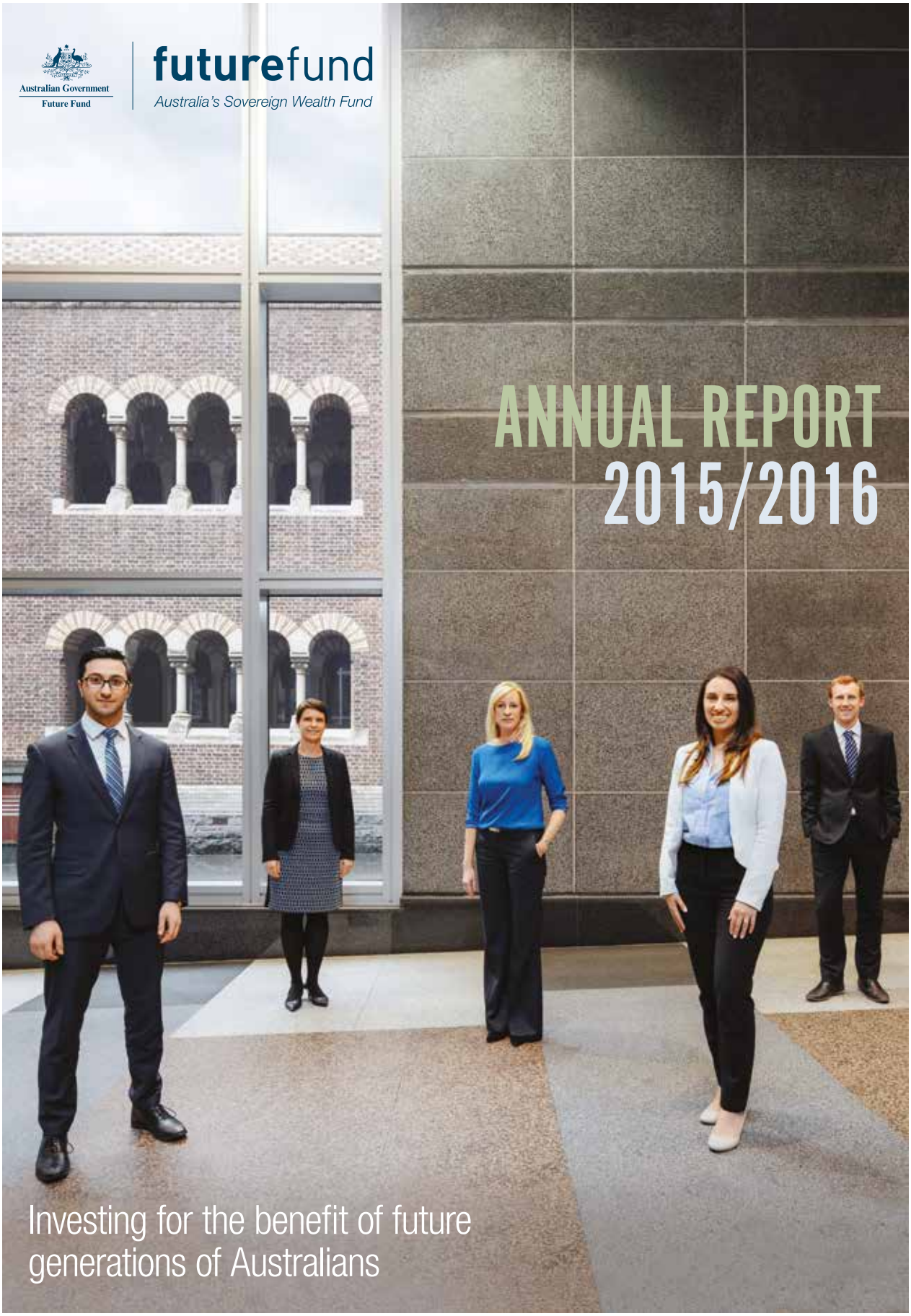
Australian Government
Future Fund

futurefund
Australia's Sovereign Wealth Fund

ANNUAL REPORT 2015/2016



Investing for the benefit of future generations of Australians

Data in this report may not sum due to rounding.

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Front cover: Ronny Asmar *People & Culture*, Kylie Yong *Finance*, Monique Saunders *Operations*, Stephanie Temelli *Debt & Alternatives*, Simon Bevege *Operations*.

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Australian Government
Future Fund

27 September 2016

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

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 2015/16 financial year.

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

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

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

As Accountable Authority of the Agency, I certify that:

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

Yours sincerely



Hon Peter Costello AC
Chairman
Future Fund Board of Guardians

Our performance

FUTURE FUND

Balance at 30 June 2016
$122.8 billion

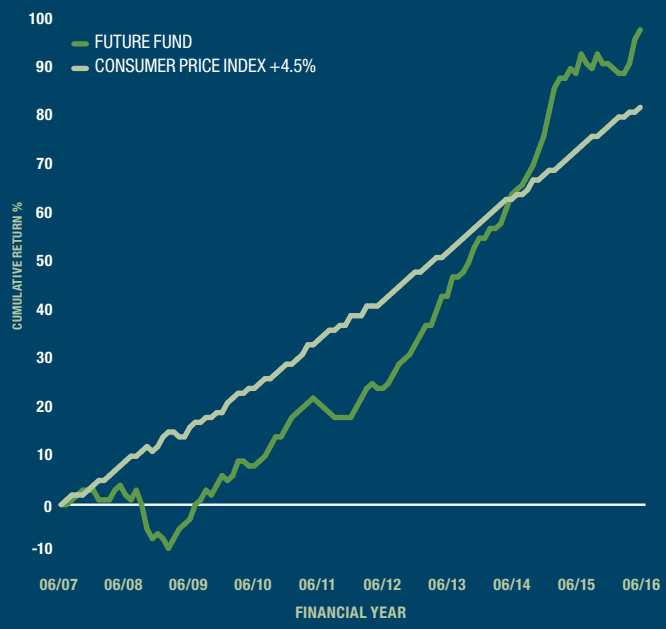
Return for 2015/16
4.8%

Return over 10 years
7.7% pa

Earnings for 2015/16
$5.6 billion

Doubled contributions of $60.5 billion

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





FUTURE FUND ASSET ALLOCATION AT 30 JUNE 2016

- 6.3% Australian equities
- 15.2% Global market equities
- 7.3% Emerging market equities
- 10.4% Private equity
- 7% Property
- 6.7% Infrastructure and timberland
- 11.6% Debt securities
- 13.7% Alternative assets
- 21.7% Cash

MEDICAL RESEARCH FUTURE FUND

Balance at 30 June 2016 **$3.2 billion**

Return for 2015/16 **2.1%**

DISABILITYCARE AUSTRALIA FUND

Balance at 30 June 2016 **$6.1 billion**

Return for 2015/16 **2.6%**

BUILDING AUSTRALIA FUND

Balance at 30 June 2016 **$3.7 billion**

Return for 2015/16 **2.5%**

EDUCATION INVESTMENT FUND

Balance at 30 June 2016 **$3.7 billion**

Return for 2015/16 **2.5%**

CASH FLOW HISTORY OF THE FUNDS IN A$ AT 30 JUNE 2016

	CONTRIBUTIONS		EARNINGS		WITHDRAWALS		BALANCE
FUTURE FUND	60.5 BN	+	62.3 BN	–	0 BN	=	**122.8 BN**
MEDICAL RESEARCH FUTURE FUND	3.1BN	+	0.1 BN	–	0 BN	=	**3.2 BN**
DISABILITYCARE AUSTRALIA FUND	5.9 BN	+	0.2 BN	–	0 BN	=	**6.1 BN**
BUILDING AUSTRALIA FUND	10.9 BN	+	1.9 BN	–	9.2 BN	=	**3.7 BN**
EDUCATION INVESTMENT FUND	6.5 BN	+	1.4 BN	–	4.2 BN	=	**3.7 BN**

ALL FUNDS

139.5 BILLION



The Future Fund was established in 2006 with a clear objective, that is, to strengthen the Commonwealth's long-term financial position.

I am pleased to report that the Board of Guardians, supported by the management team, continues to make great progress in the pursuit of that objective.

The Future Fund has now been in existence for 10 years. It has had no capital injection since 2008. On its initial capital contributions of $60.5 billion it has now earned an additional $62.3 billion. The Fund has doubled the investment that originated it. The Fund stood at $123 billion at 30 June 2016.

In the 10 years since the Future Fund was set up, it has delivered a return of 7.7% per annum, exceeding its target benchmark return of 6.9%. We are proud of this strong result. It reflects the application of a disciplined long-term investment strategy that has balanced the twin risk and return objectives set out in the Investment Mandate issued by the government to the Board of Guardians.

This strong investment return, and the high quality of the organisation that has delivered it, was recognised this year with the Central Bank Journal's Sovereign Investor of the Year award.

In addition to investing the assets of the Future Fund, the Board of Guardians is responsible for investing four other public asset funds.

The Medical Research Future Fund was established during the 2015/2016 year and we have developed and begun to implement an investment strategy for this portfolio. At year end government contributions and investment earnings had seen the Medical Research Future Fund grow to $3.2 billion.

The DisabilityCare Australia Fund, Building Australia Fund and Education Investment Fund each met their investment objectives during the year and, combined, were worth $13.5 billion at 30 June 2016.

By investing the assets of the five funds, the Board of Guardians has generated nearly $70 billion for the benefit of all Australians.

PROGRESS

Legislation clearly establishes the Board as an independent body operating at arm's-length from the government. This independence has been instrumental in the quality and discipline of the investment activity and the delivery of the strong results we have enjoyed.

A great deal has been achieved in the 10 years since the Board of Guardians and its management team were set up.

The priority of the Board of Guardians has been to prudently manage the contributions received from government and to apply a dynamic and flexible investment strategy tailored to the relevant mandate for each portfolio.

To do this, the Board has overseen the establishment of a professional and skilled management team to develop and implement investment recommendations and protect the assets of the funds.

Successive governments have given the Board responsibility for managing additional investment portfolios which is recognition both of investment acumen and the high quality governance of the organisation. We have added these portfolios to our organisation in a seamless and efficient way.

OUTLOOK

While acknowledging the success of the last 10 years, our focus is on the future.

In the aftermath of the 2008 financial crisis extraordinary monetary and fiscal policy measures have been deployed globally. These measures have supported asset prices, but they are losing their efficacy. And the capacity for further stimulatory measures is severely constrained.

Today, investors face a low-return environment.

Government bonds – the 'risk free' assets that form the foundations from which other assets are priced – are at historically low levels. This is unlikely to be a short-term phenomenon.

Across all major global economies, including Australia, long-term yields have fallen dramatically since the Investment Mandate was first set in 2006. A 10-year government bond is priced at a return of less than 2% per annum. Allowing for inflation, this means that the expected long-term real return from government bonds is around zero.

Investors are faced with the dilemma of accepting lower returns or deciding to increase levels of risk to chase returns.

Taking higher levels of risk means having an appetite for greater volatility and accepting the potential for larger losses.

From 2020 the Future Fund moves into a new phase because from that year the government is able to start withdrawals. These annual withdrawals are limited to the value of the unfunded superannuation liability payments falling due in the year in question.

Drawing down on the Future Fund's assets has investment implications, both in terms of the level of illiquidity that can be accepted and the returns that can be achieved in a progressively smaller and more liquid portfolio.

As such, the Board is engaging with the responsible Ministers to maintain a clear and shared understanding of these issues. This will ensure that the Investment Mandate properly reflects the government's risk and return expectations, the prevailing investment environment and the longer-term ability of the Future Fund to help ease pressure on the budget.

GOVERNANCE

During the year the Board took on responsibility for the investment of the Medical Research Future Fund with the Investment Mandate Directions issued in November 2015. The Health and Hospitals Fund, established in 2008, was closed.

Stephen Fitzgerald and Carol Austin left the Board in April 2016 at the conclusion of their terms of office. Stephen and Carol both served on a number of Board committees with Carol serving as Chair of the Audit & Risk Committee. I thank them both for their contributions.

The responsible Ministers appointed Erin Flaherty and Michael Wachtel to the Board of Guardians each for five-year terms from 3 April 2016. The Board is delighted to welcome both Ms Flaherty and Mr Wachtel. Mr Wachtel has been appointed Chair of the Board's Audit & Risk Committee.

ACKNOWLEDGEMENTS

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

I also acknowledge and thank the staff, led by David Neal as Managing Director. The Board appreciates their continued diligence and enthusiasm.



Hon Peter Costello AC
Chairman
Future Fund Board of Guardians



The organisation continues to perform well in a challenging investment environment and I am pleased with the results we have achieved this year.

The Future Fund has exceeded its long-term return target, the investment program for the Medical Research Future Fund is underway and the other funds we invest are performing in line with their mandated objectives.

Through the year we have continued to apply a consistently high level of attention to research, portfolio construction, implementation, and monitoring and this has driven the strong performance results outlined in this report. This work has been skilfully and tirelessly supported by the efforts of our operations, finance, legal, people and culture, and corporate services teams who deliver the critical infrastructure and processes to facilitate the investment program.

2015/16 PROGRESS

Investment results are the ultimate measure by which we assess our performance, but they are the end result of a more complex puzzle. In 2015/16 we continued to refine the organisation so that it adapts to the changing needs of the portfolios.

We added resources in our Investment Management team under the leadership of our Chief Investment Officer, Raphael Arndt. These resources are to allow us to deepen and broaden our search for great investments in what are increasingly competitive markets. We also developed and implemented a refined investment decision-making process including a more focused approach to the role of the Investment Committee and expanded responsibilities for our Manager Review Committee and Asset Review Committee.

During the year we significantly increased our focus on co-investments in our private markets portfolio, and our supporting areas, legal and finance in particular, stepped up to support these transactions.

During the year we were delighted to welcome Björn Kvarnskog to the organisation as Head of Equities and a member of the Investment Committee. He brings deep experience, strong skills and a valuable new perspective to our team. At the same time, I am pleased that we have had a number of internal promotions and transfers between teams. That we are able to meet many of the growing needs of the business through the development of the internal team is a powerful demonstration of the calibre of our people and the health of our organisation, and strengthens our ‘one team’ collaborative approach.

We also bolstered our Investment Strategy & Risk team under the direction of our Chief Investment Strategist, Stephen Gilmore. These new capabilities will help us further develop our ability to assess global economic and market pressures and the implications for portfolio construction, including enhancing risk measurement and reporting tools. To deliver these capabilities we have refined the Investment Strategy & Risk team structure to reflect our focus on overlay management, economic and capital market analysis, portfolio integration, portfolio design and analysis, and investment risk.

To strengthen the capabilities that support both the investment functions and the broader organisation, we established three new functions: Investment Solutions, Knowledge Management and Internal Communications.

These functions are critical to our ability to manage and analyse data, collaborate across the organisation, and identify and take advantage of opportunities efficiently and nimbly. In addition, our Operations team transitioned to a new private markets platform, iLevel, which has delivered a significant upgrade to our private markets reporting and analytical capability.

On the people front, we conducted an organisation survey, which showed a 71% engagement rate amongst staff. This is a strong result and outperforms the ANZ top quartile of 66%. Of the staff who responded, 94% enjoy working with their colleagues, 88% are proud to be part of the organisation and 92% said there is a clear vision of what we are trying to accomplish. The survey also identified some areas where we can improve and we have introduced initiatives to improve our communication processes and leadership capabilities to enhance the way we work together to achieve our objectives.

We continued to deepen and broaden our relationship with peers and partners by participating in a range of industry conferences, events and meetings. Relationships with our domestic and global peers and stakeholders are particularly important in today's investment environment – through these relationships we are able to share and acquire knowledge and access the best investment ideas around the globe.

LOOKING AHEAD

Looking ahead to the next 12 months we see an uncertain investment environment. Now more than ever we recognise the importance of ensuring that the organisation remains robust while maintaining its ability to be flexible, nimble and opportunity driven. This is leading us to invest in our IT and operational teams to ensure that we are best placed with the tools and frameworks to allow us to interpret and respond to changing conditions quickly and efficiently.

Following the establishment of a Data Management Project in 2015/16, we are working to upgrade our investment data management, systems and analytics capability. This will include establishing a specialist dedicated data management function to provide the strong foundation framework and technology architecture on which to build improved analytical capability.

We will continue to drive greater efficiency and effectiveness across business processes through greater standardisation, simplification and systemisation of our processes.

Finally, we will continue to invest in our people and culture, ensuring that we have the human skills and resources available to turn data and information into knowledge, insight and high quality decisions to the benefit of the portfolios as a whole.

ACKNOWLEDGEMENTS

The Chair and the Board provide valuable leadership in our work and have challenged and encouraged the staff throughout the year. I thank them for their support.

I thank all of the staff for their hard work. To have every part of our organisation focused on the pursuit of our mandated investment objectives is a key facet of our approach and tremendously powerful.

I am confident that the organisation is well placed to continue in its pursuit of investing for the benefit of future generations of Australians.



David Neal
Managing Director

01

ORGANISATION OVERVIEW



Julia McArdle, Property
Darren Skelton, Information Technology

OUR ORGANISATION

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 are responsible for investing the assets of five special purpose public asset funds: the Future Fund, the Medical Research Future Fund, the DisabilityCare Australia Fund and two Nation-building Funds.

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

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

OUR FUNDS

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

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

FUTURE FUND

The Future Fund was established in 2006 to strengthen the Australian Government's long-term financial position. From 2020 funds can be withdrawn from it to cover the annual unfunded Commonwealth superannuation liabilities. These liabilities are currently being paid out of consolidated revenue. The contribution of the Future Fund, when it becomes available, will assist the Australian Government at a time when an ageing population is likely to place significant pressure on its finances.

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

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

In accordance with the *Future Fund Act 2006* money may be withdrawn from the Future Fund prior to 1 July 2020 if the value of the Fund exceeds the target asset level (TAL) for the relevant year. The TAL is the amount that is expected to offset the present value of projected unfunded superannuation liabilities. The value of the Fund is not expected to meet the TAL prior to 1 July 2020.

MEDICAL RESEARCH FUTURE FUND

The Medical Research Future Fund was established in 2015 and will 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 plus 1.5 to 2.0% per annum, net of investment fees, over a rolling 10-year term.

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

DISABILITYCARE AUSTRALIA FUND

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

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

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

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

NATION-BUILDING FUNDS

The Nation-building Funds were established in 2008 to provide financing resources to help meet the Australian Government's commitment to Australia's future through investment in critical areas of infrastructure such as transport, communications, energy, water, education, research and health.

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

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

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

Building Australia Fund

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

Education Investment Fund

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

BUILDING AUSTRALIA'S SOVEREIGN WEALTH FUND

In 2006 we were established as Australia's sovereign wealth fund, a unique long-term investment institution in Australia. This year marks 10 years since we began this work.

Today, we invest the assets of five public asset funds, valued at nearly A$140 billion. This year saw the Future Fund double its initial contributions of just over $60 billion, growing to $123 billion, a return of 7.7% per annum since inception.

We have built a skilled team of professionals growing from six permanent staff in 2006 to a team of 129 at 30 June 2016. Building our organisation from the ground up has helped us recruit people who engage in and add to our culture. It has allowed us to design our systems, processes and governance arrangements to support that culture and the way we operate.

As the investment landscape has changed over the past 10 years we have sought to drive an industry discussion on the challenges and opportunities that face long-term institutional investors and the importance of culture and alignment as ingredients to long-term investment success. Culture and alignment define how people make decisions, and in so doing they influence the extent to which institutional investors have true alignment to the long-term objective.

As a global investor, 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. Our global network includes the investment managers who execute our investment strategies and who we consider an extension of our team, international investment institutions, including pension funds and other sovereign wealth funds, with whom we collaborate, as well as a range of other partners.

Over the past 10 years we have established ourselves as a globally recognised investment institution. In 2016 we were awarded Sovereign Investor of the Year by the Central Banking Journal. Representing Australia in the global investment community is enormously beneficial to our investment program as well as contributing to Australia's global standing.

Continuing our success while maintaining our culture and the systems that support our operations requires constant effort. We continue to believe strongly in the benefits of being flexible, nimble and opportunity-driven. We are focused on how we can ensure we maintain and increase this characteristic while at the same time building the strength, stability and resilience that the responsibility for managing nearly A$140 billion demands.

As such, we are investing in our supporting infrastructure and process to keep up with the growth in the size, complexity and sophistication of the funds under management.

In 2015/16 we introduced initiatives focusing on knowledge management, relationship management and contract management. Looking forward, our priority is to continue to drive efficiency and productivity improvements across the business.

This is an exciting and important time for our organisation. We have set out a plan that will see us step forwards in a way that will keep us at the forefront of the global institutional investment industry. This will deliver us the tools and environment we need to pursue strong risk-adjusted returns for future generations of Australians.

02

HOW WE INVEST



We manage a number of Investment Mandates on behalf of the Australian Government. While they have different objectives, our core investment beliefs inform our interpretation of each Mandate and we apply a consistent investment process across the Funds.

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

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

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

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

INVESTMENT CATEGORIES

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

INVESTMENT BELIEFS

We believe that…

- Success for the Future Fund and the Medical Research Future Fund is achieving returns over rolling 10-year periods in accordance with the benchmark return of the respective mandates, while avoiding excessive downside risk.
- Success for the Nation-building Funds and the DisabilityCare Australia Fund is achieving returns over rolling 12-month periods in accordance with the benchmark return of the respective mandates, while minimising the probability of capital losses over a 12-month horizon.
- The Board is ultimately responsible for all investment decisions. The Board's role is to act as if it is the owner of the Funds which belong to the Government on behalf of the Australian people.
- The Board must ensure all parties involved in the management of the Funds, both internal management and external service providers, are as aligned as possible to delivery of success as defined in points 1 and 2 above.
- The likelihood of meeting investment goals is directly related to the time, expertise and organisational effectiveness applied to decisions. Moreover, it is critical that a high quality and clear governance framework, incorporating adequate time and diversity of view, is in place.
- Portfolios are most efficiently managed as a whole, rather than a collection of sub-portfolios.
- Risk management should emphasise qualitative considerations, including a deep understanding of the investment environment. Quantitative measurement is important in supporting and testing this process.
- Investment risk is not well captured by a single metric, and there are additional risks that must be assessed and managed, such as liquidity, operational, counterparty and reputational risk.
- Focus should be on appropriate exposure to market risk factors because these are a stronger driver of long-term total portfolio risk and return than skill-related risk.
- A higher expected return per unit risk (investment efficiency) can be obtained from a broadly diversified allocation across different return drivers.
- Prospective returns and risks vary materially over time in a way that is at least partially observable and hence exploitable. The amount of risk taken should therefore be managed dynamically as conditions change.
- Being long-term funds, the Future Fund and the Medical Research Future Fund can invest in illiquid assets where illiquidity is appropriately rewarded, providing opportunities to increase returns.
- Markets can be inefficient to an extent that skillful management can add value after fees. Such 'net alpha', being uncorrelated with other return streams, is extremely valuable to the total portfolio.
- The management of costs is very important to maximising returns. The Board will seek to lever the Fund's scale and market standing to reduce costs.

INVESTMENT PROCESS

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

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

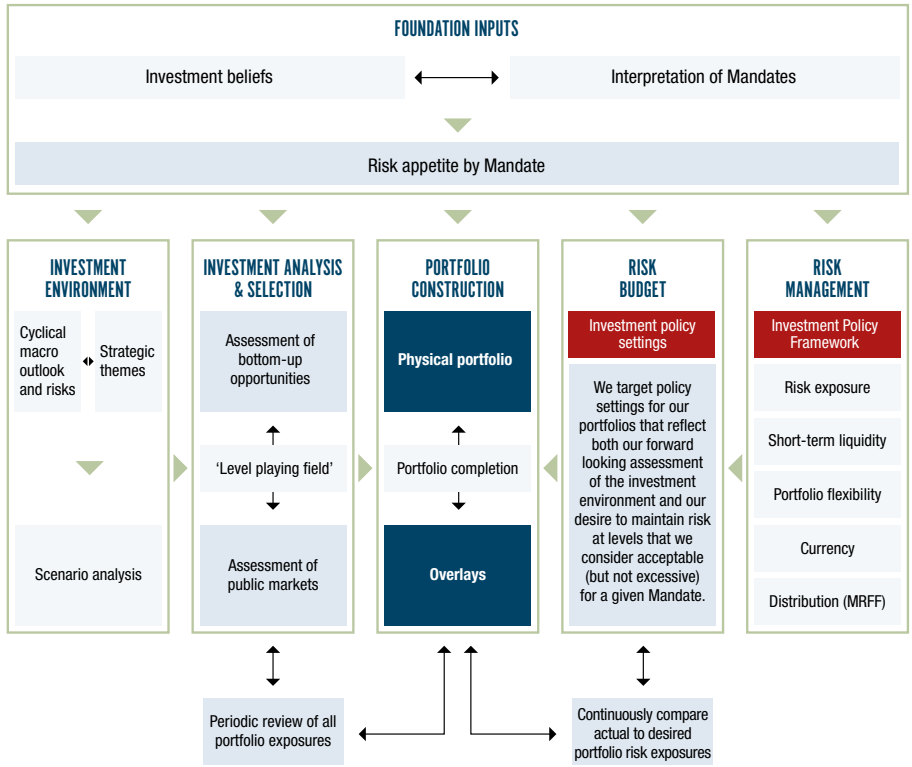
This approach of joining up the top-down and bottom-up elements is the cornerstone of our investment philosophy, and we further consider it a key comparative advantage that significantly improves our prospects of achieving our Mandates.

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

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

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

INVESTMENT PROCESS



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

The Investment Committee provides decision making and makes recommendations to the Board on total portfolio construction. From left to right: David Neal (*Managing Director*), Barry Brakey (*Head of Property*), Craig Thorburn (*Director, Emerging Markets*), Wendy Norris (*Head of Infrastructure & Timberland*), David George (*Head of Debt & Alternatives*), Hugh Murray (*Head of Overlay Management*), Raphael Arndt (*Chief Investment Officer*), Björn Kvarnskog (*Head of Equities*), Stephen Gilmore (*Chief Investment Strategist*), Steve Byrom (*Head of Private Equity*).







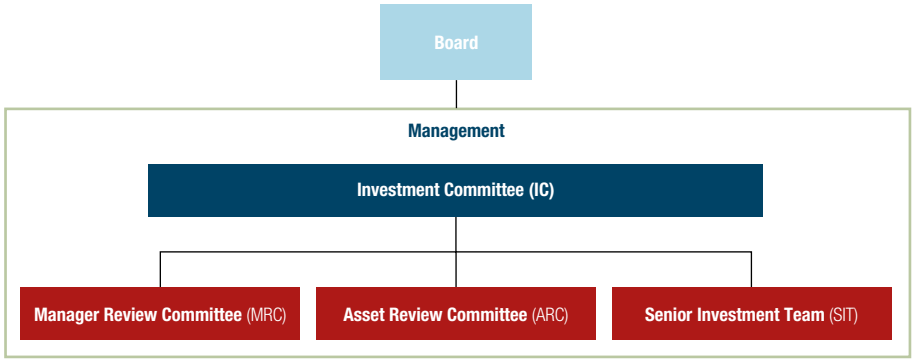
DECISION MAKING

The Agency's Investment Committee meets at least twice a month to consider strategic investment positioning in light of the prevailing investment environment. The Committee provides review and decision making in respect of the total portfolio construction and brings forward recommendations to the Board for review and approval. The Investment Committee also oversees the management of the portfolio within the delegations agreed by the Board.

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 – with delegated authority from the Investment Committee to assess manager and asset due diligence. The Committees consider detailed recommendations in relation to investment manager appointments and investment in specific assets.

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

INVESTMENT DECISION-MAKING STRUCTURE









INVESTMENT RISK

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

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

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

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

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

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

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

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

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

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

CURRENCY

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

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

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

Currency exposure for the Future Fund and the Medical Research Future Fund in 2015/16 is discussed in the Investment Performance section of this report.

STRATEGY IMPLEMENTATION

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

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

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

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

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

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

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

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

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

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

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

A list of our external managers at 30 June 2016 is available at Appendix A.

MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES

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

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

This approach includes the evaluation of ESG factors in direct investments, integration of ESG into the process for selecting the external investment managers responsible for individual investment decisions, and management of ownership rights.

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

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

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

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

This model requires careful coordination and alignment between our organisation and our managers. As part of our manager selection and monitoring process we consider the extent to which the manager is effectively managing financial risks and opportunities that may arise from ESG issues. This process is underpinned by dedicated and ongoing engagement and supported by detailed ESG portfolio analytics. To the extent that formal or informal ownership rights accrue in the manager's portfolio and are delegated to the manager, due consideration is given to the manager's ability to exercise those rights in the best interests of our organisation.

Where we make direct investments – such as for direct infrastructure or property investments – an evaluation of ESG and reputational risk factors is undertaken internally.

These assessments are conducted jointly by the relevant sector and ESG team, and supported where appropriate by third party research providers.

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

In addition, we partner with a number of investment managers to target the returns associated with ESG-related long-term themes, such as the efficient use of scarce resources, increased life expectancy, and growing wealth and improving quality of life in emerging economies. Among other things, this has resulted in investments in a range of clean technologies such as wind, solar and energy efficiency technologies where expected returns over an appropriate time horizon are attractive on a risk-adjusted basis.

EXERCISING OWNERSHIP RIGHTS

Exercising ownership rights is a key means by which to encourage good governance in investee entities.

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

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

In using these voting rights we apply our voting principles, as detailed on page 25, while also drawing on the insight of relevant investment managers and research providers.

The way in which we exercise the voting rights attached to our holdings in publicly listed Australian companies is reported in aggregate each year. Activity for the 2015/16 financial year is summarised on page 24.

Where a company resolution is found in conflict with our corporate governance principles or does not align with our best interests, we will consider voting against the company board. In total in Australia in 2015/16, we voted against company boards in approximately 5.8% of all resolutions.

Given the scope and complexity of exercising voting rights in multiple international markets, we delegate the proxy voting of the international listed equities portfolio to our external investment managers. These managers, responsible for managing investments on our behalf, are well placed to promote good corporate governance in investee entities. Moreover, we review the ownership policies and practices of our managers and retain the right in all cases to override managers and determine voting decisions directly. In 2015/16 our international listed equities managers were eligible to exercise proxy votes in respect of 37,294 resolutions at 3,432 shareholder meetings. In the cases where our votes were not exercised, generally the manager judged that it was not in our best interests to vote given structural impediments to shareholder voting (such as share blocking/re-registration or power-of-attorney requirements), or that the Board was ineligible to vote.

Each investment manager has the discretion to vote with or against the recommendation of the board of directors of the company for each resolution on the ballot. In aggregate our managers voted against company boards' recommendations in approximately 9.7% of international resolutions voted.

EXERCISE OF VOTING RIGHTS IN PUBLICLY LISTED AUSTRALIAN COMPANIES IN 2015/16

Resolution Type	Number of Resolutions	FF with Company Board	FF Abstain	FF Against Company Board
Elect Director	510	96.7%	0.6%	2.7%
Approve Remuneration Report	201	88.1%	0.0%	11.9%
Approve Remuneration Grant	184	92.4%	0.0%	7.6%
Other Remuneration	40	82.5%	0.0%	17.5%
Fees for Directors	36	97.2%	0.0%	2.8%
Capital Management	54	88.9%	1.8%	9.3%
Mergers & Acquisitions	17	100.0%	0.0%	0.0%
Other	93	97.8%	1.1%	1.1%
Total Resolutions Voted	**1,135**	**93.7%**	**0.4%**	**5.8%**
Total Meetings Participated	**225**			
Not Voted	0/0 (meetings/ resolutions)			
Total Eligible (Resolutions)	1,135			
Total Eligible (Meetings)	225			

EXERCISE OF VOTING RIGHTS IN PUBLICLY LISTED OVERSEAS COMPANIES IN 2015/16

Resolution Type	Number of Resolutions	FF with Company Board	FF Abstain	FF Against Company Board
Elect Director	17,690	91.5%	0.6%	7.9%
Remuneration	3,736	87.9%	0.2%	11.9%
Capital Management	3,273	77.1%	0.1%	22.8%
Mergers & Acquisitions	535	87.7%	0.6%	11.8%
Other	12,060	87.9%	4.1%	8.0%
Total Resolutions Voted	**37,294**	**88.6%**	**1.7%**	**9.7%**
Total Meetings Participated	**3,432**			
Not Voted	72/1,043 (meetings/ resolutions)			
Total Eligible (Resolutions)	38,337			
Total Eligible (Meetings)	3,504			

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.

ENGAGEMENT WITH INVESTEE ENTITIES

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

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

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

We leverage the engagement activities conducted by our investment managers. These managers are the front line of engagement, given their in-depth company knowledge and contacts. This year we also launched a strategic engagement program focusing on direct engagement with key investee entities to better understand risks and opportunities related to ESG factors. This direct engagement is conducted mainly with Australian domiciled companies, given the size and influence of our investments in our local market and practical considerations.

While the scope of our engagement activities is tailored to each company, a number of key engagement topics have been identified which are considered to have a meaningful impact on investment performance.

These topics provide a foundation for our engagement initiatives, but do not constitute a definitive list of ESG-related engagement themes. They include board and executive management quality, remuneration, strategic priorities, ethics and culture, and long-term value creation.

We partner with investment managers to coordinate engagement activities with investee entities to ensure that a consistent and mutually reinforcing approach is communicated. We consider this 'one-face to the investee entity' approach essential in driving positive outcomes.

OWNERSHIP RIGHTS IN PRIVATE MARKETS

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

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

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

Many of the private markets' pooled vehicles in which we invest have advisory boards that give investors a voice on certain key decisions. We have the right to appoint a representative to the advisory boards of many of the pooled vehicles in which we invest. This right was taken up wherever practical in 2015/16.

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

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

COLLABORATION AND CONTRIBUTING TO A STRONGER INVESTMENT SYSTEM

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

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

We are an active participant in a number of investor collaborations that address some of the systemic challenges related to ESG factors, including ESG Research Australia, the International Corporate Governance Network, and the Australian chapter of the 30% Club which promotes greater gender diversity on listed company boards. These structured multi-stakeholder initiatives are complemented by ongoing informal engagement with leading domestic and international asset owners in identifying and promoting best practice in ESG investment integration.

More broadly, we are involved in industry networks that aim to improve system integrity, build new markets, and advance best practice for institutional investment. The initiatives supported include the Hedge Fund Standards Board (HFSB), the Institutional Limited Partners Association (ILPA), the International Forum of Sovereign Wealth Funds, the Institutional Investor Roundtable, the Paul Woolley Centre for Capital Market Dysfunctionality, and the Thinking Ahead Institute.

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

We continued our collaboration with the Sydney-based Centre for International Finance and Regulation on exploring the challenges and opportunities of long-term investment and how to address principal–agent misalignments throughout the investment value-chain.

PORTFOLIO EXCLUSIONS

Australia has ratified a number of international conventions and treaties that limit certain activities. Where the activities of an entity or funding activity may contravene such a convention or treaty, the Board will consider the exclusion or removal of the investment from the portfolio. Where serious breaches of ESG standards have been identified, the Board prefers engagement over exclusion, working with the entity to improve ongoing performance where relevant. The Board reserves the option to exclude an investment for the most egregious sustained activities where the entity is unwilling or unable to change its practices.

Since 2009 we have restricted all managers of directly held investments from investing in securities issued by companies that may be involved in activities that are limited by the 2008 Convention on Cluster Munitions or the 1997 Anti-Personnel Mines Convention.

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

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

03

INVESTMENT PERFORMANCE



Chris Wilson, Legal
Georgina Lack, Finance
Matt Macnicol, Infrastructure & Timberland

MACRO-ECONOMIC OUTLOOK AND MARKET ANALYSIS FOR 2015/16

The global economy has continued the broad pattern of the post-financial crisis period of around trend growth rates for the globe as a whole with some regional disparities. Importantly though, from a financial markets perspective, this moderate rate of growth was only achieved with continued unprecedented levels of policy accommodation which has failed to erode spare capacity in many parts of the world and has so far only delivered tepid, and in many cases declining, inflation rates.

However, while the real economy impact of policy in the post-crisis period may have been lacklustre, financial markets have benefitted significantly.

The desire of central banks to stimulate the economy via easier policy has pushed them into new terrain and closer to the limits of what they can do under their current framework and practices. This has included the Bank of Japan's foray into negative rates, following earlier moves by Swiss and the European authorities.

Broadly, monetary policies work by (i) shifting the pattern of consumer spending between periods, (ii) influencing the cost of capital for firms and therefore their investment decisions, (iii) influencing currencies by shifting the relative return to holding that currency, and (iv) impacting asset values through the discount rate effect.

After nearly eight years of monetary policy easing, many of these transmission channels have waned in their impact.

Consumers, many of whom are still burdened by high debt loads and an extended period of modest wage gains, have little incentive to take on additional debt for consumer spending from modest interest rate reductions. Firms appear to have little incentive to expand production capacity significantly given excess capacity in many parts of the world and have increasingly used low interest rates to reorganise their balance sheets rather than invest in productive capacity. Currencies serve to stimulate economies by reallocating demand from elsewhere in the globe. However, not all central banks can depreciate their currencies at the one time. Much of the impetus from monetary policy, therefore, has been left to gains in asset prices and the wealth effect to stimulate demand. However, continued declines in forward-looking returns and perceptions on the durability of gains can temper the impact.

At the same time as the waning effectiveness of monetary policy has been debated, the costs of prolonged, extraordinary measures have also come into focus. Most notable are debates on the distortions in market pricing of financial assets caused by monetary stimulus, and the fact that gains from monetary stimulus have favoured asset owners and exacerbated wealth and income inequality.

Concerns on inequality manifested in the most notable political development of the year in the form of 'Brexit'. While local factors were also an issue, the decision by the United Kingdom to leave the European Union after 40 years was also widely seen as a reaction to globalisation. Global income inequality has declined markedly over recent decades with many hundreds of millions of people across the developing markets seeing substantial real income rises.

The desire of central banks to stimulate the economy via easier policy has pushed them into new terrain.

However, this has been achieved in part by a hollowing out of manufacturing sectors in developed market economies with negative consequences for jobs and wages. In many of these countries, this has shown up in fading support for globalisation, political polarisation and policy backtracking. This risks producing lower economic growth as well as lower returns to capital.

With respect to Brexit itself, while the fear of financial market stresses and a severe dislocation in the economy and financial markets did not eventuate, the long-run outlook for both the UK and the rest of Europe remains somewhat clouded. Significant uncertainty surrounds the pace and the terms of the UK's eventual withdrawal from the European Union and the long-run impacts. More immediately, as far as the UK is concerned, the depreciation of the Pound since the referendum and significant easing of policy by the Bank of England has likely contained the near-term impacts.

An extended period of highly accommodative monetary policy has also caused concern among market participants that risk is no longer priced to reflect fundamental factors and that price discovery in financial markets has been impaired. There are also concerns that many business models such as those of banks and insurance companies are impaired and that a search for yield has forced many investors to hold risk in their portfolios beyond their tolerance.

With a growing sentiment of monetary policy reaching its limits, increased focus has been placed on the role of fiscal policy in economic management. In the aftermath of the financial crisis the policy zeitgeist globally was generally for austerity to repair national balance sheets, however, a declining focus on budget repair and a shift to generally neutral fiscal policy stances has been beneficial for the global economy in recent years. A shift to fiscal policy taking greater primacy in economic policy management is likely to prove supportive of economic performance and help manage volatility.

With monetary policy in isolation seen to be losing its impact, discussion of the potential for greater monetary–fiscal coordination, including the use of so-called 'helicopter money' has increased. A generalised shift to co-ordinate policies more closely may provide the economic policy mix with greater potency, albeit with significant risks, and with vastly different implications for asset markets compared with the suite of unconventional measures used in the post Global Financial Crisis period.

In assessing the current economic environment, it is important to understand why so much of the globe is in need of continued policy stimulus around eight years after the shock of the financial crisis. Persistent debt and current account imbalances, demographic trends, and institutional arrangements have impaired the recovery and continue to lend an air of fragility to ongoing economic expansion.

One country that has managed to address its imbalances to a more significant degree than others is the United States. The US, which has eroded much of its spare capacity, raised its cash rate for the first time in nearly a decade in December 2015. While US monetary policy remains highly accommodative the asynchronous nature of the global business cycle, market developments and the potential downside risks associated with premature tightening have slowed further normalisation of policy for the time being.

Another important development of 2015/2016 was the significant fall in the oil price which impacted growth in emerging markets as well as US growth in those regions focused on shale. Deflating commodity prices, the winding down of commodity capital expenditure build-outs, and the tightening of financial conditions by virtue of prior appreciation of the US dollar and tightening credit have led to disappointing growth in emerging markets in recent years. With the pace of these headwinds declining, the outlook for emerging market growth has improved over the latter part of the year although a major uncertainty remains in how China manages its transition towards a more consumer and services-oriented economy.

Another important development of 2015/16 was the significant fall in the oil price.

The Chinese transition is multi-faceted with reforms in many areas, including addressing corporate debt issues, interest rate liberalisation, internationalisation of the Renminbi, state-owned-enterprise reforms and urbanisation. Policies aimed at reducing economic vulnerabilities in China, as well as improving resource allocation, remain one of the most important factors for the Chinese and global economic growth outlook and the risk environment given China's role as the predominant source of global growth in recent times. Another important point of focus for financial markets relates to the Renminbi. After a multi-year appreciation trend the Chinese Renminbi peaked relative to the US dollar in early 2014. Since that time China has placed greater formal emphasis on the trade-weighted exchange rate, which has been accompanied by a modest depreciation against the US dollar. This shift in the outlook for the Renminbi has had important impacts on capital flows and portfolio allocations.

Few countries are more impacted by reforms in China than Australia. The Australian economy has remained resilient despite a significant fall in its terms of trade from historically high levels. In the past such a significant shift in the terms of trade has typically resulted in significant dislocations in terms of unemployment or inflation. That this has not been the case this time is testament to past economic reforms that have made Australia a more flexible economy. In particular, the currency has acted as a shock absorber in this episode with the Australian dollar falling by around 20% in trade weighted terms since early 2013. Also helping ease the transition from mining investment-led growth has been a strong upsurge in residential construction. While the drag on growth from declines in mining investment has likely peaked and this will also translate into stronger exports, challenges still lie ahead for the Australian economy with growth from residential investment also close to peaking, the closure of automotive production in Australia close at hand, and the Australian dollar steadying. Nevertheless, Australia is well placed compared with most economies with further scope for monetary easing and fiscal support.

The evolving economic and policy backdrop has had significant implications for financial markets.

The search for yield among investors and declining expectations of long-run interest rates has seen further compression of longer maturity bond yields by around 100 basis points across most major developed markets. The advent of negative interest rates has taken away a perceived floor on bond yields, with a significant portion of the developed market sovereign bond universe now showing negative yields.

Equity markets as a whole recorded significant declines over the course of 2015/16. Only the US of the major markets recorded a gain for the year, albeit a very modest 1%, while it was noticeable in the major developed equity markets that those markets with negative rates recorded the largest declines of around 20%. In particular, the impact of negative interest rates on banks led to marked losses in financial sector equities and the importance of the financial sector in facilitating economic growth was not lost on investors either. A notable aspect within equity markets was the significant outperformance of yield-oriented sectors, such as property.

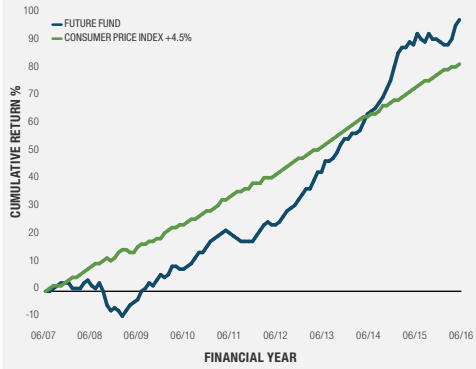
The combination of declining bond yields and falling equity prices, offset somewhat by a mixed earnings outlook, means that estimates of the reward for equity market risk (the equity risk premium) are broadly in line with historical averages which may favour allocations to equities as does the need for return for many investors. However, these estimates are highly contingent on the outlook for bond yields so that the reward for equity risk would be reduced if yields rose. Another factor tempering the outlook for investors is the vulnerability of the global economy, which suggests that greater than typical reward for risk is warranted, particularly as there is little scope for existing policy tools to deal with a downturn or shock and bolstering of the policy toolkit is likely only in the eventuality of such a downturn. And while the overall equity risk premium looks somewhat appealing the dependence of this on low bond yields means that investors face low expected nominal returns.

FUTURE FUND

FUTURE FUND PERFORMANCE 2015/2016

Mandate: Consumer Price Index plus 4.5 to 5.5% per annum over the long term with an acceptable but not excessive level of risk.

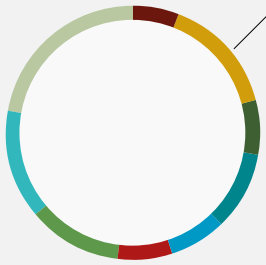
Return 2015/2016	4.8%
Return since inception	7.7% pa
Earnings 2015/2016	$5.6 bn
Earnings since inception	$62.3 bn



CASH FLOW HISTORY IN A$ AT 30 JUNE 2016

CONTRIBUTIONS | EARNINGS | WITHDRAWALS | BALANCE

60.5 BN + 62.3 BN − 0 BN = **122.8 BN**



FUTURE FUND ASSET ALLOCATION AT 30 JUNE 2016

6% Australian equities	7% Infrastructure and timberland
15% Developed market equities	12% Debt securities
7% Emerging market equities	14% Alternative assets
10% Private equity	22% Cash
7% Property	

INTERPRETING THE INVESTMENT MANDATE

The Future Fund's Investment Mandate was first issued to the Board by the responsible Ministers in May 2006 and is unchanged other than a revision in January 2015 to remove a restriction on acquiring a direct equity holding of voting shares in Telstra Corporation. The Investment Mandate is at Appendix B and on our website.

The Mandate asks the Board to generate a return of 4.5 to 5.5% above Australian CPI over the long term while taking "acceptable but not excessive risk".

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

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

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

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

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

There is sometimes friction between these two objectives, and our investment policy framework has been designed to guide resolution of issues like this by formalising our approach to investment risk management in portfolio construction. This framework, along with the broad investment process of which it is an important part, were described in greater detail in the 'How We Invest' section on pages 14-27.

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

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

We are not responsible for fully offsetting the Australian Government's unfunded pension liabilities, nor do we have control or influence over the management of the liabilities. Accordingly, we do not frame our investment strategy around the risk of these obligations increasing relative to the asset base.

FUNDAMENTAL DRIVERS OF RETURNS

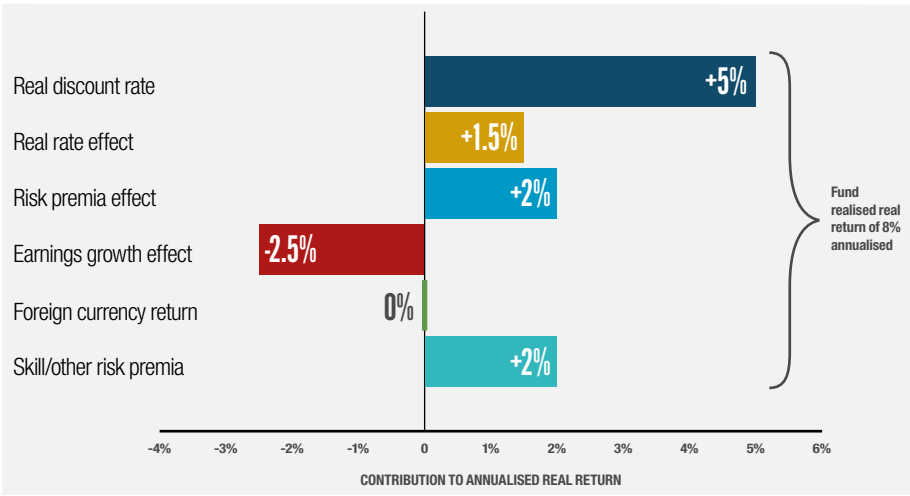
In 2009 we developed a framework for analysing the broad macro drivers of investment returns for the Future Fund. We see linkages between the macro-economy and the way that asset values are determined by markets as a set of discounted cash flows.

The chart below provides a summary of how realised returns on the Future Fund portfolio over the past seven years to 30 June 2016 can be attributed based on this framework.

1. The real discount rate, that is, the expected long-term real return priced into the markets at the start of the assessment period, contributed around 5% per annum.
2. A fall in the real discount rate over this period added an annualised real return of around 3.5%. This was driven by both a lower real rate (which contributed 1.5% per annum) and a compression in broad market risk premia compared to what had been priced into markets (which contributed 2% per annum).
3. On the other hand, disappointment in realised earnings (or cash flow) growth relative to initial market expectations detracted around 2.5% per annum from returns.
4. The impact of having foreign currency exposure over this period was relatively neutral.
5. Finally, the realised reward from other risk premia (for example illiquidity), together with additional added value from skilful management, contributed around 2% per annum.

All of the components discussed above together show a real return over the last nine years of approximately 8% per annum.

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



This analysis clearly shows the impact of the stimulative monetary policy regime we have been in since 1 July 2009. The dual tailwinds of falling real rates and compressing risk premia has been increasing returns, despite relatively disappointing growth in cashflows.

It is unlikely that these effects are sustainable given the very low level of real rates, and relatively full market valuations, that we are experiencing today. Therefore, without material improvements in growth prospects, we expect long-term returns to be lower than those realised in recent years.

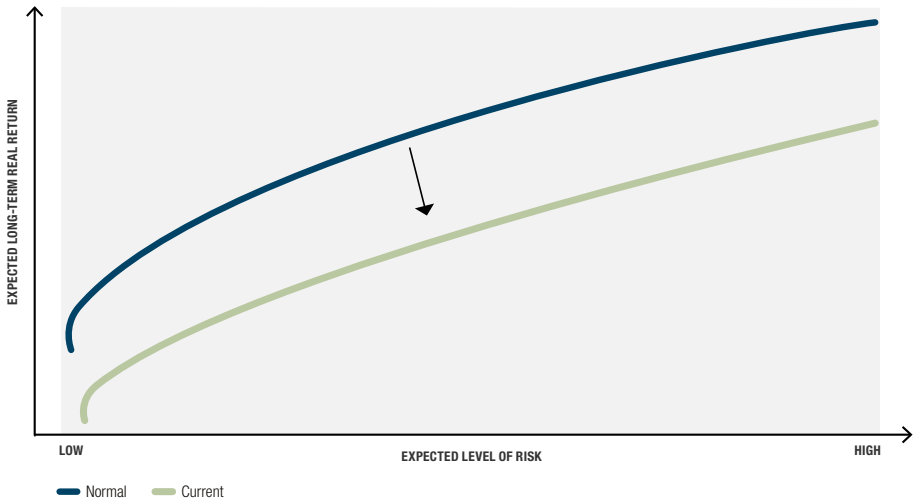
RISK POSITIONING

Consistent with our investment process, for the Future Fund 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.

We continued to reduce the overall level of risk in the Future Fund portfolio in 2015/16, reflecting our outlook on the global economy and markets as detailed in our macro-economic outlook and market analysis on pages 29-31.

As explained above, our view is that we are facing an investment environment in which expected returns are declining. At the same time, the underlying economic and financial risks are increasing. This means that the prospective reward for taking risk is becoming less attractive. This is shown in stylised form in the chart below.

CURRENT RISK/REWARD TRADE-OFF VERSUS 'NORMAL'



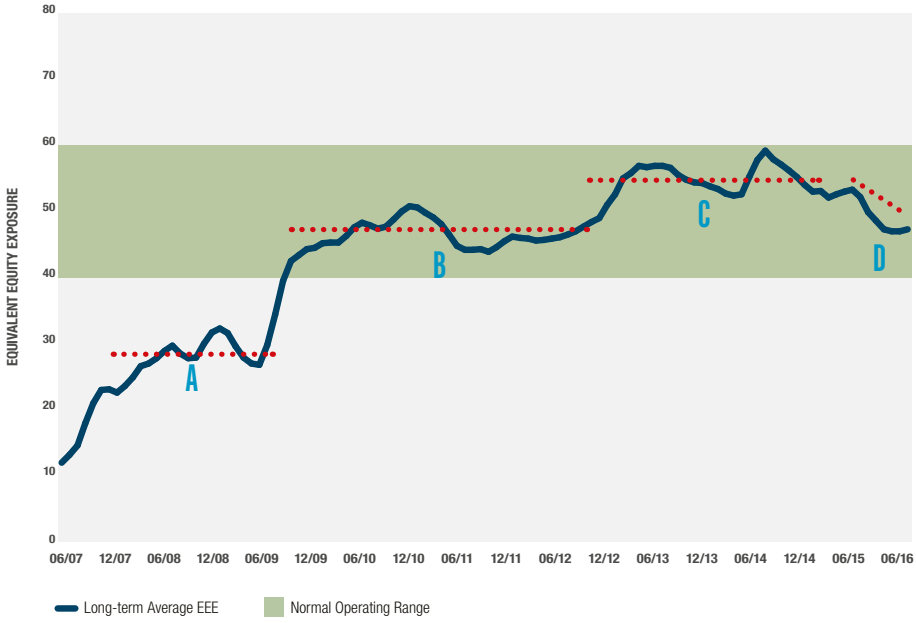
As one simple metric we track the broad market risk exposure of the Future Fund based on its Equivalent Equity Exposure (EEE) over time.

EEE estimates the 'look through' sensitivity of the portfolio to price movements in global equity markets and is one of the primary measures we use to understand total portfolio risk.

A simple proxy for an investment portfolio with a EEE of 50 is one comprised of 50% cash and 50% global equities (hedged back to the Australian dollar). A portfolio that comprised 57% global equities (hedged back to the Australian dollar) and 43% bonds (hedged back to the Australian dollar) would also have a EEE of 50.

The chart overleaf tracks how the EEE of the Future Fund has changed through time as we have dynamically managed the portfolio.

FUTURE FUND EQUIVALENT EQUITY EXPOSURE SINCE INCPETION



The graph above shows that there have been four distinctive risk regimes for the portfolio over the last 10 years:

A A very low risk profile was maintained from late 2007 as the subprime crisis began to grow into the global financial crisis.

B As extraordinary, globally coordinated policy was implemented to fight the crisis, the portfolio risk was taken up.

C Risk levels were increased further as the European crisis subsided and President of the European Central Bank, Mario Draghi, committed to "do whatever it takes".

D As the level of prospective returns have declined (given strong markets and very low bond yields), risk has been steadily removed.

INVESTMENT REVIEWS

LISTED EQUITY

Strategy

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

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

The current listed equities strategy has served us well since the inception of the Future Fund. With the appointment of a new Head of Equities in February 2016, the Listed Equities team instigated a review of the portfolio to update and refine the investment approach. The first step has been to simplify and clarify the objectives which guide our investment of the portfolio.

These are articulated as:

- To capture the equity market risk premium over the long term and harvest long-term equity factor risk premia facilitated through a flexible and liquid structure.
- To deliver good risk-adjusted, skill-based absolute returns with low correlation to market returns over the long term.
- To provide a source of liquidity for the total Fund and to facilitate any separate or additional completion listed equities exposures for the total Fund. These will typically be physical exposures that are held for strategic or long-term positioning.

We have initiated a review of our existing portfolio to ensure its consistency with our revised objectives and to ensure that we are using an efficient and transparent operating model. This will include building out additional information technology and systems so that we can better analyse and improve the portfolio construction process.

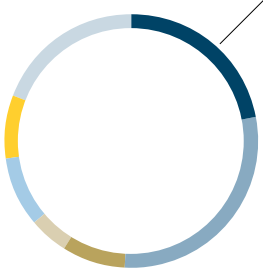
We continue to see merit in separately managing the Australian equities exposure because of its different attributes to our developed markets and emerging markets exposures. That is, the Australian market is concentrated in two sectors – Banks and Resources – which makes it difficult to construct a highly diversified portfolio. We also acknowledge the tax differences between our onshore and offshore listed equities exposures.

Report

The listed equity portfolio is valued at A$35.4 billion as at 30 June 2016. The portfolio, as a percentage of the total Future Fund, has been reduced from 33.8% at 30 June 2015 to 28.8% at 30 June 2016. This change reflects the impact of negative returns in developed and emerging markets combined with the decision to reduce the overall risk in the Future Fund. We implemented reductions across all of our sub-sectors. Separately, we have rebalanced our developed markets sub-sector to achieve a better balance of investment exposures given the market environment.

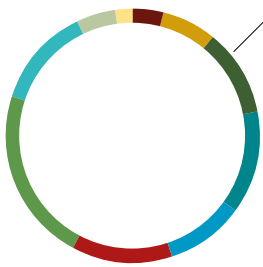
Our portfolio remains concentrated in developed markets while we continue to hold sizeable but reduced exposures to Australia and emerging markets. We maintained a large defensive core through our exposure to quality stocks and emerging wealth strategies (which allow investment in developed companies with underlying emerging markets exposure). These strategies were beneficial as they provided some protection against the negative market returns in developed and emerging markets over 2015/16. Our expectation is that listed equities will continue to provide modestly positive, but lower than average, returns going forward while significant bouts of market volatility appear likely.

EXPOSURE AT 30 JUNE 2016



REGION

- 22% Australia
- 29% United States of America
- 8% Europe (ex UK)
- 5% United Kingdom
- 9% Japan
- 8% Developed (other)
- 19% Emerging



SECTOR

- 4% Energy
- 7% Materials
- 11% Industrials
- 13% Consumer discretionary
- 10% Consumer staples
- 13% Health care
- 22% Financials
- 13% Information technology
- 5% Telecommunication services
- 2% Utilities

PRIVATE EQUITY

Strategy

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

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

Report

As of 30 June 2016 the Future Fund had $20.5 billion of capital (invested plus committed) with 29 private equity managers. During the year we allocated $0.6 billion to four new managers and a further $2.3 billion to our existing managers, including co-investments alongside those managers. Invested capital increased from $12.6 billion to $12.8 billion over the course of the year, reflecting $2.6 billion of capital calls, $4 billion of distributions and $1.6 billion of unrealised asset value appreciation. Unfunded commitments increased from $7.2 billion to $7.7 billion over the course of the year.

Of the capital called, 35% was for buyout opportunities, 32% was for venture capital and growth equity opportunities, 3% was for secondaries, 24% was for co-investments and the remaining 6% was invested in distressed opportunities.

During the course of the year we took advantage of favourable secondary markets to rebalance the private equity portfolio. The portfolio had become rather large due to strong performance and the fall in the Australian dollar against the US dollar. In all, we realised A$1.7 billion by selling down parts of the Future Fund portfolio, including selling A$233 million of assets to the Medical Research Future Fund on the same terms as external sales took place.

Of the remaining distributions received, 12% were from realisations in our buyout portfolio, 7% from the distressed portfolio,18% from the secondaries portfolio, 38% from the venture capital and growth equity portfolio and 25% from the co-investment portfolio. As at 30 June 2016 private equity represented 10.4% of the Future Fund's total assets.

Our private equity strategy is predicated on our view that private equity fulfils two functions within the Future Fund's investment portfolio.

The first is to invest in high 'alpha' opportunities, where we believe we can earn a significant premium over similar but more liquid equity investments. Most of these investments would fall in the buyout, co-investment or secondaries categories. The second function is to expose the Fund to investment themes that it cannot readily gain exposure to through other more liquid investments.

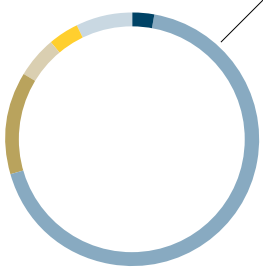
In the second category we would include such themes as exposing the portfolio to innovative and disruptive companies (venture and growth), companies in financial difficulty that require capital to undertake financial restructurings and/or operational turnarounds (distressed opportunities), and funding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

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

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

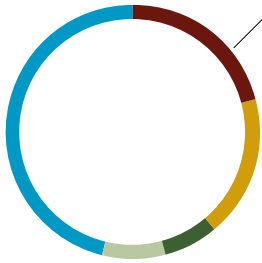
We continue to look for highly disciplined managers with (among other attributes) experience in generating strong returns in volatile economic environments and who provide good access to co-investment opportunities but in doing so are focused on alternative, more innovative and less crowded means of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

EXPOSURE AT 30 JUNE 2016



REGION

- 3% Australia
- 67% United States of America
- 13% Europe (ex UK)
- 5% United Kingdom
- 4% Developed (other)
- 7% Emerging



STRATEGY

- 21% Buyout
- 18% Co-invest
- 7% Distressed
- 8% Secondaries
- 46% Venture and growth

SPOTLIGHT ON OUR INNOVATION AND DISRUPTION STRATEGY

STEVE BYROM, HEAD OF PRIVATE EQUITY

In a challenging global economic and market environment, investments that aren't correlated to traditional equity or debt market returns are particularly attractive.

That is why the role of private equity and particularly venture capital and growth equity in the Future Fund's portfolio is more important now than it has ever been.

In 2015/16 venture capital and growth equity accounted for around 46% of our private equity program, which itself is valued at around $12.8 billion or 10.4% of the Future Fund.

Venture capital and growth equity provide us with access to the innovation cycle that shows little correlation to these markets. We are attracted to investing where genuine innovation and wealth creation are occurring.

We believe we are in the midst of a multi-wave innovation cycle driven by empowering the consumer, cloud computing, big data, machine learning and mobile connectivity.

These waves, when combined with the low cost and componentisation of computing, are providing significant opportunities for new, and often disruptive, business models to emerge. Themes around collecting, storing and using data, internet security and using the cloud to transform business models have all provided attractive areas for investment.

Importantly, through our venture and growth equity program we gain insight and economic exposure to disruptive technologies – and we can take these insights away and make more informed investment decisions in other sectors including listed equities, property, infrastructure and debt.

We have chosen to partner with a small number of venture capital fund managers, investing in their funds, and increasingly co-investing alongside them into some of their fast growing, larger breakout companies. We continue to be attracted to companies that have novel business models and idiosyncratic growth drivers and would expect this part of our investment program to continue to grow in the future.

We are attracted to investing where genuine innovation and wealth creation are occurring.

PROPERTY

Strategy

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

Our value-add derives from:

- Targeting sectors in the markets and geographies that we believe will outperform over the long term.
- Undertaking research to identify sectors and geographies that, in the context of our medium- to long-term view, offer an appropriate risk and return trade-off to our total portfolio.
- Implementing the strategy with partners and managers where we can influence mandate design and optimise alignment.
- Maintaining a skilled and engaged team with close and productive relationships with our managers and partners.

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

Report

The property market continues its positive momentum, driven by strong investor demand for assets with a stable income return. Most markets have experienced generally consistent occupier demand. Development activity is increasing, but it is mostly synchronised with demand.

Investors searching for yield continue to provide a tailwind for our existing portfolio reflected in a firming of valuations. It also has allowed us to accelerate the business plans for our assets. We continue to encourage our managers and partners to sell assets once they have executed their plan to take advantage of the positive market conditions. This is demonstrated by the successful sale of assets in the UK, Europe, US and Australia in 2015/16.

Our portfolio maintains a dominant exposure to the US and Australia. Our US portfolio has again generated a strong return driven by strong investor demand, positive economic growth leading to improving occupier fundamentals and low interest rates. Our Australian portfolio has also benefited from a valuation uplift flowing from strong investor demand and the successful execution of asset business plans.

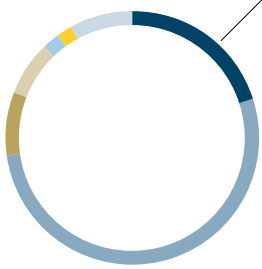
We have been more watchful outside of these two regions. Uncertainty stemming from Brexit has influenced us to lighten off in UK and Europe and now leads us to patiently search for value in these markets. Exposure to Asia outside Australia is modest, limited by our ability to find value and appropriate ways to access the market.

The environment for new investment remains challenging, but we continue to find opportunities given the divergences across geographies. We are also seeking to exploit certain themes, such as changing consumer preferences supporting the dominance of well-located retail centres with strong food and entertainment offers and increasing demand for modern logistics space.

We are increasingly focused on income generation as we move further through the cycle. There continues to be a reward above core returns for those investors prepared to accept and solve for risk and we are opportunistically seeking to exploit this. We are also finding that volatility in the listed market is providing interesting opportunities for investors prepared to act decisively.

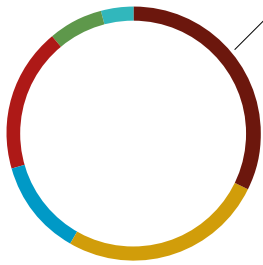
During the year we made new investments in US, European and Australian logistics, US residential, and European retail/office. We have also established a new position in US Listed Real Estate Investment Trusts. In doing this, we have extended or added to our mandates with several of our existing partners.

EXPOSURE AT 30 JUNE 2016



REGION

- 20% Australia
- 53% United States of America
- 8% Europe (ex UK)
- 7% United Kingdom
- 2% Japan
- 2% Developed (other)
- 8% Emerging



SECTOR

- 32% Retail
- 26% Office
- 12% Industrial
- 18% Residential
- 7% Diversified
- 4% Hotel

INFRASTRUCTURE AND TIMBERLAND

Strategy

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

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

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

Our value-add comes in two forms:

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

Report

The strong market for core infrastructure and timberland assets has driven strong returns, reflected particularly in the performance of our Australian assets which represent 45% of the portfolio.

During the year we invested A$390 million in funds and co-investments managed by our four opportunistic managers, including with one new manager appointed this year. We received A$229 million in distributions from our portfolio investments, and took advantage of the large influx of capital into the core infrastructure market to exit just over $1 billion of our more mature offshore infrastructure investments. We also made a further reduction in our listed infrastructure holding, reflective of the overall reduction in risk across the Future Fund portfolio.

As at 30 June 2016 we had A$8.2 billion of capital invested in infrastructure and timberland, representing 6.7% of the Future Fund. In addition we had $243 million committed to opportunistic infrastructure funds, and a further $2 billion of available capacity in separate accounts.

Infrastructure

Global demand for infrastructure assets with stable cash flow profiles and strong yields has increased steadily over the past few years. This type of core infrastructure can be attractive to investors seeking to match liabilities while seeking better returns than those available in high-grade bond markets.

While core infrastructure assets exhibit many characteristics which are attractive to the Fund, we are also focusing on opportunistic infrastructure at this point in the cycle, which can offer strong risk-adjusted returns when managers and investments are carefully selected.

Economic growth remains low throughout much of the world while unprecedented monetary policy stimulus has driven down the cost of borrowing and expected returns. We remain focused on the impact of the likely tightening of interest rates by the US Federal Reserve as well as potential for additional monetary policy easing in Europe and Japan and the potential impacts this could have on the valuation of long duration assets such as core infrastructure.

During the year we continued to focus on rotating our exposure away from core infrastructure and towards our higher returning opportunistic strategy. In particular, we sold our interest in Southern Water Services Limited (a large regulated water utility in the UK), and in a mature diversified core infrastructure fund.

Listed infrastructure valuations were volatile during the period and we continued to reduce our exposure modestly.

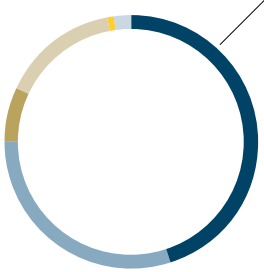
We see Australian infrastructure assets as a good fit for our mandate due to their Australian dollar denominated, inflation-linked cash flows. We participated selectively in a number of Australian infrastructure bid processes during the year, and we continue to monitor the market closely.

Timberland

We maintain our interest in timberland markets and continue to observe the US sector closely. Asset prices have remained full, supported by the strengthening economy and a recovery in the housing market, although we have observed less competition for larger-scale assets in the past year.

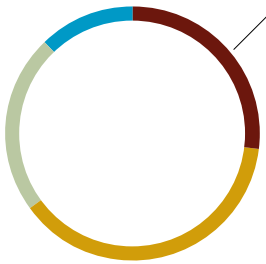
As for infrastructure assets, we remain concerned regarding the impact on asset values from the likely rise in US interest rates as the economy continues to recover. Our Australian exposure has performed well, supported by Asian demand for log exports and continued strength in local housing construction. We continue to seek additional opportunities but remain price disciplined.

EXPOSURE AT 30 JUNE 2016



REGION

- 45% Australia
- 30% United States of America
- 7% Europe (ex UK)
- 15% United Kingdom
- 1% Developed (other)
- 2% Emerging



STRATEGY

- 27% Listed exposure
- 38% Australian core
- 23% Opportunistic
- 12% Global core

DEBT

Strategy

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

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

Our key value-add derives from:

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

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

We have focused our efforts on building core relationships with managers who demonstrate multiple, high quality skill sets. This accumulation of sector capabilities creates access points through which we can dynamically orientate the portfolio to the most attractive opportunities.

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

Report

The 2015/16 year saw the volatility that started in late 2014, largely as a result of stress within resource-oriented sectors (energy and metals), continue and expand beyond those directly impacted by falls in commodity prices. While corporate default activity has increased at the margin, credit fundamentals remain generally stable for most sectors outside of resources. We believe pockets of value have formed in some areas of credit, although we are wary of macroeconomic headwinds and low outright yields, and we are alert to potential for episodes of volatility and lower liquidity. We therefore view such episodes as presenting both risk as well as opportunity, as low liquidity may be to our benefit if we can source quality assets from motivated sellers.

A stylised history of our debt exposures would indicate that from 2008 to 2011 the portfolio bought more than it sold, and from 2012 to 2015 did the opposite, reducing the debt proportion within the total Fund by around half. This fiscal year saw the selling trend stabilise, with our views on value and opportunities in the market resulting in modest net additions to specific sub-sectors within Debt.

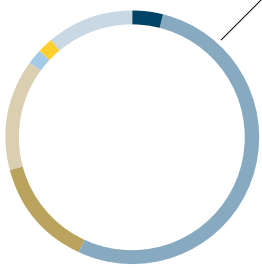
One area of portfolio growth was in the emerging markets debt sub-sector. We see investing in emerging markets sovereign and corporate bonds as attractive strategically, offering the potential for diversification within growing and evolving capital markets. Developments in the last two years, in particular the strength of the US dollar and falling commodity prices, had negative impacts for a number of emerging market economies. These effects appear to be abating, in large part aided by proactive fiscal and economic adjustments, creating a platform of increasingly stable conditions. In addition, asset pricing has adjusted, with emerging markets' debt having underperformed other credit sectors for the last few years and more recently appearing to offer an interesting entry point. This has built confidence to increase exposure, targeting both sovereign and corporate issuers.

Another geography which we have devoted greater resources to this year is Australia. Updates to banking and prudential regulation, in a similar fashion to other geographies, continue to influence how local banks interact with their corporate clients. During the year we invested with a manager who is targeting lending opportunities which may arise from these changes. This is similar to established programs within Europe and North America which remain a significant exposure in the portfolio.

We retain a substantial exposure to more liquid credit markets, predominantly invested in corporate loans, sub-investment grade bonds, and structured credit markets. We continue to see realisations from our prior vintage of distressed debt investments and, while we do not believe it is imminent, have been positioning our portfolio to take advantage of a broader credit default cycle should one arise.

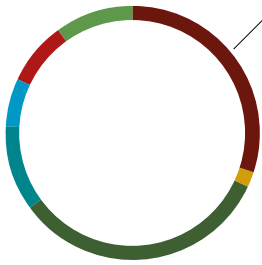
Our focus remains ensuring we have flexible, high quality access points to allocate nimbly as opportunities develop. This requires that we have the right managers in place and the ability to build scale. In this regard we feel we are well positioned to maximise the value of our strong balance sheet and long-term outlook.

EXPOSURE AT 30 JUNE 2016



REGION

- 4% Australia
- 53% United States of America
- 14% Europe (ex UK)
- 14% United Kingdom
- 2% Japan
- 2% Developed (other)
- 11% Emerging



STRATEGY

- 30% Private debt
- 2% Investment grade corporate
- 33% Sub-investment grade corporate
- 11% Mortgage backed securities
- 6% Other securitised
- 8% Emerging markets debt
- 10% Cash and other

ALTERNATIVES

Strategy

The opportunity set includes:

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

Our value-add comes in two forms:

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

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

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

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

Report

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

In 2015/16 we continued initiatives discussed in last year's report which focused on improving portfolio flexibility, increasing potential diversification and ensuring appropriate terms. Last year's efforts primarily resulted in a number of manager replacements and mandate restructurings. This year, activity focused mainly on adding new programs with diversifying characteristics at the total Fund level. In particular, we expanded our footprint in the two sub-sectors where we have the strongest expectations for independent return streams: macro-directional and alternative risk premia.

The macro-directional allocation remains the largest strategic allocation within the alternatives portfolio, comprising over 60% on an asset-weighted basis. We believe the forward environment for financial asset markets is potentially more volatile and the growth and monetary paths of regional economies more divergent. We have sought to increase allocations to managers and processes which can profit under these conditions.

During the year we established a program focused on sourcing new or early stage managers with discretionary macro approaches. Our aim is for this approach to uncover talented professionals with whom we can form longer-term partnerships on economic and other terms which reflect the value of our support for a fledgling business. During the year this approach yielded a new allocation for the portfolio. Outside of this early stage program we added two additional managers to the Macro-Directional sub-sector, and increased allocations to several others.

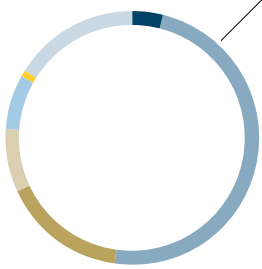
The second area of expansion for the portfolio was within Alternative Risk Premia. In this sub-sector we research diversifying premia both within traditional asset markets (for example, various 'style premia' within equity markets), and in non-traditional markets (such as reinsurance or royalty streams). Our goal is to identify and capture scalable risks where there is a clear economic rationale to expect a return for bearing such risks. Success here has potentially attractive qualities for the portfolio.

During the year we expanded the strategy by adding three programs. This included our second access point within our reinsurance strategy, where we earn returns by providing capital for potential property losses primarily suffered in natural catastrophes such as hurricanes and earthquakes. Returns to this activity should be uncorrelated to capital markets, and a second reinsurance access point gives the Fund the potential to scale this exposure in the future.

The two other new programs focus on alternative risk premia within financial markets. These programs access a broad array of equity style factors, behavioural factors, and premia we expect to earn for providing liquidity to capital market participants.

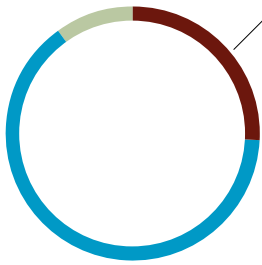
Activity was less active in the Multi-Strategy sub-sector. Following a number of changes last year, we believe the portfolio is resilient to a low or negative return environment for risk asset markets and should contribute to the diversification goal of the alternatives allocation.

EXPOSURE AT 30 JUNE 2016



REGION

- 4% Australia
- 49% United States of America
- 16% Europe (ex UK)
- 8% United Kingdom
- 7% Japan
- 1% Developed (other)
- 16% Emerging

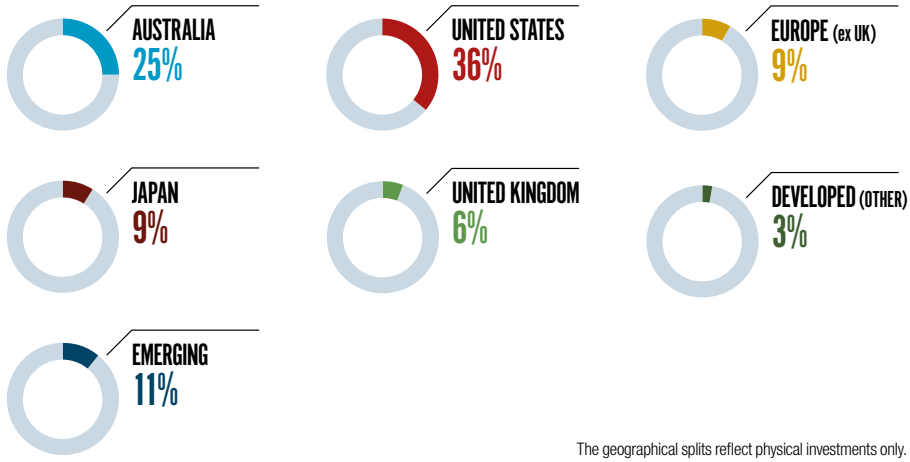


STRATEGY

- 26% Multi-strategy/relative value
- 64% Macro-directional
- 10% Alternative risk premia

INVESTMENTS BY GEOGRAPHY

TOTAL INVESTMENTS BY GEOGRAPHY AT 30 JUNE 2016



The geographical splits reflect physical investments only.

CURRENCY

As discussed on page 20, when 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.

At the end of the year, we held an exposure to foreign developed market currencies equivalent to 30.9% of the total Fund. We also held 12.4% exposure to emerging market currencies, which not only provides further diversification for the portfolio but also offers a source of additional return from the exposure to fast-growing economies.

PERFORMANCE

The Future Fund generated investment returns of 4.8% in 2015/16, bringing the value of the Fund to A$122.79 billion at 30 June 2016.

The Fund's investment returns to 30 June 2016 are shown on page 50, together with the target benchmark return set by the Investment Mandate.

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

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

All returns are reported net of costs.

THE FUTURE FUND'S RETURNS OVER VARIOUS TIMEFRAMES TOGETHER WITH THE CPI+4.5% FOR EACH PERIOD

Period	Return	Baseline Target Return (CPI+4.5%)	Volatility
May 2006 to 30 June 2016	7.7% pa	6.9% pa	4.3%
Ten years to 30 June 2016	7.7% pa	6.9% pa	4.3%
Seven years to 30 June 2016	10.7% pa	6.8% pa	3.7%
Five years to 30 June 2016	10.2% pa	6.3% pa	3.8%
Three years to 30 June 2016	11.4% pa	6.3% pa	3.9%
2015/16 financial year	4.8% pa	5.5% pa	4.5%

BENCHMARKING PERFORMANCE

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

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

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

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

Over the past three years the portfolio has returned 11.4% per annum, exceeding its mandated target return of 6.3% per annum. Over the same period, the actual portfolio outperformed the policy portfolio by 0.7% per annum.

COSTS

The Future Fund's management costs for 2015/16, as extracted from the audited financial statements, were $246 million compared with $268 million in 2014/15 and $256 million in 2013/14.

The indirect cost ratio, an industry standard measure of costs explained in detail below, was 0.207% in 2015/16 falling from 0.243% in 2014/15. In 2013/14 the indirect cost ratio was 0.269%

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

The look-through costs are identified by making additional enquiries of managers of non-consolidated investment vehicles to estimate the underlying costs associated with managing investment via these entities. These costs added around 0.90% to the indirect cost ratio (2014/15: around 1.11%, 2013/14: around 1.31%).

In providing this additional information, we seek to provide a full and complete indication of 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 that performance fees reflect genuine outperformance over time. It is important to note that the majority of accrued performance fees are only paid on realisation of an investment and therefore it is possible not all accrued fees will ultimately be paid.

All returns reported are net of 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 and 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 fee arrangements, we focus on securing arrangements that offer value for money for skill and resources applied, that are competitive relative to other managers in the sector and that provide for strong alignment between manager and our organisation.

INDIRECT COST RATIO

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

The disclosure measures report costs under the following categories:

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

Transactional and operational costs: these costs include brokerage, stamp duties, custody costs charged for transaction settlement, foreign withholding taxes and other corporate taxes. The indirect cost ratio describes the management costs as a proportion of assets under management. Details of the indirect cost ratio over the last three years are provided below.

INDIRECT COST RATIO (USING EXPENSES REPORTED IN THE AUDITED FINANCIAL STATEMENTS)

	2013/14	2014/15	2015/16		
	Indirect cost ratio	Indirect cost ratio	Management costs	Transactional and operational costs	Indirect cost ratio
Future Fund	0.269%	0.243%	$245.6 million	$104.5 million	0.207%

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 2013/14	Amount debited 2014/15	Amount debited 2015/16
Contracts with investment managers	$402,007,995	$306,448,408	$251,506,695
Board remuneration and allowances	$860,569	$851,573	$894,571
Agency remuneration and allowances	$27,868,431	$29,063,578	$34,988,290
Consultants and advisers to the Board and Agency	$13,153,499	$15,242,158	$24,475,120
Agency operations	$15,741,161	$22,463,821	$20,126,715

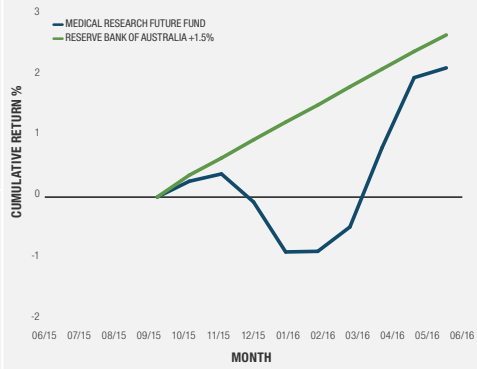
Note that all costs reported under section 81 of the *Future Fund Act 2006* are reported on a cash basis, whereas the costs in the table showing the indirect cost ratio include accruals.

MEDICAL RESEARCH FUTURE FUND

MEDICAL RESEARCH FUTURE FUND PERFORMANCE 2015/2016

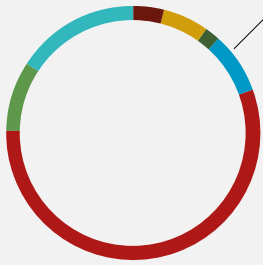
Mandate: Reserve Bank of Australia cash rate plus 1.5 to 2.0% per annum over rolling 10-year periods with an acceptable but not excessive level of risk.

Return 2015/2016	2.1%
Return since inception	2.1%
Earnings 2015/2016	$0.1 bn
Earnings since inception	$0.1 bn



CASH FLOW HISTORY IN A$ AT 30 JUNE 2016

CONTRIBUTIONS		EARNINGS		WITHDRAWALS		BALANCE
3.1 BN	+	0.1 BN	−	0 BN	=	**3.2 BN**



MEDICAL RESEARCH FUTURE FUND ASSET ALLOCATION AT 30 JUNE 2016

4%	Australian equities	57%	Debt securities
6%	Developed market equities	9%	Alternatives
2%	Emerging markets equities	16%	Cash
8%	Private equity		

INTERPRETING THE INVESTMENT MANDATE

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

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

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

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

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

Given the Medical Research Future Fund is quite young, we have only recently identified a suitable risk appetite and our intended approach to declaring Maximum Annual Distribution Amounts. In simple terms, we concluded that we should try to:

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

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

- higher expected returns and distributions tend to increase the risk of losses
- for a given distribution policy increased investment risk increases the volatility of distributions
- adjusting the distribution policy for a given investment strategy transfers risk between capital preservation risk and distribution risk.

However, our investment policy framework has been designed to guide the resolution of issues like this by formalising our approach to investment risk management in portfolio construction. This framework, along with the broad investment process of which it is an important part, were described in greater detail in the 'How We Invest' section of this report on pages 14-27.

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

Prior to the Investment Mandate Directions being issued we invested the assets of the Medical Research Future Fund in in accordance with the Mandate for the Nation-building Funds (as requested by the responsible Ministers). See Appendix B for further detail on the Mandates for the Nation-building Funds.

RISK POSITIONING

Consistent with our investment process, for the Medical Research Future Fund we aim to build a portfolio with a relatively high degree of resilience to the investment environment, so we seek genuine diversification that achieves greater balance in portfolio construction while allocating risk in a flexible and dynamic manner.

It is, however, important to note that we are in the building phase for this portfolio and it will continue to develop over coming years, particularly given that we expect to receive further capital contributions from the Commonwealth.

We track the broad market risk exposure of the Fund based on its Equivalent Equity Exposure (EEE) over time.

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

Our expected EEE range for the Medical Research Future Fund is 20 to 35. The average EEE in 2015/16 was 27 and at 30 June 2016 the EEE stood at 25, reflecting both the continued development of the portfolio and the investment environment and outlook.

INVESTMENT REVIEWS

LISTED EQUITY

Strategy

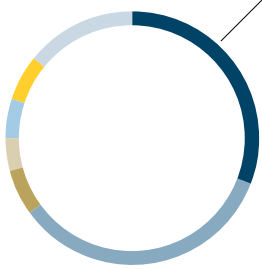
The opportunity set for the listed equity portfolio includes all listed equity-related strategies:

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

Report

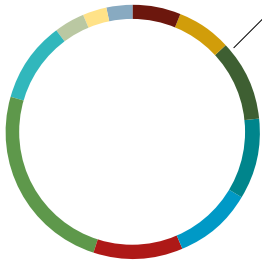
The listed equity exposure started on 1 December 2015. The portfolio is valued at A$363 million as at 30 June 2016 or 11.3% of the total Fund. Reflecting its differing Investment Mandate, the Listed Equitiy portfolio is structured differently to the Future Fund. The Medical Research Future Fund's portfolio is concentrated in developed markets. The Australian equities portfolio is passively managed and is comprised of physical assets. The offshore exposures are implemented through futures, which are efficient and flexible while the Fund is relatively small and the strategy is still being built. We may seek in the future to invest in active management and, in the case of the offshore assets, physical holdings.

EXPOSURE AT 30 JUNE 2016



REGION

- 31% Australia
- 34% United States of America
- 6% Europe (ex UK)
- 4% United Kingdom
- 5% Japan
- 6% Developed (other)
- 14% Emerging



SECTOR

- 6% Energy
- 7% Materials
- 10% Industrials
- 10% Consumer discretionary
- 10% Consumer staples
- 11% Health care
- 24% Financials
- 10% Information technology
- 4% Telecommunication services
- 3% Utilities
- 3% Real estate

PRIVATE EQUITY

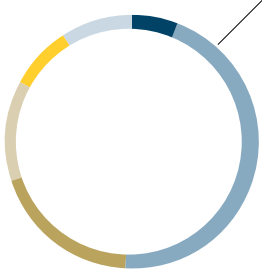
Strategy

The private equity strategy for Medical Research Future Fund is somewhat different to that of Future Fund. Because the Medical Research Future Fund has less tolerance for illiquidity, we have decided to focus on private equity investments that have a shorter time frame until liquidity than a typical private equity fund. This includes secondary purchases of mature private equity positions and fund commitments to managers that are known to hold investments for a shorter duration than the typical private equity manager would.

Report

During the year the Fund purchased A$233 million of mature private equity positions (plus A$194 million of unfunded commitments) from Future Fund, as part of a broader sale process conducted by Future Fund. Since acquisition, invested capital has increased by A$7 million to A$240 million, reflecting A$1 million of capital calls, A$8 million of distributions and A$14 million of unrealised asset value appreciation. At 30 June 2016, Medical Research Future Fund had A$426 million of exposure (invested plus committed capital) to private equity.

EXPOSURE AT 30 JUNE 2016



REGION

- 6% Australia
- 45% United States of America
- 19% Europe (ex UK)
- 13% United Kingdom
- 8% Developed (other)
- 9% Emerging

DEBT

Strategy

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

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

Our key value-add derives from:

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

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

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

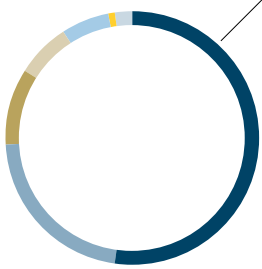
Interest rate positioning is a total fund risk consideration and is managed outside of the debt portfolio. The portfolio is therefore a return-seeking one which seeks to deliver attractive returns within a narrower range of outcomes (particularly to the downside) than equity-oriented investments.

Report

Taking account of the specific investment mandate of the Medical Research Future Fund, which has a lower risk profile than the Future Fund, our focus was on domestic and global investment grade credit. This established a base of attractive yield around which a longer-term portfolio may be constructed. In part, the Debt allocation also serves as a placeholder and funding source as other asset class portfolios are established and developed.

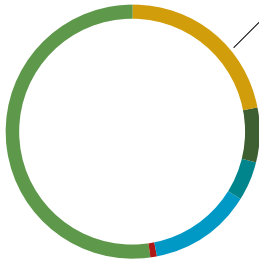
Going forward we expect to add access points to a broader array of credit sub-sectors, including some sub-investment grade corporate credit, as well as exposure to emerging markets debt.

EXPOSURE AT 30 JUNE 2016



REGION

- 53% Australia
- 22% United States of America
- 10% Europe (ex UK)
- 7% United Kingdom
- 6% Japan
- 1% Developed (other)
- 2% Emerging



STRATEGY

- 22% Investment grade corporate
- 7% Sub-investment grade corporate
- 5% Mortgage backed securities
- 13% Other securitised
- 1% Emerging markets debt
- 52% Cash and other

ALTERNATIVES

Strategy

The opportunity set includes:

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

Our value-add comes in two forms:

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

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

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

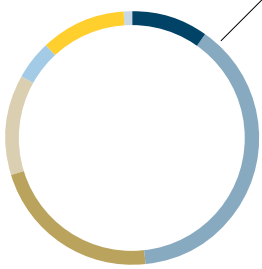
We recognise that active manager skill is scarce, and while we believe we can identify such skill we maintain a strong focus on our top-down strategy allocation and the look-through outcomes at a net asset exposure level and on a net of fees basis.

Report

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

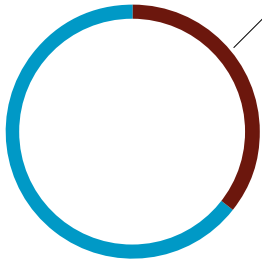
Following the establishment of the Fund we commenced the build-out of an alternatives portfolio. This included one manager in the multi-strategy sub-sector and two within the macro-directional sub-sector, all of which are existing managers in the Future Fund. Over the coming year we expect to fill out and refine the alternatives exposures, growing the allocation toward the longer-term target.

EXPOSURE AT 30 JUNE 2016



REGION

- 10% Australia
- 39% United States of America
- 22% Europe (ex UK)
- 13% United Kingdom
- 5% Japan
- 11% Developed (other)
- 1% Emerging

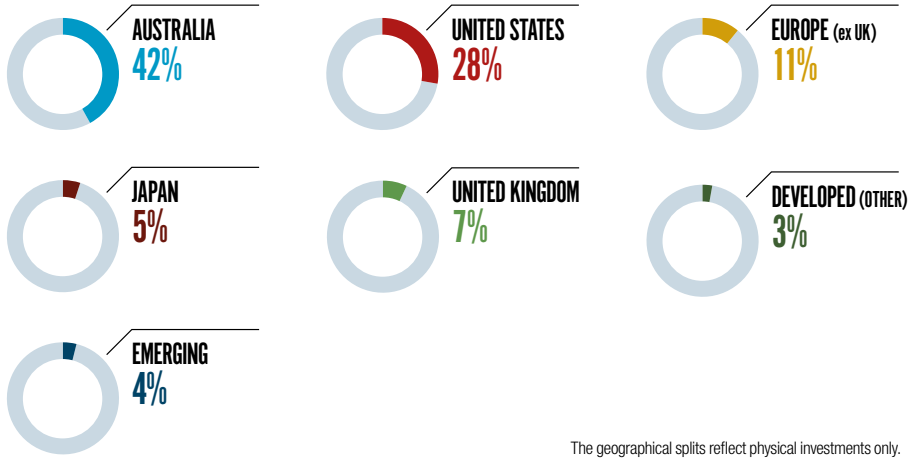


STRATEGY

- 36% Multi-strategy/relative value
- 65% Macro directional

INVESTMENT BY GEOGRAPHY

TOTAL INVESTMENTS BY GEOGRAPHY AT 30 JUNE 2016



The geographical splits reflect physical investments only.

CURRENCY

As discussed on page 20, when managing currency risk we consider offshore investments on a fully hedged basis and then separately evaluate to what extent we wish to hold an exposure to foreign currencies. We explicitly manage the size and nature of the foreign currency exposures rather than allowing them to be shaped by the underlying investments.

At the end of the year, we held an exposure to foreign developed market currencies equivalent to 12.6% of the total portfolio. We also held 1.6% exposure to emerging market currencies which not only provides further diversification for the portfolio but also offers a source of additional return from the exposure to fast-growing economies.

PERFORMANCE

With the first contribution to the Fund made on 22 September 2015, the Medical Research Future Fund has been invested for just over nine months.

During this period, the Fund generated investment returns of 2.1%, bringing its value to A$3.21 billion at 30 June 2016.

The benchmark return for this period was 2.5%.

It is important to note that from 21 September to 1 December 2015, the Medical Research Future Fund was invested in accordance with the Investment Mandate for the Nation-building Funds: the Australian three-month bank bill swap rate plus 0.3% per annum, calculated on a rolling 12-month basis while minimising the probability of capital loss over a 12-month horizon.

COSTS

The management costs of the Medical Research Future Fund are met from the assets of the Fund and were A$3.1 million in 2015/16 (note the Fund was established part-way through the year in September 2015).

The indirect cost ratio, an industry standard measure of costs explained in detail below, was 0.148% in 2015/16.

Consistent with our approach to reporting costs for the Future Fund, we go beyond the standard industry measure to report investment costs incurred indirectly through investment vehicles or where the fund is part of a co-mingled group of funds. These 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 costs associated with managing investment via these entities. These costs added around 0.03% to the indirect cost ratio.

In providing this additional information, we seek to provide a full and complete indication of 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, such as the use of high-water marks and claw-back provisions, to ensure that performance fees reflect genuine outperformance over time. It is important to note that the majority of accrued performance fees are only paid on realisation of an investment and therefore it is possible not all accrued fees will ultimately be paid.

All returns reported are net of costs.

COST MANAGEMENT

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

INDIRECT COST RATIO

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

The disclosure measures report costs under the following categories:

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

Transactional and operational costs: these costs include brokerage, stamp duties, custody costs charged for transaction settlement, foreign withholding taxes and other corporate taxes. The indirect cost ratio describes the management costs as a proportion of assets under management. Details of the indirect cost ratio for 2015/16 is provided below.

INDIRECT COST RATIO

	2015/16 (22 September 2015 to 30 June 2016)		
	Management costs	Transactional and operational costs	Indirect cost ratio
Medical Research Future Fund	$3,087,052	$240,499	0.148%

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 2015/16
Contracts with investment managers	$1,408,635
Board remuneration and allowances	-
Agency remuneration and allowances	-
Consultants and advisers to the Board and Agency	-
Agency operations	$141,833

DISABILITYCARE AUSTRALIA FUND

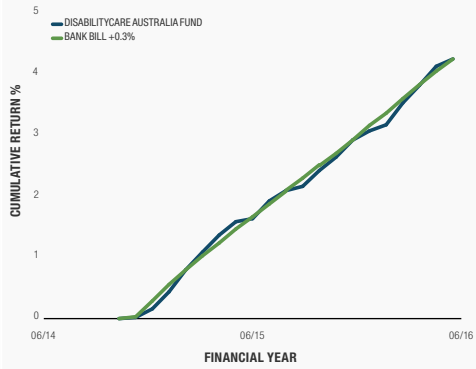
DISABILITYCARE AUSTRALIA FUND PERFORMANCE 2015/2016

Mandate: Australian bank bill swap rate plus 0.3% per annum calculated on a rolling 12-month basis while minimising the probability of capital loss.

Return 2015/2016	2.6%
Return since inception	2.6% pa
Earnings 2015/2016	$122 m
Earnings since inception	$0.2 bn

CASH FLOW HISTORY IN A$ AT 30 JUNE 2016

CONTRIBUTIONS		EARNINGS		WITHDRAWALS		BALANCE
5.9 BN	+	0.2 BN	–	0 BN	=	**6.1 BN**



INTERPRETING THE INVESTMENT MANDATE

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

In summary, the Mandate:

- benchmarks returns against the Australian three-month bank bill swap rate +0.3% per annum 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

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

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

INVESTMENT REVIEW

DEBT

Strategy

To date the DisabilityCare Australia Fund has received regular contributions, but from 2016/17 is expected to be called upon to fund cash flows related to National Disability Insurance Scheme spending. Accordingly, we invest the Fund to provide an ample liquidity buffer to support these outflows.

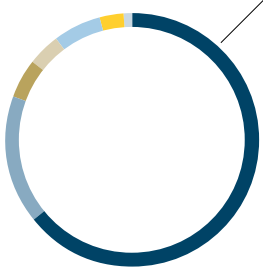
Our core strategy is to invest in a combination of short and medium-term domestic and global debt instruments, providing some yield above the base cash rates while maintaining a high quality, liquid and defensive profile.

Report

Early in the life of the Fund before withdrawals were expected, we positioned the portfolio into somewhat longer tenors of credit instruments, given the return pickup available. More recently, as the average expected duration of capital has fallen, we have taken steps to increase available liquidity and reduce risk. As part of this effort we added a manager with an active management focus in interest rates and currencies to diversify our sources of expected return from the credit spread emphasis.

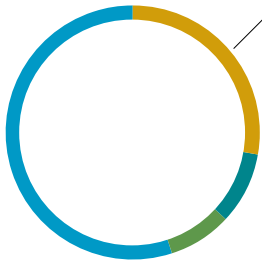
During the year we invested three inflows in accordance with our strategy.

EXPOSURE AT 30 JUNE 2016



REGION

- 63% Australia
- 16% United States of America
- 5% Europe (ex UK)
- 4% United Kingdom
- 6% Japan
- 3% Developed (other)
- 1% Emerging



STRATEGY

- 28% Investment grade corporate
- 9% Mortgage backed securities
- 8% Other securitised
- 55% Cash and other

PERFORMANCE

The Investment Mandate for the DisabilityCare Australia Fund sets a target benchmark return of the Australian three-month bank bill swap rate +0.3% per annum , calculated on a rolling 12 month basis.

The benchmark return for the Fund in 2015/16 was 2.5%. The Fund met its benchmark, achieving an investment return of 2.6%.

The value of the Fund was A$6.09 billion at 30 June 2016.

COSTS

The Fund's management costs are met from the assets of the Fund and were A$3.8 million in 2015/16.

These costs include investment manager fees, core custody and portfolio administration charges as well as the costs of the Board and Agency. These costs, as a proportion of assets under management, make up the indirect cost ratio. The indirect cost ratio, an industry standard measure of costs explained in detail below, was 0.080% in 2015/16.

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

COST MANAGEMENT

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

INDIRECT COST RATIO

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

The disclosure measures report costs under the following categories:

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

Transactional and operational costs: these costs include brokerage, stamp duties, custody costs charged for transaction settlement, foreign withholding taxes and other corporate taxes. The indirect cost ratio describes the management costs as a proportion of assets under management. Details of the indirect cost ratio over the last two years are provided below.

INDIRECT COST RATIO

	2014/15 (1 December 2014 - 30 June 2015)	2015/16		
	Indirect cost ratio (part year only)	Management costs	Transactional and operational costs	Indirect cost ratio
DisabilityCare Australia Fund	0.056%	$3,802,122	$117,468	0.080%

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 2014/15	Amount debited 2015/16
Contracts with investment managers	$449,454	$2,984,313
Board remuneration and allowances	-	-
Agency remuneration and allowances	-	-
Consultants and advisers to the Board and Agency	-	-
Agency operations	$118	$1,670

NATION-BUILDING FUNDS

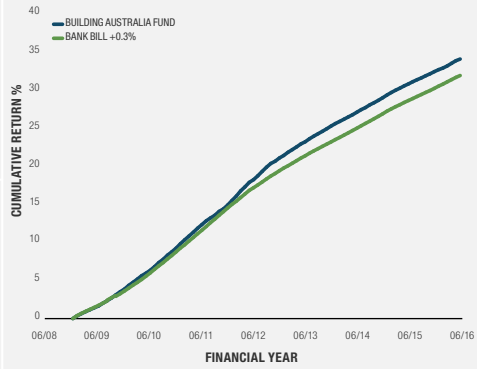
BUILDING AUSTRALIA FUND PERFORMANCE 2015/2016

Mandate: Australian bank bill swap rate plus 0.3% per annum over rolling 12-month periods while minimising the probability of capital loss.

Return 2015/2016	**2.5%**
Return since inception	**4.0% pa**
Earnings 2015/2016	**$90 m**
Earnings since inception	**$1.9 bn**

CASH FLOW HISTORY IN A$ AT 30 JUNE 2016

CONTRIBUTIONS		EARNINGS		WITHDRAWALS		BALANCE
10.9 BN	+	1.9 BN	–	9.1 BN	=	**3.7 BN**



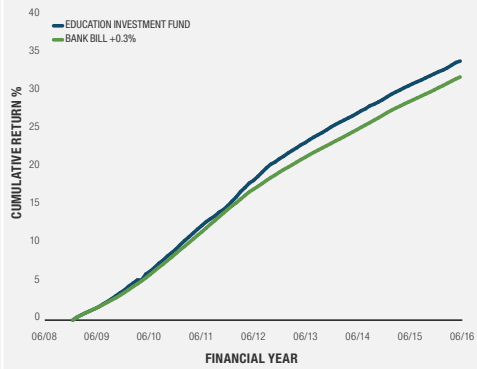
EDUCATION INVESTMENT FUND PERFORMANCE 2015/2016

Mandate: Australian bank bill swap rate plus 0.3% per annum over rolling 12-month periods while minimising the probability of capital loss.

Return 2015/2016	**2.5%**
Return since inception	**4.0% pa**
Earnings 2015/2016	**$90 m**
Earnings since inception	**$1.4 bn**

CASH FLOW HISTORY IN A$ AT 30 JUNE 2016

CONTRIBUTIONS		EARNINGS		WITHDRAWALS		BALANCE
6.5 BN	+	1.4 BN	–	4.2 BN	=	**3.7 BN**



INTERPRETING THE INVESTMENT MANDATE

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

In summary, each Mandate:

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

RISK PROFILE

As discussed on page 68, we are required to invest the assets of the Funds in such a way as to pursue the benchmark return while minimising the probability of capital losses over a 12-month horizon.

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

SECTOR REVIEW

DEBT

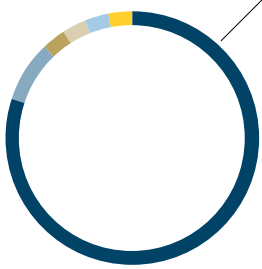
Strategy

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

Report

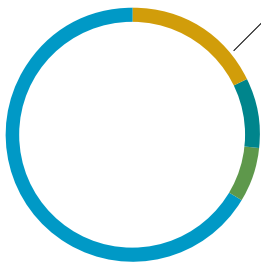
We continue to manage the Funds in accordance with their Mandates, with little activity during the period. Outflows from the Funds have slowed, although the portfolios continue to be positioned in a highly liquid manner.

BUILDING AUSTRALIA FUND EXPOSURE AT 30 JUNE 2016



REGION

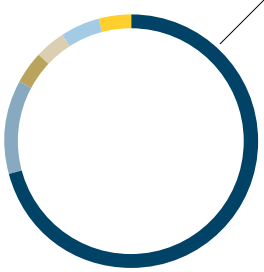
- 80% Australia
- 8% United States of America
- 3% Europe (ex UK)
- 3% United Kingdom
- 3% Japan
- 3% Developed (other)



STRATEGY

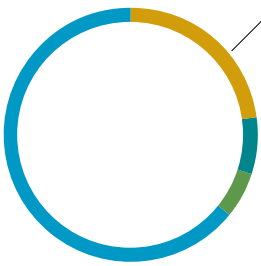
- 18% Investment grade corporate
- 9% Mortgage backed securities
- 3% Other securitised
- 70% Cash and other

EDUCATION INVESTMENT FUND EXPOSURE AT 30 JUNE 2016



REGION

- 71% Australia
- 12% United States of America
- 4% Europe (ex UK)
- 4% United Kingdom
- 5% Japan
- 4% Developed (other)



STRATEGY

- 23% Investment grade corporate
- 7% Mortgage backed securities
- 6% Other securitised
- 64% Cash and other

PERFORMANCE

The Investment Mandate for the Nation-building Funds sets a target benchmark return of the Australian three-month bank bill swap rate +0.3% per annum on a rolling 12-month basis.

The benchmark return for each of the Nation-building Funds in 2015/16 was 2.5%. Both Nation-building Funds met this benchmark, each achieving a return of 2.5%.

The value of the Building Australia Fund was A$3.70 billion at 30 June 2016.

The value of the Education Investment Fund was A$3.72 billion at 30 June 2016.

HEALTH AND HOSPITALS FUND

The Health and Hospitals Fund was abolished with effect from 29 October 2015. Over its life, it generated a return of 4.1% per annum, in excess of its benchmark return of 3.9% per annum.

COSTS

The Nation-building Funds' management costs are met from the assets of the relevant Fund and in 2015/16 were A$3.5 million for the Building Australia Fund and A$3.8 million for the Education Investment Fund. The management costs for the Health and Hospitals Fund, which was abolished in October 2015, were A$0.4 million.

These costs include investment manager fees, core custody and portfolio administration charges as well as the costs of the Board and Agency.

These costs, as a proportion of assets under management, make up the indirect cost ratio. The indirect cost ratio for 2015/16 for the Building Australia Fund was 0.096% and 0.104% for the Education Investment Fund. The indirect cost ratio for the Health and Hospitals Fund, which was abolished in October 2015, was 0.129%.

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

COST MANAGEMENT

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

INDIRECT COST RATIO

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

The disclosure measures report costs under the following categories:

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

Transactional and operational costs: these costs include brokerage, stamp duties, custody costs charged for transaction settlement, foreign withholding taxes and other corporate taxes. The indirect cost ratio describes the management costs as a proportion of assets under management. Details of the indirect cost ratio over the last three years are provided below.

INDIRECT COST RATIO

	2013/14	2014/15			2015/16
	Indirect cost ratio	Indirect cost ratio	Management costs	Transactional and operational costs	Indirect cost ratio
Building Australia Fund	0.101%	0.103%	$3,532,043	$40,412	0.096%
Education Investment Fund	0.116%	0.115%	$3,834,525	$57,742	0.104%
Health and Hospitals Fund	0.104%	0.108%	$372,553	$6,567	0.129%

Note: The Health and Hospitals Fund was abolished in October 2015.

COST DISCLOSURES UNDER SECTION 81 OF THE *FUTURE FUND ACT 2006*

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

BUILDING AUSTRALIA FUND

Purpose	Amount debited 2013/14	Amount debited 2014/15	Amount debited 2015/16
Contracts with investment managers	$4,643,597	$3,669,988	$3,522,928
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$284,370	$270,629	$208,781

EDUCATION INVESTMENT FUND

Purpose	Amount debited 2013/14	Amount debited 2014/15	Amount debited 2015/16
Contracts with investment managers	$4,535,432	$4,587,586	$3,923,777
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$284,549	$270,836	$208,910

HEALTH AND HOSPITALS FUND

Purpose	Amount debited 2013/14	Amount debited 2014/15	Amount debited 2015/16
Contracts with investment managers	$2,729,234	$2,224,988	$743,584
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	$284,331	$270,639	$159,308

Note: The Health and Hospitals Fund was abolished in October 2015.

04
GOVERNANCE



Darren Chan, Operations
Margaret Trimarchi, People & Culture
Mike Harut, Investment Management

The statutory governance arrangements for the Funds are set out primarily in the *Future Fund Act 2006*, the *Medical Research Future Fund Act 2015*, the *DisabilityCare Australia Fund Act 2013* and the *Nation-building Funds Act 2008*.

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

The core legislation provides the government, through the responsible Ministers, with oversight of the Funds subject to the arrangements that establish the independence of the Board. The government's role includes the appointment of Board members and the establishment of Investment Mandates for each of the Funds. The legal framework retains beneficial ownership of the assets of each Fund in the Commonwealth. It also clearly states the purpose of each Fund and sets out the arrangements for contributions to the various Funds.

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

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

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

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

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

ACCOUNTABILITY

The legislation also provides accountability arrangements for the organisation, including the tabling in Parliament of an Annual Report and audited financial statements. We also publish quarterly portfolio updates to provide details of the investment activity and performance of our Funds. Other public updates are provided in the form of published speeches and comment to the media.

We are required to keep the responsible Ministers informed of the operations of the organisation. The nominated Minister may also, by written notice, require us to prepare reports or provide information on specified matters relating to the performance of our functions and have these published.

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

We routinely appear before Estimates Hearings of the Senate Committee on Finance and Public Administration to provide the Committee with updates on its operations and the performance of the Funds. During the 2015/16 financial year, we appeared at hearings in October 2015 and February 2016. These public hearings are based upon the Outcome and Output structure detailed in the Portfolio Budget Statements.

BOARD OF GUARDIANS

The Board consists 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 and corporate governance.

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

Hon Peter Costello AC, Chairman

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

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

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

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

Ms Erin Flaherty

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

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






Future Fund Board of Guardians: Hon Peter Costello AC, Chairman, Ms Erin Flaherty, Mr Steven Harker, Ms Carolyn Kay, Mr John Poynton AO, Mr Michael Wachtel, Dr Jane Wilson, Ms Carol Austin, Mr Stephen Fitzgerald.

Mr Steven Harker

Mr Harker was appointed with effect from 3 April 2012 for a five-year term.

Mr Harker has a deep understanding of global financial markets and substantial expertise in investment banking and asset management. Mr Harker is the Managing Director and Chief Executive Officer of Morgan Stanley Australia and is Chairman of the Australian Financial Markets Association.

Ms Carolyn Kay

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

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

Mr John Poynton AO

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

Mr Poynton is Chair of Jindalee Partners, a corporate advisory firm. He was a co-founder of Azure Capital Limited and Chair from 2014–15. Mr Poynton is a Director of Crown Perth and Orbital Corporation Ltd. Mr Poynton also previously served as a Director of the Export Finance Insurance Corporation, a member of the Higher Education Endowment Fund and served as a member of the Payment Systems Board of the Reserve Bank of Australia. In 2016 Mr Poynton became an Officer of the Order of Australia for his dedication to philanthropy and community initiatives.

Mr Michael Wachtel

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

Mr Wachtel's primary business experience is global in nature and predominately in the area of large complex international business. Through various leadership roles in the professional services industry he has extensive experience in organisational leadership, finance, risk management and governance, including as a former Chair (Asia Pacific & Oceania) of Ernst & Young (EY). He was also a member of the EY Global Governance Council & Global Risk Executive Committee. He co-authored the BCA White Paper 'Removing Tax Barriers to International Growth' (2001).

Mr Wachtel is currently retained as a Senior Advisor to Credit Suisse (Australia). He is a board member of the Australian Centre for the Moving Image (ACMI) and the St Vincent's Medical Research Institute, a past President of the International Fiscal Association (IFA Australia), and a past member of the Tax Advisory Board of the Melbourne University Law Faculty.

Dr Jane Wilson

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

Dr Wilson has had a distinguished career as an independent Director with a background in finance, banking and medicine. Dr Wilson is Deputy Chancellor of the University of Queensland, an independent Director of Sonic Healthcare Ltd, and a Director of Opal Aged Care Ltd and the General Sir John Monash Foundation. She also sits on the Winston Churchill Memorial Trust Board. Dr Wilson was awarded the 2016 Australian Institute of Company Directors Queensland Gold Medal Award for contribution to business and the wider community.







Ms Carol Austin

Ms Austin was appointed on 3 April 2011. Her term concluded on 2 April 2016.

Ms Austin is Investment Services Director for Contango Asset Management, a member of the board of HSBC Bank Australia and of the Advisory Board of the Australian Office of Financial Management. She has held senior positions with Rothschild Australia Asset Management, Commonwealth Funds Management, BHP and the Reserve Bank of Australia.

Mr Stephen Fitzgerald

Mr Fitzgerald was appointed on 3 April 2011. His term concluded on 2 April 2016.

Until February 2012 Mr Fitzgerald was Chair of Goldman Sachs Australia and New Zealand and formerly Co-Chief Executive of Goldman Sachs & Partners Australia. He has had a long career with Goldman Sachs including senior roles in London, Tokyo and Hong Kong and has substantial experience in asset management in Australia and internationally.

BOARD COMMITTEES

The Board operates a number of committees. Details of the membership of Board committees and meeting attendance are shown below.

BOARD AND BOARD COMMITTEE MEMBERSHIP 2015/16

Committee	Composition		
Board[1]	Hon Peter Costello AC (Chair)	Ms Erin Flaherty	Mr John Poynton AO
	Ms Carol Austin	Mr Steven Harker	Mr Michael Wachtel
	Mr Stephen Fitzgerald	Ms Carolyn Kay	Dr Jane Wilson
Audit & Risk[2]	Ms Carol Austin (Chair)	Mr Steven Harker	Hon Peter Costello AC attends meetings as an observer
	Mr Michael Wachtel (Chair)	Ms Carolyn Kay	
	Mr Stephen Fitzgerald	Mr John Poynton AO	
	Ms Erin Flaherty	Dr Jane Wilson	
Conflicts	Mr Stephen Fitzgerald[3] (Chair)	Mr John Poynton AO[4] (Chair)	Ms Erin Flaherty[5]
	Dr Jane Wilson		
Transaction	Hon Peter Costello AC (Chair)	Mr Stephen Fitzgerald[3]	Mr Steven Harker[5]
	Ms Carolyn Kay		
Remuneration & Nominations	Hon Peter Costello AC (Chair)	Mr Steven Harker	Mr John Poynton AO[7]
	Ms Carol Austin[6]	Ms Carolyn Kay	Mr Michael Wachtel[5]

1 Carol Austin and Stephen Fitzgerald Board terms expired 2 April 2016; Erin Flaherty and Michael Wachtel appointed with effect 3 April 2016
2 Carol Austin and Stephen Fitzgerald ceased membership of the Committee as at 2 April 2016 due to Board terms expiring; Erin Flaherty and Michael Wachtel appointed with effect 26 April 2016
3 Committee membership ceased as at 2 April 2016 due to Board term expiring
4 John Poynton AO appointed Chair of Conflicts Committee as at 26 April 2016
5 Appointed to Committees with effect 26 April 2016
6 Carol Austin ceased membership of Committee as at 28 July 2015
7 John Poynton AO ceased membership of Committee as at 26 April 2016

BOARD AND BOARD COMMITTEE ATTENDANCE 2015/16

Member	Future Fund Board of Guardians		Audit & Risk Committee		Remuneration & Nominations Committee	
	Meetings held and eligible to attend as a member	Attended	Meetings held and eligible to attend as a member	Attended	Meetings held and eligible to attend as a member	Attended
Hon Peter Costello AC	10	10	0	5	3	3
Ms Carol Austin[1]	8	8	5	5	0	0
Mr Stephen Fitzgerald[1]	8	8	5	5	0	0
Mr Steven Harker	10	10	5	5	3	3
Ms Carolyn Kay	10	10	5	5	3	3
Mr John Poynton AO	10	9	5	5	2	3
Dr Jane Wilson	10	10	5	4	0	2
Mr Michael Wachtel[2]	2	1	0	0	1	0
Ms Erin Flaherty[3]	2	2	0	0	0	0

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

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

1 Board term expired on 2 April 2016 and therefore Committee membership also ceased as at that date.
2 Appointment to the Board on 3 April 2016 and Remuneration & Nominations and Audit & Risk Committees with effect from 26 April 2016.
3 Appointment to the Board on 3 April 2016 and Conflicts and Audit & Risk Committees with effect from 26 April 2016.

FUTURE FUND MANAGEMENT AGENCY

The Board is supported by the 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 Managing Director.

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

Mr David Neal
Managing Director

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

Mr Cameron Price
General Counsel

Mr Price joined the Future Fund in March 2014. Previously he was a Partner and Board member at law firm Allens Linklaters, where he had 25 years of experience in corporations, securities and commercial law, with particular expertise in mergers and acquisitions, private equity, equity capital markets, and corporate governance.

Ms Elizabeth McPherson
Chief Culture Officer

Ms McPherson joined the Future Fund in 2010 and is an experienced human resources professional having worked with Suncorp, AAMI, Wesfarmers and CSL in Australia. She also brings extensive and broad experience in Hong Kong, South Africa and New Zealand.

Mr Gordon McKellar
Chief Operating Officer

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

Mr Paul Mann
Chief Financial Officer

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






The Management Committee: David Neal, Cameron Price, Elizabeth McPherson, Gordon McKellar, Paul Mann, Raphael Arndt, Stephen Gilmore.

Dr Raphael Arndt
Chief Investment Officer

Dr Arndt has held the role of Chief Investment Officer since 1 September 2014. Prior to his appointment as Chief Investment Officer, Dr Arndt had been Head of Infrastructure and Timberland since 2008. Dr Arndt is Chair of the Investment Committee and a Board Member of the Melbourne Lord Mayor's Charitable Foundation. He has previously been an Investment Director with Hastings Funds Management and has also held infrastructure policy positions with both the private sector and the Victorian Department of Treasury and Finance. Dr Arndt started his career as an engineer working with Ove Arup & Partners.

Mr Stephen Gilmore
Chief Investment Strategist

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

RISK MANAGEMENT

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

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

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

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

   The strategic and investment implementation processes are described in the 'how we invest' section of this report. These processes are instrumental in managing market, credit, liquidity and counterparty risks.
2. **Strategic risk** is the risk that the governance framework, Agency operating structure and organisational culture are not fit to deliver the Board-approved investment strategy. The selection of people with the appropriate skills and the ability to successfully motivate and develop these people is a focus of the Agency and the Board.
3. **Operational risk** is the risk that processes, controls and systems are poorly designed, not fit for purpose or are not operating as intended to protect the organisation against financial, legal or reputational harm. Examples of the operational risks managed by the Agency include: legal risk, fraud risk, business continuity risk, outsourcing risk, information security risk and compliance risk.





MONITORING AND MANAGING RISK

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

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

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

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

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

During the year the Agency implemented a new risk management system, Protecht, which records the Risk Register, Incident Register and Internal Audit recommendations. The system is also used to track the progress of Agency actions to close incidents and internal audit recommendations and to manage the Agency's periodic internal control and policy compliance attestations.

RISK CULTURE

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

The Agency seeks out opportunities to identify and share best practice approaches and benchmarks our approach to operational risk and compliance management through engagement with peer organisations.

INTERNAL AND EXTERNAL AUDIT

PricewaterhouseCoopers provides internal audit services reporting to the Audit & Risk Committee and has full access to staff and information when conducting its reviews. The Australian National Audit Office undertakes the external audit of the organisation engaging a professional accounting firm to assist in this process.

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

FRAUD AWARENESS

The Agency undertook a regular fraud and corruption risk assessment and updated its Fraud and Corruption Control Plan during the year which was reviewed and approved by both the Agency's Operational Risk & Compliance Committee and the Board's Audit & Risk Committee. There were no suspected or actual fraud incidents in 2015/16.

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

BUSINESS CONTINUITY

The Agency undertook its biennial business impact analysis to determine which of its processes are deemed critical for the purposes of business continuity management. These critical processes were incorporated into the annual disaster recovery test which was undertaken in June 2016. The test was completed successfully with the results reported to both the Agency's Operational Risk & Compliance Committee and the Board's Audit & Risk Committee.

CYBER SECURITY

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

05
PEOPLE



Wendy Leong, Operations
Ryan Humphrey, Finance
Danka Popovic, Finance

The purpose of our people and culture strategy is to invest in our people to benefit our organisation's present, and their future.

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

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

OUR PRIORITIES

In 2015/16 we focused on five key areas to achieve our people and culture strategy: to attract and retain a high performing team that is engaged, motivated, supported and effectively managed.

1. Increase our collective leadership capability

Reflecting the growth and complexity of our organisation, we have focused on developing our leadership capability. In 2015/16 we held a leadership workshop for members of our senior leadership team where they reviewed the organisation's strategy and undertook a series of leadership development modules. These leaders have brought back the skills they developed to the broader organisation and have introduced a number of initiatives focused on enhancing the way we work together to achieve our business objectives.

2. Maintain high engagement levels

In 2015/16 we conducted a staff survey, using the Aon Hewitt Best Employer program, which has 140 participating organisations. Staff were asked to respond to about 100 questions to enable us to better understand employee views and employee engagement. We had a response rate of more than 85%. Aon Hewitt defines employee engagement using three elements – say, stay and strive. Say: engaged employees speak positively about the organisation; stay: they desire to stay or be a member of the organisation; and strive: they exert extra effort and engage in work that contributes to business success.

Using the Aon Hewitt methodology, our engagement score was 71%. This compares favourably with the engagement scores of Australian and New Zealand top quartile firms of 66% and the norms in the finance industry of 61%.

We also participate in the Australian Public Service (APS) employee census and in 2016 we had a 65% response rate from our staff. The results indicated that 92% of survey respondents strongly agree or agree that they enjoy the work in their current job.

3. Preserve and nurture our culture

Our culture is one of our most valuable assets and we continue to invest in preserving and nurturing it. In December we held a one-day workshop for all staff that focused on inclusion. The interactive workshop explored four key areas: the difference between an inclusive culture and exclusive culture; the value of diversity and how it contributes to a positive culture; the danger of group think; and, how to ensure diverse groups have a voice. We have also introduced internal communication and engagement initiatives such as a quarterly newsletter, lunch and learn sessions with both internal and external presenters, and internal workshops to improve core skills.

4. Increase diversity to add value to decision making

We strongly believe that inclusion is the key to getting the best value from a diverse workforce, and we continue to focus on maintaining an inclusive culture. Our business and investment models rely on diversity of background, experience and thought and integrating perspectives from across the organisation into decision making is critical to our success. Our Management Committee is reviewing our Diversity & Inclusion Strategy, with a view to improving female representation at senior levels, improving our overall decision making by understanding bias, increasing flexibility options for all staff, considering ways in which we can support APS initiatives on Indigenous employment and participating in research into improving diversity in the investment industry.

5. Harness talent to maximise outcomes

In April 2016 we ran our annual organisational talent review. The talent review is an important way for us to identify opportunities for all our staff to grow, to recognise and support future leaders, and to inform our succession plans. The Management Committee and over 20 managers participated in the discussions with outcomes to be implemented by direct managers. We continue to pursue internal and external secondment opportunities for staff to increase their breadth of experience.

OUR WORKFORCE

There were 34 new starters in 2015/16: 15 were replacements for existing roles, one was a parental leave replacement, and 18 were for new roles. There were 16 internal promotions. Our workforce total as at 30 June 2016 was 129 staff.

A strong positive culture and high level of engagement is reflected in the three main Human Resource statistics: lost time injuries – nil; absentee rate – 1.6%; and turnover rate – 12.6%.

Formal flexible work arrangements are available to all staff. This includes personal leave arrangements for primary and secondary carers. As at 30 June 2016, 17 employees had flexible work arrangements in place.

No staff have identified as Indigenous.

WORK, HEALTH AND SAFETY

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

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

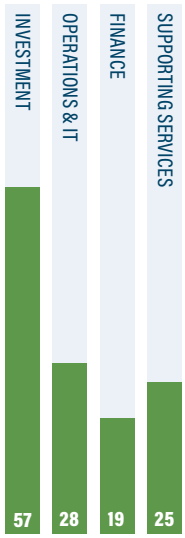
WORK FORCE DISTRIBUTION ACROSS THE AGENCY

	Full time		Part time or casual		Male		Female	
Classification Level of Work	FY 15/16	FY 14/15	FY 15/16	FY 14/15	FY 15/16	FY 14/15	FY 15/16	FY 14/15
FFMA1	7	16	0	1	1	1	6	16
FFMA2	24	18	2	0	10	10	16	8
FFMA3	25	16	1	3	12	6	14	13
FFMA4	23	23	0	0	12	14	11	9
FFMA5	31	21	0	1	20	14	11	8
FFMA6	8	6	1	0	8	5	1	1
FFMA7	7	7	0	0	6	6	1	1
Total	**125**	**107**	**4**	**5**	**69**	**56**	**60**	**56**

WORK FORCE DISTRIBUTION BY INVESTMENT/ NON-INVESTMENT

	Investment		Non investment	
Classification Level of Work	**Male**	**Female**	**Male**	**Female**
FFMA1	1	0	0	6
FFMA2	3	1	7	15
FFMA3	6	3	6	11
FFMA4	6	5	6	6
FFMA5	15	2	5	9
FFMA6	5	1	3	0
FFMA7	2	0	4	1
Total	**38**	**12**	**31**	**48**

HEADCOUNT BY BUSINESS AREA



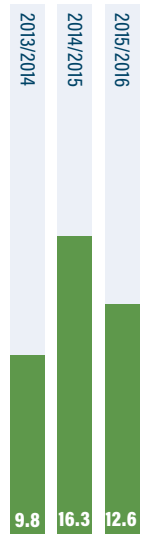
Supporting services includes: Managing Director's Office, Public Affairs, People Culture & Communications and Legal.

ABSENTEEISM RATE (%)



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

EMPLOYEE TURNOR RATE (%)



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

Note: Figures may not correspond with previous year reports due to revised calculation methods.

REMUNERATION STRATEGY

We continue to comply with the requirements of the Australian Public Sector Workplace Bargaining Policy (the 'Bargaining Policy'), which was introduced in March 2014, and later revised in October 2015, to set the terms and conditions of employment for Australian Public Service entities.

All employees, including SES and non-SES, operate on individual employment contracts. A summary of the available salary ranges for each work level is shown in the table below.

FFMA AVAILABLE SALARY RANGES

Level of Work	From	To
FFMA 1	$ 55,000	$100,000
FFMA 2	$ 70,000	$140,000
FFMA 3	$ 90,000	$190,000
FFMA 4	$140,000	$250,000
FFMA 5	$190,000	$450,000
FFMA 6	$300,000	$550,000
FFMA 7	$380,000	$700,000

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

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

PERFORMANCE RELATED PAY

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

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

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

The mix of variable pay based on personal performance and variable pay based on investment performance depends on the individual's role, with investment performance generally a higher component of variable pay for investment staff. All staff have some exposure to investment performance in their variable pay arrangements, which serves to help focus all employees on the pursuit of the mandated investment objectives.

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

PERFORMANCE PAY SUMMARY TABLE

Classification Level of Work	Employees who received payments	Aggregate performance pay ($)	Minimum performance pay ($)	Maximum performance pay ($)	Average payment ($)
FFMA1	4	17,351	875	6,784	4,338
FFMA2	25	195,379	572	17,065	7,815
FFMA3	25	505,720	327	59,412	20,229
FFMA4	23	1,213,215	3,865	116,370	52,748
FFMA5	29	3,564,961	19,387	334,555	122,930
FFMA6	9	2,423,886	68,218	474,271	269,321
FFMA7	7	2,423,292	148,824	629,155	346,185
Total	**122**	**10,343,804**			**84,785**

BOARD FEES

Fees payable to Board members are determined by the Remuneration Tribunal. The Tribunal's Determination 2015/20, taking effect from 1 January 2016, set the annual fee payable to the Chair at $202,280 and the fee for other members at $101,170. The official travel entitlement for Board members was set at tier 1. Board members are not eligible for performance-related payments.

06

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

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

Auditor-General for Australia

Australian National Audit Office

INDEPENDENT AUDITOR'S REPORT

To the Minister for Finance

I have audited the accompanying annual financial statements of the Future Fund Management Agency and Board of Guardians, which comprises the Statement of financial position as at 30 June 2016, the Statement by the Chair of the Future Fund Board of Guardians and Chief Financial Officer, Statement of comprehensive income, Statement of cash flows, Statement of changes in equity, and Notes comprising a Summary of significant accounting policies and other explanatory information.

Opinion

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

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

(b) present fairly the financial position of the Future Fund Management Agency and Board of Guardians as at 30 June 2016 and its financial performance and cash flows for the year then ended.

Accountable Authority's Responsibility for the Financial Statements

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

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Email grant.hehir@anao.gov.au

Auditor's Responsibility

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

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

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

Independence

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

Australian National Audit Office



Grant Hehir
Auditor-General

Canberra

27 September 2016

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 2016 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
27 September 2016



P Mann
Chief Financial Officer
27 September 2016

STATEMENT OF COMPREHENSIVE INCOME

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Notes	Year ended 30 June 2016 $'000	Year ended 30 June 2015 $'000
INCOME			
Dividends and imputation credits	4	**2,822,811**	3,215,937
Distributions	4	**210,018**	790,091
Interest income from financial assets not held at fair value through profit or loss	3	**25,502**	23,724
Net gain/(loss) on financial instruments held at fair value through profit or loss	4	**2,255,538**	14,660,159
Net foreign currency gains/(losses)	4	**624,444**	(2,717,504)
Other income	5	**1,698**	1,009
TOTAL INCOME		**5,940,011**	15,973,416
EXPENSES			
Investment management fees and advisory fees		**157,259**	160,322
Investment manager performance fees		**(2,626)**	26,783
Custody fees		**13,019**	13,975
Brokerage, duties and other statutory charges		**40,033**	45,246
Other investment portfolio expenses		**20,332**	16,300
Agency employees' remuneration	6	**37,261**	33,112
Other expenses	6,7	**22,921**	19,929
TOTAL EXPENSES		**288,199**	315,667
OPERATING RESULT FOR THE YEAR BEFORE TAX		**5,651,812**	15,657,749
Income tax expense	8	**61,887**	52,216
OPERATING RESULT FOR THE YEAR		**5,589,925**	15,605,533
Other comprehensive income for the year		**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,589,925**	15,605,533

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2016

	Notes	Year ended 30 June 2016 $'000	Year ended 30 June 2015 $'000
ASSETS			
Financial assets			
Cash and cash equivalents	16	**2,870,526**	2,897,421
Receivables	10	**1,618,595**	1,592,493
Investments	9	**119,790,206**	113,943,795
Other financial assets		**7,391**	5,647
Total financial assets		**124,286,718**	118,439,356
Non-financial assets			
Plant and equipment	11	**2,546**	2,003
Intangibles	11	**3,109**	2,145
Total non-financial assets		**5,655**	4,148
TOTAL ASSETS		**124,292,373**	118,443,504
LIABILITIES			
Financial liabilities			
Investments	9	**652,460**	943,298
Payables	12	**883,921**	336,403
Total financial liabilities		**1,536,381**	1,279,701
Non-financial liabilities			
Employee provisions	13	**20,342**	18,078
Total non-financial liabilities		**20,342**	18,078
TOTAL LIABILITIES		**1,556,723**	1,297,779
NET ASSETS		**122,735,650**	117,145,725
EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT			
Contributions by Government	14	**60,536,831**	60,536,831
Retained earnings		**62,198,819**	56,608,894
TOTAL EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT		**122,735,650**	117,145,725

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

STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

	Notes	Year ended 30 June 2016 $'000	Year ended 30 June 2015 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Proceeds from sale of financial instruments held at fair value through profit or loss		**115,161,343**	112,121,440
Purchase of financial instruments held at fair value through profit or loss		**(117,263,456)**	(113,412,579)
Interest received		**26,144**	23,549
Dividends received		**2,139,378**	2,387,523
Distributions received		**248,961**	783,760
Franking credit refunds received		**738,704**	399,862
Net settlement of foreign exchange contracts		**(710,922)**	(1,531,757)
GST refund received		**11,454**	10,933
Other income received		**552**	774
Investment management fees and advisory fees paid		**(156,236)**	(157,761)
Investment manager performance fees paid		**(2,453)**	(65,454)
Custody fees paid		**(11,918)**	(14,732)
Brokerage, duties and other statutory charges paid		**(55,005)**	(55,702)
Taxes paid		**(18,408)**	(4,834)
Other expenses paid		**(87,972)**	(75,588)
Net cash provided by operating activities	16	**20,166**	409,434
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment and software		**(2,974)**	(2,115)
Net cash used in investing activities		**(2,974)**	(2,115)
CASH FLOWS FROM FINANCING ACTIVITIES			
Amounts contributed by Government		**-**	-
Net cash received from financing activities		**-**	-
Net increase in cash held		**17,192**	407,319
Cash at the beginning of the reporting period		**2,897,421**	2,440,440
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(44,087)**	49,662
Cash at the end of the reporting period	16	**2,870,526**	2,897,421

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

STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

Year ended 30 June 2016

	Contributed equity $'000	Retained earnings $'000	Total Equity $'000
Opening balance	**60,536,831**	**56,608,894**	**117,145,725**
Net operating result	**-**	**5,589,925**	**5,589,925**
Other comprehensive income	**-**	**-**	**-**
Total comprehensive income	**-**	**5,589,925**	**5,589,925**
Contributions made by Government	**-**	**-**	**-**
Closing balance	**60,536,831**	**62,198,819**	**122,735,650**

Year ended 30 June 2015

	Contributed equity $'000	Retained earnings $'000	Total Equity $'000
Opening balance	60,536,831	41,003,361	101,540,192
Net operating result	-	15,605,533	15,605,533
Other comprehensive income	-	-	-
Total comprehensive income	-	15,605,533	15,605,533
Contributions made by Government	-	-	-
Closing balance	60,536,831	56,608,894	117,145,725

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

SCHEDULE OF COMMITMENTS
AS AT 30 JUNE 2016

	Notes	30 June 2016 $'000	30 June 2015 $'000
BY TYPE			
CAPITAL COMMITMENTS			
Collective investment vehicles	9	**15,246,204**	16,265,430
Corporate Credit (bank loans)		**1,505**	4,687
Total capital commitments		**15,247,709**	16,270,117
OTHER COMMITMENTS			
Operating leases [(a)]		**21,059**	22,370
Other commitments [(b)]		**6,930**	5,006
Total other commitments		**27,989**	27,376
BY MATURITY			
CAPITAL COMMITMENTS			
One year or less		**15,247,709**	16,270,117
Total capital commitments by maturity		**15,247,709**	16,270,117
OTHER COMMITMENTS			
Operating lease commitments			
One year or less		**3,245**	2,636
From two to five years		**14,047**	12,977
Five years and above		**3,767**	6,757
Total operating lease commitments by maturity		**21,059**	22,370
Other commitments			
One year or less		**5,056**	3,097
From two to five years		**1,874**	1,909
Total other commitments by maturity		**6,930**	5,006

Note: Commitments are GST inclusive.

(a) Operating lease commitments relate to rental commitments for the lease of property and for office equipment. Lease terms have 6 years remaining. The Fund has no option to purchase any leased items at the conclusion of the lease term.

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

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2016

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

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

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

FUTURE FUND MANAGEMENT AGENCY (THE AGENCY)

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

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

The Agency also supports the Board in the investment of the assets of the Building Australia Fund and the Education Investment Fund (together the Nation-building Funds), the DisabilityCare Australia Fund and the Medical Research Future Fund. The Health and Hospitals Fund was abolished with effect from 29 October 2015, $1.01 billion was transferred to the Medical Research Future Fund with the remaining funds returned to government.

FUTURE FUND BOARD OF GUARDIANS (THE BOARD)

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

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

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

The Board is also responsible for the investment of the assets of the Nation-building Funds, DisabilityCare Australia Fund and Medical Research Future Fund as set out in the *Nation-building Funds Act 2008*, the *DisabilityCare Australia Fund Act 2013* and the *Medical Research Future Fund Act 2015*. The assets and financial results of these funds do not form part of these financial statements.

FUTURE FUND INVESTMENT MANDATE DIRECTION 2014

The objective of these directions is to give guidance to the Board in relation to its investment strategy for the Fund. The Board is required under section 18 of the Act to seek to maximise the return earned on the Fund over the long term, consistent with international best practice for institutional investment and subject to its obligations under the Act and any directions given by the responsible Ministers under subsection 18(1) or subclause 8(1) of Schedule 1 of the Act. Investments by the Fund will be confined to financial assets, (see also Note 2.3). In targeting the benchmark return, the Board must determine an acceptable but not excessive level of risk for the Fund measured in terms such as the probability of losses in a particular year.

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

The financial statements have been prepared in accordance with:

- Financial Reporting Rules (FRR) (being the *Public Governance, Performance and Accountability Rule 2015*) for reporting periods ending on or after 1 July 2015; 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;
- plant and equipment which are depreciated over their useful lives; and
- certain employee liabilities such as leave entitlements.

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

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

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

SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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 2016 made under the *Public Governance, Performance and Accountability Act 2013*.

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

Adoption of new and revised accounting standards in the current reporting period

There are no new standards nor amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2015 which affected any of the amounts recognised in the current period or prior period nor are they likely to affect future periods.

Standards and amendments that will become effective in future reporting periods

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2016 reporting period and have not been early adopted by the Fund. The Fund's assessment of the impact of these new standards and interpretations is set out below. The Fund intends to adopt all of the standards upon their application date.

(i) AASB 9 Financial Instruments, and the relevant amending standards (effective from 1 January 2018)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The Fund does not expect this to have a significant impact on the recognition and measurement of the Fund's financial instruments as they are currently carried at fair value through profit or loss.

(ii) AASB 124 Related Party Disclosures (effective from 1 July 2016)

The purpose of this standard is to identify the impact on the Fund's financial performance and position from financial transactions and balances with related parties. The Fund is in the process of assessing the definition of, and services provided by related parties to assess what disclosures will be made under this standard.

(iii) *AASB 16 Leases (effective from 1 January 2019)*

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

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

2.3 FINANCIAL ASSETS AND LIABILITIES

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

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

2.3.1 CASH AND CASH EQUIVALENTS

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

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

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

2.3.2 RECEIVABLES

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

2.3.3 INVESTMENTS

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

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

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

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

- Listed securities, exchange traded futures and options, and investments in listed managed investment schemes are recorded at the quoted market prices on relevant stock exchanges.
- Unlisted managed investment schemes and collective investment vehicles are re-measured by the Fund based on the estimated fair value of the net assets of each scheme or vehicle at the reporting date.

  In determining the fair value of the net assets of unitised unlisted managed investment schemes and collective investment vehicles, reference is made to the underlying unit price provided by the Manager (where available), associated Manager or independent expert valuation reports and capital account statements and the most recent audited financial statements of each scheme or vehicle.

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

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

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

2.3.4 FUTURE FUND INVESTMENT COMPANIES

While all investments are directly held by the Future Fund Board of Guardians, some investments are indirectly held through wholly owned investment holding companies, Future Fund Investment Companies (FFICs).

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

Loan assets are repayable on demand. Interest rates are set on the loans having regard to either the 5 or the 10 year government bond rate in the market in which the underlying investment is made.

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

2.4 REVENUE

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

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

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

2.5 OTHER INCOME

Services and resources received free of charge

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

Other income

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

2.6 TRANSACTIONS WITH THE GOVERNMENT AS OWNER

2.6.1 CREDITS TO THE FUND ACCOUNT

From time to time the responsible Ministers may determine that additional amounts are to be credited to the Fund Account. In addition, the responsible Ministers may transfer Commonwealth-owned financial assets to the Fund Account. These amounts are shown as Contributions by Government in Note 14.

2.6.2 DEBITS TO THE FUND ACCOUNT

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

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 EMPLOYEE ENTITLEMENTS

Liabilities for services rendered by employees are recognised at the end of the financial year to the extent that they have not been settled. The 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 2016. Liabilities for short-term employee benefits (i.e. wages and salaries, annual leave, performance payments, expected to be settled within 12 months from the reporting date) are measured at their nominal amounts.

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

2.7.2 SUPERANNUATION

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

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

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

2.7.3 PERFORMANCE RELATED PAYMENTS

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

A liability has been recognised at the end of the financial year for outstanding performance related payments payable in relation to 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 CPI + 4.5% (being the minimum mandated return) in making the estimate of the future value of the entitlement. This future value has then been discounted at an appropriate Australian Government bond rate to arrive at the present value of the liability. Actual returns are used to determine the present value of the entitlement for participation years where actual results are available.

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 LEASES

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

2.9 FINANCIAL RISK MANAGEMENT

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

2.10 TRADE CREDITORS

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

2.11 ACQUISITION OF NON-FINANCIAL ASSETS

Non financial assets are initially recorded at cost of acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

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

2.12 PLANT AND EQUIPMENT – NON-FINANCIAL ASSETS

2.12.1 ASSET RECOGNITION THRESHOLD ON ACQUISITION

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

2.12.2 IMPAIRMENT OF NON-FINANCIAL ASSETS

All non-financial assets which are not held at fair value were assessed for impairment at 30 June 2016. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

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

2.12.3 DEPRECIATION AND AMORTISATION

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

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

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 INTANGIBLES

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

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

2.14 TAXATION

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

Current Tax

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

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

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

Deferred Tax

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

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

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

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

NOTE 2
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 TAXATION (CONTINUED)

Fringe Benefits Tax and Goods and Services Tax

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

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

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

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

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

2.15 FOREIGN CURRENCY

(I) FUNCTIONAL AND PRESENTATION CURRENCY

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

(II) TRANSACTIONS AND BALANCES

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

2.16 COMPARATIVE REVISIONS

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

The interest receivable on related loans of $1,860,778,000 disclosed in Note 10 of lasts year's statements has been reclassified to the fair value of loans provided to FFICs in Note 9 and the interest received on related loans of $1,077,318,000 in the cashflows has been reclassified to proceeds from sale of financial instruments held at fair value through profit or loss.

The comparative amounts for imputation credits for Australian subsidiaries and the difference in tax rates for Australian subsidiaries have both been restated by $207,400,000 so there is no impact on the total income tax expense.

2.17 ROUNDING OF AMOUNTS

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

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

	2016 $'000	2015 $'000
Interest income		
Interest income – cash at bank	**25,502**	23,724
Total interest income	**25,502**	23,724

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

	2016 $'000	2015 $'000
Dividend income and imputation credits		
Dividend income – domestic equities and listed managed investment scheme distributions	**443,459**	458,093
Imputation credits refunded or refundable under Section 30 of the *Future Fund Act 2006*	**638,151**	763,683
Dividend income – related entities (FFICs)	**1,056,858**	1,302,286
Dividend income – international equities	**684,343**	691,875
Total dividend and imputation credit income	**2,822,811**	3,215,937
Distribution income		
Distributions – collective investment vehicles	**210,018**	790,091
Total distribution income	**210,018**	790,091
Net gain/(loss) on financial instruments held at fair value through profit or loss		
Net gain/(loss) on financial assets held at fair value through profit or loss	**2,409,328**	15,296,707
Net gain/(loss) on financial liabilities held at fair value through profit or loss	**(153,790)**	(636,548)
Total net gain/(loss) on financial instruments held at fair value through profit or loss*	**2,255,538**	14,660,159
***Net gain/(loss) arising on foreign currency**#*	**624,444**	(2,717,504)

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

Net foreign currency gain of $624,444,000 (2015: loss $2,717,504,000) arise mainly as a result of the implementation of the Board's foreign currency hedging policy. Offsetting gains/losses on investment values are included in the total net gain on financial instruments held at fair value through profit and loss of $2,255,538,000 (2015: $14,660,159,000).

NOTE 5
OTHER INCOME

	2016 $'000	2015 $'000
Other income		
Related party fee income for services provided (Note 22B)	**1,542**	853
Related party resources received free of charge (ANAO)	**156**	156
Total other income	**1,698**	1,009

NOTE 6
EXPENSES

	2016 $'000	2015 $'000
Agency employees' remuneration		
Wages and salaries	**33,877**	30,387
Superannuation	**2,094**	1,756
Leave and other entitlements payable	**1,290**	969
Total Agency employees' remuneration	**37,261**	33,112
Other expenses		
Board remuneration		
Wages and salaries	**805**	789
Superannuation	**76**	75
Total board remuneration	**881**	864
Depreciation & amortisation		
Depreciation of infrastructure, plant and equipment	**636**	558
Amortisation of intangibles – computer software	**831**	713
Total depreciation & amortisation	**1,467**	1,271
Other operating expenses (including audit fees)	**20,573**	17,794
Total other expenses	**22,921**	19,929

NOTE 7
REMUNERATION OF AUDITORS[1]

Included in other operating expenses is the financial statement audit services provided to the Fund which totalled $156,000 (2015: $156,000) which were provided free of charge. The fair value of all audit services provided by the Australian National Audit Office (ANAO) including the services provided free of charge and the audit of the FFICs was:

	2016 $	2015 $
Auditing the financial statements – Future Fund and subsidiaries	**222,550**	230,250

No other services were provided by the ANAO.

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

NOTE 8
INCOME TAX EXPENSE

As per Note 2.14, the Fund is exempt from all forms of federal Australian taxation, except for Fringe Benefits Tax (FBT) and the Goods and Services Tax (GST). Tax expense reflects foreign withholding tax on income and other capital gains or corporate taxes where imposed by certain countries. Accordingly, the Australian tax rate for the Fund is 0% (2015: 0%).

	2016 $'000	2015 $'000
(a) **Income tax expense**		
Current tax	**61,887**	52,216
Deferred tax	**-**	-
Adjustments for current tax of prior periods	**-**	-
	61,887	52,216
(b) **Numerical reconciliation of income tax expense to prima facie tax payable**		
Profit before income tax	**5,651,812**	15,657,749
Tax at the applicable Australian tax rate of 0% (2015: 0%)	**-**	-
Tax effect of items which are not deductible/(taxable) in calculating taxable income:		
Imputation credits for Australian subsidiaries	**1,035,142**	923,202
Difference in tax rates for Australian subsidiaries	**(1,035,142)**	(923,202)
Withholding tax	**61,067**	52,111
Other foreign corporate tax expense	**820**	105
Total income tax expense	**61,887**	52,216

NOTE 9
INVESTMENTS

	2016 $'000	2015 $'000
Investment Summary		
Financial assets at fair value:		
Future Fund Investment Companies	**46,987,869**	47,068,594
Interest bearing securities	**25,352,595**	20,612,939
Listed equities and listed managed investment schemes	**34,261,116**	37,812,623
Collective investment vehicles	**10,278,724**	6,854,580
Derivatives	**1,984,908**	1,146,183
Restricted cash	**924,994**	448,876
Total financial asset investments	**119,790,206**	113,943,795
Financial liabilities at fair value:		
Derivatives	**(652,460)**	(943,298)
Total financial liability investments	**(652,460)**	(943,298)

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

	2016 $'000	2015 $'000
Future Fund Investment Companies (FFICs)		
At fair value:		
Loans provided to FFICs	**40,465,708**	39,005,538
Residual equity in FFICs	**6,522,161**	8,063,056
Total Future Fund Investment Companies#	**46,987,869**	47,068,594

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

NOTE 9
INVESTMENTS (CONTINUED)

	2016 $'000	2015 $'000
Interest bearing securities		
At fair value:		
Bank bills – international	**5,178,717**	6,835
Negotiable certificates of deposit – domestic	**13,953,511**	15,513,375
Corporate debt securities – domestic	**204,652**	9,692
Corporate debt securities – international	**1,140,916**	1,454,999
Mortgage backed securities – international	**1,089,720**	1,221,591
Asset backed securities – international	**783,151**	1,143,947
Corporate credit (bank loans) – international	**1,066,802**	1,071,159
Government debt securities – international	**1,599,719**	58,102
Other interest bearing securities – international	**335,407**	133,239
Total interest bearing securities	**25,352,595**	20,612,939
Listed equities and listed managed investment schemes		
At fair value:		
Domestic listed equities and listed managed investment schemes	**9,188,473**	9,845,786
International listed equities and listed managed investment schemes	**25,072,643**	27,966,837
Total listed equities and listed managed investment schemes	**34,261,116**	37,812,623
Collective investment vehicles		
At fair value:		
Unlisted investments	**8,504,058**	5,451,294
Unlisted shares	**1,774,666**	1,403,286
Total collective investment vehicles	**10,278,724**	6,854,580

NOTE 9
INVESTMENTS (CONTINUED)

	2016 $'000	2015 $'000
Derivatives		
At fair value: – financial assets		
Currency contracts	**1,253,013**	239,084
Interest rate swap agreements	**114,382**	21,818
Interest rate futures	**267,382**	21,943
Equity options	**259,999**	691,788
Equity futures	**5,841**	80,226
Credit default swaps	**12,202**	10,875
Currency swaps	**34,211**	15,195
Currency options	**37,808**	65,254
Forward contracts on mortgage backed securities	**70**	-
Total derivative financial assets	**1,984,908**	1,146,183

	2016 $'000	2015 $'000
Derivatives		
At fair value: – financial liabilities		
Currency contracts	**(418,815)**	(784,052)
Interest rate swap agreements	**(15,698)**	(10,573)
Interest rate futures	**(2,273)**	(1,974)
Equity swaps	**-**	(29)
Equity options	**(1,111)**	-
Equity futures	**(167,594)**	(48,857)
Credit default swaps	**(18,729)**	(25,122)
Currency swaps	**(28,190)**	(72,691)
Currency options	**(50)**	-
Total derivative financial liabilities	**(652,460)**	(943,298)
Total derivatives	**1,332,448**	202,885

The Fund enters into certain derivative transactions under International Swaps and Derivatives Association (ISDA) agreements with various counterparties which include provisions for netting arrangements. The derivative financial asset and financial liability balances above are stated gross of any netting arrangements. The gross and net positions of financial assets and liabilities that have been offset in the balance sheet are disclosed in the first three columns of the following table. The fourth column in the tables below show the amounts which could be offset at the counterparty level. Under the terms of the ISDA agreements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Fund does not presently have a legally enforceable right of set-off, these amounts have not been offset in the balance sheet, but have been presented separately in the following table.

NOTE 9
INVESTMENTS (CONTINUED)

Financial assets	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts of financial assets	Gross amounts set off in the balance sheet	Net amount of financial assets presented in the balance sheet	Amounts subject to master netting arrangements	Net amount
	$'000	$'000	$'000	$'000	$'000
2016					
Derivative financial instruments	**1,646,069**	**-**	**1,646,069**	**(452,878)**	**1,193,191**
Total	**1,646,069**	**-**	**1,646,069**	**(452,878)**	**1,193,191**
2015					
Derivative financial instruments	1,043,075	-	1,043,075	(874,226)	168,848
Total	1,043,075	-	1,043,075	(874,226)	168,848

Financial liabilities	Effect of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts of financial liabilities	Gross amounts set off in the balance sheet	Net amount of financial liabilities presented in the balance sheet	Amounts subject to master netting arrangements	Net amount
	$'000	$'000	$'000	$'000	$'000
2016					
Derivative financial instruments	**452,878**	**-**	**452,878**	**(452,878)**	**-**
Total	**452,878**	**-**	**452,878**	**(452,878)**	**-**
2015					
Derivative financial instruments	874,226	-	874,226	(874,226)	-
Total	874,226	-	874,226	(874,226)	-

NOTE 9
INVESTMENTS (CONTINUED)

RESTRICTIONS ON INVESTMENTS – CASH

Cash provided and received as collateral

The Fund has entered into various derivative contracts which require the Fund to post or receive collateral with counterparties under certain circumstances based on minimum transfer limits. The Fund provides cash as collateral when legally required and the counterparties also post collateral when legally required. Any cash provided as collateral remains a financial asset of the Fund, however, any alternate use of this cash is restricted as it is held by the counterparty. Any cash received by the Fund from counterparties is not included in the net assets of the Fund. As at 30 June 2016, the Fund has $41,800,000 in cash which has been posted as collateral with counterparties, (2015: $400,000) and has received $827,200,000 in cash (2015: $779,616,349 in cash and $63,468,118 in US Treasury Bills).

Cash provided as margin on futures accounts

The Fund has posted cash with a futures broker to cover exchange traded futures positions as required under clearing house rules. As at 30 June 2016, the Fund had posted $533,380,842 (2015: $405,318,668) 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 2016, the Fund had posted $3,812,992 (2015: $43,156,632) in swap margins to cover open positions. This cash also remains a financial asset of the Fund, however, any alternate use of this cash is also restricted.

Cash prepayments for investments

The Fund prepays cash for applications into some Alternative investments in advance of the effective date as set out in the legal documents. Therefore the cash remains a financial asset of the Fund, however, any alternate use of this cash is restricted. As at 30 June 2016, the Fund prepaid $346,000,000 (2015: $0).

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 2016 no assets are subject to the lien (30 June 15: no assets subject to the lien).

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

COLLECTIVE INVESTMENT VEHICLES

Commitments made to collective investment vehicles as at 30 June 2016

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 $15,246 million (2015: $16,265 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 9
INVESTMENTS (CONTINUED)

COLLECTIVE INVESTMENT VEHICLES (CONTINUED)

Investment funds of the types the Fund invests in usually allow the fund's manager, general partner or other controlling entity to require repayment of distribution payments previously made to investors in order to cover certain fund liabilities (such as obligations to indemnify or to meet warranty claims on sold assets). In line with standard market practice, the Fund requires these 'giveback' obligations to be limited in both total amount (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 2016 (or 30 June 2015).

30 June 2016 – directly held by the Fund

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

Description of underlying strategy	Capital called and committed as at 30 June 2016 Local Currency	Outstanding commitment as at 30 June 2016 AUD equivalent $'000	Net capital cost as at 30 June 2016 AUD equivalent $'000	Fair value as at 30 June 2016 AUD equivalent $'000
Alternative strategies	**AUD $1,325,000,000**	**-**	**1,325,000**	**1,313,560**
Debt	**AUD $851,713,598**	**417,851**	**433,863**	**414,547**
Debt	**EUR €589,524,129**	**154,423**	**701,286**	**806,573**
Debt	**USD $1,014,480,854**	**755,585**	**254,996**	**295,690**
Global Infrastructure	**AUD $837,917,846**	**-**	**837,918**	**1,528,000**
Global Infrastructure	**USD $986,707,354**	**577,214**	**544,403**	**640,267**
Private Equity	**EUR € 169,982,055**	**15,508**	**281,910**	**175,918**
Private Equity	**USD $350,000,093**	**176,286**	**241,065**	**304,781**
Property	**AUD $551,934,669**	**-**	**370,381**	**442,442**
Property	**EUR €178,052,742**	**30,195**	**237,092**	**249,475**
Property	**GBP £475,827,722**	**526,469**	**232,664**	**335,286**
Property	**USD $3,706,866,088**	**1,663,170**	**2,681,787**	**3,772,185**
Total		**4,316,701**	**8,142,365**	**10,278,724**

NOTE 9
INVESTMENTS (CONTINUED)

COLLECTIVE INVESTMENT VEHICLES (CONTINUED)

30 June 2016 – indirectly held via the FFICs

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

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

NOTE 9
INVESTMENTS (CONTINUED)

COLLECTIVE INVESTMENT VEHICLES (CONTINUED)

30 June 2015 – directly held by the Fund

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

Description of underlying strategy	Capital called and committed as at 30 June 2015 Local Currency	Outstanding commitment as at 30 June 2015 AUD equivalent $'000	Net capital cost as at 30 June 2015 AUD equivalent $'000	Fair value as at 30 June 2015 AUD equivalent $'000
Alternative strategies	USD $200,019,823	-	2,086	2,744
Debt	AUD $834,590,311	500,000	334,590	372,636
Debt	EUR €551,500,000	223,101	564,560	592,894
Debt	USD $227,683,472	81,289	159,174	211,697
Global Infrastructure	AUD $837,917,846	-	837,918	1,223,347
Global Infrastructure	USD $1,249,212,201	458,227	579,851	665,974
Private Equity	EUR €169,982,055	15,067	283,148	186,893
Private Equity	USD $350,000,011	230,623	178,004	213,829
Property	AUD $551,934,669	-	467,213	492,134
Property	EUR €55,988,514	38,140	43,538	57,135
Property	GBP £339,413,861	463,601	149,892	247,703
Property	USD $3,323,338,948	1,899,949	1,894,754	2,587,594
Total		3,909,997	5,494,728	6,854,580

NOTE 9
INVESTMENTS (CONTINUED)

COLLECTIVE INVESTMENT VEHICLES (CONTINUED)

30 June 2015 – indirectly held via the FFICs

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

Description of underlying strategy	Capital called and committed as at 30 June 2015 Local Currency	Outstanding commitment as at 30 June 2015 AUD equivalent $'000	Net capital cost as at 30 June 2015 AUD equivalent $'000	Fair value as at 30 June 2015 AUD equivalent $'000
Private Equity	EUR €1,390,570,820	617,913	844,610	1,495,786
Private Equity	GBP £100,000,000	142,085	57,494	61,839
Private Equity	USD $11,658,101,337	6,027,090	6,005,890	10,290,311
Private Equity	AUD $480,000,000	170,810	254,409	267,929
Debt	EUR €772,000,000	511,619	512,535	793,177
Debt	USD $3,028,887,535	967,125	1,837,304	2,683,287
Global Property	AUD $1,191,079,718	451,307	622,654	773,328
Global Property	EUR €843,975,000	866,162	290,517	240,620
Global Property	USD $547,146,593	136,658	512,090	549,138
Global Infrastructure	AUD $1,205,951,823	-	1,158,733	1,333,810
Global Infrastructure	GBP £530,028,692	-	771,190	1,458,006
Global Infrastructure	USD $1,385,883,680	388,702	1,255,226	1,236,938
Alternative Strategies	AUD $3,173,614,092	766,850	2,396,006	2,626,823
Alternative Strategies	JPY ¥55,626,295,644	-	644,605	750,572
Alternative Strategies	USD $15,324,189,565	1,309,112	7,494,387	12,082,609
Timberland	AUD $323,381,825	-	277,505	389,203
Listed Equities	USD $2,326,560,000	-	1,039,392	2,575,196
Total		12,355,433	25,974,547	39,608,572

NOTE 10
RECEIVABLES

	2016 $'000	2015 $'000
Receivables		
Imputation credits refundable	**1,249,413**	1,337,559
Interest receivable	**1,225**	1,867
Dividends & distributions receivable	**158,132**	157,545
Unsettled sales	**209,825**	95,522
Total Receivables	**1,618,595**	1,592,493

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

NOTE 11
NON-FINANCIAL ASSETS

	2016 $'000	2015 $'000
Plant and equipment		
Computers, plant and equipment	**6,158**	4,979
Accumulated depreciation	**(3,612)**	(2,976)
Total plant and equipment	**2,546**	2,003
Intangibles – software licences		
Computer software purchased – cost	**6,096**	4,301
Accumulated amortisation	**(2,987)**	(2,156)
Total intangibles – software licences	**3,109**	2,145

Refer to the accounting policy note on non-financial assets for more details.

NOTE 11
NON-FINANCIAL ASSETS (CONTINUED)

Analysis of Plant and equipment, and Intangibles – software licences	Year Ending 30 June 2016		
	Plant & equipment $'000	Computer software $'000	Total $'000
Opening balance as at 1 July 2015			
Gross book value	**4,979**	**4,301**	**9,280**
Accumulated depreciation/amortisation	**(2,976)**	**(2,156)**	**(5,132)**
Net book value as 1 July 2015	**2,003**	**2,145**	**4,148**
Additions:			
by purchase	**1,179**	**1,795**	**2,974**
Disposals:			
Gross value of disposals	**-**	**-**	**-**
Accumulated depreciation/amortisation	**-**	**-**	**-**
Depreciation/amortisation charge for the period	**(636)**	**(831)**	**(1,467)**
Net book value as of 30 June 2016	**2,546**	**3,109**	**5,655**
Represented by:			
Gross book value	**6,158**	**6,096**	**12,254**
Accumulated depreciation/amortisation	**(3,612)**	**(2,987)**	**(6,599)**
	2,546	**3,109**	**5,655**

Analysis of Plant and equipment, and Intangibles – software licences	Year Ending 30 June 2015		
	Plant & equipment $'000	Computer software $'000	Total $'000
Opening balance as at 1 July 2014			
Gross book value	6,166	3,205	9,371
Accumulated depreciation/amortisation	(5,094)	(1,443)	(6,537)
Net book value as 1 July 2014	1,072	1,762	2,834
Additions:			
by purchase	1,489	1,096	2,585
Disposals:			
Gross value of disposals	2,677	-	2,677
Accumulated depreciation/amortisation	(2,677)	-	(2,677)
Depreciation/amortisation charge for the period	(558)	(713)	(1,271)
Net book value as of 30 June 2015	2,003	2,145	4,148
Represented by:			
Gross book value	4,979	4,301	9,280
Accumulated depreciation/amortisation	(2,976)	(2,156)	(5,132)
	2,003	2,145	4,148

NOTE 12
PAYABLES

	2016 $'000	2015 $'000
Payables		
Unsettled purchases*	**821,528**	272,147
Other accrued expenses including management and performance fees payable	**62,393**	64,256
Total Payables	**883,921**	336,403

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

NOTE 13
PROVISIONS

	2016 $'000	2015 $'000
Employee provisions		
Annual leave	**1,718**	1,431
Long service leave	**3,591**	2,667
Other employee liabilities	**15,033**	13,980
Total Employee provisions	**20,342**	18,078

NOTE 14
CONTRIBUTIONS BY GOVERNMENT

	2016 $'000	2015 $'000
Opening balance	**60,536,831**	60,536,831
Contribution from Government – cash	**-**	-
Closing balance	**60,536,831**	60,536,831

Contributions are made under Schedule 1 of the Act.

NOTE 15

UNCONSOLIDATED SUBSIDIARIES AND INTERESTS IN UNCONSOLIDATED STRUCTURED ENTITIES

As an investment entity, the Fund does not consolidate any of the subsidiaries listed below.

The Fund also invests via non-controlled structured entities.

All entities (controlled or non-controlled) have some or all of the following characteristics:

- the requirement for the Fund (or a FFIC entity) to fund future commitments to the entity as called by the investment manager or general partner. These amounts are limited in terms of total value and callable only in accordance with the underlying legal arrangements. These amounts are disclosed in Note 9;
- the lack of control over the payment of dividends, distributions or the return of capital from the entity. These are controlled by the general partner or the investment manager in accordance with the legal arrangements entered into upon initial investment;
- limitations on transfer or redemption of the interest in the entity. The Fund ensures that these are normal commercial arrangements for investments of this type, typically existing to protect and treat all investors in an equitable manner; and
- limited recourse to the Fund (ordinarily capped at the commitment or invested capital value) for any claims or liabilities incurred by these entities.

Name of entity	Country of incorporation/ domicile	Equity holding	
		30 June 2016 %	30 June 2015 %
Future Fund Investment Company No.1 Pty Ltd^	Australia	**100**	100
Future Fund Investment Company No.2 Pty Ltd^	Australia	**100**	100
Global Hedged Strategies Fund Ltd	Cayman Islands	100	100
Future Fund Investment Company No.3 Pty Ltd^	**Australia**	**100**	100
GWII Unit Trust 2 (formerly CIP Unit Trust No 2)	Australia	100	100
BlackRock Co-Investment Fund III (Parallel) LP	United States	100	100
FF Holdings 1 Pty Ltd	Australia	100	100
– FF Holdings Trust 1^	Australia	100	100
Future Fund Investment Company No.4 Pty Ltd^	**Australia**	**100**	100
Future Fund Investment Company No.5 Pty Ltd^	**Australia**	**100**	100
Blue Jay Fund Ltd	Bermuda	100	-
Elementum Tranquillus Fund Ltd	Bermuda	100	100
Clocktower FF LP	Cayman Islands	100	-
QMS Diversified Global Macro Offshore Fund II Ltd	Cayman Islands	100	-
Future Fund Investment Company No.6 Pty Ltd (Dormant)	**Australia**	**100**	100
FFH No.3 Trust	**Australia**	**100**	100
Queenscliff Trust	**Australia**	**100**	100
Bain Capital Distressed and Special Situations 2016 (F) LP	**United States**	**100**	-
Sankaty Credit Opportunities (F) Europe LP	**England**	**100**	-

^ Audited by the Australian National Audit Office.

NOTE 16
CASH FLOW RECONCILIATION

	2016 $'000	2015 $'000
(a) Reconciliation of operating result to net cash from operating activities:		
Operating result	**5,589,925**	15,605,533
Depreciation and amortisation	**1,467**	1,271
Purchase of investments	**(117,263,456)**	(113,412,579)
Proceeds from sale of investments	**115,161,343**	112,121,440
Net gain on revaluation of investments	**(2,255,538)**	(14,342,625)
Unrealised (gain)/loss on foreign currency	**(1,300,433)**	1,169,073
Decrease/(increase) in accrued income	**88,201**	(699,240)
Increase in other assets	**(1,744)**	(548)
Increase in employee provisions	**2,264**	4,059
Decrease in other payables	**(1,863)**	(36,950)
Net cash provided by operating activities	**20,166**	409,434

(b) Reconciliation of cash and cash equivalents

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

	2016 $'000	2015 $'000
Cash and cash equivalents	**2,870,526**	2,897,421

NOTE 17
CONTINGENT LIABILITIES AND ASSETS

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

NOTE 18
SENIOR MANAGEMENT PERSONNEL REMUNERATION

REMUNERATION OF THE BOARD MEMBERS

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

SENIOR MANAGEMENT PERSONNEL REMUNERATION

	2016 $	2015 $
Short-term employee benefits:		
Salary (including payment for leave taken)	**5,074,720**	4,859,901
Performance related payments	**4,294,780**	4,313,646
Total short-term employee benefits	**9,369,500**	9,173,547
Post-employment benefits:		
Superannuation	**368,887**	355,004
Total post-employment benefits	**368,887**	355,004
Other long-term benefits:		
Long service leave	**268,576**	241,312
Annual leave	**428,310**	410,564
Total other long-term employee benefits	**696,886**	651,876
Total	**10,435,273**	10,180,427

The total number of senior management personnel that are included in the above table is 13 (2015: 13).

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

NOTE 19A: RISK MANAGEMENT FRAMEWORK

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

NOTE 19B: FINANCIAL RISK MANAGEMENT OBJECTIVES

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

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

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19C: MARKET RISK

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

NOTE 19C (I): INTEREST RATE RISK

Interest rate exposure tables

The exposure to interest rates as at 30 June 2016 of the Fund and the FFICs are set out below.

Financial asset	Floating Interest Rate 2016 $'000	Fixed Interest Rate 2016 $'000	Non-interest Bearing 2016 $'000	Total* 2016 $'000
Cash and cash equivalents	**3,712,985**	**-**	**-**	**3,712,985**
Bank bills	**-**	**5,178,717**	**-**	**5,178,717**
Negotiable certificates of deposit	**-**	**13,953,511**	**-**	**13,953,511**
Corporate debt securities	**459,149**	**1,131,745**	**-**	**1,590,894**
Mortgage backed securities	**1,024,397**	**65,323**	**-**	**1,089,720**
Asset backed securities	**659,934**	**123,217**	**-**	**783,151**
Corporate credit (bank loans)	**1,227,931**	**-**	**-**	**1,227,931**
Government debt securities	**180,453**	**2,162,245**	**-**	**2,342,698**
Other interest bearing securities	**279,505**	**303,072**	**-**	**582,577**
Other financial assets	**-**	**-**	**93,824,534**	**93,824,534**
Total financial assets	**7,544,354**	**22,917,830**	**93,824,534**	**124,286,718**
Notional value of derivative positions				
Interest rate swaps (notional amount) – pay	**(4,599,655)**	**(394,338)**	**-**	
Interest rate swaps (notional amount) – receive	**394,338**	**4,599,655**	**-**	
Currency swaps (notional amount) – pay	**(2,760,782)**	**-**	**-**	
Currency swaps (notional amount) – receive	**2,750,000**	**-**	**-**	

As at the reporting date the Fund's debt portfolio had an effective interest rate duration of 1.21 (2015: 1.16).

* Total balances will not agree with the investment balances reported in Note 9 as this disclosure includes additional interest rate securities held by the FFICs.

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19C (I): INTEREST RATE RISK (CONTINUED)

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

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

* Total balances will not agree with the investment balances reported in Note 9 as this disclosure includes additional interest rate securities held by the FFICs.

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19C (I): INTEREST RATE RISK (CONTINUED)

Interest rate derivative contracts

The Fund had open positions in exchange traded interest rate futures contracts, interest rate swap agreements, forward contracts on mortgage backed securities and interest rate option agreements as at 30 June 2016. The Act governs the use of financial derivatives.

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

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

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

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

	Notional Value 2016 $'000	Fair Market Value 2016 $'000	Notional Value 2015 $'000	Fair Market Value 2015 $'000
Buy domestic interest rate futures contracts	**10,608,988**	**51,377**	9,089,807	18,303
Buy international interest rate futures contracts	**7,415,737**	**216,005**	1,913,036	1,678
Sell domestic interest rate futures contracts	**(2,146,052)**	**(74)**	(1,641,460)	87
Sell international interest rate futures contracts	**(171,456)**	**(2,199)**	(123,478)	(99)
Receiver (fixed) interest rate swap agreements	**4,599,655**	**114,267**	3,493,502	17,576
Payer (fixed) interest rate swap agreements	**(394,338)**	**(15,583)**	(205,486)	(6,331)
Buy forward contracts on mortgage backed securities	**11,140**	**77**	-	-
Sell forward contracts on mortgage backed securities	**(5,575)**	**(7)**	-	-
Total		**363,863**		31,214

No interest rate derivatives are held by the FFICs.

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19C (I): INTEREST RATE RISK (CONTINUED)

Interest rate sensitivity analysis

The following table demonstrates the impact on the operating result of the Fund and the FFICs for a 30 basis point (2015: 40 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 2016 and 30 June 2015) and there are concurrent movements in interest rates and parallel shifts in the yield curves. A 30 basis point (2015: 40 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 2016 Impact on operating result $'000
+ 30 basis points	**(574,644)**
- 30 basis points	**586,848**

	30 June 2015 Impact on operating result $'000
+ 40 basis points	(525,492)
- 40 basis points	543,966

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19C(II): FOREIGN CURRENCY RISK MANAGEMENT

The Fund and the FFICs undertake certain transactions denominated in foreign currencies and accordingly are exposed to the effects of exchange rate fluctuations. The Board sets a target exposure to foreign currency risk and this is managed utilising forward foreign exchange contracts and other derivatives.

Foreign exchange contracts are used by the Fund's investment managers to manage the exposure to foreign exchange and to ensure it remains within Board approved limits. The Fund's counterparties for foreign exchange contracts include major banking firms and their affiliates. The Fund diversifies its exposure by utilising 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 2016	USD AUD $'000	EUR AUD $'000	GBP AUD $'000	JPY AUD $'000	Other[1] AUD $'000	Total AUD $'000
Cash & cash equivalents	**2,742,491**	**49,340**	**66,157**	**65,933**	**24,189**	**2,948,110**
Listed equities and listed managed investment schemes	**14,538,747**	**3,168,438**	**1,751,801**	**1,096,795**	**7,881,675**	**28,437,456**
Interest bearing securities	**5,409,945**	**111,052**	**93,810**	**6,638,562**	**108,193**	**12,361,562**
Collective investment vehicles	**32,788,802**	**3,308,435**	**1,318,987**	**362,685**	**-**	**37,778,909**
Other investments	**385,913**	**30,576**	**6,166**	**193,615**	**20,377**	**636,647**
Receivables	**305,387**	**35,482**	**11,460**	**18,345**	**95,827**	**466,501**
Payables	**(210,737)**	**(16,619)**	**(8,112)**	**(574,463)**	**(21,636)**	**(831,567)**
Total physical exposure	**55,960,548**	**6,686,704**	**3,240,269**	**7,801,472**	**8,108,625**	**81,797,618**
Forward exchange contracts and currency swaps						
- buy foreign currency	**7,833,784**	**2,434,175**	**709,206**	**764,073**	**9,974,779**	**21,716,017**
- sell foreign currency	**(30,677,672)**	**(9,148,844)**	**(4,418,082)**	**(1,444,044)**	**(4,788,946)**	**(50,477,588)**
Currency options	**425,000**	**-**	**-**	**68,000**	**-**	**493,000**
Total derivative exposure	**(22,418,888)**	**(6,714,669)**	**(3,708,876)**	**(611,971)**	**5,185,833**	**(28,268,571)**
Total net exposure	**33,541,660**	**(27,965)**	**(468,607)**	**7,189,501**	**13,294,458**	**53,529,047**

(1) Other includes AUD equivalent exposures to other currencies which, when considered individually, are immaterial.

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19C(II): FOREIGN CURRENCY RISK MANAGEMENT (CONTINUED)

The Fund and FFICs' exposure in Australian equivalents to foreign currency risk at 30 June 2015 was as follows:

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

(1) Other includes AUD equivalent exposures to other currencies which, when considered individually, are immaterial.

Foreign currency sensitivity analysis

The following table demonstrates the impact on the Fund and the FFICs' operating result of a 10.5% (2015: 10.9%) movement in exchange rates relative to the Australian dollar at 30 June 2016, with all other variables held constant. It is assumed that the relevant change occurs as at the reporting date and the results presented are shown after taking into account the implementation of the Board's foreign currency exposure policy (that is, the sensitivity is calculated on the net exposure presented in the tables on the two previous pages).

	30 June 2016 Impact on operating result $'000
+ 10.5% movement	**6,581,001**
- 10.5% movement	**(6,459,086)**

	30 June 2015 Impact on operating result $'000
+ 10.9% movement	4,666,574
- 10.9% movement	(4,586,560)

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19C(III): EQUITY PRICE RISK

Public markets equity price risk

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

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

	30 June 2016* $'000	30 June 2015* $'000
Domestic listed equities and listed managed investment schemes	**9,998,428**	11,000,812
International listed equities and listed managed investment schemes	**28,435,453**	30,882,762
Total equity price risk exposure	**38,433,881**	41,883,574

* Total balances will not agree with the investment balances reported in Note 9 as this disclosure includes additional public market equities held by the FFICs.

Equity derivative contracts

The Fund had open positions in exchange traded equity futures contracts and exchange traded and over the counter equity option contracts as at 30 June 2016. The Act governs the use of financial derivatives. Equity futures, swaps and options are used to manage market exposures to equity price risk and to ensure that asset allocations remain within approved limits. The Fund's counterparties for over the counter equity options and swaps include major banking firms and their affiliates. The Fund diversifies its exposure by utilising multiple counterparties, by considering each counterparty's credit rating, and by executing such contracts pursuant to master netting agreements. All over the counter transactions are undertaken using ISDAs. The Fund's equity futures contracts are cash margined daily with the relevant futures clearing exchange. The notional value of the open contracts and their fair value are set out below:

	Notional Value 2016 $'000	Fair Market Value 2016 $'000	Notional Value 2015 $'000	Fair Market Value 2015 $'000
Buy domestic equity futures contracts	**136,646**	**190**	219,523	(4,781)
Sell domestic equity futures contracts	**(1,921,202)**	**2,530**	(2,233,009)	43,910
Buy international equity futures contracts	**2,388,268**	**(142,824)**	2,705,437	(44,069)
Sell international equity futures contracts	**(2,611,732)**	**(21,649)**	(1,680,994)	36,310
Buy equity index swap agreements	**-**	**-**	-	-
Sell equity index swap agreements	**-**	**-**	(17,825)	(29)
Exchange traded international volatility index call options	**1,569**	**269**	1,398	637
Exchange traded international volatility index put options	**1,637**	**344**	-	-
Over the counter domestic equity index put options	**-**	**-**	(45,537)	3,162
Over the counter domestic equity index call options	**141,750**	**12,635**	281,409	20,987
Over the counter international equity index put options	**(115,242)**	**7,305**	(1,060,306)	70,171
Over the counter international equity index call options	**2,487,677**	**238,335**	4,536,880	596,831
Total		**97,135**		723,129

No equity derivative contracts are held by the FFICs.

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19C(III): EQUITY PRICE RISK (CONTINUED)

Equity price sensitivity analysis

The analysis below demonstrates the impact on the Fund and FFICs' operating result of the following movements:

- +/- 20% on Australian equities
- +/- 15% on International equities

The sensitivity analysis has been performed to assess the direct risk of holding equity instruments and associated derivatives. The analysis is undertaken on the base currency values of the underlying exposures. Currency risk sensitivity is considered separately in the currency sensitivity table presented in Note 19C(ii). The percentage change for each sub-class noted in the table below is measured with reference to each underlying security's forward looking beta, which is a measure of how the underlying security price would change relative to an absolute increase or decrease in the market portfolio which has a beta of 1.

	30 June 2016 Impact on operating result $'000	30 June 2015 Impact on operating result $'000
20% increase in Australian equities	**2,850,903**	2,869,243
15% increase in International equities	**9,403,062**	9,259,366
Total	**12,253,965**	12,128,609
20% decrease in Australian equities	**(2,796,073)**	(2,724,108)
15% decrease in International equities	**(8,983,183)**	(8,542,702)
Total	**(11,779,256)**	(11,266,810)

NOTE 19C(IV): OTHER PRICE RISK (COLLECTIVE INVESTMENT VEHICLES)

The Fund and FFICs are exposed to other price risks arising from its investments in collective investment vehicles. The Fund and FFICs mitigate this risk through diversification of its investments.

As noted in Note 19F, in the absence of active markets for a particular investment, judgement is required in determining fair value which introduces an increased element of uncertainty in the determination of that fair value. Collective investment vehicle pricing requires this judgement to be exercised in determining appropriate market reference transactions, pricing or earnings multiples, cash flow estimates and market discount rates.

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

Private real estate proxy

A proxy index of publicly traded real estate investment trusts (REITs) has been created that is appropriate for the geographical exposure of the portfolio.

Private equity proxy

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

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19C(IV): OTHER PRICE RISK (COLLECTIVE INVESTMENT VEHICLES) (CONTINUED)

Infrastructure proxy

Utilisation of an appropriate index of publicly traded infrastructure companies in the appropriate geography and sector is used as a proxy.

Alternative strategy funds

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

Other price risk sensitivity analysis

The sensitivity analysis for other price risk using the proxies noted above is incorporated within the equity risk sensitivity analysis and interest rate sensitivity analysis presented earlier in Notes 19C(i) and 19C(iii).

NOTE 19D: LIQUIDITY RISK MANAGEMENT

Liquidity risk is the vulnerability of portfolio cash-flow management to compromise or failure. In particular, it is the risk that insufficient at-call liquidity is available to meet the Fund's liabilities and obligations as they fall due.

The Fund devotes considerable resources to liquidity risk management and the Short-term Liquidity Risk Policy is one of four main investment policies that support the investment process and help to ensure that the Fund and the FFICs takes 'acceptable but not excessive' risk.

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

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

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19D: LIQUIDITY RISK MANAGEMENT (CONTINUED)

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

AS AT 30 JUNE 2016:

	Less than 3 months $'000	3 months to 1 year $'000	1 to 5 Years $'000	> 5 Years $'000	Total contractual cashflows $'000	Carrying amount (assets)/ liabilities $'000
2016						
Non-derivatives						
Unsettled purchases	**865,889**	**-**	**-**	**-**	**865,889**	**865,889**
Other payables	**84,878**	**-**	**-**	**-**	**84,878**	**84,878**
Total non-derivatives	**950,767**	**-**	**-**	**-**	**950,767**	**950,767***
Derivatives						
Net settled (interest rate swaps, credit default swaps, interest rate options)	**196,759**	**8,696**	**-**	**-**	**205,455**	**205,455**
Gross settled (forward foreign exchange contracts, cross currency swaps)						
- (inflow)	**(10,076,195)**	**(5,480,409)**	**-**	**-**	**(15,556,604)**	**(15,556,604)**
- outflow	**10,343,721**	**5,660,502**	**-**	**-**	**16,004,223**	**16,004,223**
Total derivatives	**464,285**	**188,789**	**-**	**-**	**653,074**	**653,074***

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

* Total balances do not agree with the investment balance reported in Note 9 and the payables balances reported in Note 12 as the FFICs are included in this disclosure.

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19D: LIQUIDITY RISK MANAGEMENT (CONTINUED)

AS AT 30 JUNE 2015:

	Less than 3 months $'000	3 months to 1 year $'000	1 to 5 Years $'000	> 5 Years $'000	Total contractual cashflows $'000	Carrying amount (assets)/ liabilities* $'000
2015						
Non-derivatives						
Unsettled purchases	282,371	-	-	-	282,371	282,371
Other payables	87,533	-	-	-	87,533	87,533
Total non-derivatives	369,904	-	-	-	369,904	369,904*
Derivatives						
Net settled (interest rate swaps, credit default swaps, interest rate options)	3,140,464	1,284,114	-	-	4,424,578	4,424,578
Gross settled (forward foreign exchange contracts, cross currency swaps)						
- (inflow)	(25,618,432)	(9,945,599)	-	-	(35,564,031)	(35,564,031)
- outflow	23,178,135	8,904,616	-	-	32,082,751	32,082,751
Total derivatives	700,167	243,131	-	-	943,298	943,298

* Total balances do not agree with the payables balances reported in Note 12 as the FFICs are included in this disclosure.

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19E: CREDIT RISK

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

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

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

The Fund had, at 30 June 2016, an exposure of 11.54% (2015: 13.24%) of its net assets to interest bearing securities issued by domestic banks. Exposures to individual counterparties are separately identified in the table below.

Domestic interest bearing securities issued by:	$'000
Westpac Banking Corporation	**3,523,205**
Australia and New Zealand Banking Group Limited	**3,510,618**
National Australia Bank Limited	**3,460,352**
Commonwealth Bank of Australia	**3,434,624**
Other domestic banks	**229,364**
Non-bank issued	**-**
Total	**14,158,163**

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

Domestic interest bearing securities issued by:	$'000
Negotiable certificates of deposit – domestic	**13,953,511**
Corporate debt securities – domestic	**204,652**
Total	**14,158,163**

Exposures as at 30 June 2015:

Domestic interest bearing securities issued by:	$'000
Australia and New Zealand Banking Group Limited	4,290,405
National Australia Bank Limited	3,948,197
Commonwealth Bank of Australia	3,781,342
Westpac Banking Corporation	3,373,902
Other domestic banks	119,529
Non-bank issued	9,692
Total	15,523,067

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

Domestic interest bearing securities issued by:	$'000
Negotiable certificates of deposit – domestic	15,513,375
Corporate debt securities – domestic	9,692
Total	15,523,067

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

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19E: CREDIT RISK (CONTINUED)

CREDIT RISK DERIVATIVES

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

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

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

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

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 2016 $'000	Fair Market Value 2016 $'000	Notional Value 2015 $'000	Fair Market Value 2015 $'000
Buy Credit Protection	**985,055**	**(15,954)**	522,894	(18,769)
Sell Credit Protection	**(493,953)**	**9,427**	(194,392)	4,520
Total		**(6,527)**		(14,249)

No credit risk derivative contracts are held by the FFICs.

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19E: CREDIT RISK (CONTINUED)

CREDIT EXPOSURE BY CREDIT RATING

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

	2016 $'000	2015 $'000
Long term rated securities		
AAA	**117,169**	184,308
AA	**4,021,878**	5,376,823
A	**1,618,903**	172,946
BBB	**341,292**	183,236
Below Investment grade / not rated[#]	**5,173,136**	4,878,319
Short term rated securities		
A-1+/A-3/P-1	**19,132,229**	15,513,375
Other		
US Government Guaranteed	**57,577**	17,773
Total debt securities and cash held	**30,462,184**	26,326,780
Other non-debt financial assets	**93,824,534**	92,112,576
Total financial assets	**124,286,718**	118,439,356

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

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

There are no overdue contractual receipts due from counterparties as at 30 June 2016 (30 June 2015: nil).

NOTE 19F: FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

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

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

(i) Fair value in an active market

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

The Fund values its investments in accordance with the accounting policies set out in Note 2. For the majority of its public market investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis.

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19F: FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

(ii) Fair value in an inactive or unquoted market

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

Where discounted cash flow techniques are used, estimated future cash flows are based on best estimates and the discount rate used is a market rate at the balance date applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at balance date. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the balance date taking into account current market conditions (for example, volatility and appropriate yield curves). The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying industry standard option pricing models.

NOTE 19G: FAIR VALUE HIERARCHY

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The following tables provide an analysis of financial instruments held at year end that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

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

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

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

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

As noted in Note 19C (iv) for collective investments, the Fund has used proxy investment exposures to provide sensitivity information surrounding the possible impact on the income of the Fund should equity or interest rate markets move up or down by a specified amount.

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the beginning of the reporting period.

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19G: FAIR VALUE HIERARCHY (CONTINUED)

The tables below provide information on the fair value hierarchy for the Fund and FFICs.

AS AT 30 JUNE 2016:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Financial assets at fair value through profit or loss:				
Interest bearing securities	**33,214**	**25,627,772**	**1,088,213**	**26,749,199**
Listed equities and listed managed investment schemes	**38,292,987**	**24,223**	**116,671**	**38,433,881**
Collective investment vehicles	**-**	**-**	**51,296,067**	**51,296,067**
Derivatives	**221,846**	**1,762,486**	**613**	**1,984,945**
Restricted Cash	**924,994**	**-**	**-**	**924,994**
Total	**39,473,041**	**27,414,481**	**52,501,564**	**119,389,086**
Financial liabilities at fair value through profit or loss:				
Derivatives	**2,199**	**650,875**	**-**	**653,074**
Total	**2,199**	**650,875**	**-**	**653,074**

The following table presents the transfers between levels for the year ended 30 June 2016:

	Level 1 $'000	Level 2 $'000	Level 3 $'000
Transfers between Levels 1 and 2	**-**	**-**	**-**
Transfers between Levels 1 and 3	**(26,663)**	**-**	**26,663**
Transfers between Levels 2 and 3	**-**	**12,444**	**(12,444)**

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19G: FAIR VALUE HIERARCHY (CONTINUED)

The following table presents the movement in Level 3 instruments for the year ended 30 June 2016 by class of financial instrument.

	Interest bearing securities	Equities and listed managed investment schemes	Collective investment vehicles	Derivatives	Total
	$'000	$'000	$'000	$'000	$'000
Financial assets at fair value through profit or loss:					
Opening balance	**858,108**	**123,816**	**47,183,956**	**637**	**48,166,517**
Purchases	**653,758**	**28,778**	**17,407,466**	**1,076**	**18,091,078**
Sales	**(376,218)**	**(65,533)**	**(14,601,927)**	**-**	**(15,043,678)**
Transfers into Level 3	**-**	**26,663**	**-**	**-**	**26,663**
Gains and losses recognised in the statement of comprehensive income	**(36,330)**	**4,286**	**1,306,572**	**(1,100)**	**1,273,428**
Transfers out of Level 3	**(11,105)**	**(1,339)**	**-**	**-**	**(12,444)**
Closing balance	**1,088,213**	**116,671**	**51,296,067**	**613**	**52,501,564**

There were no Level 3 financial liabilities.

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19G: FAIR VALUE HIERARCHY (CONTINUED)

The Fund must invest all the assets of the Fund via investment managers. Listed below are the valuation techniques and significant unobservable inputs for the investments classified in Level 2 and Level 3. Due to the diverse nature of the Funds investments it is not possible to list the ranges of the inputs.

AS AT 30 JUNE 2016:

	Fair Value $'000	Valuation Technique	Unobservable Inputs
Recurring fair value measurements			
Financial assets at fair value through profit or loss:			
Interest bearing securities	**26,715,985**	Discounted cash flow	Discount Rate
		Market Approach	Earnings Multiple
		Broker Quotations	N/A
		Independent Pricing Services	N/A
		Recovery Rate	Illiquidity Discount
Equities and listed managed investment	**140,894**	Discounted cash flow	Discount Rate
schemes		Market Approach	Earnings Multiple
			Price to book ratio
		Recent Transaction	N/A
		Recovery Value	Recovery Rate
Collective investment vehicles	**51,296,067**	Market Approach	Earnings Multiple
			Net Asset Value
		Discounted cash flow	Discount Rate
Derivatives	**1,763,099**	Independent Pricing Services	N/A
		Broker Quotations	N/A
Total	**79,916,045**		
Financial liabilities at fair value through profit or loss:			
Derivatives	**650,875**	Independent Pricing Services	N/A
		Broker Quotations	N/A
Total	**650,875**		

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19G: FAIR VALUE HIERARCHY (CONTINUED)

AS AT 30 JUNE 2015:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Recurring fair value measurements				
Financial assets at fair value through profit or loss:				
Interest bearing securities	62,032	20,473,501	858,108	21,393,641
Listed equities and listed managed investment schemes	41,786,438	107	123,816	41,910,361
Collective investment vehicles	-	-	47,183,956	47,183,956
Derivatives	83,780	1,061,766	637	1,146,183
Restricted Cash	448,876	-	-	448,876
Total	42,381,126	21,535,374	48,166,517	112,083,017
Financial liabilities at fair value through profit or loss:				
Derivatives	-	943,298	-	943,298
Total	-	943,298	-	943,298

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

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

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19G: FAIR VALUE HIERARCHY (CONTINUED)

The following table presents the movement in Level 3 instruments for the year ended 30 June 2015 by class of financial instrument.

	Interest bearing securities	Listed equities and listed managed investment schemes	Collective investment vehicles	Derivatives	Total
	$'000	$'000	$'000	$'000	$'000
Financial assets at fair value through profit or loss:					
Opening balance	1,658,441	219,412	35,532,065	6	37,409,924
Purchases	168,450	30,667	13,820,617	484	14,020,218
Sales	(965,611)	(178,196)	(12,495,651)	-	(13,639,458)
Transfers into Level 3	24,810	18,910	-	-	43,720
Gains and losses recognised in the statement of comprehensive income	96,240	33,023	10,326,925	147	10,456,335
Transfers out of Level 3	(124,222)	-	-	-	(124,222)
Closing balance	858,108	123,816	47,183,956	637	48,166,517

NOTE 19
FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

NOTE 19G: FAIR VALUE HIERARCHY (CONTINUED)

The Fund must invest all the assets of the Fund via investment managers. Listed below are the valuation techniques and significant unobservable inputs for the investments classified in Level 2 and Level 3. Due to the diverse nature of the Funds investments it is not possible to list the ranges of the inputs.

AS AT 30 JUNE 2015:

	Fair Value $'000	Valuation Technique	Unobservable Inputs
Recurring fair value measurements			
Financial assets at fair value through profit or loss:			
Interest bearing securities	21,331,609	Discounted cash flow	Discount Rate
		Market Approach	Earnings Multiple
		Broker Quotations	N/A
		Independent Pricing Services	N/A
		Recovery Rate	Illiquidity Discount
Equities and listed managed investment schemes	123,923	Discounted cash flow	Discount Rate
		Market Approach	Earnings Multiple
			Price to book ratio
		Recent Transaction	N/A
		Recovery Value	Recovery Rate
Collective investment vehicles	47,183,956	Market Approach	Earnings Multiple
			Net Asset Value
		Discounted cash flow	Discount Rate
Derivatives	1,062,403	Independent Pricing Services	N/A
		Broker Quotations	N/A
Total	69,701,891		
Financial liabilities at fair value through profit or loss:			
Derivatives	943,298	Independent Pricing Services	N/A
		Broker Quotations	N/A
Total	943,298		

NOTE 20
EVENTS OCCURRING AFTER REPORTING DATE

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

NOTE 21
SPECIAL ACCOUNTS

NOTE 21A: SPECIAL ACCOUNTS: FUTURE FUND SPECIAL ACCOUNT

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

Appropriation authority – section 80 of the PGPA Act.

Purpose – establishment and ongoing operation of the Fund.

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

Future Fund Special Account	Period from 1 July 2015 to 30 June 2016 $'000	Period from 1 July 2014 to 30 June 2015 $'000
Balance carried from previous period	**-**	-
Bank interest amounts credited	**-**	-
Appropriations for reporting period	**-**	-
Other Receipts:		
GST credits	**11,454**	10,933
Amounts transferred from investment account[a]	**323,512**	365,252
Amounts credited to the special account	**-**	-
Total Credits	**334,966**	376,185
Available for payments	**334,966**	376,185
Payments made:		
Investments debited from the Special Account (FFA s17)	**-**	-
Payments made		
- Remuneration of Agency staff	**34,988**	29,064
- Remuneration of Board members	**895**	852
- Suppliers	**52,089**	45,672
- Investment expenses	**244,020**	298,483
- Purchase of capital equipment and software	**2,974**	2,114
Total Debits	**334,966**	376,185
Balance carried forward to next year[b]	**-**	-

(a) The operations of the Fund are funded via the investment revenue generated.
(b) Excluding investments balances, see Note 21B.

NOTE 21
SPECIAL ACCOUNTS (CONTINUED)

NOTE 21B: SPECIAL ACCOUNTS: INVESTMENT OF PUBLIC MONEY

Disclosures below are on a cash basis.

Future Fund Special Account: Investment of Public Money under section 17 of the *Future Fund Act 2006* (as amended)	Period from 1 July 2015 to 30 June 2016 $'000	Period from 1 July 2014 to 30 June 2015 $'000
Opening balance	**95,229,964**	87,213,484
Investments made on transfer of funds from the Special Account	**-**	-
Realised investments reinvested	**119,774,888**	116,355,216
Interest earned reinvested	**1,669,128**	935,089
Dividends received reinvested	**2,388,269**	2,946,319
Franking credits received reinvested	**738,704**	624,826
Foreign currency realised reinvested	**(710,922)**	(1,531,757)
Amounts transferred to operations[(a)]	**(323,512)**	(365,252)
Investments realised	**(115,689,479)**	(110,947,961)
Closing Balance	**103,077,040**	95,229,964

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

NOTE 22
REPORTING OF OUTCOMES

NOTE 22A: NET COST OF OUTCOME DELIVERY

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

	Outcome 1 2016 $'000	Outcome 1 2015 $'000
Expenses		
Investment related expenses	**228,017**	262,626
Depreciation and amortisation	**1,467**	1,271
Agency and Board remuneration expenses	**38,142**	33,976
Other expenses	**20,573**	17,794
Income tax expense	**61,887**	52,216
Total expenses	**350,086**	367,883
Costs recovered from provision of goods and services to the non-government sector		
Income		
Interest	**25,502**	23,724
Dividends, distributions and imputation credits	**3,032,829**	4,006,028
Realised and unrealised investment gains and losses	**2,879,982**	11,942,655
Other income	**1,698**	1,009
Total income	**5,940,011**	15,973,416
Net cost (contribution) of outcome	**(5,589,925)**	(15,605,533)

NOTE 22B: NET COST OF OUTCOME DELIVERY – PROGRAMS

The Agency has two programs: the management of the investment of the Future Fund and the management of the investment of the Building Australia Fund, Education Investment Fund, DisabilityCare Australia Fund and Medical Research Future Fund.

Program 1.1 Management of the investment of the Future Fund.

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

Program 1.2 Management of the investment of the Building Australia Fund, Education Investment Fund, DisabilityCare Australia Fund and the Medical Research Future Fund (the BAF, EIF, DCAF and MRFF).

Under the *Nation-building Funds Act 2008*, the role of the Agency was extended to include supporting the Board in the investment of the assets of the BAF and EIF (each a 'fund') and subsequently by the *DisabilityCare Australia Fund Act 2013* and the *Medical Research Future Fund Act 2015* to support the Board in the investment of the assets of the DCAF and MRFF. The Agency charges a monthly fee to each fund to reimburse the Agency for shared costs paid by the Agency, as agreed with the Department of Finance. This is shown as other income in the income statement. Direct costs to the BAF, EIF, DCAF and MRFF, such as investment management and custody fees, were charged directly to each fund's Special Account and are not reported as part of these financial statements.

NOTE 23
BUDGETARY REPORTS

The following tables provide a comparison of the original budget as presented in the 2015–16 Portfolio Budget Statements (PBS) to the 2015–16 final outcome as presented in accordance with Australian Accounting Standards for the entity. The budget is not audited.

The 2015–16 budget was based on the assumption that the mandated return is achieved for each forward estimates year. CPI is estimated in these budget numbers. In that context, the budget construct, including related investment costs, was based on the estimated mandated return. Actual results will always deviate from these assumed returns. For 2015–16, the Fund generated a net of costs return of $5.59b (4.8%), a 33% decrease from the budgeted amount. For comparative purposes, the mandated return used for budget purposes for the equivalent period was 7.2%.

There are therefore significant variances between budgeted and actual outcomes. Due to the volatile nature of investment markets, it is difficult to accurately predict the financial outcomes of the Fund. Further, as PBS financial information is presented in a concise format which differs to the level of information presented in this financial report, the tables below compare actual and budgeted information for the statement of comprehensive income and statement of financial position.

STATEMENT OF COMPREHENSIVE INCOME	Year ended 30 June 16 $'000	PBS-Administered 30 June 16 $'000	PBS-Departmental 30 June 16 $'000	Variance 30 June 16 $'000
Total income	5,940,011	9,122,676	47,389	(3,230,054)
Total expenses including income tax	350,086	738,421	47,389	(435,724)[#]
OPERATING RESULT FOR THE YEAR	**5,589,925**	**8,384,255**	**-**	**(2,794,330)**

STATEMENT OF FINANCIAL POSITION	Year ended 30 June 16 $'000	PBS-Administered 30 June 16 $'000	PBS-Departmental 30 June 16 $'000	Variance 30 June 16 $'000
Total assets	124,292,373	126,223,437	22,814	(1,953,878)
Total liabilities	1,556,723	772,565	22,814	761,344*
TOTAL EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT	**122,735,650**	**125,450,872**	**-**	**(2,715,222)**

[#] Total expenses were lower than budgeted mainly due to performance fee estimates based on the consolidation of subsidiaries under accounting standards which existed at the time of budget preparation. As the Fund applies the investment entity standard, these expenses are no longer included in the financial statements as separate expenses but are included in the change in fair value of the investment entities in which the expenses are incurred. Direct performance fees are also lower than budgeted due to lower than expected investment performance.

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

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OTHER MANDATORY REPORTING

RESOURCE STATEMENT

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

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

The outcome for the Agency is: make provision for the Commonwealth's unfunded superannuation liabilities and development of infrastructure by managing the operational activities of the Future Fund, the Medical Research Future Fund, the Nation-building Funds, and the DisabilityCare Australia Fund in line with the government's Investment Mandates.

AGENCY RESOURCE STATEMENT

	Actual Available Appropriations for 2015/16 $'000	Payments made 2015/16 $'000	Balance remaining
Special Accounts			
Opening balance	-	-	-
Non - appropriation receipts to Special Accounts	334,966	334,966	-
Total Resourcing and Payments	**334,966**	**334,966**	**-**

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

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

RESOURCES FOR OUTCOME

	Budget 2015/16 $'000	Actual Expenses 2015/16 $'000	Variation $'000
Program 1.1 Management of the investment of the Future Fund			
Advances from the Special Account	47,326	50,176	(2,850)
Total for Program 1.1	**47,326**	**50,176**	**(2,850)**
Program 1.2 Management of the investment of BAF, EIF, HHF, DCAF, MRFF			
Advances from the Special Account	63	1,542	(1,479)
Total for Program 1.2	**63**	**1,542**	**(1,479)**
Total for Outcome 1	**47,389**	**51,718**	**(4,329)**

PROCUREMENT

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

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

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

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

During 2015/16 nine new consultancy contracts were entered into involving total actual expenditure of $376,278. In addition seven ongoing consultancy contracts were active during the 2015/16 year, involving total actual expenditure of $828,689.

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.

FREEDOM OF INFORMATION

Agencies subject to the *Freedom of Information Act 1982* (FOI Act) are required to publish information to the public as part of the Information Publication Scheme (IPS). This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a section 8 statement in an annual report. Each agency must display on its website a plan showing what information it publishes in accordance with the IPS requirements. Information regarding the Agency's Information Public Scheme Plan is available at *www.futurefund.gov.au/About-us/access-to-information/information-publication-scheme*

ADVERTISING AND MARKET RESEARCH

During the 2015/16 year the Agency undertook recruitment advertising. The total cost of this was $16,189. No campaign advertising was undertaken.

GRANT PROGRAMS

The organisation does not administer any grant programs.

ECOLOGICALLY SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL PERFORMANCE

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

The 'how we invest' section of this report refers to how environmental, social and governance matters are incorporated into the investment decision making which is the central purpose of the organisation.

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

A NABERS self-assessment of the Agency's tenancy during the year resulted in a rating of 5 stars. This is due to a number of energy saving initiatives, including recycling office consumables, and using energy saving features on office equipment and lighting.

DISABILITY REPORTING MECHANISMS

Since 1994 Commonwealth departments and agencies have reported on their performance as policy adviser, purchaser, employer, regulator and provider under the Commonwealth Disability Strategy.

In 2007/08 reporting on the employer role was transferred to the Australian Public Service Commission's State of the Service Report and the APS Statistical Bulletin. These reports are available at www.apsc.gov.au. From 2010/11 departments and agencies have no longer been required to report on these functions.

The Commonwealth Disability Strategy has been overtaken by a new National Disability Strategy 2010–2020, which sets out a 10-year national policy framework to improve the lives of people with disability, promote participation and create a more inclusive society. A high level two-yearly report will track progress against each of the six outcome areas of the Strategy and present a picture of how people with disability are faring. The first of these reports can be found at www.dss.gov.au.

2015/16 ANNUAL PERFORMANCE STATEMENT

INTRODUCTORY STATEMENT

The Annual Performance Statement has been prepared under s39(1)(a) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) for the 2015/16 financial year and accurately represents the Future Fund Board of Guardians (Board) and the Future Fund Management Agency's (Agency) performance in achieving its purposes in accordance with s39(2) of the PGPA Act.

PURPOSE

The Future Fund is Australia's sovereign wealth fund, responsible for investing for the benefit of future generations of Australians.

The Board has responsibility for investing the assets of special purpose public funds including the Future Fund, the Medical Research Future Fund, the DisabilityCare Australia Fund and two Nation-building Funds (the Building Australia Fund and the Education Investment Fund). Risk and return objectives for each of these funds are set by Investment Mandate Directions issued by the Treasurer and Minister for Finance to the Board.

The Agency supports the Board with investing Funds for which the Board is responsible in line with the Investment Mandate Directions for each Fund.

RESULTS

As an investment institution, the achievement of the return and risk objectives set by Government for each special purpose public Fund is the key measure of performance. These expectations are set out in the Investment Mandate Directions issued by the responsible Ministers.

The Medical Research Future Fund was established in late 2015 and is not reflected in the performance criteria set out in the Agency's 2015/16 Corporate Plan. Accordingly, this Annual Performance Statement refers to 2015/16 performance criteria outlined in the 2016/17 Portfolio Budget Statement, which includes the Medical Research Future Fund.

PERFORMANCE CRITERION

Provide assistance and advice to the Board in pursuit of achieving the Future Fund Investment Mandate Direction target return of an average of at least 4.5 to 5.5% above the Consumer Price Index (CPI) over the long term (interpreted as rolling 10-year periods) with acceptable but not excessive risk.

CRITERION SOURCE

2015/16 performance criteria outlined in the 2016/17 Portfolio Budget Statement.

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 2016	Return	Target return (CPI +4.5%)
From May 2006	7.7% pa	6.9% pa
10 years	7.7% pa	6.9% pa
Seven years	10.7% pa	6.8% pa
Five years	10.2% pa	6.3% pa
Three years	11.4% pa	6.3% pa
One year	4.8% pa	5.5% pa

PERFORMANCE CRITERION

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 plus 0.3% per annum, calculated on a rolling 12-month basis while minimising the probability of capital loss over a 12-month horizon.
- For the Medical Research Future Fund, an average return of at least the Reserve Bank of Australia Cash Rate target +1.5 to 2.0% per annum, net of investment fees, over a rolling 10-year term with acceptable but not excessive risk.

CRITERION SOURCE

2015/16 performance criteria outlined in the 2016/17 Portfolio Budget Statements.

RESULT AGAINST PERFORMANCE CRITERION

In 2015/16, the Building Australia Fund and Education Investment Fund each had a return of 2.5%. The target benchmark return for these two continuing Nation-building Funds during that period was 2.5%. Since inception the Nation-building Funds have generated returns of 4.0% per annum against a target of 3.8% per annum.

In 2015/16 the DisabilityCare Australia Fund generated a return of 2.6%. The target benchmark return for the period was 2.5%.

The Medical Research Future Fund received its first funding on 22 September 2015 ($1.01 billion from the former Health and Hospitals Fund) and prior to the issue of its Investment Mandate Directions (which took effect from the end of November 2015) was invested in accordance with the Investment Mandate Directions for the Nation-building Funds (as requested by the responsible Ministers). In 2015/16 the Medical Research Future Fund generated a return of 2.1% since the first contribution on 22 September 2015. Its target benchmark return for that period was 2.5%.

ANALYSIS OF PERFORMANCE AGAINST PURPOSE

The Future Fund, which has a long-term objective, has exceeded its target benchmark return objectives over 10, seven, five and three-year periods.

The DisabilityCare Australia Fund and Nation-building Funds have all met their target benchmark in 2015/16.

The Medical Research Future Fund is still in a portfolio building phase and will continue to develop over coming years.

In the current market environment, the strong returns of recent years are unlikely to be sustainable. At the same time, prospective risks appear elevated. Given lower returns and higher risks, we took less risk in the Future Fund and Medical Research Future Fund portfolios in 2015/16 than we would under more normal circumstances.

We will continue to manage each Fund within the risk and return requirements of its relevant Investment Mandate Direction.

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APPENDICES

APPENDIX A:
INVESTMENT MANAGERS ENGAGED BY THE FUTURE FUND BOARD OF GUARDIANS AS AT 30 JUNE 2016

Asset class	Manager
EQUITIES	
Australian Equities	Henderson Global Investors (Australia) JCP Investment Partners Macquarie Investment Management
Developed market equities	Altrinsic Global Advisors Blackstone Alternative Asset Management Massachusetts Financial Services Schroder Investment Management Australia Southeastern Asset Management State Street Global Advisors
Emerging market equities	Mondrian Investment Partners Schroder Investment Management Australia State Street Global Advisors Trilogy Global Advisors
PRIVATE EQUITY	
Buy out	Advent International Corporation Apax Partners American Industrial Partners Archer Capital Bain Capital Berkshire Partners Charterhouse Capital Partners GI Partners Hellman & Friedman Quadrant Private Equity RCP Advisors Southern Cross Management Vitruvian Partners
Venture and growth	Adams Street Partners Bessemer Venture Partners CDH Investments Columbia Capital FountainVest Partners Greenspring Associates Hillhouse Capital Horsley Bridge Partners Insight Venture Partners Lightspeed Venture Partners New Enterprise Associates Quilvest Xiang He Capital
Special opportunities	Adams Street Partners HarbourVest Partners Oaktree Capital Management TowerBrook Capital Partners

Asset class	Manager
PROPERTY	
Unlisted	Altarea Cogedim Berkshire Property Advisors BlackRock Brookfield Asset Management CorVal Partners DEXUS Funds Management Garrison Investment Group LP Harbert Management Corporation Hillwood Investment Properties ICAMAP Advisory Lend Lease Investment Management Morgan Stanley Real Estate Investing PEET Limited The Townsend Group TIAA-CREF/TH Real Estate Vicinity Centres
Listed	CBRE Clarion Securities
INFRASTRUCTURE & TIMBERLAND	
Unlisted	AMP Capital Investors Campbell Global Corsair Infrastructure Management Global Infrastructure Partners HRL Morrison Morgan Stanley Infrastructure Oaktree Capital Management Starwood Energy
Listed	Deutsche Asset & Wealth Management RARE Infrastructure
DEBT	
High grade debt	Colonial First State Global Asset Management Goldman Sachs Asset Management M&G Investment Management Limited Macquarie Investment Management PIMCO Australia
High yield debt	Ares Management Bain Capital Credit Haymarket Financial Lazard Asset Management Oak Hill Advisors Oaktree Capital Management PAG Quadrant Real Estate Advisors Westbourne Credit Management Limited
Distressed and event driven	Centerbridge Partners L.P. Oaktree Capital Management Bain Capital Credit

Asset class	Manager
ALTERNATIVES	
Multi-strategy/relative value	Arrowgrass Capital Partners BlackRock Alternative Advisors PAG
Macro-directional	AHL Partners BlackRock Alternative Advisors Brevan Howard Asset Management Bridgewater Associates BT Investment Management Citadel Advisors Civic Capital Drobny Capital Glen Point Capital GMO Australia Ionic Capital Management QMS Capital Management
Alternative Risk Premia	Elementum Advisors Man FRM Investment Management Kiskadee Investment Management SouthPeak Investment Management
CASH	
	Colonial First State Global Asset Management Macquarie Investment Management PIMCO Australia
OVERLAY STRATEGIES	
	Ashmore Investment Management Limited Insight Investment Management (Global) Macquarie Investment Management PIMCO Australia State Street Global Advisors Limited UBS Securities Australia Limited

APPENDIX B: INVESTMENT MANDATE DIRECTIONS

FUTURE FUND INVESTMENT MANDATE DIRECTIONS

PART 1 – PRELIMINARY

1. Name of Direction
This Direction is the Future Fund Investment Mandate Direction 2014.

2. Commencement
This Direction commences on the 15th day after it is given.

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

3. Revocation of Previous Direction
The *Future Fund Investment Mandate Directions 2006* are revoked in full.

4. Definitions
In this Direction:
Act means the *Future Fund Act 2006*.
Fund means the Future Fund.
Board means the Future Fund Board of Guardians.
responsible Ministers has the same meaning as in the Act.

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

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

This Direction is given under subsection 18(1) of the Act to articulate the government's expectations for how the Fund will be invested and managed by the Board.

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

PART 2 – DIRECTION

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

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

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

7. Limits for holdings of listed companies
The Board must establish a limit for holdings on any listed company in order to prevent a breach of the statutory limits imposed by sections 21 and 84C of the Act.

8. Board must consider impacts from its investment strategy
In undertaking its investment activities, the Board must act in a way that:
(a) minimises the potential to effect any abnormal change in the volatility or efficient operation of Australian financial markets; and
(b) is unlikely to cause any diminution of the Australian Government's reputation in Australian and international financial markets.

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

MEDICAL RESEARCH FUTURE FUND INVESTMENT MANDATE DIRECTION 2015

PART 1 – PRELIMINARY

1. Name of Direction
This Direction is the Medical Research Future Fund Investment Mandate Direction 2015.

2. Commencement
This Direction commences on the 15th day after it is given.

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

3. Definitions
In this Direction:
Act means the *Medical Research Future Fund Act 2015*.
Board means the Future Fund Board of Guardians.
Fund means the Medical Research Future Fund.
responsible Ministers has the same meaning as in the Act.

4. Object of this Direction
The Fund has been established to provide grants of financial assistance to support medical research and medical innovation over the long term.

The object of this Direction is to give guidance to the Board in relation to its investment strategy for the Fund. The Board is required under section 40 of the Act to:

- seek to maximise the return earned on the Fund over the long term, consistent with international best practice for institutional investment; and
- to enhance the Commonwealth's ability to provide grants of financial assistance to support medical research and innovation,

subject to its obligations under the Act and any directions given by the responsible Ministers under the Act.

This Direction is given under subsection 39(1) of the Act to articulate the Government's expectations for how the Fund will be invested and managed by the Board.

PART 2 – DIRECTION

5. Benchmark return
The Board is to adopt an average return of at least the Reserve Bank of Australia Cash Rate target + 1.5 to 2.0 per cent per annum, net of investment fees, over a rolling 10-year term as the benchmark return on the Fund.

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

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

6. Board must consider impacts from its investment strategy
In undertaking its investment activities, the Board must act in a way that:

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

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

DISABILITYCARE AUSTRALIA FUND INVESTMENT MANDATE DIRECTIONS 2014[1]

PART 1 – PRELIMINARY

1. Name of Directions
These Directions are the DisabilityCare Australia Fund Investment Mandate Directions 2014.

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

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

3. Definitions
In these Directions:
Act means the *DisabilityCare Australia Fund Act 2013*.
Board means the Future Fund Board of Guardians.
Fund means the DisabilityCare Australia Fund.
responsible Ministers has the same meaning as in the Act.

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

PART 2 – DIRECTIONS

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

6. The Board must consider impacts from its investment strategy
In undertaking its investment activities, the Board must act in a way that:
(1) minimises the potential to effect any abnormal change in the volatility or efficient operation of Australian financial markets; and
(2) is unlikely to cause any diminution of the Commonwealth Government's reputation in Australian and international financial markets.

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

BUILDING AUSTRALIA FUND INVESTMENT MANDATE DIRECTIONS 2009[1]

PART 1 – PRELIMINARY

1. Name of Directions
These Directions are the Building Australia Fund Investment Mandate Directions 2009.

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

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

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

4. Object of these Directions
(1) The Building Australia Fund is a financing source to enhance the Commonwealth's ability to make payments in relation to the creation or development of transport, communications, energy and water infrastructure, and eligible national broadband network matters.
(2) The object of these Directions is to give guidance to the Board in relation to its investment strategy for the Fund. The Board is required by the Act to seek to maximise the return earned on the Fund, consistent with international best practice for institutional investment and subject to its obligations under the Act and any directions given by the responsible Ministers under the Act.
(3) These Directions are given under subsection 35(1) of the Act to articulate the Australian Government's expectations of how the Fund will be invested and managed by the Board.
(4) The responsible Ministers may review these Directions, including the benchmark return, in consultation with the Board. The first review is expected to occur before 1 July 2010.

PART 2 – DIRECTIONS

5. Benchmark return
(1) The Board is to adopt a benchmark return on the Fund of the Australian three-month bank bill swap rate + 0.3 per cent per annum, calculated on a rolling 12-month basis (net of fees).
(2) In targeting this benchmark return, the Board should invest in such a way as to minimise the probability of capital losses over a 12-month horizon.

6. Board must consider impacts from its investment strategy
In undertaking its investment activities, the Board must act in a way that:
(a) minimises the potential to effect any abnormal change in the volatility or efficient operation of Australian financial markets; and
(b) is unlikely to cause any diminution of the Australian Government's reputation in Australian and international financial markets.

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

EDUCATION INVESTMENT FUND INVESTMENT MANDATE DIRECTIONS 2009[1]

PART 1 – PRELIMINARY

1. Name of Directions
These Directions are the Education Investment Fund Investment Mandate Directions 2009.

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

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

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

4. Object of these Directions
(1) The Education Investment Fund is a financing source to enhance the Commonwealth's ability to make payments in relation to the creation or development of higher education, research, vocational education and training and eligible education infrastructure, and to make transitional Higher Education Endowment Fund payments.
(2) The object of these Directions is to give guidance to the Board in relation to its investment strategy for the Fund. The Board is required by the Act to seek to maximise the return earned on the Fund, consistent with international best practice for institutional investment and subject to its obligations under the Act and any directions given by the responsible Ministers under the Act.
(3) These Directions are given under subsection 154 (1) of the Act to articulate the Australian Government's expectations of how the Fund will be invested and managed by the Board.
(4) The responsible Ministers may review these Directions, including the benchmark return, in consultation with the Board. The first review is expected to occur before 1 July 2010.

PART 2 – DIRECTIONS

5. Benchmark return
(1) The Board is to adopt a benchmark return on the Fund of the Australian three-month bank bill swap rate + 0.3 per cent per annum, calculated on a rolling 12-month basis (net of fees).
(2) In targeting this benchmark return, the Board should invest in such a way as to minimise the probability of capital losses over a 12-month horizon.

6. Board must consider impacts from its investment strategy
In undertaking its investment activities, the Board must act in a way that:
(a) minimises the potential to effect any abnormal change in the volatility or efficient operation of Australian financial markets; and
(b) is unlikely to cause any diminution of the Australian Government's reputation in Australian and international financial markets.

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

HEALTH AND HOSPITALS FUND INVESTMENT MANDATE DIRECTIONS 2009[1]

PART 1 – PRELIMINARY

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

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

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

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

4. Object of these Directions
(1) The Health and Hospitals Fund is a financing source to enhance the Commonwealth's ability to make payments in relation to the creation or development of health infrastructure.
(2) The object of these Directions is to give guidance to the Board in relation to its investment strategy for the Fund. The Board is required by the Act to seek to maximise the return earned on the Fund, consistent with international best practice for institutional investment and subject to its obligations under the Act and any directions given by the responsible Ministers under the Act.
(3) These Directions are given under subsection 229 (1) of the Act to articulate the Australian Government's expectations of how the Fund will be invested and managed by the Board.
(4) The responsible Ministers may review these Directions, including the benchmark return, in consultation with the Board. The first review is expected to occur before 1 July 2010.

PART 2 – DIRECTIONS

5. Benchmark return
(1) The Board is to adopt a benchmark return on the Fund of the Australian three-month bank bill swap rate + 0.3 per cent per annum, calculated on a rolling 12-month basis (net of fees).
(2) In targeting this benchmark return, the Board should invest in such a way as to minimise the probability of capital losses over a 12-month horizon.

6. Board must consider impacts from its investment strategy
In undertaking its investment activities, the Board must act in a way that:
(a) minimises the potential to effect any abnormal change in the volatility or efficient operation of Australian financial markets; and
(b) is unlikely to cause any diminution of the Australian Government's reputation in Australian and international financial markets.

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

APPENDIX C: IMPLEMENTATION OF SANTIAGO PRINCIPLES

The Santiago Principles are a voluntary set of principles and practices originally developed by the International Working Group of Sovereign Wealth Funds (the **Working Group**) during 2008 and which today are at the heart of the International Forum of Sovereign Wealth Funds (the **Forum**).

The Santiago Principles identify a framework of generally accepted principles and practices that properly reflect appropriate governance and accountability arrangements as well as the conduct of investment practices by Sovereign Wealth Funds (**SWFs**) on a prudent and sound basis.

The Forum was established as a voluntary group of SWFs in 2009, to build on the efforts of the Working Group, to meet, exchange views on issues of common interest, and facilitate an understanding of the Santiago Principles and SWF activities. The Future Fund Board of Guardians (the **Board of Guardians**) was a member of the Working Group, is a founding member, and was the inaugural Chair, of the Forum.

This document describes how the Board of Guardians implements the Santiago Principles in regard to the various public asset funds which it invests.

Principle	Implementation and reference material
1 The legal framework should be sound and support the SWF's effective operation and the achievement of its stated objectives. 1.1 The legal framework should ensure the legal soundness of the SWF and its transactions. 1.2 The key features of the SWF's legal basis and structure, as well as the legal relationship between the SWF and other state bodies, should be publicly disclosed.	The legal framework for the Board of Guardians and its supporting management team in the Future Fund Management Agency (Agency), together with arrangements for the governance and operation of the public asset funds for which the Board of Guardians is responsible, are detailed in the *Future Fund Act 2006*, the *Nation-building Funds Act 2008*, the *DisabilityCare Australia Fund Act 2013* and the *Medical Research Future Fund Act 2015*. The framework is designed specifically to establish the sound and effective operation of the Fund and achievement of its objectives. The legal basis and structure and the legal relationships between the Board of Guardians, Agency and the Australian Government is detailed in the legislation which is publicly available. Additional detail and discussion of the basis and operation of the Board, Agency and the various public asset funds themselves is available from the Board's annual report and website. *www.futurefund.gov.au/About-us/Legislation-and-governance* *www.futurefund.gov.au/investment/how-we-invest/investment-mandates*
2. The SWF's policy purpose should be being clearly defined and publicly disclosed.	The Future Fund was established to meet unfunded superannuation liabilities that will become payable during a period when an ageing population is likely to place significant pressure on Commonwealth finances. The Nation-building Funds were established to provide financing resources to meet the Australian Government's commitment to Australia's future through investment in critical areas of infrastructure such as transport, communications, energy, water, education, research and health. The DisablityCare Australia Fund was established by legislation with the object of reimbursing States, Territories and the Commonwealth for expenditure incurred in relation to the *National Disability Insurance Scheme Act 2013* and to fund implementation of the *National Disability Insurance Scheme Act 2013* in its initial period of operation. The Medical Research Future Fund was established to improve the health and wellbeing of Australians by providing grants of financial assistance to support medical research and medical innovation. The Board of Guardians is responsible for the investment of the assets in each of these Funds, not for disbursements or other policy issues. Detail on the policy purpose for each of the Funds is provided in the relevant legislation, annual reports and the organisation's website. *www.futurefund.gov.au/About-us/Legislation-and-governance* *www.futurefund.gov.au/investment/how-we-invest/investment-mandates* *www.futurefund.gov.au/About-us/annual-reports*

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

Principle	Implementation and reference material
6 The governance framework for the SWF should be sound and establish clear and effective division of roles and responsibilities in order to facilitate accountability and operational independence in the management of the SWF to pursue its objectives.	The roles and responsibilities of the Government, as asset owner, and the Board of Guardians and Agency, as asset manager are detailed in the legislation. Further detail is provided by the Investment Mandate Directions for each Fund and the Statement of Expectations and Statement of Intent exchanged between the Government and the Board of Guardians and the Agency. Internal policies, procedures and protocols have been established to further delineate roles and responsibilities at the operational level. *www.futurefund.gov.au/About-us/Legislation-and-governance*
7 The owner should set the objectives of the SWF, appoint the members of its governing body(ies) in accordance with clearly defined procedures, and exercise oversight over the SWF's operations.	The objective for each Fund, the procedures for the appointment of the Board of Guardians by Government and arrangements for the exercise of oversight, while maintaining the investment independence of the Board of Guardians, are detailed in the legislation. *www.futurefund.gov.au/About-us/Legislation-and-governance*
8 The governing body(ies) should act in the best interests of the SWF, and have a clear mandate and adequate authority and competency to carry out its functions.	The Board of Guardians is bound by the legislation and Investment Mandate Directions set by Government to pursue the investment objectives detailed in the legislation and to act in good faith. The legislation also provides the Board of Guardians with the necessary powers to undertake its mandated activities and sets out the experience, expertise and credibility required of appointees to the Board of Guardians. *www.futurefund.gov.au/About-us/Legislation-and-governance* *www.futurefund.gov.au/investment/how-we-invest/investment-mandates*
9 The operational management of the SWF should implement the SWF's strategies in an independent manner and in accordance with clearly defined responsibilities.	The Board of Guardians is responsible for investing the assets of the funds in accordance with the legislation and makes decisions independently of Government. The legislation establishes the Agency to provide support and advice to the Board of Guardians and to assist in giving effect to its decisions. Clear internal policies, procedures and protocols have been established to further delineate roles and responsibilities at the operational level. *www.futurefund.gov.au/About-us/Legislation-and-governance*
10 The accountability framework for the SWF's operations should be clearly defined in the relevant legislation, charter, other constitutive documents, or management agreement.	Accountability arrangements, including the requirement for publication of an annual report and arrangements for the provision of reports and information to the responsible Ministers, are detailed in the legislation. Members of the Board of Guardians are held accountable through the requirements imposed on them through the legislation, with civil and criminal penalties applying for breach of specific duties and obligations. Further accountability is also provided through the operation of the *Public Governance, Performance and Accountability Act 2013* governing the establishment and operation of Special Accounts for each Fund. *www.futurefund.gov.au/About-us/Legislation-and-governance*
11 An annual report and accompanying financial statements on the SWF's operations and performance should be prepared in a timely fashion and in accordance with recognised internal or national accounting standards in a consistent manner.	An annual report and financial statements are prepared in accordance with the Finance Minister's Orders and the Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board (AASB). The legislation requires that the annual report and audited financial statements are presented to the responsible Minister as soon as practicable after the end of each financial year and tabled in Parliament within 15 sitting days of each House of Parliament. *www.futurefund.gov.au/About-us/Legislation-and-governance* *www.futurefund.gov.au/annual_reports*

Principle	Implementation and reference material
12 The SWF's operations and financial statements should be audited annually in accordance with recognised international or national auditing standards in a consistent manner.	Internal audit services are provided by an external firm reporting to the Audit Committee of the Board of Guardians. The Australian National Audit Office is responsible for an annual independent external audit conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate and Australian Auditing Standards. *www.futurefund.gov.au/About-us/annual-reports* *www.anao.gov.au*
13 Professional and ethical standards should be clearly defined and made known to the members of the SWF's governing body(ies), management and staff.	The duties and obligations of members of the Board of Guardians are detailed in the legislation together with arrangements for the management of conflicts of interest. The legislation also includes details of the civil and criminal penalties applying for breach of specific duties and obligations. Persons are eligible for appointment to the Board only if the responsible Ministers are satisfied the person has substantial experience or expertise and professional credibility and significant standing in investing in financial assets, managing investments in financial assets or corporate governance. Staff of the Agency are employed under the *Public Service Act 1999* and are bound by the Australian Public Service Values and Code of Conduct. Details of these obligations are included in internal policies and training activities. *www.futurefund.gov.au/About-us/Legislation-and-governance* *www.apsc.gov.au/values/conductguidelines.htm*
14 Dealing with third parties for the purpose of the SWF's operational management should be based on economic and financial grounds, and follow clear rules and procedures.	The approach to engaging third parties, including advisors and investment managers, by the Board of Guardians and the Agency is outlined in a Statement of Investment Policies available on the internet. Engagement of third parties is based on economic and financial grounds. The purchase of goods and services by the Agency is consistent with the Commonwealth Procurement Guidelines and governed by clear internal policies and procedures to encourage value for money, open and effective competition and fair dealing and ethics. *www.futurefund.gov.au/investment/how-we-invest/investment-policy-and-position-papers*
15 SWF operations and activities in host countries should be conducted in compliance with all applicable regulatory and disclosure requirements of the countries in which they operate.	The Board of Guardians requires that all investment activities are undertaken in accordance with applicable regulatory and disclosure requirements. Detailed due diligence and reporting is in place to monitor compliance. The legislation requires the Board of Guardians to act in a way that is unlikely to cause any diminution of the Australian Government's reputation in international financial markets. *www.futurefund.gov.au/About-us/Legislation-and-governance*
16 The governance framework and objectives, as well as the manner in which the SWF's management is operationally independent from the owner, should be publicly disclosed.	The governance framework and objectives of the Board of Guardians and the Agency are set out in the legislation and in public annual reports. The framework clearly establishes the independence and accountability arrangements for each Fund, the Board of Guardians and the Agency. *www.futurefund.gov.au/About-us/Legislation-and-governance* *www.futurefund.gov.au/annual_reports*

Principle	Implementation and reference material
17 Relevant financial information regarding the SWF should be publicly disclosed to demonstrate its economic and financial orientation, so as to contribute to stability in internal financial markets and enhance trust in recipient countries.	An annual report and audited annual financial statements are tabled in Parliament and published via the website. The Board also issues public quarterly updates on performance and asset allocation and routinely provides updates on the operations and performance of the various Funds during formal public hearings before a Committee of the Senate. *www.futurefund.gov.au/annual_reports* *www.futurefund.gov.au/investment/investment-performance/portfolio-updates*
18 The SWF's investment policy should be clear and consistent with its defined objectives, risk tolerance, and investment strategy, as set by the owner of the governing body(ies), and be based on sound portfolio management principles. 18.1 The investment policy should guide the SWF's financial risk exposures and possible use of leverage. 18.2 The investment policy should address the extent to which internal and/or external investment managers are used, the range of their activities and authority, and the process by which they are selected and their performance monitored. 18.3 A description of the investment policy of the SWF should be publicly disclosed.	A Statement of Investment Policies, published on the internet as required by legislation, details the investment strategy and risk tolerance of the Board of Guardians and its application of portfolio investment principles. Annual reports, as well as regular public speeches and briefings, provide additional insight and discussion of the investment strategy. The Board is prohibited from borrowing under Section 23 of the Future Fund Act. These documents and communication activities address matters relating to financial risk, leverage, the use of and extent of the activities and authority of internal/external managers as well as the process for their appointment and monitoring of their performance. *www.futurefund.gov.au/About-us/Legislation-and-governance* *www.futurefund.gov.au/investment/how-we-invest/investment-policy-and-position-papers* *www.futurefund.gov.au/annual_reports*
19 The SWF's investment decisions should aim to maximise risk-adjusted financial returns in a manner consistent with its investment policy, and based on economic and financial grounds. 19.1 If investment decisions are subject to other than economic and financial considerations, these should be clearly set out in the investment policy and be publicly disclosed. 19.2 The management of the SWF's assets should be consistent with what is generally accepted as sound asset management principles.	The Board of Guardians is obliged by legislation to seek to maximise risk-adjusted financial returns. Return and risk parameters for each Fund are detailed through Investment Mandate Directions created under relevant legislation. The Board of Guardians is required to operate in a manner consistent with international best practice for institutional investment. The limited set of restrictions on the Board's investment activities, such as limits on the size of stakes in Australian and foreign listed companies, are clearly expressed in the legislation. The approach to consideration of environmental, social and governance matters, and to the universe of investments the Board of Guardians considers, is detailed in the Statement of Investment policies and reflects the organisation's focus on acting as a prudent investor seeking to maximise risk-adjusted returns. *www.futurefund.gov.au/About-us/Legislation-and-governance* *www.futurefund.gov.au/investment/how-we-invest/investment-policy-and-position-papers*

Principle	Implementation and reference material
20 The SWF should not seek or take advantage of privileged information or inappropriate influence by the broader government in competing with private entities.	The Board of Guardians does not seek or have a right of access to privileged information from, or inappropriate influence by, the Government in competing with private entities. Under the statutory governance framework the Board of Guardians operates and makes decisions independently of Government. Policies and processes are in place to restrict and coordinate engagement with the Government in relation to matters concerning the Board of Guardians and Agency. Board members are not permitted to be employees of the Commonwealth or to be holders of a full-time office under a law of the Commonwealth. Agency staff are bound by the Australian Public Service Code of Conduct. The Investment Mandate Directions also requires the Board of Guardians, when undertaking its investment activities, to act in a way that is unlikely to cause any diminution of the Government's reputation in Australian and international financial markets. *www.futurefund.gov.au/About-us/Legislation-and-governance* *www.futurefund.gov.au/investment/how-we-invest/investment-mandates*
21 SWFs view shareholder ownership rights as a fundamental element of their equity investments' value. If an SWF chooses to exercise its ownership rights, it should do so in a manner that is consistent with its investment policy and protects the financial value of its investments. The SWF should publicly disclose its general approach to voting securities of listed entities, including the key factors guiding its exercise of ownership rights.	The Board of Guardians is required to have regard to international best practice for institutional investment in determining its approach to corporate governance principles, including in relation to its voting policy. Its approach to the exercise of ownership and voting rights is detailed in the Statement of Investment Policies. The annual report discusses the application of this policy including reporting in aggregate of how voting rights have been exercised. *www.futurefund.gov.au/investment/how-we-invest/investment-policy-and-position-papers* *www.futurefund.gov.au/investment/how-we-invest/investment-mandates*
22 The SWF should have a framework that identifies, assesses, and manages the risks of its operations. 22.1 The risk management framework should include reliable information and timely reporting systems, which should enable the adequate monitoring and management of relevant risks within acceptable parameters and levels, control and incentive mechanisms, codes of conduct, business continuity planning, and an independent audit function. 22.2 The general approach to the SWF's risk management framework should be publicly disclosed.	Consistent with the legislation, Investment Mandate Directions and obligation to have regard to international best practice for institutional investment, the Board of Guardians and Agency have established a framework for the identification, assessment and management of the risks of its operations, including appropriate reporting and monitoring arrangements. Policies and procedures are in place to support the risk management framework. The approach to risk management is detailed in the Statement of Investment Policies and the annual report. *www.futurefund.gov.au/investment/how-we-invest/investment-policy-and-position-papers* *www.futurefund.gov.au/About-us/annual-reports*
23 The assets and investment performance (absolute and relative to benchmarks, if any) of the SWF should be measured and reported to the owner according to clearly defined principles or standards.	The assets and investment performance of the Funds, including performance against the benchmarks established in the Investment Mandate Directions, are reported to the responsible Ministers and publicly through quarterly portfolio updates and an annual report (including audited financial statements) which is tabled in Parliament. *www.futurefund.gov.au/About-us/annual-reports*

Principle	Implementation and reference material
24 A process of regular review of the implementation of the GAPP should be engaged in by or on behalf of the SWF.	The Board of Guardians undertakes an annual review of its implementation of the Santiago Principles. The Board of Guardians has contributed to the Forum's various reports on application of the Santiago Principles, including reports published in 2011 and in 2014. The organisation also regularly participates in workshops and discussions with other members of the Forum on best practice approaches to the investment and governance of SWFs. *www.futurefund.gov.au/About-us/Legislation-and-governance* *www.ifswf.org*

APPENDIX D: LIST OF REQUIREMENTS

This list of requirements is provided as a checklist against the requirements detailed in Resource Management Guide No. 135, 'Annual reports for non-corporate Commonwealth entities', in line with reporting requirements under 17AJ(d) of the PGPA rule.

PGPA Rule Reference	Part of Report	Description	Requirement	Location in Annual Report
17AD(g)	**Letter of transmittal**			
17AI		A copy of the letter of transmittal signed and dated by accountable authority on date final text approved, with statement that the report has been prepared in accordance with section 46 of the Act and any enabling legislation that specifies additional requirements in relation to the annual report.	Mandatory	p3
17AD(h)	**Aids to access**			
17AJ(a)		Table of contents.	Mandatory	p1
17AJ(b)		Alphabetical index.	Mandatory	p182-185
17AJ(c)		Glossary of abbreviations and acronyms.	Mandatory	p181
17AJ(d)		List of requirements.	Mandatory	p176-180
17AJ(e)		Details of contact officer.	Mandatory	Inside front cover
17AJ(f)		Entity's website address.	Mandatory	Inside front cover
17AJ(g)		Electronic address of report.	Mandatory	Inside front cover
17AD(a)	**Review by accountable authority**			
17AD(a)		A review by the accountable authority of the entity.	Mandatory	p6-7
17AD(b)	**Overview of the entity**			
17AE(1)(a)(i)		A description of the role and functions of the entity.	Mandatory	p11-12
17AE(1)(a)(ii)		A description of the organisational structure of the entity.	Mandatory	p75-81
17AE(1)(a)(iii)		A description of the outcomes and programmes administered by the entity.	Mandatory	p11-12 , p14-27, p28-73, p157-158
17AE(1)(a)(iv)		A description of the purposes of the entity as included in corporate plan.	Mandatory	p11-12, p157-158
17AE(1)(b)		An outline of the structure of the portfolio of the entity.	Portfolio departments – mandatory	Not applicable
17AE(2)		Where the outcomes and programs administered by the entity differ from any Portfolio Budget Statement, Portfolio Additional Estimates Statement or other portfolio estimates statement that was prepared for the entity for the period, include details of variation and reasons for change.	If applicable, mandatory	Not applicable

PGPA Rule Reference	Part of Report	Description	Requirement	Location in Annual Report
17AD(c)	**Report on the Performance of the entity**			
	Annual performance Statements			
17AD(c)(i); 16F		Annual performance statement in accordance with paragraph 39(1)(b) of the Act and section 16F of the Rule.	Mandatory	p157-158
17AD(c)(ii)	*Report on Financial Performance*			
17AF(1)(a)		A discussion and analysis of the entity's financial performance.	Mandatory	p28-73
17AF(1)(b)		A table summarising the total resources and total payments of the entity.	Mandatory	p154
17AF(2)		If there may be significant changes in the financial results during or after the previous or current reporting period, information on those changes, including: the cause of any operating loss of the entity; how the entity has responded to the loss and the actions that have been taken in relation to the loss; and any matter or circumstances that it can reasonably be anticipated will have a significant impact on the entity's future operation or financial results.	If applicable, mandatory	Not applicable
17AD(d)	**Management and Accountability**			
	Corporate Governance			
17AG(2)(a)		Information on compliance with section 10 (fraud systems).	Mandatory	p83
17AG(2)(b)(i)		A certification by accountable authority that fraud risk assessments and fraud control plans have been prepared.	Mandatory	p3
17AG(2)(b)(ii)		A certification by accountable authority that appropriate mechanisms for preventing, detecting incidents of, investigating or otherwise dealing with, and recording or reporting fraud that meet the specific needs of the entity are in place.	Mandatory	p3
17AG(2)(b)(iii)		A certification by accountable authority that all reasonable measures have been taken to deal appropriately with fraud relating to the entity.	Mandatory	p3
17AG(2)(c)		An outline of structures and processes in place for the entity to implement principles and objectives of corporate governance.	Mandatory	p75-83
17AG(2)(d) – (e)		A statement of significant issues reported to Minister under paragraph 19(1)(e) of the Act that relates to non-compliance with Finance law and action taken to remedy non-compliance.	If applicable, mandatory	Not applicable
	External Scrutiny			
17AG(3)		Information on the most significant developments in external scrutiny and the entity's response to the scrutiny.	Mandatory	p75-76
17AG(3)(a)		Information on judicial decisions and decisions of administrative tribunals and by the Australian Information Commissioner that may have a significant effect on the operations of the entity.	If applicable, mandatory	Not applicable
17AG(3)(b)		Information on any reports on operations of the entity by the Auditor-General (other than report under section 43 of the Act), a Parliamentary Committee, or the Commonwealth Ombudsman.	If applicable, mandatory	Not applicable
17AG(3)(c)		Information on any capability reviews on the entity that were released during the period.	If applicable, mandatory	Not applicable

PGPA Rule Reference	Part of Report	Description	Requirement	Location in Annual Report
	Management of Human Resources			
17AG(4)(a)		An assessment of the entity's effectiveness in managing and developing employees to achieve entity objectives.	Mandatory	p84-89
17AG(4)(b)		Statistics on the entity's APS employees on an ongoing and non-ongoing basis; including the following: • Statistics on staffing classification level; • Statistics on full-time employees; • Statistics on part-time employees; • Statistics on gender; • Statistics on staff location; • Statistics on employees who identify as Indigenous.	Mandatory	p84-89
17AG(4)(c)		Information on any enterprise agreements, individual flexibility arrangements, Australian workplace agreements, common law contracts and determinations under subsection 24(1) of the *Public Service Act 1999*.	Mandatory	p88
17AG(4)(c)(i)		Information on the number of SES and non-SES employees covered by agreements etc identified in paragraph 17AG(4)(c).	Mandatory	p88
17AG(4)(c)(ii)		The salary ranges available for APS employees by classification level.	Mandatory	p88
17AG(4)(c)(iii)		A description of non-salary benefits provided to employees.	Mandatory	p85-86
17AG(4)(d)(i)		Information on the number of employees at each classification level who received performance pay.	If applicable, mandatory	p89
17AG(4)(d)(ii)		Information on aggregate amounts of performance pay at each classification level.	If applicable, mandatory	p89
17AG(4)(d)(iii)		Information on the average amount of performance payment, and range of such payments, at each classification level.	If applicable, mandatory	p89
17AG(4)(d)(iv)		Information on aggregate amount of performance payments.	If applicable, mandatory	p89
	Assets Management			
17AG(5)		An assessment of effectiveness of assets management where asset management is a significant part of the entity's activities.	If applicable, mandatory	Not applicable
	Purchasing			
17AG(6)		An assessment of entity performance against the Commonwealth Procurement Rules.	Mandatory	p155
	Consultants			
17AG(7)(a)		A summary statement detailing the number of new contracts engaging consultants entered into during the period; the total actual expenditure on all new consultancy contracts entered into during the period (inclusive of GST); the number of ongoing consultancy contracts that were entered into during a previous reporting period; and the total actual expenditure in the reporting year on the ongoing consultancy contracts (inclusive of GST).	Mandatory	p155

PGPA Rule Reference	Part of Report	Description	Requirement	Location in Annual Report
17AG(7)(b)		A statement that "*During [reporting period], [specified number] new consultancy contracts were entered into involving total actual expenditure of $[specified million]. In addition, [specified number] ongoing consultancy contracts were active during the period, involving total actual expenditure of $[specified million]*".	Mandatory	p155
17AG(7)(c)		A summary of the policies and procedures for selecting and engaging consultants and the main categories of purposes for which consultants were selected and engaged.	Mandatory	p155
17AG(7)(d)		A statement that "*Annual reports contain information about actual expenditure on contracts for consultancies. Information on the value of contracts and consultancies is available on the AusTender website.*"	Mandatory	p155
	Australian National Audit Office Access Clauses			
17AG(8)		If an entity entered into a contract with a value of more than $100 000 (inclusive of GST) and the contract did not provide the Auditor-General with access to the contractor's premises, the report must include the name of the contractor, purpose and value of the contract, and the reason why a clause allowing access was not included in the contract.	If applicable, mandatory	Not applicable
	Exempt contracts			
17AG(9)		If an entity entered into a contract or there is a standing offer with a value greater than $10 000 (inclusive of GST) which has been exempted from being published in AusTender because it would disclose exempt matters under the FOI Act, the annual report must include a statement that the contract or standing offer has been exempted, and the value of the contract or standing offer, to the extent that doing so does not disclose the exempt matters.	If applicable, mandatory	Not applicable
	Small business			
17AG(10)(a)		A statement that "*[Name of entity] supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprises (SME) and Small Enterprise participation statistics are available on the Department of Finance's website.*"	Mandatory	p155
17AG(10)(b)		An outline of the ways in which the procurement practices of the entity support small and medium enterprises.	Mandatory	p155
17AG(10)(c)		If the entity is considered by the Department administered by the Finance Minister as material in nature – a statement that "*[Name of entity] recognises the importance of ensuring that small businesses are paid on time. The results of the Survey of Australian Government Payments to Small Business are available on the Treasury's website.*"	If applicable, mandatory	p155

PGPA Rule Reference	Part of Report	Description	Requirement	Location in Annual Report
	Financial Statements			
17AD(e)		Inclusion of the annual financial statements in accordance with subsection 43(4) of the Act.	Mandatory	p90-152
17AD(f)	**Other Mandatory Information**			
17AH(1)(a)(i)		If the entity conducted advertising campaigns, a statement that "*During [reporting period], the [name of entity] conducted the following advertising campaigns: [name of advertising campaigns undertaken]. Further information on those advertising campaigns is available at [address of entity's website] and in the reports on Australian Government advertising prepared by the Department of Finance. Those reports are available on the Department of Finance's website.*"	If applicable, mandatory	Not applicable
17AH(1)(a)(ii)		If the entity did not conduct advertising campaigns, a statement to that effect.	If applicable, mandatory	p155
17AH(1)(b)		A statement that "*Information on grants awarded by [name of entity] during [reporting period] is available at [address of entity's website].*"	If applicable, mandatory	p156
17AH(1)(c)		Outline of mechanisms of disability reporting, including reference to website for further information.	Mandatory	p156
17AH(1)(d)		Website reference to where the entity's Information Publication Scheme statement pursuant to Part II of FOI Act can be found.	Mandatory	p155
17AH(1)(e)		Correction of material errors in previous annual report.	If applicable, mandatory	Not applicable
17AH(2)		Information required by other legislation.	Mandatory	p28-73

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
ASIC	Australian Securities and Investments Commission
ATO	Australian Taxation Office
CPGs	Commonwealth Procurement Guidelines
CPI	Consumer Price Index
EEE	Equivalent Equity Exposure
ESG	Environmental, social and governance (risk management)
FFMA	Future Fund Management Agency
FMOs	Finance Minister's Orders
FoI Act	*Freedom of Information Act 1982*
GST	Goods and Services Tax
IFSWF	International Forum of Sovereign Wealth Funds
OECD	Organisation for Economic Co-operation and Development
PGPA	*Public Governance, Performance and Accountability Act 2013*
SWF	Sovereign wealth fund
TAL	Target asset level

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