



**futurefund**

*Australia's Sovereign Wealth Fund*

# 2020–2021 ANNUAL REPORT

Investing for the benefit of future  
generations of Australians

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ISSN: 2205-8044 (print)  
ISSN: 22058052 (online)

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### Guide to reading this report

This report describes the governance, operations and performance of the Future Fund Board of Guardians and the Future Fund Management Agency over the 2020-21 financial year. Additional information, including periodic investment and operational updates, policies and plans, is available at [www.futurefund.gov.au](http://www.futurefund.gov.au).

An electronic version of this report is available at [www.futurefund.gov.au/about-us/publications](http://www.futurefund.gov.au/about-us/publications).

Data in this report may not sum due to rounding.

Investment performance data in the main sections of this report may not correspond directly with data in the Financial Statements due to differences in classification.

Investment performance data presented in the main sections of the report include the investments and notional values of derivatives held by both the Future Fund and Future Fund Investment Companies.

The Statement of Financial Position in the Financial Statements presents the investments and net market value of derivatives held directly by the Future Fund and the Future Fund Investment Companies as one aggregated number.

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

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### Feedback

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

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# Letter of transmittal

28 September 2021

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 2020-21 financial year.

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

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

As Accountable Authority of the Agency, I certify that:

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

Yours sincerely



**Hon Peter Costello AC**

Chairman  
*Future Fund Board of Guardians*

## Report from the Chairman



The Future Fund was established in 2006 to strengthen the long-term financial position of the Commonwealth of Australia.

As Australia's sovereign wealth fund, the Future Fund has strengthened the Commonwealth Government's balance sheet by delivering strong, long-term risk-adjusted returns. It is the Commonwealth Government's largest financial asset and has grown over the last 15 years into a highly respected global investment institution.

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### Performance

2020-21 encompassed both the health and economic disruption of the COVID-19 pandemic, followed by a financial recovery driven by the deployment of vaccines, recovering confidence, and supportive monetary and fiscal policy.

Our investment strategy saw the Future Fund this year deliver its strongest ever performance, returning 22.2% for the year, growing to \$196.8 billion and delivering \$35.7 billion to the people of Australia. This follows the 2019-20 year when the portfolio was successfully protected from the historic market falls in the second half.

As a result of the Board's careful long-term positioning, the Future Fund has generated a 10-year return of 10.1% per annum against a target of 6.1% per annum. Since inception, investment returns have added \$136.3 billion to the original contributions from the Government.

At 30 June 2021 the Board of Guardians invested over \$245 billion across the six public asset funds for which it is responsible for the Commonwealth Government. Each fund has exceeded its target return over every time period.

The Medical Research Future Fund (MRFF) generates earnings to provide grants to support medical research and medical innovation. The MRFF delivered a return of 10.9% in 2020-21 and was valued at \$22.0 billion as at 30 June 2021.

The Aboriginal and Torres Strait Islander Land and Sea Future Fund returned 13.9% for the year, taking its value to \$2.2 billion.

The Future Drought Fund and Emergency Response Fund have also performed well, delivering returns of 14.0% and 13.9% per annum respectively.

The DisabilityCare Australia Fund also continued to perform in line with its Mandate, delivering a return of 0.4%.

## Outlook

COVID-19 has accelerated many significant changes in the nature of work and in household use of technology. It has heightened pre-existing tensions between global powers. It has also led to more extreme forms of monetary policy and more expansive fiscal policy, and has accelerated the rise of bigger government.

Over coming years these forces are likely to have fundamental implications for the economic and investment environment, and accentuate regional and sectoral divergences. Many of these long-run changes will also impact the cost base of economies, adding to concerns that higher inflation may take hold and that this may also lead to higher real interest rates.

While the near-term economic outlook is brighter than it was a year ago, much of Australia continued to endure state-based lockdowns and longer-term there remains uncertainty on the unwinding of stimulus, changes to the global order, and how policy makers will respond to these themes. This creates a challenging environment for investors, while also producing opportunities for thoughtful investors.

The Board remains focused on its mandate and obligation to maximise risk-adjusted returns over the long term, while taking acceptable but not excessive levels of risk. Accordingly, the Board and the Future Fund Management Agency reviewed the investment model that has helped us meet this objective and has evolved its framework to respond to the new environment. This will position our organisation to be able to build on our success in the years ahead.

## Acknowledgements

This year Ms Erin Flaherty and Dr Jane Wilson concluded their terms on the Future Fund Board of Guardians. I thank them both for their contribution and wish them well for the future.

Mrs Patricia Cross was appointed for a five-year term, and existing Board member Mr Michael Wachtel, who also serves as Chair on the Audit and Risk Committee, was reappointed for an additional four years. I congratulate Michael and welcome Patricia to the Board.

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

On behalf of the Board, I thank the responsible Ministers, the Treasurer and the Minister for Finance, for their continued support during the year. Senator the Hon Mathias Cormann served as Minister for Finance from September 2013 until October 2020, and during that period was a staunch supporter of the Future Fund and its purpose.

Finally, on behalf of the Board I thank the staff of the Future Fund Management Agency for their hard work and dedication through a very challenging year. Aably led by Dr Raphael Arndt, who took up his role as Chief Executive Officer on 1 July 2020, the staff of the Agency have demonstrated continued resilience and professionalism.



**Hon Peter Costello AC**

Chairman  
*Future Fund Board of Guardians*

# Report from the Chief Executive Officer



The 2020-21 year was one of change, challenges and ongoing growth as we continued to respond to the significant turmoil brought on by the COVID-19 pandemic.

The Future Fund has performed exceptionally well under turbulent conditions. Our joined-up investment approach and 'One team, One purpose' philosophy held us in good stead over the past year, providing strong alignment on why and how we do what we do.

The COVID-19 pandemic has continued to cause uncertainty and disruption to markets around the world with significant second waves wreaking havoc in both developed and emerging markets.

Australia entered this financial year in the midst of its first recession in nearly three decades. Not just a typical recession, but the sharpest and deepest decline in Australian economic history, along with much of the rest of the world.

The unprecedented monetary and fiscal policy response, public health policy initiatives, and development and deployment of vaccines provided the base for the beginnings of the global economic recovery in the second half of 2020 and the foundations for 2021 to be one of the strongest years of economic growth in modern history.

Against this backdrop we took the opportunity to conduct the most comprehensive review of our investment strategy since the Future Fund was established.

In doing so, we conducted a detailed assessment of the changing investment environment, and also reviewed our portfolios and our investment beliefs. The outcome is an informed and thoughtful investment strategy that enhances our ability to meet our long-term mandates in the context of the new world in which we are operating.

As part of the new strategy the Board endorsed our recommendation to increase structural risk levels across the portfolio. This adjustment in positioning will help ensure we are best placed to achieve our long-term investment mandates.

We also took the opportunity to develop a new business strategy and a refreshed operational structure during the year. In the context of our new investment strategy and the fundamentally changed market environment we find ourselves in, as well as the additional funds we now manage and their continued growth, we are committed to sustaining a strong and mature organisation that is able to deliver success over the long term.

Our multi-year business strategy has four specific focus areas: Refresh the investment model; Mature the organisation; Preserve our legacy; and Expand our voice.

We introduced a new organisational structure to ensure that the business strategy was supported with clear ownership of key initiatives. As a result, there were a number of changes to some key departments, with a focus on enabling our daily investment activity and the evolution of our Management Committee to a revised Senior Leadership Team.

Chief Financial Officer, Paul Mann, Chief Culture Officer, Liz McPherson, and Chief Technology Officer, Richard Large left the Agency in March. I want to thank Paul, Liz and Richard for their significant contributions to the Agency and the substantial legacy they have helped create. I was pleased that our Chief Operating Officer, Gordon McKellar also took on additional responsibility across the critical Investment and Business Operations Group.

We moved into our new offices in Melbourne and Sydney this year. These offices have been designed to suit the ways in which we work. Key features across both offices are collaboration spaces, customised meeting rooms, and consistent and reliable technology, ensuring our people are provided with all they need to perform at their best. Dedicated collaboration space has proven even more valuable than expected in the COVID world where hybrid working has become a way of life

Through much of the year our people were required to work from home and then move back into the office environment gradually as COVID-19 restrictions permitted. Through all of this I saw our team work tirelessly to deliver on our purpose and invest Australia's capital with care, diligence and wisdom.

As part of our business strategy we expect to materially increase our headcount, increasing core investment staff and rotating contract roles to permanent ones. This is an important part of the way in which we will deliver on our business strategy focus areas of refreshing the investment model and maturing the organisation.

Looking ahead, we will work collectively to realise our new multi-year business strategy, mobilising resources, activities and plans to achieve each of our four new focus areas.

I sincerely thank the Board of Guardians for their ongoing support and guidance as I have completed my first year as Chief Executive Officer.

My thanks and congratulations also go to Sue Brake, who was officially announced in December as our Chief Investment Officer (CIO), having served as acting CIO since July last year.

I also acknowledge and thank the team at the Agency. I am very grateful and proud of how everyone has worked together throughout the year. Under prolonged challenging conditions, staff have remained firmly focused on protecting and growing the portfolios and driving change and embracing opportunity along the way. I have been humbled to lead such a high-quality team.



**Dr Raphael Arndt**

Chief Executive Officer  
*Future Fund Management Agency*

# 01

## Organisation overview

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

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

Established in 2006, we are the Commonwealth Government's largest financial asset, helping strengthen Australia's balance sheet and long-term financial position.

We are responsible for investing the assets of six special purpose public asset funds: the Future Fund, the Medical Research Future Fund, the Aboriginal and Torres Strait Islander Land and Sea Future Fund, the Future Drought Fund, the Emergency Response Fund, and the DisabilityCare Australia Fund.

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

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

### 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 and generate strong, risk-adjusted returns over the long term.

### Future Fund

The Future Fund was established in 2006 to strengthen the long-term financial position of the Commonwealth of Australia, with contributions of \$60.5 billion 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 Investment Mandate for the Future Fund is to achieve an average annual return of at least the Consumer Price Index (CPI) + 4.0% to 5.0% per annum over the long term, with an acceptable but not excessive level of risk.

The organisation has added over \$136 billion to the value of the Future Fund since inception, more than tripling the original contribution from Government, and reaching \$196.8 billion in value as at 30 June 2021.

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

The expected continued growth in the portfolio because of this decision will considerably strengthen the Commonwealth's long-term financial position.

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

### Medical Research Future Fund

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

The Medical Research Future Fund was established with the transfer in 2015 of \$1.0 billion from the Health and Hospitals Fund, which was then closed, and a further \$19.0 billion in capital contributions from Government between 2015 and 2020.

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

As at 30 June 2021, the Medical Research Future Fund was valued at \$22.0 billion.

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

### Aboriginal and Torres Strait Islander Land and Sea Future Fund

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

The ILSC's purpose is to assist Aboriginal and Torres Strait Islander peoples to acquire and manage land, water and water-related rights in order to attain economic, environmental, social or cultural benefits.

The ATSILS Fund was established with a capital contribution of \$2.0 billion, transferred from the Aboriginal and Torres Strait Islander Land Account.

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

As at 30 June 2021, the ATSILS Fund was valued at \$2.2 billion.

Payments from the ATSILS Fund are determined by the Australian Government and managed in line with the *Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018*.

### Future Drought Fund

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

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

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

As at 30 June 2021, the Future Drought Fund was valued at \$4.6 billion.

The Commonwealth will make \$100 million available each year from the Fund to support Australian farmers and communities to prepare for and become more resilient to the effects of future drought.

This will make agriculture more productive and profitable, enhance the wellbeing of Australia's farming communities, and improve the sustainability and resilience of the natural resources on which agriculture depends.

Payments from the Future Drought Fund are determined by the Australian Government and managed in line with the *Future Drought Fund Act 2019*.

## Emergency Response Fund

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

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

As at 30 June 2021, the Emergency Response Fund was valued at \$4.7 billion.

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

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

Payments from the Emergency Response Fund are determined by the Australian Government and managed in line with the *Emergency Response Fund Act 2019*.

## DisabilityCare Australia Fund

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

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

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

As at 30 June 2021, the DisabilityCare Australia Fund was valued at \$15.5 billion. Payments from the DisabilityCare Australia Fund are determined by the Australian Government and managed in accordance with the *DisabilityCare Australia Fund Act 2013*.

## Our purpose

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

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

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

## Culture and values

To achieve our purpose, we operate with the core pillar of **'One team, One purpose'**.

We work as one team, striving to find the best possible opportunities and solutions. Combining a breadth of perspectives, experience and skills into a collaborative whole creates a meaningful competitive advantage.

Our values are embedded into the way we act and interact:

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

## Our business strategy

While our purpose remains the same as it has since our inception, the investment environment has fundamentally changed, and so we must continue to evolve to ensure we are best-positioned to deliver on our purpose going forward.

The Agency has responded to the changed landscape by evolving strategically, structurally and operationally.

A new three-year business strategy was developed and initiated during the year. The strategy reflects the changed operating environment, and will allow the organisation to strengthen our alignment to our long-term mandate.

The Agency's new business strategy outlines a program of work that is grouped into four new focus areas:

1. **Refresh the investment model**
2. **Mature the organisation**
3. **Preserve our legacy**
4. **Expand our voice**

### Four new focus areas

The four focus areas underpinning our business strategy have been carefully identified based on: feedback and input from Agency staff; consolidation of work already accomplished; an understanding of the changed environment in which we operate; our unique Investment Mandate; and the vision for the future of the Agency.

#### 1. Refresh the investment model

The ultimate priority for the Future Fund is strong long-term investment performance.

For some time, the Agency had been tracking several external factors that are making the investment environment increasingly challenging, including elevated amounts of debt in the world, the impact of extremely low interest rates, declining population growth, and issues associated with generational change.

The onset of the COVID-19 pandemic further accelerated or exacerbated some of these factors and introduced a number of unprecedented new challenges, leaving markets around the world grappling with the impacts of the pandemic and leading to the investment world fundamentally changing.

Our investment model was established over a decade ago when the Board was responsible for the investment of one fund, and within a fundamentally different investment landscape.

Recognising the challenge of the pandemic as an opportunity, we undertook an in-depth review of our investment foundations and strategy to better understand the paradigm shifts and new global regime, and their impact on our unique Investment Mandate.

The results of this review were then collated into a refreshed set of investment beliefs and comparative advantages and ultimately, a new investment strategy, which will shape our future investment approach and enable us to achieve our long-term Investment Mandate.

#### 2. Mature the organisation

The Agency has entered a new period of growth and development. This requires a deliberate focus on prudently maturing the organisation to ensure we are best-positioned to achieve our strategy and purpose going forward.

Over the past 15 years, the Agency has grown from one fund under management in 2006 to six funds under management, and a total portfolio of over \$245 billion.

With this growth comes the need to consolidate and improve processes, systems and ways of working together to ensure the business continues to be strong and resilient and deliver on our purpose.

### 3. Preserve our legacy

The Agency has been very intentional about building and fostering a high-performing and unique team culture over the last 15 years.

Retaining and building on the strong existing culture is pivotal to our success as we continue to evolve and enter a new period of growth and maturity.

In this new phase we are entering we will take the opportunity to institutionalise our approach to onboarding new starters, and consolidate our culture, skills acquisition and leadership training.

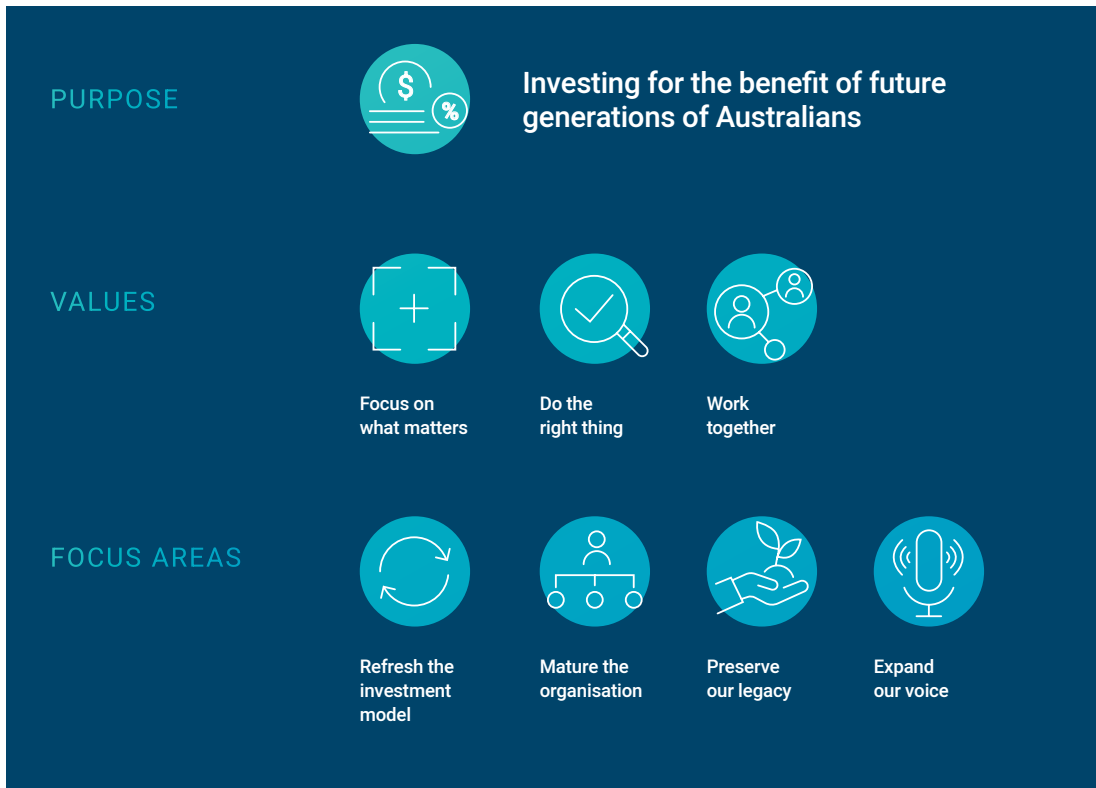
This will include the development of a formal learning program designed to support our people throughout their careers, as well as a robust induction and compliance program to assist in consistently and efficiently onboarding new starters to best advantage.

### 4. Expand our voice

This area of focus prioritises expanding and deepening our business and stakeholder connections and networks. We will achieve this by contributing to insightful and valuable discussions about relevant investment matters with our stakeholders.

We believe there is value in our team contributing to and learning from investment industry insights, perspectives, and expertise.

## Our business strategy



## Our organisational structure

To support the delivery of our new strategy, a new organisational structure was implemented on 1 March 2021.

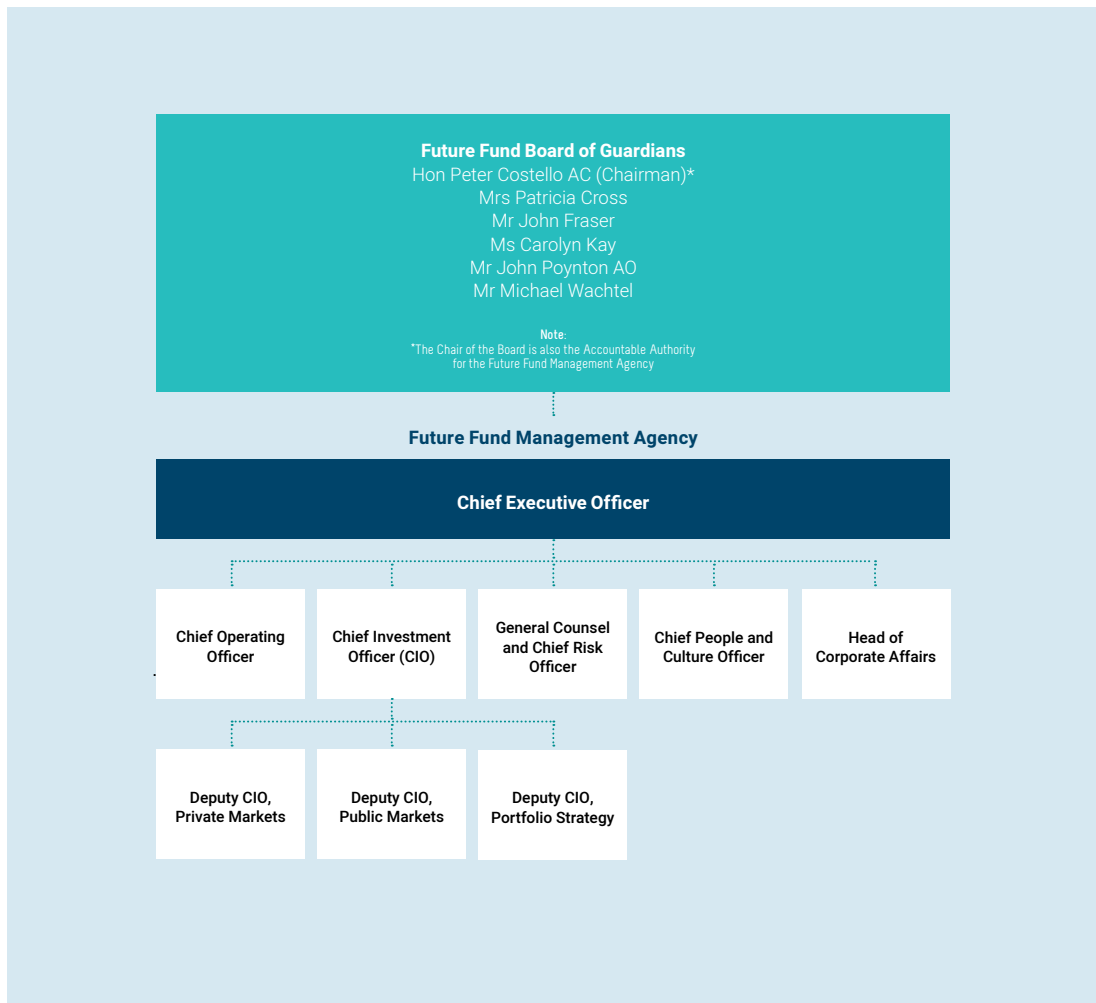
The new structure brought technology, finance, investment data management, investment operations, organisational enablement, and operations strategy together under the leadership of our Chief Operating Officer. This was designed to strengthen the way in which these functions support the all-important investment effort across the Agency.

A new Corporate Affairs Team was also formed, combining external and internal communications under one business unit.

The People and Culture function also enveloped an expanded learning function, and the Agency is currently recruiting for a Chief People and Culture Officer.

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

## Our organisational structure at 30 June 2021



# 02

## How we invest

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

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

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

We construct highly diversified portfolios that are as robust as possible to a range of plausible scenarios.

The DisabilityCare Australia Fund is the only fund that has a shorter-term investment horizon. The assets of this fund are invested in a combination of short and medium-term debt instruments.

### Investment categories

Category	Sectors covered
Alternative assets	Skill-based absolute return strategies and other risk premia, providing diversity of return streams
Cash	Treasury bills, bank bills and deposits
Debt	Primarily through non-government fixed-interest securities extending to mortgages, high-yield credit and corporate loans
Overlays	Exposures to listed currencies, developed and emerging market currency, domestic and global interest rates, portfolio protection strategies, and other return-enhancing and/or risk mitigation strategies
Listed equities	Australian equities, global developed market equities, and global emerging market equities
Private equities	Venture capital, growth capital, buyout
Tangible assets	Real estate, infrastructure and timber assets gained through public or private markets

## Joined-up investment approach

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

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

This joined-up, integrated approach means we don't set a fixed strategic asset allocation from the top and then require those allocations to be filled across each of the investment sectors.

Instead, our investors come together to share insights and take a whole-of-portfolio approach to making investment decisions. It is the cornerstone of our investment philosophy and we consider it a key comparative advantage that significantly improves the prospect of meeting our investment objective. It challenges our people to think broadly, test and question their views and the thoughts of our external partners, and compare the merits of any one investment versus another.

## Dynamic investment process

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

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

The key elements of our investment process are:

### 1. Establishing foundations

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

Given a competitive investment landscape, we also identify our comparative advantages and these further inform our approach to investing.

### 2. Analysis of the investment environment

We develop a deep understanding of the investment environment we are operating in at any one time, with a focus on long-term economic, social, and financial trends.

We regularly analyse a range of plausible future scenarios over multiple time horizons in order to better understand how our portfolios might behave if conditions change, and identify ways to improve the resilience of our portfolios.

### 3. Risk management and budgeting

Our investment policy framework helps us clearly and effectively manage the risk of our funds at what we consider to be acceptable, rather than excessive levels.

Given our assessment of the environment, and consistent with our investment policy framework, we choose appropriate risk settings for each of our portfolios.

Risk budgets are considered and set across multiple dimensions, including market risk and short-term liquidity risk, and how readily we can change a portfolio if needed – its flexibility. These risk budgets are dynamically managed.

### 4. Portfolio planning and investment selection

Once we have decided on appropriate risk budgets for a given fund, we plan how we expect to allocate those budgets and then, through underlying investment activity, we implement our plan.

Our approach to both portfolio planning and identifying opportunities is necessarily dynamic, as our assessment of the investment environment, market pricing, and the expected relationships between different investments all vary through time.

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

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

The committees consider recommendations in relation to investment manager appointments and investment in specific assets, with a focus on detailed due diligence as well as consideration of fees, terms, tax, legal and transaction structures.



## Investment Committee at 30 June 2021



**Sue Brake**

Chief Investment Officer (Chair)



**Raphael Arndt**

Chief Executive Officer



**Sarah Carne**

Head of Listed Tangibles



**David George**

Deputy Chief Investment Officer, Public Markets



**Alicia Gregory**

Head of Private Equity



**Hugh Murray**

Head of Overlays



**Wendy Norris**

Deputy Chief Investment Officer, Private Markets



**Ben Samild**

Head of Alternatives

### Notes:

Sam Killmier was an Investment Committee member from 1 July 2020 until 9 March 2021 in his role as Acting Head of Portfolio Strategy. Ben Samild was promoted to Deputy Chief Investment Officer, Portfolio Strategy, effective from 16 August 2021.

## Investment beliefs

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

As part of the investment strategy review conducted throughout 2020-21, we refreshed our investment beliefs. We also formally adopted a refreshed set of comparative advantages. These describe the aspects of who we are and how we operate, and we expect they will give us a competitive edge and help us achieve our investment mandates.

We believe that:

- > Strong governance is essential to our success.
- > Our 'One team, One purpose' culture leads to better decisions and investment outcomes.
- > A total portfolio approach will improve our long-term performance.
- > Inefficiencies in markets create opportunities for us to add value through active management.
- > Risk is multi-faceted and robust risk management enhances our ability to achieve our mandates.
- > Our primary focus should be on the value we add, net of all costs, but we seek to utilise our scale and market standing to reduce costs.
- > We have a number of comparative advantages that, if properly utilised, will help us achieve our mandates.

Our principal comparative advantages are:

- > **We are a long-term investor.** Our long investment horizon allows us to look through short-term volatility and be patient, taking positions we expect will pay off over the long term. We can also buy and hold private or otherwise illiquid investments offering additional returns.
- > **Our reputation.** Our reputation is one of our most valuable assets, resting on our sovereign status and enhanced through time by our conduct and results. It facilitates access to other sovereign institutions and the most highly regarded peers and investment organisations, as well as attracting highly qualified and experienced staff.

- > **Our access to high-calibre external partners.** Our scale, sovereign status and reputation help us access and leverage the skill and experience of best-in-class external partners and fund managers.
- > **We focus on total portfolio outcomes.** We embrace a total portfolio approach that allows us to remain focused on what matters at the whole-of-portfolio level, while collaborating to effectively integrate top-down and bottom-up investment ideas.
- > **We have a single client and a single purpose.** Our single purpose is to invest for the benefit of future generations of Australians who are represented by our single client, the Australian Government. This clarity of mission enhances our focus on our investment objectives and unites us in our quest to achieve them.

## Partnering with investment managers

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

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

A list of our external managers at 30 June 2021 is available at Appendix A.

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

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

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

Our investment manager selection process is designed to deliver high-quality partnerships, and to ensure that the portfolio construction does not lead to excessive concentration of manager risk in any one investment manager.

We seek the best commercial terms available and favour those that are appropriately structured.

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

Due diligence incorporates assessment against agreed evaluation criteria and includes desk research, third party research, onsite visits where possible and interviews with key investment decision-makers.

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

## Managing currency

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

In managing currency risk, we conceptually consider offshore investments on a fully-hedged basis and then separately evaluate to what extent we wish to hold an exposure to foreign currencies.

We explicitly manage the size and nature of the foreign currency exposures, rather than allowing them to be shaped by the underlying investments.

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

Currency exposure for our long-term funds in 2020-21 is discussed in the 'Investment performance' section of this report.

In the case of the DisabilityCare Australia Fund, given its higher domestic weighting and the conservative nature of its investment programs, we fully hedge all foreign currency exposures back to Australian dollars.

## Managing tax arrangements

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

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

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

We will only invest through arrangements and structures that are commonplace and well tested by other public investment institutions and funds, in terms of compliance with applicable laws and regulations.

We do not invest in schemes that contravene the OECD's key principles of transparency and information exchange for tax purposes.

In making investments, we assess whether the jurisdictions through which we invest are regarded by the OECD as having substantially implemented the internationally agreed tax transparency standard.

## Management of environmental, social and governance issues

### Our approach

We believe that effective management of material environmental, social and governance (ESG) risks and opportunities supports our requirement to maximise long-term returns.

The integration of ESG factors enables investors and companies to better understand the full spectrum of future risks and opportunities to which assets are exposed. Sound management of ESG factors also contributes more broadly to the development of more efficient and sustainable capital markets.

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

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

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

### Governance

Our framework for managing ESG issues is articulated in our ESG Policy and incorporated in the Statement of Investment Policies available on our website. Our ESG Policy is consistent with our obligations under the *Future Fund Act 2006*, and our investment mandates, beliefs and strategy.

The Board is responsible for the oversight of our ESG Policy. Our investment teams are tasked with implementing the policy in our investment activities. They are assisted by a dedicated internal ESG Team which reports directly to the Chief Investment Officer.

## Integrating ESG into the investment process

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

### Transactional due diligence

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

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

### Partnering with our managers

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

This model requires careful coordination and alignment between our organisation and our investment managers. As part of our manager selection and monitoring process, we consider the extent to which the manager is effectively managing financial and reputational risks and opportunities that may arise from ESG issues. This process is underpinned by dedicated and ongoing engagement and monitoring in accordance with our Manager ESG Review Framework.

Specifically, these tailored discussions with our managers focus on whether their capacity and commitment to managing ESG issues on our behalf is commensurate with the ESG risk of their portfolios.

## Long-term investment themes

As a large, long-term asset owner with a globally diversified portfolio, top-down views on the strategic trends that will influence outcomes for investors over extended investment horizons are an important component in our capital allocation process.

Many of those trends have a strong ESG component, both in terms of system inputs (such as demography and resource scarcity), and regulatory and consumer responses to those inputs (such as policies to reduce global carbon emissions).

We are also interested in how disruption trends have the potential to impact our investment performance. We are integrating the assessment of these longer-term themes into our investment processes to enhance our capital allocation process.

### Climate risk

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

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

We expect that over the medium term, climate-related price and transition risks could be material, especially for carbon-intensive sectors of the economy. The scale of these impacts will depend on the pace and volatility of global decarbonisation efforts.

Over the longer term, the physical implications of climate change are also considered material, particularly for tangible assets. Climate-related risks may also materialise at a macro level through changes in macroeconomic conditions and financial stability.

We consider climate change from a risk-adjusted returns perspective and integrate material risks and opportunities into our investment processes. This includes reviewing climate risk during due diligence for specific investments

or periodic industry assessments; monitoring how our investment managers are addressing climate risk; engaging with the assets and companies we invest in; and considering climate-related risks in our proxy voting and Board engagement activities.

We are also enhancing our understanding of the impact of climate risk at a whole-of-portfolio level under a range of economic and climate scenarios.

We monitor the carbon intensity of our listed markets portfolio, which remains below that of the benchmark. However, our approach aims to maximise 'climate-aware' risk-adjusted returns rather than target a specific level of portfolio carbon performance.

We source climate research from several market providers to support these activities. We also use benchmarking platforms like GRESB for private market tangible assets, which include detailed questions on the management of carbon risk by fund managers and specific operating assets. Access to this information helps us further build our understanding of climate governance, risk management practices, and performance of the assets in which we invest.

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

We also partner with other institutional investors through multi-stakeholder initiatives such as the Thinking Ahead Institute (TAI), Focusing Capital on the Long Term (FCLT), and the Institutional Investor Roundtable (IIR) to promote enhanced disclosure of carbon risk and integration into investment decision-making.

As part of our diversified investment portfolio, we also allocate capital in markets expected to generate attractive risk-adjusted returns as economies decarbonise, such as renewable energy, energy efficiency technologies and carbon credit markets. For example, following the completion in August 2021 (after year end) of our investment through the PowAR Fund in Tilt Renewables, our investment in wind and solar assets in Australia has grown to over \$1 billion.

## Disruptive innovation

We consider a wide set of disruption trends that could materially impact our investment portfolios. These trends are not typically limited to a specific industry or asset class, and pose both opportunities and risks to investors. In addition to technological innovation, disruption to the adoption of goods and services can also be driven by consumer trends, regulation and public policy.

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

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

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

Disruption assessment is integrated into our investment decision frameworks, prompting the investment team to consider thematic risks and opportunities in their investment strategies, and during idea generation.

By identifying materially impactful disruptive trends at an early stage, we can work with investment managers to accurately price risks and evaluate opportunities that can enhance the value of our portfolios over the long term.

Our dedicated disruption team works closely with the investment professionals throughout the life cycle of each investment to analyse these trends, our investment exposures and our managers' capacity to manage these risks and opportunities.

## Modern slavery

The Future Fund has obligations under the *Modern Slavery Act 2018* which require us to undertake work to identify and report on potential modern slavery risks. The overall aim of the Act is to shine a light on the issue and influence positive change across economies both here and overseas.

We have integrated modern slavery into our existing ESG frameworks. Our approach guides how these risks are identified and managed across the investment portfolio, including in our due diligence activities, external manager monitoring, and engagement activities with investee entities.

During the year we updated our ESG Policy to explicitly include modern slavery, enhanced our country risk ratings framework, implemented training across the investment team, and undertook a series of engagement discussions with investment managers and investee entities.

Information on our approach has been integrated into the Commonwealth Government's Modern Slavery Statement, which covers all Commonwealth procurement and investment activities. The Commonwealth statement is due to be published later in 2021.

## Portfolio exclusions

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

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

In February 2013, we also restricted investment in entities directly involved in the manufacture of complete tobacco products.

Where serious breaches of ESG standards are identified, the Board prefers engagement over exclusion, working with the entity to improve performance.

The Board reserves the option to exclude an investment for the most egregious sustained activities, where the entity is unwilling or unable to change its practices.

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

## Our investment stewardship activities

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

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

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

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

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

Our Corporate Governance Principles and a detailed report outlining how we voted at each Australian shareholder meeting during 2020-21 can be found on our website.

## Voting our Australian equities shares

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

During 2020-21, we participated in 209 shareholder meetings and voted against Australian company boards in 6.8% of all resolutions.

## Voting our international listed equities shares

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

We retain the ability in all cases to override our managers' recommendations.

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

In aggregate, we participated in 4,859 shareholder meetings and voted against company boards' recommendations in 11.5% of all international resolutions.

## Ownership rights in private markets

Where eligible, we typically exercise the right to appoint a director to the board of an unlisted entity in which we invest directly.

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

We may also have the right to vote in relation to direct shareholdings in companies or pooled vehicles. In these situations, voting decisions are managed by our private markets teams.

In addition, we participate wherever practical in the advisory boards of pooled vehicles that give investors a voice on certain key decisions.

### Engagement with investee entities

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

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

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

We engage directly with key investee entities to drive improvement in corporate governance practices and better understand the strategic risks and opportunities to which these organisations are exposed.

This direct engagement is conducted mainly with Australian-domiciled companies, given the size and influence of our investments in our local market, access to company boards, and practical considerations. In international markets, we leverage the engagement activities of our investment managers.

Our engagement meetings are tailored to each organisation. Issues frequently tabled for discussion include board and executive management quality, strategic priorities, remuneration, environmental and social issues, culture, and long-term value creation.

Over recent years we have engaged with board representatives from a broad range of Australian-listed companies, including a majority of the ASX 50.

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

### Collaboration and contributing to a stronger investment system

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

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

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

Participating in collaborations and industry networks, including the Sustainable Accounting Standards Board (SASB), the International Corporate Governance Network (ICGN), GRESB and FCLT, helps us address these complex challenges.

These structured multi-stakeholder initiatives are complemented by ongoing informal engagement with leading domestic and international asset owners and fund managers in identifying and promoting best practice in ESG integration.

More broadly, we are involved in industry networks that aim to improve system integrity, build new markets and advance best practice for institutional investment. These include: the Standards Board for Alternative Investments (SBAI), the International Forum of Sovereign Wealth Funds (IFSWF), the Pacific Pension & Investment Institute, the Australian Investment Council (AIC), the 20-20 Investment Association, TAI and IIR.

Our staff have taken on leadership roles on the Boards of the SBAI, IIR, AIC, and advisory committees of SASB, ICGN, GRESB and IFSWF.

# 03

## Investment performance

### Investment environment

Australia entered the 2020–21 financial year in the midst of its first recession in nearly three decades. Not just a typical recession, but the sharpest and deepest decline in Australian economic history.

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Globally, the nature of the recession and its uncertainties led to an unprecedented monetary and fiscal policy response that stabilised financial markets after steep declines in early 2020 and saw risk assets enter the new financial year on a solid footing.

Policy stimulus, public health policy initiatives and the development of vaccines provided the base for the beginnings of the global economic recovery in the second half of 2020 and the foundations for the 2020–21 financial year to be one of the strongest years of economic growth in modern history.

A significant element in this strong rebound has been the various policy initiatives by governments and central banks around the world to ensure that economic scarring was limited to the smallest extent possible.

Risk assets, and listed equities in particular, responded strongly to the solid economic rebound. Monetary stimulus delivered negative real interest rates and compressed risk premia via quantitative easing programs, and strong fiscal support assuaged investors' concerns about the risk of further pandemic-induced economic weakness.

In the United States of America, the 2020 elections resulted in a narrow governing majority for the Democratic party, which has continued and amplified fiscal stimulus measures.

The combination of pent-up demand and excess savings for many households, supply chain constraints and disruptions, and base effects, resulted in upward pressure on price levels and a sharp acceleration in inflation outcomes, especially in America towards the end of the financial year.

While these near-term inflation pressures appear transitory, they may influence wage and consumer expectations so that some degree of inflation uplift proves more enduring.

This risk plus the possibility of markets pricing a significant tightening of monetary policy could weigh significantly on asset prices. With this backdrop, concerns about rising inflation was an increasing thematic in financial markets as 2021 progressed.

In recent years, some profound structural changes were already impacting the investment environment, such as demographic trends and responses to climate change. The pandemic has likely accelerated existing trends in the political and geopolitical order, the way economies and societies work and interact, the way global policy makers make decisions and manage economies, and how financial markets behave.

The evolution of these secular forces over coming years will have fundamental implications for the global economic and investment environment and may accentuate regional and sectoral divergences.

Also, many of these long-run changes impact the cost base of economies, adding to concerns that higher inflation may take hold.

While the near-term economic outlook appears robust, uncertainty on the evolution and policy response to inflationary pressures, divergent regional and sectoral recoveries, and possible fundamental shifts in the global economic and investment environment combine to create a challenging environment for investors. Nevertheless, opportunities may emerge from these uncertainties.

## Portfolio activity in 2020-21

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

The investment environment going forward is unlikely to be the same as the past, with secular trends triggered or accelerated by the COVID-19 shock.

We have undertaken a review of our investment strategy, including a fundamental reconsideration of the best way to achieve the Board's risk-taking mandates over the next decade and beyond. The review concluded that to improve the chances of achieving our mandates in a low forward-looking return environment, we expect our portfolios to take more market risk on average compared to the past.

Accordingly we have increased the structural risk level of the portfolios that have longer investment horizons. This long-term view of the risk levels needed to achieve the mandated returns will provide a guide for the levels of risk we expect to have in the portfolio on average over the long term.

With additional resources available to enable the change, we also expect to deploy more capital to higher return-generating assets, while adding diversifying exposures to manage downside risk and retaining a degree of flexibility to respond to the changing environment.

We increased the allocation to listed equities in areas that are offering more attractive long-term return prospects.

The overall size of our private equity allocation increased over the year, driven by higher valuations and new investments, and despite large cash inflows supported by a strong IPO market.

We increased investments to both property and infrastructure, via listed avenues, to respond to compelling valuations following market dislocations, and via unlisted avenues – carefully selecting the most attractive assets and opportunities for the total portfolio. With a strong portfolio return over the year, their allocations as a proportion of the total portfolio remained relatively stable.

Debt exposures have continued to fall as credit spreads remain tight and forward-looking returns remain low, particularly in more liquid markets.

Following our total portfolio approach in searching for the best use of capital across asset classes and along the capital stack, we invested into credit opportunities in property and alternatives. We also continued to add to alternative exposures that are most accretive to the portfolio, including high-return relative value strategies and inflation-related tail hedging strategies.

We have retained a basket of defensive positions in the portfolio, including foreign currency, fixed income, and some hedging strategies.

The defensiveness of nominal bonds is increasingly questionable with inflation risk rising. We remain of the view that a meaningful level of foreign currency exposure to both developed and emerging markets countries can provide valuable diversification.

Similar portfolio activity occurred for the Medical Research Future Fund, the ATSiLS Fund, the Future Drought Fund, and the Emergency Response Fund, and we continue diversifying these four funds and building exposures into high-conviction and capacity-constrained managers.

## Future Fund

### Interpreting the Investment Mandate

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

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

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

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

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

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

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

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

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

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

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

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

### Risk positioning

Based on its interpretation of the Investment Mandate, the Board has an appetite for material levels of risk in the Future Fund. Nonetheless, in accordance with our investment process, we aim to build a portfolio with some degree of resilience to the investment environment.

We seek genuine diversification that achieves greater balance in portfolio construction, while allocating risk in a flexible and dynamic manner.

Our view is that real discount rates for risky assets are low and cash flow growth is expected to be positive but moderate over the long term, so expected real returns are below average relative to history.

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

During the 2020-21 financial year we undertook a comprehensive review of the foundations of our approach to investing and portfolio construction. Following this review, the Board decided to increase the structural level of risk-taking within its portfolios.

## Measuring risk

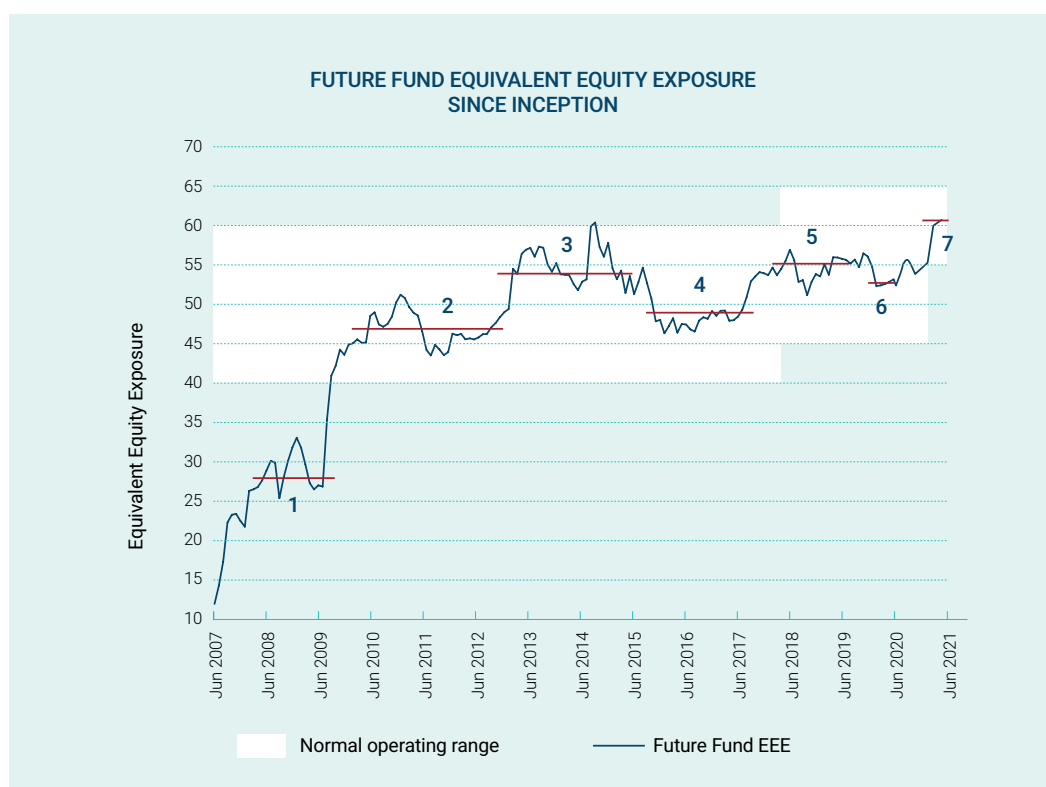
One of the primary metrics we use to understand and manage the broad market risk exposure of the Future Fund is Equivalent Equity Exposure (EEE).

EEE estimates the amount of market exposure we have when looking through the whole portfolio.

The EEE range within which we are expected to operate most of the time has been reviewed and uplifted to 55-65 for the Future Fund as part of the deep review of our investment strategy.

Throughout 2020-21, the portfolio risk setting has averaged close to the middle of the range and at 30 June 2021 the EEE stood at 61.

The chart below demonstrates how the EEE of the Future Fund has changed over time.



We are currently in the seventh distinct risk-taking regime for the portfolio since establishment.

1. The build of the Future Fund portfolio was suspended in late 2007 due to concerns over financial stability and the sustainability of high asset prices, and a very low risk profile was maintained into the global financial crisis.
2. Portfolio risk exposure was increased as extraordinary and globally coordinated economic policies were implemented to fight the crisis.
3. Risk levels were raised further as the European crisis subsided and the President of the European Central Bank committed to 'do whatever it takes' to underwrite the integrity of the euro.
4. As expected returns declined (given strong market performance supported by low interest rates), portfolio risk was gradually reduced to moderately below normal levels.
5. Risk levels were increased towards more normal levels, reflecting the emergence of strong economic growth and corporate earnings, and central banks signalling an extension of accommodative monetary policies, together with the decision to increase the Fund's structural risk appetite.
6. Risk levels were reduced to moderately below neutral, reflecting the elevated risk environment resulting from the COVID-19 pandemic and policy response.
7. The structural risk level was adjusted during the 2020-21 financial year and we narrowed the range around which we expect to manage the portfolio.

## Currency

We explicitly manage the size and composition of the foreign currency exposures in the portfolio, rather than allowing them to be shaped by our underlying investments.

At 30 June 2021, we held an exposure to foreign developed market currencies equivalent to 32% of the total Future Fund. We expect our basket of developed market currencies to diversify the portfolio against broad market risk, and generate liquidity in adverse conditions. We also held an exposure of 12% of the Future Fund to emerging market currencies at 30 June 2021.

We expect a diversified exposure to emerging market currencies to deliver a modest excess return through some combination of gradual real effective exchange rate appreciation and/or positive real interest rate differentials, relative to the Australian dollar.

Given that we expect its performance to be uncorrelated with broad market risk over the long term, we consider our basket of emerging market currencies to be an attractive risk-adjusted exposure at portfolio level.

## Performance

At 30 June 2021 the Future Fund achieved its highest ever annual return of 22.2% and a 10-year return of 10.1% per annum, exceeding its target of 6.1% per annum.

The Fund stood at \$196.8 billion at 30 June 2021, with investment returns adding \$136.3 billion to the original seed capital from the Australian Government.

Investment returns to 30 June 2021 are shown on the following page, together with the target benchmark returns set by the Investment Mandate.

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

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

All returns are reported net of costs.

## Future Fund returns, target benchmarks and levels of risk at 30 June 2021

Period to 30 June 2021	Return (% pa)	Target return <sup>1</sup> (% pa)	Volatility <sup>2</sup> (%)	Sharpe ratio <sup>3</sup>
Since inception (May 2006)	8.4	6.6	4.5	1.2
10 years	10.1	6.1	4.3	1.9
Seven years	9.9	5.9	4.6	1.8
Five years	9.9	5.9	4.8	1.8
Three years	10.5	5.7	5.7	1.7
2020-21 financial year	22.2	7.8	5.6	3.9

### Notes:

<sup>1</sup> The Investment Mandate set a benchmark target return of at least CPI + 4.5% to 5.5% per annum to 30 June 2017 and then CPI + 4.0% to 5.0% per annum thereafter.

<sup>2</sup> Volatility is an industry measure showing the level of realised volatility in the portfolio.

<sup>3</sup> Sharpe ratio is a measure of the risk-adjusted return.

## Portfolio exposures

### Asset allocation at 30 June 2021

Asset class	\$m	% of Fund
Australian equities	16,805	8.5
<b>Global equities</b>		
Developed markets	35,806	18.2
Emerging markets	18,002	9.1
Private equity	34,485	17.5
Property	11,707	5.9
Infrastructure & Timberland	14,548	7.4
Debt securities	12,982	6.6
Alternatives	26,547	13.5
Cash	25,942	13.2
<b>Total</b>	<b>196,825</b>	<b>100.0</b>

## Asset class exposures at 30 June 2021

Listed equities	
Sector	Exposure (%)
Energy	3
Materials	9
Industrials	9
Consumer discretionary	12
Consumer staples	7
Healthcare	11
Real estate	2
Financials	18
Information technology	19
Communication services	8
Utilities	2
Private equity	
Strategy	Exposure (%)
Buyout	28
Distressed	1
Venture and growth	71
Property	
Sector	Exposure (%)
Retail	25
Office	16
Industrial	12
Residential	12
Diversified	23
Seniors living	5
Healthcare	4
Hospitality	4

Infrastructure & Timberland	
Sector	Exposure (%)
Airports	27
Electricity, oil and gas	28
Transport	17
Timberland	10
Water	3
Communications	15
Debt	
Strategy	Exposure (%)
Private debt	40
Investment-grade corporate	0
Sub-investment-grade corporate	31
Mortgage-backed/secured credit	7
Emerging markets debt	20
Cash and other	2
Alternatives	
Strategy	Exposure (%)
Equitised	6
Multi-strategy / relative value	24
Macro-directional	42
Alternative risk premia	17
Global Alpha	11

## Asset class exposures by geography at 30 June 2021

Region	Listed equities (%)	Private equity (%)	Property (%)	Infrastructure & Timberland (%)	Debt (%)	Alternatives (%)
Australia	24	3	6	48	5	3
United States of America	33	68	58	29	39	58
Europe (ex-UK)	6	6	11	7	13	12
United Kingdom	2	5	6	7	14	4
Japan	8	0	6	0	0	5
Developed (other)	2	4	8	9	2	4
Emerging	25	15	5	0	26	14

## Physical investments by geography at 30 June 2021

Region	Total exposure (%)
Australia	24
United States of America	37
Europe (ex-UK)	6
United Kingdom	4
Japan	8
Developed (other)	8
Emerging	13

## Costs

### Cost management

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

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

We are therefore more willing to pay higher fees where significant value is added over broad market exposure (such as private equity), or for exposures which are truly diversifying (such as hedge funds).

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

### Direct costs

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

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

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

### Look-through costs

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

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

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

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

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

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

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

### Summary of direct costs and direct cost ratio

	2018-19	2019-20	2020-21
Direct costs	\$311.2 million	\$326.1 million	\$462.3 million
Direct cost ratio	0.203%	0.197%	0.268%

### Summary of look-through costs

	2018-19	2019-20	2020-21
Look-through costs	1.42%	0.93%	2.22%

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

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

Purpose	Amount debited 2018-19	Amount debited 2019-20	Amount debited 2020-21
Contracts with investment managers	\$218,414,544	\$224,666,952	\$180,023,000
Board remuneration and allowances	\$886,580	\$976,260	\$825,000
Agency remuneration and allowances	\$46,856,999	\$49,890,000	\$58,004,000
Consultants and advisers to the Board and Agency	\$16,266,996	\$20,969,639	\$25,515,954
Agency operations	\$39,295,413	\$73,390,442	\$94,213,046

**Note:**

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

## Medical Research Future Fund

### Interpreting the Investment Mandate

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

The Mandate asks the Board to generate a return of 1.5% to 2.0% per annum above the Reserve Bank of Australia's official cash rate over the long term, while taking acceptable but not excessive risk. The Board must also determine a maximum annual distribution amount, taking account of:

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

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

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

In managing the Fund's risk and return requirements and our role in declaring maximum annual distribution amounts, we try to:

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

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

- > higher expected returns and distributions tend to increase the risk of losses
- > for a given distribution policy, increased investment risk increases the volatility of distributions

- > adjusting the distribution policy for a given investment strategy can either decrease the volatility of distributions or the risk that capital is impaired over time, but not both at the same time.

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

### Risk positioning

Based on its interpretation of the Mandate, the Board has a moderate appetite for risk in the Medical Research Future Fund, on average.

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

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

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

Our expected EEE range for the Medical Research Future Fund is 27 to 35. Similar to the Future Fund, this range was adjusted following a deep review of our investment strategy in 2020-21.

The average EEE in 2020-21 was 28, and at 30 June 2021 the EEE stood at 32, which is close to the middle of the range.

### Currency

We explicitly manage the size and composition of the foreign currency exposures in the portfolio rather than allowing them to be shaped by our underlying investments.

At 30 June 2021, we held an exposure to foreign developed market currencies equivalent to 15% of the total Medical

Research Future Fund. We expect our basket of developed market currencies to diversify the portfolio against broad market risk and generate liquidity in adverse conditions.

We also held an exposure of 7% of the Fund to emerging market currencies at 30 June 2021. We expect a diversified exposure to emerging market currencies to deliver a modest excess return through some combination of gradual (but incremental) real effective exchange rate appreciation, and/or positive real interest rate differentials relative to the Australian dollar.

## Performance

Investment returns at 30 June 2021 are shown below, together with the target benchmark returns set by the Investment Mandate.

The Fund received a contribution of \$3.2 billion in July 2020, and at 30 June 2021 was valued at \$22.0 billion.

### Medical Research Future Fund returns, target benchmarks and levels of risk at 30 June 2021

Period to 30 June 2021	Return (% pa)	Target return <sup>1</sup> (% pa)	Volatility <sup>2</sup> (%)	Sharpe ratio <sup>3</sup>
Since inception (22 September 2015)	4.8	2.6	2.9	1.2
Five years	5.1	2.5	3.0	1.4
Three years	5.4	2.2	3.7	1.2
2020-21 financial year	10.9	1.6	2.1	5.1

#### Notes:

<sup>1</sup> RBA cash rate plus 1.5% to 2.0% per annum over the long term, with an acceptable but not excessive level of risk.

<sup>2</sup> Volatility is an industry measure showing the level of realised volatility in the portfolio.

<sup>3</sup> Sharpe ratio is a measure of the risk-adjusted return.

## Portfolio exposures

### Asset allocation at 30 June 2021

Asset class	\$m	% of Fund
Australian equities	1,036	4.7
<b>Global equities</b>		
Developed markets	2,238	10.2
Emerging markets	1,123	5.1
Private equity	1,050	4.8
Property	847	3.8
Infrastructure & Timberland	903	4.1
Debt securities	2,549	11.6
Alternatives	3,420	15.5
Cash	8,862	40.2
<b>Total</b>	<b>22,028</b>	<b>100.0</b>

## Asset class exposures at 30 June 2021

Listed equities	
Sector	Exposure (%)
Energy	3
Materials	10
Industrials	9
Consumer discretionary	13
Consumer staples	6
Healthcare	10
Real estate	2
Financials	19
Information technology	19
Communication services	8
Utilities	2
Private equity	
Strategy	Exposure (%)
Buyout	70
Distressed	2
Venture and growth	29
Property	
Sector	Exposure (%)
Retail	12
Office	12
Industrial	21
Residential	14
Diversified	30
Seniors living	1
Healthcare	5
Hospitality	3

Infrastructure & Timberland	
Sector	Exposure (%)
Airports	2
Electricity, oil and gas	35
Transport	13
Timberland	0
Water	4
Communications	46
Debt	
Strategy	Exposure (%)
Private debt	10
Investment-grade corporate	11
Sub-investment-grade corporate	38
Mortgage-backed/secured credit	11
Emerging markets debt	20
Cash and other	10
Alternatives	
Strategy	Exposure (%)
Equitised	7
Multi-strategy / relative value	45
Macro-directional	26
Alternative risk premia	16
Global Alpha	5

## Asset class exposures by geography at 30 June 2021

Region	Listed equities (%)	Private equity (%)	Property (%)	Infrastructure & Timberland (%)	Debt (%)	Alternatives (%)
Australia	23	5	3	32	8	3
United States of America	36	59	58	40	49	58
Europe (ex-UK)	7	11	10	13	10	12
United Kingdom	2	5	4	2	6	4
Japan	4	1	8	3	1	6
Developed (other)	3	5	13	10	5	4
Emerging	26	14	5	0	22	13

## Physical investments by geography at 30 June 2021

Region	Total exposure (%)
Australia	43
United States of America	28
Europe (ex-UK)	5
United Kingdom	2
Japan	5
Developed (other)	6
Emerging	10

## Costs

### Cost management

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

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

We continue to closely monitor costs in the asset classes in which we invest, reviewing the expected returns and costs of implementing the investment strategy on an ongoing basis.

In negotiating terms, we focus on securing arrangements that offer value-for-money for the skills and resources applied, that are competitive relative to other managers in the sector, and that provide for strong alignment between managers and our organisation.

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

### Direct costs

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

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

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

### Look-through costs

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

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

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

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

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

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

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

### Summary of direct costs and direct cost ratio

	2018-19	2019-20	2020-21
Direct costs	\$14.0 million	\$25.4 million	\$41.4 million
Direct cost ratio	0.145%	0.148%	0.196%

### Summary of look-through costs

	2018-19	2019-20	2020-21
Look-through costs	0.46%	0.59%	1.52%

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

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

Purpose	Amount debited 2018-19	Amount debited 2019-20	Amount debited 2020-21
Contracts with investment managers	\$9,805,622	\$17,927,465	\$29,993,013
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	\$3,685,575	\$5,062,432	\$6,590,377

**Note:**

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

## The Aboriginal and Torres Strait Islander Land and Sea Future Fund, the Future Drought Fund, and the Emergency Response Fund

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### Investing our additional funds

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

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

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

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

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

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

## The Aboriginal and Torres Strait Islander Land and Sea Future Fund

### Interpreting the Investment Mandate

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

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

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

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

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

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

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

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

### Risk positioning

The structural risk level of the ATSILS Fund was increased in 2020-21. Prior to this increase, the ATSILS Fund had a structural EEE of 36. The decision to increase risk was premised on a refreshed secular outlook, which considered the long-term economic and market trends catalysed and accelerated by the COVID-19 pandemic.

The Board believes that an EEE of 40.5 corresponds to a structural risk level for the ATSILS Fund that is consistent with a relatively high probability of achieving the CPI + 2.0% over the long term, at the lower end of the benchmark return range.

In accordance with our investment process, we aim to build a portfolio with a relatively high degree of resilience to the investment environment.

We seek genuine diversification that achieves greater balance in portfolio construction while allocating risk in a flexible and dynamic manner.

### Currency

We explicitly manage the size and composition of the foreign currency exposures in the portfolio rather than allowing them to be shaped by our underlying investments.

At 30 June 2021, we held an exposure to foreign developed market currencies equivalent to 19% of the total ATSILS Fund. We expect our basket of developed market currencies to diversify the portfolio against broad market risk and generate liquidity in adverse conditions.

We also held an exposure of 9% of the ATSILS Fund to emerging market currencies at 30 June 2021.

We expect a diversified exposure to emerging market currencies to deliver a modest excess return through some combination of gradual real effective exchange rate appreciation and/or positive real interest rate differentials, relative to the Australian dollar.

Given that we expect its performance to be uncorrelated with broad market risk over the long term, we consider our basket of emerging market currencies to be an attractive risk-adjusted exposure at the portfolio level.

## Performance

On 1 October 2019, the Fund gained exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund. The Fund's asset allocation is shown below. Measurement of performance against the Investment Mandate commenced on 1 October 2019.

At 30 June 2021, the ATSILS Fund was valued at \$2.2 billion.

### ATSILS Fund returns and target benchmarks at 30 June 2021

Period to 30 June 2021	Return (% pa)	Target return <sup>1</sup> (% pa)
From inception <sup>2</sup> (1 October 2019)	6.9	3.7
2020-21 financial year	13.9	5.8

**Notes:**

<sup>1</sup> CPI + 2.0% to 3.0% per annum over the long term, with acceptable but not excessive level of risk. It should be noted that, given the fund's recent establishment, a long-term assessment of performance cannot yet be made.

<sup>2</sup> Prior to inception the ATSILS Fund was in an initial transition period from 1 February to 30 September 2019 with a return of 1.3% against a target return of 1.1%.

## Portfolio exposures

### Asset allocation at 30 June 2021<sup>1</sup>

Asset class	\$m	% of Fund
Australian equities	132	6.1
<b>Global equities</b>		
Developed markets	288	13.3
Emerging markets	144	6.7
Private equity	128	5.9
Property	104	4.8
Infrastructure & Timberland	111	5.1
Debt securities	312	14.4
Alternatives	418	19.3
Cash	525	24.3
<b>TOTAL</b>	<b>2,163</b>	<b>100.0</b>

**Note:**

<sup>1</sup> Exposures on a look-through basis.

## Asset class exposures at 30 June 2021<sup>1</sup>

Listed equities	
Sector	Exposure (%)
Energy	3
Materials	10
Industrials	9
Consumer discretionary	13
Consumer staples	6
Healthcare	10
Real estate	2
Financials	19
Information technology	19
Communication services	8
Utilities	2
Private equity	
Strategy	Exposure (%)
Buyout	70
Distressed	2
Venture and growth	29
Property	
Sector	Exposure (%)
Retail	12
Office	12
Industrial	21
Residential	14
Diversified	30
Seniors living	1
Healthcare	5
Hospitality	3

Infrastructure & Timberland	
Sector	Exposure (%)
Airports	2
Electricity, oil and gas	35
Transport	13
Timberland	0
Water	4
Communications	46
Debt	
Strategy	Exposure (%)
Private debt	10
Investment-grade corporate	11
Sub-investment-grade corporate	38
Mortgage-backed/securitised credit	11
Emerging markets debt	20
Cash and other	10
Alternatives	
Strategy	Exposure (%)
Equitised	7
Multi-strategy / relative value	45
Macro-directional	26
Alternative risk premia	16
Global Alpha	5

**Note:**

<sup>1</sup> Exposures on a look-through basis.

## Asset class exposures by geography at 30 June 2021

Region	Listed equities (%)	Private equity (%)	Property (%)	Infrastructure & Timberland (%)	Debt (%)	Alternatives (%)
Australia	23	5	3	32	8	3
United States of America	36	59	58	40	49	58
Europe (ex-UK)	7	11	10	13	10	12
United Kingdom	2	5	4	2	6	4
Japan	4	1	8	3	1	6
Developed (other)	3	5	13	10	5	4
Emerging	26	14	5	0	22	13

## Physical investments by geography at 30 June 2021

Region	Total exposure (%)
Australia	30
United States of America	34
Europe (ex-UK)	7
United Kingdom	3
Japan	6
Developed (other)	8
Emerging	11

## Costs

### Cost management

We closely monitor costs in the asset classes in which we invest, and review the expected returns and costs of implementing the investment strategy on an ongoing basis.

In negotiating fee arrangements, we focus on securing arrangements that offer value-for-money for skill and resources applied, that are competitive relative to other managers in the sector, and that provide for strong alignment between managers and our organisation.

All returns reported are net of costs.

### Direct costs

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

The ATSILS Fund's direct costs for 2020-21 are shown on the following page. This includes the direct cost ratio (direct costs divided by the average net assets for the financial year).

### Summary of direct costs and direct cost ratio

	2018-19 (1 February to 30 June 2019)	2019-20	2020-21
Direct costs	\$0.3 million	\$4.3 million	\$4.2 million
Direct cost ratio	0.037%	0.216%	0.209%

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

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

Purpose	Amount debited 2018-19 (1 February to 30 June 2019)	Amount debited 2019-20	Amount debited 2020-21
Contracts with investment managers	\$77,496	\$369,936	\$3,696,571
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	\$64,383	\$380,305	\$602,213

**Note:**

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

## Future Drought Fund

### Interpreting the Investment Mandate

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

The Fund was established with a capital contribution of \$4.0 billion, transferred from the Building Australia Fund.

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

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

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

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

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

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

### Risk positioning

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

The Board believes that an EEE of 40.5 corresponds to a structural risk level for the Future Drought Fund that is consistent with a relatively high probability of achieving the CPI + 2.0% over the long term, at the lower end of the benchmark return range.

The structural risk level of the Future Drought Fund was increased in 2020-21. Prior to this increase, the Future Drought Fund had a structural EEE of 36. The decision to increase risk was premised on a refreshed secular outlook, which considered the long-term economic and market trends catalysed and accelerated by the COVID-19 pandemic.

In accordance with our investment process, we aim to build a portfolio with a relatively high degree of resilience to the investment environment.

We seek genuine diversification that achieves greater balance in portfolio construction, while allocating risk in a flexible and dynamic manner.

### Currency

We explicitly manage the size and composition of the foreign currency exposures in the portfolio, rather than allowing them to be shaped by our underlying investments.

At 30 June 2021, we held an exposure to foreign developed market currencies equivalent to 19% of the total Future Drought Fund. We expect our basket of developed market currencies to diversify the portfolio against broad market risk and generate liquidity in adverse conditions.

We also held an exposure of 9% of the Future Drought Fund to emerging market currencies at 30 June 2021.

We expect a diversified exposure to emerging market currencies to deliver a modest excess return through some combination of gradual real effective exchange rate appreciation and/or positive real interest rate differentials relative to the Australian dollar.

Given that we expect its performance to be uncorrelated with broad market risk over the long term, we consider our basket of emerging market currencies to be an attractive risk-adjusted exposure at portfolio level.

## Performance

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

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

Future Drought Fund returns at 30 June 2021 are below.

At 30 June 2021, the Fund was valued at \$4.6 billion.

### Future Drought Fund returns and target benchmarks at 30 June 2021

Period to 30 June 2021	Return (% pa)	Target return <sup>1</sup> (% pa)
From inception <sup>2</sup> (1 April 2020)	14.1	3.5
2020-21 financial year	14.0	5.8

**Notes:**

<sup>1</sup> CPI + 2.0% to 3.0% per annum over the long term, with acceptable but not excessive level of risk. It should be noted that, given the fund's recent establishment, a long-term assessment of performance cannot yet be made.

<sup>2</sup> Prior to inception the Future Drought Fund was in an initial transition period from 1 September 2019 to 31 March 2020 with a return of 0.7% against a target return of 0.6%.

## Portfolio exposures

### Asset allocation at 30 June 2021<sup>1</sup>

Asset class	\$m	% of Fund
Australian equities	284	6.2
<b>Global equities</b>		
Developed markets	616	13.4
Emerging markets	308	6.7
Private equity	276	6.0
Property	222	4.8
Infrastructure & Timberland	237	5.2
Debt securities	670	14.6
Alternatives	898	19.5
Cash	1,089	23.7
<b>Total</b>	<b>4,601</b>	<b>100.0</b>

**Note:**

<sup>1</sup> Exposures on a look-through basis.

## Asset class exposures at 30 June 2021<sup>1</sup>

Listed equities	
Sector	Exposure (%)
Energy	3
Materials	10
Industrials	9
Consumer discretionary	13
Consumer staples	6
Healthcare	10
Real estate	2
Financials	19
Information technology	19
Communication services	8
Utilities	2
Private equity	
Strategy	Exposure (%)
Buyout	70
Distressed	2
Venture and growth	29
Property	
Sector	Exposure (%)
Retail	12
Office	12
Industrial	21
Residential	14
Diversified	30
Seniors living	1
Healthcare	5
Hospitality	3

Infrastructure & Timberland	
Sector	Exposure (%)
Airports	2
Electricity, oil and gas	35
Transport	13
Timberland	0
Water	4
Communications	46
Debt	
Strategy	Exposure (%)
Private debt	10
Investment-grade corporate	11
Sub-investment-grade corporate	38
Mortgage-backed/secured credit	11
Emerging markets debt	20
Cash and other	10
Alternatives	
Strategy	Exposure (%)
Equitised	7
Multi-strategy / relative value	45
Macro-directional	26
Alternative risk premia	16
Global Alpha	5

**Note:**

<sup>1</sup>Exposures on a look-through basis.

## Asset class exposures by geography at 30 June 2021

Region	Listed equities (%)	Private equity (%)	Property (%)	Infrastructure & Timberland (%)	Debt (%)	Alternatives (%)
Australia	23	5	3	32	8	3
United States of America	36	59	58	40	49	58
Europe (ex-UK)	7	11	10	13	10	12
United Kingdom	2	5	4	2	6	4
Japan	4	1	8	3	1	6
Developed (other)	3	5	13	10	5	4
Emerging	26	14	5	0	22	13

## Physical investments by geography at 30 June 2021

Region	Total exposure (%)
Australia	30
United States of America	34
Europe (ex-UK)	7
United Kingdom	3
Japan	7
Developed (other)	8
Emerging	11

## Costs

### Cost management

We closely monitor costs in the asset classes in which we invest, and review the expected returns and costs of implementing the investment strategy on an ongoing basis.

In negotiating fee arrangements, we focus on securing arrangements that offer value-for-money for skill and resources applied, that are competitive relative to other managers in the sector, and that provide for strong alignment between managers and our organisation.

All returns reported are net of costs.

### Direct costs

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

The Future Drought Fund's direct costs for 2020-21 are shown on the following page. This includes the direct cost ratio (direct costs divided by the average net assets for the financial year).

## Summary of direct costs and direct cost ratio

	2019-20 (1 September 2019 to 30 June 2020)	2020-21
Direct costs	\$8.5 million	\$8.9 million
Direct cost ratio	0.255%	0.208%

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

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

Purpose	Amount debited 2019-20 (1 September 2019 to 30 June 2020)	Amount debited 2020-21
Contracts with investment managers	\$857,345	\$7,462,119
Board remuneration and allowances	-	-
Agency remuneration and allowances	-	-
Consultants and advisers to the Board and Agency	-	-
Agency operations	\$178,922	\$1,285,249

**Note:**

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

## Emergency Response Fund

### Interpreting the Investment Mandate

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

The Fund was established with a capital contribution of \$4.0 billion, transferred from the Education Investment Fund.

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

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

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

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

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

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

### Risk positioning

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

The Board believes that an EEE of 40.5 corresponds to a structural risk level for the Emergency Response Fund that is consistent with a relatively high probability of achieving the CPI + 2.0% over the long term, at the lower end of the benchmark return range.

The structural risk level of the Emergency Response Fund was increased in 2020-21. Prior to this increase, the Emergency Response Fund had a structural EEE of 36. The decision to increase risk was premised on a refreshed secular outlook, which considered the long-term economic and market trends catalysed and accelerated by the COVID-19 pandemic.

In accordance with our investment process, we aim to build a portfolio with a relatively high degree of resilience to the investment environment.

We seek genuine diversification that achieves greater balance in portfolio construction, while allocating risk in a flexible and dynamic manner.

### Currency

We explicitly manage the size and composition of the foreign currency exposures in the portfolio rather than allowing them to be shaped by our underlying investments.

At 30 June 2021, we held an exposure to foreign developed market currencies equivalent to 19% of the total Emergency Response Fund.

We expect our basket of developed market currencies to diversify the portfolio against broad market risk and generate liquidity in adverse conditions.

We also held an exposure of 9% of the Emergency Response Fund to emerging market currencies at 30 June 2021.

We expect a diversified exposure to emerging market currencies to deliver a modest excess return through some combination of gradual real effective exchange rate appreciation and/or positive real interest rate differentials relative to the Australian dollar.

Given that we expect its performance to be uncorrelated with broad market risk over the long term, we consider our basket of emerging market currencies to be an attractive risk-adjusted exposure at portfolio level.

## Performance

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

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

Emergency Response Fund returns at 30 June 2021 are shown below.

At 30 June 2021, the Emergency Response Fund was valued at \$4.7 billion.

## Emergency Response Fund returns and target benchmarks at 30 June 2021

Period to 30 June 2021	Return (% pa)	Target return <sup>1</sup> (% pa)
From inception <sup>2</sup> (1 April 2020)	14.0	3.5
2020-21 financial year	13.9	5.8

### Notes:

<sup>1</sup> CPI + 2.0% to 3.0% per annum over the long term, with acceptable but not excessive level of risk. It should be noted that, given the fund's recent establishment, a long-term assessment of performance cannot yet be made.

<sup>2</sup> Prior to inception the Emergency Response Fund was in an initial transition period from 12 December 2019 to 31 March 2020 with a return of 0.4% against a target return of 0.3%.

## Portfolio exposures

### Asset allocation at 30 June 2021<sup>1</sup>

Asset class	\$m	% of Fund
Australian equities	288	6.2
<b>Global equities</b>		
Developed markets	625	13.4
Emerging markets	313	6.7
Private equity	280	6.0
Property	225	4.8
Infrastructure & Timberland	241	5.2
Debt securities	679	14.6
Alternatives	911	19.6
Cash	1,093	23.5
<b>Total</b>	<b>4,654</b>	<b>100.0</b>

### Note:

<sup>1</sup> Exposures on a look-through basis.

## Asset class exposures at 30 June 2021<sup>1</sup>

Listed equities	
Sector	Exposure (%)
Energy	3
Materials	10
Industrials	9
Consumer discretionary	13
Consumer staples	6
Healthcare	10
Real estate	2
Financials	19
Information technology	19
Communication services	8
Utilities	2
Private equity	
Strategy	Exposure (%)
Buyout	70
Distressed	2
Venture and growth	29
Property	
Sector	Exposure (%)
Retail	12
Office	12
Industrial	21
Residential	14
Diversified	30
Seniors living	1
Healthcare	5
Hospitality	3

Infrastructure & Timberland	
Sector	Exposure (%)
Airports	2
Electricity, oil and gas	35
Transport	13
Timberland	0
Water	4
Communications	46
Debt	
Strategy	Exposure (%)
Private debt	10
Investment-grade corporate	11
Sub-investment-grade corporate	38
Mortgage-backed/secured credit	11
Emerging markets debt	20
Cash and other	10
Alternatives	
Strategy	Exposure (%)
Equitised	7
Multi-strategy / relative value	45
Macro-directional	26
Alternative risk premia	16
Global Alpha	5

**Note:**

<sup>1</sup> Exposures on a look-through basis.

## Asset class exposures by geography at 30 June 2021

Region	Listed equities (%)	Private equity (%)	Property (%)	Infrastructure & Timberland (%)	Debt (%)	Alternatives (%)
Australia	23	5	3	32	8	3
United States of America	36	59	58	40	49	58
Europe (ex-UK)	7	11	10	13	10	12
United Kingdom	2	5	4	2	6	4
Japan	4	1	8	3	1	6
Developed (other)	3	5	13	10	5	4
Emerging	26	14	5	0	22	13

## Physical investments by geography at 30 June 2021

Region	Total exposure (%)
Australia	30
United States of America	34
Europe (ex-UK)	7
United Kingdom	3
Japan	7
Developed (other)	8
Emerging	11

## Costs

### Cost management

We closely monitor costs in the asset classes in which we invest and review the expected returns and costs of implementing the investment strategy on an ongoing basis.

In negotiating fee arrangements, we focus on securing arrangements that offer value-for-money for skill and resources applied, that are competitive relative to other managers in the sector, and that provide for strong alignment between managers and our organisation.

All returns reported are net of costs.

### Direct costs

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

The Emergency Response Fund's direct costs since 2019 are shown on the following page. This includes the direct cost ratio (direct costs divided by the average net assets for the financial year).

### Summary of direct costs and direct cost ratio

	2019-20 (12 December 2019 to 30 June 2020)	2020-21
Direct costs	\$8.4 million	\$8.9 million
Direct cost ratio	0.359%	0.205%

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

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

Purpose	Amount debited 2019-20 (12 December 2019 to 30 June 2020)	Amount debited 2020-21
Contracts with investment managers	\$703,456	\$7,567,917
Board remuneration and allowances	-	-
Agency remuneration and allowances	-	-
Consultants and advisers to the Board and Agency	-	-
Agency operations	\$93,562	\$1,294,933

**Note:**

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

## DisabilityCare Australia Fund

### Interpreting the Investment Mandate

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

In summary, the Mandate:

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

### Risk positioning

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

The Government has indicated that it expects to make additional capital contributions to the Fund, as well as withdrawals to reimburse States, Territories and the Commonwealth for expenditure incurred in relation to the NDIS.

We continue to focus on maintaining additional liquidity to help manage transaction costs and the timing of cash flows as they are confirmed.

### Performance

In 2020-21, the DisabilityCare Australia Fund generated an investment return of 0.4%, against its benchmark target return of 0.4%.

The value of the Fund was \$ 15.5 billion at 30 June 2021.

### Portfolio exposures

#### Asset class exposures at 30 June 2021

Debt	
Strategy	Exposure (%)
Investment-grade corporate	14
Mortgage-backed/secured credit	31
Cash and other	55

#### Portfolio by geography at 30 June 2021

Region	Exposure (%)
Australia	68
United States of America	14
Europe (ex-UK)	7
United Kingdom	4
Japan	5
Developed (other)	2

## Costs

### Cost management

We continue to closely monitor costs in the asset classes in which we invest, reviewing the expected returns and costs of implementing the investment strategy on an ongoing basis.

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

### Direct costs

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

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

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

### Summary of direct costs and direct cost ratio

	2018-19	2019-20	2020-21
Direct costs	\$10.8 million	\$12.6 million	\$12.8 million
Direct cost ratio	0.073%	0.077%	0.082%

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

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

Purpose	Amount debited 2018-19	Amount debited 2019-20	Amount debited 2020-21
Contracts with investment managers	\$7,568,294	\$12,727,730	\$10,192,434
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	\$1,065,443	\$1,260,811	\$1,226,094

**Note:**

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

# 04

## Governance and accountability

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

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

The core legislation provides the Australian Government, through the responsible Ministers (the Treasurer and the Minister for Finance), 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 issuing of Investment Mandate Directions to the Board for each of the funds. The legal framework retains beneficial ownership of the assets of each fund in the Commonwealth. It also states the purpose of each fund and sets out the arrangements for contributions to, and withdrawals from, the various funds.

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

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

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

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

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

## Accountability

The legislation provides accountability arrangements for the organisation, including the tabling in Parliament of an annual report and audited financial statements. We also publish quarterly portfolio updates to provide details of the investment activity and performance of our funds.

Other public updates are provided in the form of published speeches and comments to the media, position papers, a Corporate Plan, and a Year in Review. We are required to keep the responsible Ministers informed of the operations of the organisation and provide data to the Department of Finance for the purpose of producing its financial statements and other reports.

The Minister for Finance may also, by written notice, require us to prepare reports or provide information on specified matters relating to the performance of our functions.

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

We routinely appear before public Estimates Hearings of the Senate Committee on Finance and Public Administration to provide the Committee with updates on our operations and the performance of the funds.

In 2020-21, we appeared at hearings in October 2020, March 2021 and May 2021. These public hearings are based upon the outcome and output structure detailed in the Portfolio Budget Statements.

## Future Fund Board of Guardians

At 30 June 2021, the Future Fund Board consisted of a Chair and five other members.

As noted in the previous section, members are appointed by the Treasurer and the Minister for Finance and are selected for their expertise in investing in financial assets, managing investments and/or corporate governance.

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

### Hon Peter Costello AC, Chairman

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



Mr Costello served as a member of the House of Representatives from 1990 to 2009 and was Treasurer of the Commonwealth of Australia from March 1996 to December 2007.

He has been Chair of the G20 Central Bank Governors and Finance Ministers, the OECD Ministerial Council, the APEC Finance Ministers, and a Governor of the IMF, World Bank and Asian Development Bank.

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

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

### Mrs Patricia Cross

Mrs Cross was appointed with effect from 11 May 2021 for a five-year term.



Mrs Cross has extensive international experience across a wide range of financial services and other industries.

She has lived and worked in seven different countries holding a number of senior leadership positions with Chase, BNP and National Australia Bank where she also served on the NAB's Executive Committee.

Mrs Cross began her career in the U.S. public service and is an honours graduate of Georgetown University's School of Foreign Service. She has expertise in capital markets, risk management, corporate governance, treasury and international affairs.

Mrs Cross was Chair of the Commonwealth Superannuation Corporation until 30 June 2021, and is a Director of Transurban Ltd, and Aviva plc, and an Ambassador for the Australian Indigenous Education Foundation. She has served as a Non-Executive director with Macquarie Group, the National Australia Bank, Qantas and Wesfarmers.

Mrs Cross has held honorary government positions including as a founding member of the Financial Sector Advisory Council and as a member of the Panel of Experts to the Australian Financial Centre Forum. Mrs Cross was the founding Chair of the 30% Club in Australia, a founding director of the Grattan Institute, and a long-serving director of the Murdoch Children's Research Institute. She was awarded a Centenary Medal for services to the financial services industry, and a lifetime fellowship of the Australian Institute of Company Directors for the advancement of women in corporate Australia.

## Ms Erin Flaherty

Ms Flaherty was appointed with effect from 3 April 2016 for a five-year term. Her service on the Board concluded on 2 April 2021.



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

Her appointments include Chair of Moorebank Intermodal Company, Non-Executive Director of Primewest Group Limited and Non-Executive Director of the Police and Citizens Youth Clubs NSW, the Australian Chamber Orchestra and a Trustee of the Sydney Cricket and Sports Ground Trust.

Ms Flaherty is also National Chair, Professional Scholarship Selection Committee for the Australian-American Fulbright Commission. She holds a Bachelor of Arts (Politics) and a Bachelor of Jurisprudence and Law from the University of Western Australia and a Master of Laws from Sydney University.

## Mr John Fraser

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



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

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

In 2001 he received a Centenary Medal for service to Australian society through business and economics. In 2021, he was appointed to represent Australia as one of three observers (the others being Korea and India) to the G7 Panel on Economic Resilience.

### Ms Carolyn Kay

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



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

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

Ms Kay holds Bachelor Degrees in Law and Arts (University of Melbourne) and a Graduate Diploma in Management (AGSM).

### Mr John Poynton AO

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



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

Mr Poynton was appointed an Officer of the Order of Australia for services to the community and business and is a past recipient of a Western Australian Citizen of the Year award in the Industry and Commerce category. He holds a Bachelor of Commerce and an honorary Doctor of Commerce from the University of Western Australia.

### Mr Michael Wachtel

Mr Wachtel was appointed with effect from 3 April 2016 for a five-year term. He was reappointed for a four-year term with effect from 3 April 2021.



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

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

### Dr Jane Wilson

Dr Wilson was appointed with effect from 14 April 2015 for a five-year term. She was reappointed for a further one-year term with effect from 14 April 2020. Her service on the Board concluded on 13 April 2021.



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

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

## Board and Board Committee membership 2020-21

Board/Committee	Members
<b>Future Fund Board of Guardians</b> Responsible for the investment of the public asset funds in accordance with the relevant legislation and Directions.	Hon Peter Costello AC (Chair) Mrs Patricia Cross <sup>4</sup> Ms Erin Flaherty <sup>2</sup> Mr John Fraser Ms Carolyn Kay Mr John Poynton AO Mr Michael Wachtel Dr Jane Wilson <sup>3</sup>
<b>Audit and Risk Committee<sup>1</sup></b> Focuses on the control framework, external accountability, legislative compliance, internal and external audit, and the appropriate identification and management of risks.	Mr Michael Wachtel (Chair) Mrs Patricia Cross <sup>4</sup> Ms Erin Flaherty <sup>2</sup> Mr John Fraser Ms Carolyn Kay Mr John Poynton AO Dr Jane Wilson <sup>3</sup>
<b>Remuneration and Nominations Committee</b> Focuses on remuneration and appointment matters for staff and appointments to boards of investment companies.	Hon Peter Costello AC (Chair) Mr John Fraser Ms Carolyn Kay Mr Michael Wachtel
<b>Conflicts Committee</b> Provides oversight of, and advises the Board in relation to, any questions of possible conflicts of interest arising for Board and Board Committee members.	Mr John Poynton AO (Chair) Ms Erin Flaherty <sup>2</sup> Mr John Fraser Dr Jane Wilson <sup>3</sup>
<b>Transaction Committee</b> Provides support and assistance to the Board in respect of any transaction, matter or issue as referred to the Committee by the Board from time to time.	Hon Peter Costello AC (Chair) Mr John Fraser Ms Carolyn Kay

### Notes:

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

<sup>2</sup> Ms Erin Flaherty's Board term ceased on 2 April 2021 and therefore committee membership also ceased as at that date.

<sup>3</sup> Dr Jane Wilson's Board term ceased on 13 April 2021 and therefore committee membership also ceased as at that date.

<sup>4</sup> Mrs Patricia Cross was appointed to the Board on 11 May 2021, and as a member of the Audit and Risk Committee with effect from 25 May 2021.

Information on Board remuneration can be found on page 85 under Remuneration for key management personnel.

Board members receive no additional fees for membership of the Audit and Risk Committee or other Board committees.

## Board and Board Committee attendance 2020-21

Member	Future Fund Board of Guardians		Audit and Risk Committee		Remuneration and 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	8	8	0	5	3	3
Mrs Patricia Cross	1	1	0	0	0	0
Ms Erin Flaherty	7	7	5	4	0	1
Mr John Fraser	8	8	5	5	3	3
Ms Carolyn Kay	8	8	5	5	3	2
Mr John Poynton AO	8	8	5	5	0	3
Mr Michael Wachtel	8	8	5	5	3	3
Dr Jane Wilson	7	7	5	4	0	1

### Notes:

The Conflicts Committee and the Transaction Committee are ad-hoc committees and meet on an as-needed basis. The Conflicts Committee and the Transaction Committee did not formally convene during the 2020-21 financial year. Board Members are able to attend meetings of committees of which they are not a member.

## Future Fund Management Agency

The Board is supported by the Agency.

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

The Chair of the Board is the Accountable Authority for the Agency, although operational management has been delegated to the Chief Executive Officer. In 2020-21 the Chair of the Board and the Accountable Authority for the Agency was the Hon Peter Costello AC.

To support the Agency's new business plan, a new organisational structure was implemented with effect from 1 March 2021.

## Change from Management Committee to Senior Leadership Team

Following the refreshed organisational structure implementation, the Management Committee (MC) took the opportunity to review its purpose and construct and consider how it would optimally operate to align with the new organisational structure, and best support the business plan and future growth and direction of the Agency.

As a result of this the review the Management Committee (MC) evolved to become the Senior Leadership Team (SLT) from 4 May 2021. The SLT is collectively responsible for leading the Agency, including setting strategy and prioritising activity to deliver the Agency's purpose, and acting as custodians and role models of the Agency's culture.

#### Management Committee from 1 July 2020 to 3 May 2021:

- > Dr Raphael Arndt, Chief Executive Officer
- > Ms Sue Brake, Deputy Chief Investment Officer, Portfolio Strategy/Acting Chief Investment Officer/Chief Investment Officer
- > Mr David George, Deputy Chief Investment Officer, Public Markets
- > Mr Richard Large, Chief Technology Officer<sup>1</sup>
- > Mr Paul Mann, Chief Financial Officer<sup>1</sup>
- > Mr Gordon McKellar, Chief Operating Officer
- > Ms Elizabeth McPherson, Chief Culture Officer<sup>1</sup>
- > Ms Wendy Norris, Deputy Chief Investment Officer, Private Markets
- > Mr Cameron Price, General Counsel and Chief Risk Officer

#### Notes:

<sup>1</sup> Mr Richard Large, Mr Paul Mann and Ms Elizabeth McPherson concluded their terms on the MC on 26 February 2021.

#### Senior Leadership Team from 4 May 2021:

- > Dr Raphael Arndt, Chief Executive Officer
- > Ms Sue Brake, Chief Investment Officer
- > Mr David George, Deputy Chief Investment Officer, Public Markets
- > Mr Will Hetherington, Head of Corporate Affairs
- > Mr Gordon McKellar, Chief Operating Officer
- > Ms Wendy Norris, Deputy Chief Investment Officer, Private Markets
- > Mr Cameron Price, General Counsel and Chief Risk Officer
- > Ms Kimberley Reid, Interim Chief People and Culture Officer

#### Senior Leadership Team:

##### Dr Raphael Arndt

*Chief Executive Officer*



Dr Raphael Arndt commenced as the Chief Executive Officer of the Future Fund on 1 July 2020.

He served as the Chief Investment Officer of the Future Fund from 2014 to 2020 and was previously the Future Fund's Head of Infrastructure and Timberland, where he was responsible for establishing both the Infrastructure and Timberland investment programs.

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

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

##### Ms Sue Brake

*Chief Investment Officer –  
at 1 December 2020*

*Acting Chief Investment Officer –  
1 July 2020 to 30 November 2020*

*Deputy Chief Investment Officer, Portfolio  
Strategy – 1 July 2020 to 30 June 2021*



Ms Brake joined the Future Fund in 2019 as Deputy Chief Investment Officer, Portfolio Strategy. She was appointed Chief Investment Officer in December 2020 after a six-month acting period. In her role she has overall responsibility for developing and implementing the investment strategy for the Future Fund and five other public asset funds.

She joined the Future Fund from Willis Towers Watson, where she was Head of Strategic Advisory. Prior to this she worked as senior investment strategist at NZ Super Fund.

Ms Brake holds a Master of Psychology from Canterbury University as well as Bachelor degrees in Mathematics, Computer Science and English Literature.

### Mr David George

*Deputy Chief Investment Officer,  
Public Markets*

Mr George joined the Future Fund in 2008, serving as Deputy Chief Investment Officer, Public Markets from April 2018.

From 2008 to 2018 he was a member of the Fund's Debt and Alternatives team, leading it from 2013 to 2018. He held prior consulting and investment roles at Mercer, the Royal Bank of Canada and Integra Capital.

Mr George holds a degree in economics from Western University in Canada, is a CFA and CAIA Charter holder, sits on the Board of the CAIA Association, and is a trustee of the Standards Board of Alternative Investments.



### Mr Gordon McKellar

*Chief Operating Officer*

Mr McKellar joined the Future Fund in 2007 to establish the operational capabilities required to enable the investment program.

He was appointed Chief Operating Officer in 2012. In March 2021 his role was expanded to oversee the Investment and Business Operations group.

Mr McKellar has over 30 years of experience in funds management and asset servicing. He was previously Head of Operations at BNP Paribas in Sydney and prior to this held several operational and client management roles with Deutsche Bank and Bankers Trust in New York, Sydney, and the United Kingdom.



### Mr Will Hetherton

*Head of Corporate Affairs*

Mr Hetherton joined the Future Fund in 2007 as Head of Public Affairs. He was appointed to lead an expanded corporate affairs function in May 2021.

Before joining the Future Fund, Mr Hetherton spent five years in the corporate affairs team at National Australia Bank including roles in Australia and the United Kingdom. Previously he worked in corporate affairs consulting. He is a member of the Advisory Committee of the International Forum of Sovereign Wealth Funds.

He holds a degree in Philosophy, Politics and Economics from New College, Oxford, and a post-graduate certificate in Applied Finance from Kaplan Professional.



### Ms Wendy Norris

*Deputy Chief Investment Officer,  
Private Markets*

Ms Norris joined the Future Fund in April 2010. She is responsible for managing the strategy for the Private Markets portfolio, which includes Infrastructure and Timberland, Private Equity and Property.

Prior to this role she was Head of Infrastructure and Timberland. Ms Norris was previously an Investment Director with Hastings Funds Management where she was responsible for managing infrastructure investments and leading transactions in Australia, the United Kingdom and the United States of America.

She holds an Applied Science degree from the University of New South Wales and a graduate management diploma from the Australian Graduate School of Management.



### Mr Cameron Price

*General Counsel and Chief Risk Officer*

Mr Price joined the Future Fund in March 2014 as General Counsel. He took up the additional position of Chief Risk Officer in March 2018.



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

Mr Price holds a Bachelor of Economics and a Bachelor of Laws (Hons) from Monash University.

### Ms Kimberley Reid

*Interim Chief People and Culture Officer*

Kimberley Reid joined the Future Fund in May 2021 as the Interim Chief People and Culture Officer.



Prior to this role, she was Executive General Manager, Organisation Effectiveness and Strategic Leadership at the Commercial Bank of Qatar and Chair of the Board Audit and Compliance Committee, Alternatif Bank, Turkey. She started her career as a lawyer at Allens Arthur Robinson and worked at the Federal Court of Australia and the Commonwealth Human Rights Commission.

Ms Reid holds a Bachelor of Arts (Hons) and a Bachelor of Laws (Hons) from the University of Melbourne and a Master of Public Administration from the Harvard Kennedy School in Cambridge, Massachusetts.

### Staff who concluded their terms on the Management Committee on 26 February 2021:

#### Mr Richard Large

*Chief Technology Officer*

Mr Large joined the Future Fund in 2019. He was formerly Global Head of Business Systems at Aberdeen Asset Management for 15 years and has over 25 years of experience in the investment management industry.

Mr Large has implemented investment capabilities to support portfolio management for a wide range of asset types, including equities, fixed income, multi-asset, quants, private equity, fund of funds and property. He previously held senior technology and operations roles at Prudential Portfolio Managers and M&G Investments.



#### Mr Paul Mann

*Chief Financial Officer*

Mr Mann commenced his role as Chief Financial Officer in 2007. He served as acting Managing Director between 1 March and 4 August 2014.

He is a CFA Charterholder and a Chartered Accountant with an extensive audit background in financial services gained at PricewaterhouseCoopers in Australia and the United Kingdom. He also has five years' experience in the provision of fund accounting and tax reporting services to investment clients gained at National Australia Bank in Melbourne.



#### Ms Elizabeth McPherson

*Chief Culture Officer*

Ms McPherson joined the Future Fund in 2010 and held the position of Chief Culture Officer since 2014.

Ms McPherson has a Master of Leadership, postgraduate qualifications in Change Management and in Employee Relations, as well as undergraduate qualifications in HR and Business.

Ms McPherson was part of the Promina Insurance leadership team when it merged with Suncorp in 2007 and remained with Suncorp until 2010, leading organisational design and change management initiatives. Previously, she worked with CSL and Wesfarmers, Mandarin Oriental Hotel Group Hong Kong, and with the South African Government.



## Risk management

The Agency places the utmost importance on the sound management of risk, believing that good risk management underpins a successful organisation and forms an integral part of the governance framework and organisational culture.

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

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

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

## Monitoring and managing risk

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

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

The Board has overall responsibility for risk management for the organisation. This includes setting the risk appetite and acceptance of the residual risk rating for each key risk identified in the organisation's Risk Register.

The Board sets the investment risk appetite (via control ranges, limits and other directions) within which the Agency's relevant investment team should operate.

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

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

- > The Investment Committee.
- > The Operational Risk and Compliance Committee.

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

## Risk culture

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

- > championing quality risk conversations at key Agency and Board committees
- > steering the organisation towards appropriate responses to incidents, including any appropriate training or adjustments to controls
- > developing and implementing a framework that facilitates clarity of individual roles, responsibilities and accountabilities
- > ensuring the Agency's risk culture is understood by every staff member.

## Internal audit

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

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

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

## External audit

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

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

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

## Fraud control

The organisation is committed to maintaining a strong fraud control framework which is designed to protect the assets, integrity and reputation of the organisation.

The aim is to reduce the risk of fraudulent activity by increasing the emphasis on strong controls, ethics and judgement. This complements the various legislative requirements, which provide the necessary codification and compliance.

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

The Agency also implements detailed staff training programs aimed at enabling staff to understand what constitutes fraudulent activity; what their obligations and duties are in identifying and reporting on possible fraud and corruption; and how to access the Agency's multi-channel internal and external fraud and corruption reporting mechanisms.

The Audit and Risk Committee reviewed and approved the organisation's Fraud and Corruption Control Plan in December 2020.

## Cyber security

The organisation is committed to providing a secure technology environment to safeguard the assets of the Commonwealth. We take a vigilant approach to the management of cyber risk, and any threat that could potentially impact our internal systems and processes.

As part of the Agency's internal control framework, a sophisticated, industry-aligned IT risk management framework has been established to provide assurance that IT-related risks, including cyber risk, are identified, managed and monitored.

A defence-in-depth cyber security strategy has been implemented to assist in identifying, managing, and monitoring the cyber security landscape, threats, technologies and controls.

As part of this, we implement the Australian Signal Directorate's (ASD's) mitigation strategies to prevent a cyber intrusion, and we engage with the ASD and the Australian Cyber Security Centre (ACSC) on a regular basis.

We also apply the Australian Government's Protective Security Policy Framework (PSPF) to achieve four protective security outcomes, one of which is information security.

In early 2021 the Australian National Audit Office (ANAO) published an audit report into the Cyber Security Strategies of Non-Corporate Commonwealth Entities. The Agency was one of nine non-corporate Commonwealth entities included in the 2020 audit.

The audit included an assessment of whether the entities selected had accurately self-assessed their maturity of the Top Four cyber security mitigation strategies in their 2018-19 PSPF assessment, with the ANAO finding that the Future Fund had accurately self-assessed its maturity.

The cyber security strategy is implemented via the Technology Risk and Security Uplift Program, which is reviewed and updated periodically, with progress reported on a regular basis to our internal risk governance committees.

# 05

## Our people

### Life at the Future Fund

We all want to make a difference.

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

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

Our people come to work every day expecting to use their skills and expertise to do meaningful work, with the opportunity to learn, to grow professionally, and to contribute to the ongoing and future success of our organisation.

Our 'One team, One purpose' philosophy drives our unique culture and underpins the way we work together. The philosophy extends into all aspects of our organisation and guides how and why we do what we do.

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

Our values define our way of working – the character and behaviour we embed into the way we behave and interact. They are:

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

### Investing in our people and culture

As a sophisticated global investment institution, financial returns are an important measure of success. The strength and quality of our organisation and the calibre of our people are important contributors to this.

The 2020-21 year was another challenging year for our people, as the ongoing disruptions of the COVID-19 pandemic continued to reverberate around Australia and the world.

The Agency's workforce in Victoria continued working from home up until February 2021 when a staggered transition into the new Melbourne offices at 447 Collins Street commenced, in alignment with government guidelines and restrictions, and in order to assist staff to reacquire themselves with an office working environment.

Melbourne's fourth lockdown in June 2021 disrupted this and forced staff to again work from home for most of the month until a staggered return to the office recommenced late in the month.

The Agency and its staff in Melbourne and in Sydney have now successfully pivoted on a number of occasions to working from home during lockdowns, with recent targeted technology initiatives making this significantly easier.

All staff use a combination of Agency-approved technologies such as the Microsoft 365 suite of applications and bespoke technology capabilities that have ensured our people have been able to continue their roles safely, efficiently and effectively amidst the disruptions.

### Supporting our people during COVID-19

As the COVID-19 pandemic disruptions and restrictions have continued across the country, we have maintained our commitment to implementing programs and initiatives to support our people and keep them connected and engaged.

This includes a 'buddy' program that connected team members from different parts of the business, and a significant increase in internal communication activity to ensure our staff felt informed, connected and united as a team. Pleasingly, we have seen increased uptake and engagement across the organisation in these initiatives, as well as the availability of coaching and other career and personal support alternatives.

We have continued our periodic lunch-and-learn staff forums that feature internal or external guest speakers providing insights on relevant topics of interest. These forums provide staff with the opportunity to learn and grow professionally and to connect with one another.

We also continued to run a number of bespoke health and wellness initiatives throughout the year, including a well-attended Spring-Into-Spring challenge which ran for a number of weeks, with staff encouraged to get involved

in a wide range of health and wellness activities, including weekly interactive masterclasses, movement and meditation classes, and goal setting.

During the ongoing disruptions of the pandemic, our people were also encouraged to regularly check in with each other, including with colleagues from other teams and offices, and wherever required, to make use of the Employee Assistance Program.

As the challenges of the pandemic have continued on past this financial year, the Agency will continue to focus on supporting the safety and wellbeing of our people.

### Supporting our people with technology

While the Agency continued to adjust and adapt to the changing circumstances of 2020-21, we looked to strengthen and stabilise our technology services. Three key initiatives were enacted by the Technology Team to support our staff working from home.

- 1. Increased at-home technology support** – we developed a new policy on equipment provision, and boosted capacity, reliability and performance of the Agency virtual private network. Changes were also made to reduce the complexity of our network, which led to service improvements.
- 2. Increased collaboration** – MS Teams was rolled out to support better online collaboration and communication.

A strategic project was implemented to roll out the entire Microsoft 365 (M365) suite of applications, with the project governance including representatives from all business units as well as the Communications, Change, and Learning and Development teams. Targeted user training was also provided and a dedicated support channel on MS Teams was introduced. Video conferencing was also made simpler and more streamlined across the Agency.

- 3. Increased mobility** – The M365 suite of mobile apps were rolled out on Agency devices which integrated with the existing Microsoft ecosystem. This provided our team with a familiar environment and productivity benefits.

Our commitment to continuous improvement has also been extended to this area and ongoing feedback is sought with upgrades implemented regularly.

A highlight of the new offices when they opened was a dedicated technology help desk in our Melbourne office. This new dedicated onsite team has improved efficiency and provided our people with greater access to the individuals delivering frontline technology support. It has also provided an opportunity to educate and support the broader Agency team on these new enabling technologies.

## Flexible working

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

Our flexible work policy enables staff to make choices about when, where and for how long they engage in work-related tasks, supporting staff to manage their own time to balance the multiple demands from life and work.

This policy also facilitates formal flexible work arrangements for staff, including work flexibility and leave arrangements for primary and secondary carers.

While the move to working from home was driven by necessity related to the pandemic, we are focused on using these experiences to validate and shape our model to address flexible working going forward. This includes manager training and guidance in terms of managing teams working flexibly, and understanding the workplace health and safety implications in a working-from-home situation.

## Diversity and inclusion

We have a strong commitment to diversity and inclusion. We recognise the value of attracting, retaining and leveraging the contributions of staff with different backgrounds, knowledge, experiences, perspectives and abilities, and acknowledge and value the significant contribution that a diverse composition makes to our ongoing success.

We demonstrate this commitment through the promotion of diversity and equal opportunity to create an environment where individual differences are valued and all employees have the opportunity to realise their potential, contribute to the Agency's success and be rewarded in an equal and merit-based way.

The strategy includes diversity initiatives aligned to the current and emerging needs of the Agency's workforce and encompasses gender, age, culture and other identified diversity demographics.

The Agency is committed to:

- > an inclusive workplace that embraces individual differences
- > a workplace free from discriminatory behaviours and business practices
- > equitable frameworks and policies, processes and practices that protect against potential unconscious bias
- > equal employment and promotion opportunities based on capability and performance
- > awareness of the different needs of employees
- > provision of flexible work practices and policies to support employees
- > attracting and retaining a diverse range of talented people.

The strategies and initiatives we have in place include:

- > encouraging the executive recruitment agencies with whom we work to provide diverse shortlists in terms of gender representation, as well as a greater mix of cultural backgrounds
- > implementing our flexible work arrangement which allows our people to manage their time in a flexible way
- > improving our technology capability to support these flexible work practices
- > delivering interview training for hiring managers that includes unconscious bias training to raise awareness, designed to lead to changes in behaviour.

## Work, health and safety

We are committed to providing a safe and healthy place of work for all staff and visitors to our office locations. This has been challenged by the COVID-19 pandemic and the risks (both to physical and mental health) that this has created for our people.

We recognise that the physical and mental health, and safety is a shared responsibility of all employees, contractors, visitors, members and other persons involved with the organisation.

Our focus on reducing risks to health and safety and on continuing to develop the organisation's safety culture has allowed the organisation to weather a difficult year in terms of staff wellbeing, and to support the physical and mental health and safety of our people.

Our Work Health and Safety Committee operated throughout the year and undertook safety audit reviews of the Agency's new office spaces where relevant and in alignment with government guidelines and restrictions. This extended into working groups being formed to help manage the development of the Agency's COVIDSafe plan and model, to program and execute on the move into new office space in Melbourne and Sydney, and in terms of returns to office after periods of lockdown.

Throughout all these safety-led endeavours, we ensured staff were provided with adequate health and safety information, instruction and training. This also extended to an enhanced and more active internal communications strategy to support those important initiatives and to aid in maintaining organisational connectivity and belonging.

A range of wellbeing initiatives including health checks and awareness programs continued to be delivered throughout lockdown periods virtually.

## Our offices

### Melbourne

Our new offices in Melbourne opened on 1 February 2021.

Located in the Collins Arch building at 447 Collins Street, the Agency's offices have been designed to provide all the functionality and utility needed for our people to perform at their best both now and well into the future.

The need for new Melbourne offices was identified by management in 2017, given ongoing growth in our investment portfolio responsibilities which has led to an increase in resourcing needs required to continue delivering on the Agency's strategy and purpose.

Located over three levels in the new 447 Collins Street office tower, the office features elements that are informed by employee feedback and global best-practice as relevant to a sophisticated global investment-led organisation. The fit-out provides our people with modern, reliable technology and work-to-purpose spaces that encourage collaboration and engagement and support our high-performance culture.

While the Agency is operating under COVID-compliant protocols there are some limitations to using the office to its full potential, particularly during periods of lockdown, reduced staffing capacities, and mandated social distancing.

### Sydney

Given recent growth in our portfolios and staff numbers, we also opened a new Sydney office in 2020, at 100 Market Street.

The design and fit-out of the Sydney office space mirrors the new Melbourne office, reflecting the Agency's 'One team, One purpose' philosophy and its joined-up approach to collaborative working.

Slightly adapted to be more suitable for an office that has most of its interactions with people in another city, there are several spaces for private, one-on-one remote conversations.

Also based on the feedback from Agency staff, the new Sydney office features a variety of different spaces, ranging from smaller, more private spaces through to collaboration areas for team meetings and interactive discussions.

## New organisational structure

Our organisational structure was refreshed with effect from 1 March 2021 to better support and align with the Agency's new business strategy. The refreshed structure is designed to refine and streamline our operations and ensure we are optimally organised to be able to implement the business strategy with maximum efficiency and effectiveness.

Key changes to the structure included:

- > The introduction of a new Investment and Business Operations Group under the leadership of the Agency's Chief Operating Officer saw the unification of six key business units that support and facilitate investment and business operational activities for the organisation.
- > The Agency's People and Culture function was restructured and further enhanced to introduce an expanded learning function.
- > A new Corporate Affairs function was also created, bringing together external communications, internal communications and stakeholder relations under a single banner. A Head of Corporate Affairs was appointed to lead this enhanced function.

## Organisational structure at 30 June 2021



## Our workforce

Our workforce at 30 June 2021 was comprised of 201 staff.

We welcomed 42 new starters during the year: 20 were replacements for existing roles, and 22 were for new roles. We had 12 internal promotions and two internal secondments.

A strong positive culture and high level of engagement is reflected in the Human Resource statistics: lost time injuries are nil, with an absentee rate of 1.2% and a turnover rate of 7.6%.

### Headcount by business area at 30 June 2021

Investment	75
Investment and Business Operations	90
Other	36
<b>Total</b>	<b>201</b>

#### Note:

Other includes CEO's Office, Corporate Affairs, People and Culture, Legal, Risk and Board Secretariat.

### Absenteeism rate (%) over time

2018-19	1.7
2019-20	1.5
2020-21	1.2

### Turnover rate (%) over time

2018-19	18.6
2019-20	10.8
2020-21	7.6

#### Notes:

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

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

## Management of human resources: reporting under the PGPA Act

### Ongoing employees at 30 June 2021

	Male			Female			Indeterminate			Total
	Full-time	Part-time	Total male	Full-time	Part-time	Total female	Full-time	Part-time	Total indeterminate	
NSW	2	0	2	5	0	5	0	0	0	7
QLD	0	0	0	0	0	0	0	0	0	0
SA	0	0	0	0	0	0	0	0	0	0
TAS	0	0	0	0	0	0	0	0	0	0
VIC	89	1	90	88	12	100	0	0	0	190
WA	0	0	0	0	0	0	0	0	0	0
ACT	0	0	0	0	0	0	0	0	0	0
NT	0	0	0	0	0	0	0	0	0	0
External territories	0	0	0	0	0	0	0	0	0	0
Overseas	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>91</b>	<b>1</b>	<b>92</b>	<b>93</b>	<b>12</b>	<b>105</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>197</b>

### Non-ongoing employees at 30 June 2021

	Male			Female			Indeterminate			Total
	Full-time	Part-time	Total male	Full-time	Part-time	Total female	Full-time	Part-time	Total indeterminate	
NSW	0	0	0	0	0	0	0	0	0	0
QLD	0	0	0	0	0	0	0	0	0	0
SA	0	0	0	0	0	0	0	0	0	0
TAS	0	0	0	0	0	0	0	0	0	0
VIC	3	0	3	1	0	1	0	0	0	4
WA	0	0	0	0	0	0	0	0	0	0
ACT	0	0	0	0	0	0	0	0	0	0
NT	0	0	0	0	0	0	0	0	0	0
External territories	0	0	0	0	0	0	0	0	0	0
Overseas	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>3</b>	<b>0</b>	<b>3</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4</b>

### Ongoing employees at 30 June 2020

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

### Non-ongoing employees at 30 June 2020

	Male			Female			Indeterminate			Total
	Full-time	Part-time	Total male	Full-time	Part-time	Total female	Full-time	Part-time	Total indeterminate	
NSW	0	0	0	0	0	0	0	0	0	0
Qld	0	0	0	0	0	0	0	0	0	0
SA	0	0	0	0	0	0	0	0	0	0
Tas	0	0	0	0	0	0	0	0	0	0
Vic	3	0	3	3	0	3	0	0	0	6
WA	0	0	0	0	0	0	0	0	0	0
ACT	0	0	0	0	0	0	0	0	0	0
NT	0	0	0	0	0	0	0	0	0	0
External territories	0	0	0	0	0	0	0	0	0	0
Overseas	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>3</b>	<b>0</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6</b>

### Australian Public Service Act ongoing employees at 30 June 2021

	Male			Female			Indeterminate			Total
	Full-time	Part-time	Total male	Full-time	Part-time	Total female	Full-time	Part-time	Total indeterminate	
SES 3	1	0	1	0	0	0	0	0	0	1
SES 2	1	0	1	1	0	1	0	0	0	2
SES 1	0	0	0	0	0	0	0	0	0	0
EL 2	28	1	29	13	0	13	0	0	0	42
EL 1	13	0	13	5	1	6	0	0	0	19
APS 6	25	0	25	20	4	24	0	0	0	49
APS 5	13	0	13	26	2	28	0	0	0	41
APS 4	10	0	10	26	4	30	0	0	0	40
APS 3	0	0	0	2	1	3	0	0	0	3
APS 2	0	0	0	0	0	0	0	0	0	0
APS 1	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>91</b>	<b>1</b>	<b>92</b>	<b>93</b>	<b>12</b>	<b>105</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>197</b>

### Australian Public Service Act non-ongoing employees at 30 June 2021

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

### Australian Public Service Act ongoing employees at 30 June 2020

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

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

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

### Australian Public Service Act employees by full-time and part-time status at 30 June 2021

	Ongoing			Non-ongoing			Total
	Full-time	Part-time	Total ongoing	Full-time	Part-time	Total non-ongoing	
SES 3	1	0	1	0	0	0	1
SES 2	2	0	2	0	0	0	2
SES 1	0	0	0	0	0	0	0
EL 2	41	1	42	0	0	0	42
EL 1	18	1	19	2	0	2	21
APS 6	45	4	49	0	0	0	49
APS 5	39	2	41	0	0	0	41
APS 4	36	4	40	2	0	2	42
APS 3	2	1	3	0	0	0	3
APS 2	0	0	0	0	0	0	0
APS 1	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0
<b>Total</b>	<b>184</b>	<b>13</b>	<b>197</b>	<b>4</b>	<b>0</b>	<b>4</b>	<b>201</b>

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

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

### Australian Public Service Act employment type by location at 30 June 2021

	Ongoing	Non-ongoing	Total
NSW	7	0	7
QLD	0	0	0
SA	0	0	0
TAS	0	0	0
VIC	190	4	194
WA	0	0	0
ACT	0	0	0
NT	0	0	0
External territories	0	0	0
Overseas	0	0	0
<b>Total</b>	<b>197</b>	<b>4</b>	<b>201</b>

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

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

### Australian Public Service Act Indigenous employment at 30 June 2021

	Total
Ongoing	0
Non-ongoing	0
<b>Total</b>	<b>0</b>

### Australian Public Service Act Indigenous employment at 30 June 2020

	Total
Ongoing	0
Non-ongoing	0
<b>Total</b>	<b>0</b>

### Australian Public Service Act Employment arrangements at 30 June 2021

	SES	Non-SES	Total
Individual employment contract	3	198	201
<b>Total</b>	<b>3</b>	<b>198</b>	<b>201</b>

# Remuneration report

## Remuneration strategy

Remuneration for all Agency staff, including members of the Agency Management Committee/Senior Leadership Team, is consistent with the Australian Public Sector Workplace Bargaining Policy (the Bargaining Policy) and relevant determinations of the APS Commissioner.

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

While Agency remuneration arrangements are determined by the Chair, as Head and Accountable Authority of the Agency, consultation with the Board on Agency staff remuneration and reward is facilitated through the Board's Remuneration and Nominations Committee.

## Variable pay

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

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

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

## Variable pay tied to personal performance

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

Each individual's goals align to the organisation's business plan priorities.

## Variable pay tied to investment performance

Variable pay based on Fund performance reflects the average performance over rolling three-year periods for the Future Fund assessed against the Future Fund's mandated target return, and is determined once performance results are audited and confirmed.

## Impact of COVID-19 on remuneration arrangements

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

The Board again applied restraint in the assessment of the Agency's individual performance ratings which determine the assessment of the Individual Plan payment. Notwithstanding the strong performance of the Agency throughout the year, the overall assessment level was maintained at roughly the same level as 2020.

The Future Fund's strong three-year return of 10.5% per annum as at 30 June 2021, exceeded the benchmark target return for that period of 5.7% per annum. In dollar terms this return added \$51 billion to the value of the Fund. This exceptional return sees 100% of the available investment performance component paid for this financial year.

Consequently, aggregate variable pay paid to staff has risen from \$12.0 million in 2019-20 to \$17 million in 2020-21.

With growth in our workforce resulting in the number of staff eligible for variable pay rising from 183 in 2019-20 to 199 in 2020-21, per capita average variable pay has risen by 30%.

## Remuneration of key management personnel in 2020-21

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

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

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

The Tribunals' Determination 2020, taking effect from 1 July 2020, set the annual fee payable to the Chair at \$214,670 and the fee for other members at \$107,340. Board members receive no additional fees for membership of the Audit and Risk Committee or other Board committees.

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

## Remuneration mix for Agency key management personnel

As is the case for all staff, remuneration for Agency KMP as defined in the previous section, includes both fixed and variable pay. Variable pay includes elements tied to investment performance (Fund Plan) and personal performance (Individual Plan).

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

The following table summarises the composition of variable-related pay for each member of the KMP group.

### Variable pay composition for Agency key management personnel

Name	Maximum variable pay as a % of fixed remuneration	% of variable pay tied to investment performance (Fund Plan)	% of variable pay tied to personal performance (Individual Plan)
Raphael Arndt	120	70	30
Sue Brake*	118	70	30
David George	120	70	30
Richard Large	45	25	75
Paul Mann	55	25	75
Gordon McKellar	55	25	75
Elizabeth McPherson	45	25	75
Wendy Norris	120	70	30
Cameron Price	45	25	75

**Note:**

\*Weighted PRP % across performance year.

## Remuneration outcomes for key management personnel in 2020-21

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

Remuneration outcomes for Agency KMP reflect the combination of fixed pay and variable pay as outlined on the previous page. The use of rolling three-year periods for the calculation of absolute investment performance aligns to the organisation's long-term investment objective.

At 30 June 2021, over three years the Future Fund earned \$51 billion, returning 10.5% per annum against a target of 5.7% per annum.

### Remuneration outcomes for key management personnel in 2020-21

Name	Position title	Short-term benefits			Post-employment benefits	Other long-term benefits		Termination benefits	Total remuneration
		Base salary (\$)	Variable pay (\$)	Other benefits and allowances (\$)	Superannuation contributions (\$)	Long service leave (\$)	Other long-term benefits <sup>5</sup> (\$)		
Raphael Arndt	Chief Executive Officer	719,294	831,381	-	21,694	3,977	-	-	1,576,346
Sue Brake	Chief Investment Officer	552,259	634,032	-	35,167	25,100	-	-	1,246,558
Gordon McKellar	Chief Operating Officer	569,655	308,495	-	35,167	2,731	-	-	916,048
Cameron Price	General Counsel and Chief Risk Officer	558,759	-	-	35,167	20,565	224,426	-	838,917
David George	Deputy Chief Investment Officer, Public Markets	545,842	618,007	-	24,999	3,598	-	-	1,192,446
Wendy Norris	Deputy Chief Investment Officer, Private Markets	516,979	608,145	-	24,999	5,521	-	-	1,155,644
Paul Mann <sup>1</sup>	Chief Financial Officer (until 26 February 2021)	368,060	-	-	24,271	10,872	-	-	403,203
Elizabeth McPherson <sup>1</sup>	Chief Culture Officer (until 26 February 2021)	327,125	-	-	14,972	10,431	-	-	352,528
Richard Large <sup>1</sup>	Chief Technology Officer (until 26 February 2021)	351,584	-	-	23,689	8,375	-	-	383,648
Peter Costello	Chairman	214,670	-	-	30,526	-	-	-	245,196
John Poynton	Board Member	107,340	-	219	16,478	-	-	-	124,037
Carolyn Kay	Board Member	107,340	-	95	16,478	-	-	-	123,913
Jane Wilson <sup>2</sup>	Board Member	84,110	-	-	13,245	-	-	-	97,355
Erin Flaherty <sup>3</sup>	Board Member	81,229	-	95	12,802	-	-	-	94,126
Michael Wachtel	Board Member	107,340	-	-	16,478	-	-	-	123,818
John Fraser	Board Member	107,340	-	161	10,165	-	-	-	117,666
Patricia Cross <sup>4</sup>	Board Member	15,227	-	-	1,447	-	-	-	16,674

#### Notes:

<sup>1</sup> Paul Mann, Richard Large and Elizabeth McPherson ceased their KMP roles on 26 February 2021.

<sup>2</sup> Jane Wilson's Board term ceased on 13 April 2021.

<sup>3</sup> Erin Flaherty's Board term ceased on 2 April 2021.

<sup>4</sup> Patricia Cross was appointed to the Board on 11 May 2021.

<sup>5</sup> Under the Agency's Deferred Earnings Plan, staff are able to defer receipt of a proportion of their variable pay payable to them in a given financial year and have this treated as a notional investment in the Future Fund.

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

## Remuneration outcomes for other highly paid staff in 2020-21

Total remuneration bands	Number of senior executives	Short-term benefits			Post-employment benefits	Other long-term benefits		Termination benefits	Total remuneration
		Average base salary (\$)	Average variable pay (\$)	Average other benefits and allowances (\$)	Average superannuation contributions (\$)	Average long service leave (\$)	Average other long-term benefits (\$)	Average termination benefits (\$)	Average total remuneration (\$)
\$230,001-\$245,000	10	177,732	24,464	-	17,008	5,236	14,135	-	238,575
\$245,001-\$270,000	7	189,757	26,224	-	20,820	6,553	13,957	-	257,311
\$270,001-\$295,000	5	209,311	28,281	-	21,396	6,467	14,967	-	280,422
\$295,001-\$320,000	7	201,497	78,320	-	18,531	9,058	7,090	-	314,496
\$320,001-\$345,000	5	217,288	60,220	-	19,556	6,960	26,312	-	330,336
\$345,001-\$370,000	6	245,682	74,547	-	24,877	7,642	-	-	352,748
\$370,001-\$395,000	5	259,756	71,272	-	22,258	8,557	22,329	-	384,172
\$395,001-\$420,000	3	305,096	76,676	-	20,863	6,647	-	-	409,282
\$420,001-\$445,000	4	279,793	115,234	-	23,657	16,284	-	-	434,968
\$445,001-\$470,000	2	296,035	70,818	-	21,694	19,899	48,234	-	456,680
\$470,001-\$495,000	1	346,577	96,136	-	21,694	12,136	-	-	476,543
\$495,001-\$520,000	2	272,799	191,426	-	24,366	14,267	5,000	-	507,858
\$520,001-\$545,000	4	337,508	63,334	-	35,493	15,910	26,878	45,434	524,557
\$545,001-\$570,000	3	324,863	126,483	-	22,796	10,730	75,053	-	559,925
\$570,001-\$595,000	3	367,889	124,584	-	27,287	8,647	52,881	-	581,288
\$595,001-\$620,000	1	320,696	257,240	-	24,999	3,485	-	-	606,420
\$620,001-\$645,000	1	414,023	160,058	-	24,999	21,665	-	-	620,745
\$645,001-\$670,000	2	353,972	270,805	-	22,324	12,053	-	-	659,154
\$670,001-\$695,000	2	345,721	264,517	-	22,427	9,826	-	46,887	689,378
\$695,001-\$720,000	4	278,827	228,967	-	28,820	-365	43,924	132,055	712,228
\$720,001-\$745,000	0	-	-	-	-	-	-	-	-
\$745,001-\$770,000	0	-	-	-	-	-	-	-	-
\$770,001-\$795,000	1	423,789	319,863	-	24,999	20,333	-	-	788,984
\$795,001-\$820,000	1	394,748	383,052	-	24,999	14,832	-	-	817,631
\$820,001-\$845,000	1	34,065	224,144	-	2,104	-34,894	-	613,169	838,588
\$845,001-\$870,000	0	-	-	-	-	-	-	-	-

Total remuneration bands	Number of senior executives	Short-term benefits			Post-employment benefits	Other long-term benefits		Termination benefits	Total remuneration
		Average base salary (\$)	Average variable pay (\$)	Average other benefits and allowances (\$)	Average superannuation contributions (\$)	Average long service leave (\$)	Average other long-term benefits (\$)	Average termination benefits (\$)	Average total remuneration (\$)
\$870,001-\$895,000	1	441,668	417,598	-	24,999	10,596	-	-	894,861
\$895,001-\$920,000	0	-	-	-	-	-	-	-	-
\$920,001-\$945,000	0	-	-	-	-	-	-	-	-
\$945,001-\$970,000	0	-	-	-	-	-	-	-	-
\$970,001-\$995,000	0	-	-	-	-	-	-	-	-
\$995,001-\$1,020,000	1	493,529	470,341	-	24,999	22,898	-	-	1,011,767
\$1,020,001-\$1,045,000	0	-	-	-	-	-	-	-	-
\$1,045,001-\$1,070,000	0	-	-	-	-	-	-	-	-
\$1,070,001-\$1,095,000	1	492,235	542,502	-	24,999	18,654	-	-	1,078,390
\$1,095,001-\$1,120,000	0	-	-	-	-	-	-	-	-
\$1,120,001-\$1,145,000	1	530,968	275,175	-	35,167	13,439	275,174	-	1,129,923
\$1,145,001-\$1,170,000	0	-	-	-	-	-	-	-	-
\$1,170,001-\$1,195,000	0	-	-	-	-	-	-	-	-
\$1,195,001-\$1,220,000	0	-	-	-	-	-	-	-	-
\$1,220,001-\$1,245,000	0	-	-	-	-	-	-	-	-
\$1,245,001-\$1,270,000	0	-	-	-	-	-	-	-	-
\$1,270,001-\$1,295,000	0	-	-	-	-	-	-	-	-
\$1,295,001-\$1,320,000	0	-	-	-	-	-	-	-	-
\$1,320,001-\$1,345,000	1	587,729	685,223	6,351	24,999	22,679	-	-	1,326,981

**Note:**

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

## Remuneration of all staff in 2020-21

While the Agency operates on individual employment contracts rather than an enterprise agreement, it adjusts its practices to meet the requirements of the Bargaining Policy and associated Directions for fixed pay, which includes superannuation. The Bargaining Policy and Directives apply for three years: 2020-21, 2021-22 and 2022-23.

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

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

### Salary ranges by classification level in 2020-21

	Minimum salary (\$)	Maximum salary (\$)
SES 3	412,000	727,000
SES 2	412,000	727,000
SES 1	412,000	727,000
EL 2	285,000	609,000
EL 1	208,000	352,000
APS 6	154,000	268,000
APS 5	121,000	202,000
APS 4	87,000	145,000
APS 3	59,000	105,000
APS 2	59,000	105,000
APS 1	0	0
Other	0	0
<b>Minimum/Maximum range</b>	<b>59,000</b>	<b>727,000</b>

#### Notes:

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

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

## Variable pay

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

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

At 30 June 2021, over three years the Future Fund earned \$51 billion, returning 10.5% per annum against a target of 5.7% per annum.

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

### Variable pay classification level in 2020-21

	Number of employees receiving performance pay	Aggregated (sum total) of all payments made	Average of all payments made	Minimum payment made to employees	Maximum payment made to employees
SES 3	1	\$831,381	\$831,381	\$831,381	\$831,381
SES 2	3	\$1,166,672	\$388,891	\$224,144	\$634,032
SES 1	-	-	-	-	-
EL 2	43	\$9,595,132	\$223,143	\$25,991	\$685,223
EL 1	19	\$1,418,889	\$74,678	\$3,650	\$242,369
APS 6	49	\$2,529,082	\$51,614	\$3,776	\$143,015
APS 5	41	\$952,552	\$23,233	\$4,492	\$61,160
APS 4	40	\$430,033	\$10,751	\$3,666	\$24,610
APS 3	3	\$15,578	\$5,193	\$2,297	\$7,349
APS 2	-	-	-	-	-
APS 1	-	-	-	-	-
Other	-	-	-	-	-
<b>Total</b>	<b>199</b>	<b>\$16,939,318</b>	<b>\$85,122</b>	<b>\$2,297</b>	<b>\$831,381</b>

#### Note:

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

# 06

## Financial statements

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### For the financial year ended 30 June 2021

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



Auditor-General for Australia



## INDEPENDENT AUDITOR'S REPORT

### To the Minister for Finance

#### Opinion

In my opinion, the financial statements of the Future Fund Management Agency and Board of Guardians (together, the Entity) for the year ended 30 June 2021:

- (a) comply with Australian Accounting Standards and the *Public Governance, Performance and Accountability (Financial Reporting) Rule 2015*; and
- (b) present fairly the financial position of the Entity as at 30 June 2021 and its financial performance and cash flows for the year then ended.

The financial statements of the Entity, which I have audited, comprise the following statements as at 30 June 2021 and for the year then ended:

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

#### Basis for opinion

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

#### Key audit matters

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

Key audit matter	How the audit addressed the matter
<p><b>Valuation of collective investment vehicles held at fair value through profit or loss</b></p> <p><i>Refer to Note 16.7 Fair Value Hierarchy (Collective Investment Vehicles)</i></p> <p>As at 30 June 2021, collective investment vehicles (as</p>	<p>To assess the controls over the valuation of all collective investment vehicles, I:</p> <ul style="list-style-type: none"> <li>• inspected the custodian's independent auditor's assurance report in respect of the design and operating effectiveness of relevant controls over the valuation of investments by the custodian;</li> </ul>

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defined in Note 7.3) totaled \$82.5 billion.

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

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

I consider the valuation of collective investment vehicles to be a key audit matter due to the size of the investments and the inherent subjectivity, significant judgements and estimates required where market data is not available to determine the fair value of these investments. The COVID 19 pandemic and the associated economic impact has affected some investments at 30 June 2021.

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

- assessed the qualifications, competence and objectivity of the custodian's independent auditor; and

- tested the design and operating effectiveness of a sample of the controls in place at the Entity to assess the valuation of collective investment vehicles whether they be performed by the custodian, the collective investment manager, a valuation expert or management.

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

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

To assess the valuation of all other collective investment vehicles as at 30 June 2021, on a sample basis, I:

- agreed the fair value to capital account statements received from the underlying investment manager;
- obtained audited financial statements of each underlying collective investment vehicle as at 30 June 2021, where available, and agreed the audited net asset value to the capital account statement;
- performed an assessment of the audited financial statements of the collective investment vehicles which included:
  - considering the regulatory framework under which the financial statements were prepared and the accounting policies adopted;
  - evaluating the qualifications, competence and objectivity of the audit firm performing the audit and the opinion provided; and
- where 30 June 2021 audited financial statements were unavailable, investigated significant movements from the date of the most recent audited financial statements and obtained additional evidence to support these movements; and

- 
- I assessed the accuracy and completeness of the related disclosures in Note 16.7 to the financial statements to support the user's understanding of collective investment vehicles.
- 

### **Other information**

The Accountable Authority is responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2021 but does not include the financial statements and my auditor's report thereon.

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

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

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

### **Accountable Authority's responsibility for the financial statements**

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

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

### **Auditor's responsibilities for the audit of the financial statements**

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

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

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


that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern; and

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Australian National Audit Office



Grant Hehir  
Auditor-General for Australia  
Canberra  
29 September 2021

## Statement by the Chair of the Future Fund Board of Guardians and Head of Finance of the Future Fund Management Agency

In our opinion, the attached financial statements of the Future Fund Management Agency and the Board of Guardians in respect of the Future Fund (together the “Fund”) for the year ended 30 June 2021 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  
28 September 2021

.....

**K Yong**

Head of Finance  
28 September 2021

**Statement of comprehensive income**  
for the financial year ended 30 June 2021

	Notes	Year ended 30 June 2021 \$'000	Year ended 30 June 2020 \$'000
<b>INCOME</b>			
Dividends and franking credits	3	2,440,549	2,564,835
Distributions	3	883,412	794,642
Interest income/(expense) from financial assets not at fair value through profit or loss		(884)	24,800
Net gains/(losses) on financial instruments at fair value through profit or loss	3	33,135,415	(4,185,198)
Net foreign currency losses	3	(301,599)	(317,775)
Other income		18,680	16,354
<b>TOTAL INCOME</b>		<b>36,175,573</b>	<b>(1,102,342)</b>
<b>EXPENSES</b>			
Investment management fees and advisory fees		90,968	83,169
Investment manager performance fees		36,439	906
Custody fees		18,256	22,162
Brokerage, duties and other statutory charges		22,238	24,764
Other investment portfolio expenses		6,184	4,974
Agency employees' remuneration	4	66,832	51,438
Other expenses	4,5	112,676	84,208
<b>TOTAL EXPENSES</b>		<b>353,593</b>	<b>271,621</b>
<b>OPERATING RESULT FOR THE YEAR BEFORE TAX</b>		<b>35,821,980</b>	<b>(1,373,963)</b>
Income tax expense	6	108,655	54,487
<b>OPERATING RESULT FOR THE YEAR</b>		<b>35,713,325</b>	<b>(1,428,450)</b>
Other comprehensive income for the year		-	-
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>35,713,325</b>	<b>(1,428,450)</b>

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

## Statement of financial position

as at 30 June 2021

	Notes	As at 30 June 2021 \$'000	As at 30 June 2020 \$'000
<b>ASSETS</b>			
<b>Financial assets</b>			
Cash and cash equivalents	13	4,585,297	3,362,824
Receivables	8	2,751,642	868,999
Investments	7	191,415,966	158,301,855
Other financial assets		11,729	9,685
<b>Total financial assets</b>		<b>198,764,634</b>	<b>162,543,363</b>
<b>Non-financial assets</b>			
Right of use assets		41,889	16,424
Plant and equipment		22,069	2,754
Intangibles		229	2,088
<b>Total non-financial assets</b>		<b>64,187</b>	<b>21,266</b>
<b>TOTAL ASSETS</b>		<b>198,828,821</b>	<b>162,564,629</b>
<b>LIABILITIES</b>			
<b>Financial liabilities</b>			
Investments	7	1,679,150	1,233,784
Payables	9	238,676	236,732
Lease liability		59,276	16,622
<b>Total financial liabilities</b>		<b>1,977,102</b>	<b>1,487,138</b>
<b>Non-financial liabilities</b>			
Employee provisions	10	40,137	31,294
<b>Total non-financial liabilities</b>		<b>40,137</b>	<b>31,294</b>
<b>Tax liabilities</b>			
Deferred tax liabilities		52,076	16
<b>Total tax liabilities</b>		<b>52,076</b>	<b>16</b>
<b>TOTAL LIABILITIES</b>		<b>2,069,315</b>	<b>1,518,448</b>
<b>NET ASSETS</b>		<b>196,759,506</b>	<b>161,046,181</b>
<b>EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT</b>			
Contributions by Government	11	60,536,831	60,536,831
Retained earnings		136,222,675	100,509,350
<b>TOTAL EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT</b>		<b>196,759,506</b>	<b>161,046,181</b>

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

**Statement of cash flows**  
for the financial year ended 30 June 2021

	Notes	Year ended 30 June 2021 \$'000	Year ended 30 June 2020 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Proceeds from sale of financial instruments at fair value through profit or loss		172,148,065	130,687,330
Purchase of financial instruments at fair value through profit or loss		(173,486,308)	(128,314,152)
Interest (paid)/received		(1,083)	27,697
Dividends received		1,935,737	2,238,624
Distributions received		811,799	754,152
Franking credit refunds received		462,401	1,242,956
Net settlement of foreign exchange contracts		(376,277)	(4,679,970)
GST refund received		4,213	4,833
Other income received		19,108	15,576
Investment management fees and advisory fees paid		(76,067)	(83,802)
Investment manager performance fees paid		(7,235)	(5,251)
Custody fees paid		(20,115)	(21,843)
Brokerage, duties and other statutory charges paid		(22,378)	(30,037)
Taxes paid		(56,596)	(72,995)
Interest paid on right of use asset leases		(316)	(153)
Other expenses paid		(176,205)	(155,811)
<b>Net cash provided by operating activities</b>	<b>13</b>	<b>1,158,743</b>	<b>1,607,154</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Lease incentive received		12,886	-
Sublease asset principal repayments received		372	-
Purchase of plant and equipment and software		(17,985)	(1,207)
Lease liability principal payments		(6,536)	(3,021)
<b>Net cash used in investing activities</b>		<b>(11,263)</b>	<b>(4,228)</b>
<b>Net increase in cash held</b>		<b>1,147,480</b>	<b>1,602,926</b>
Cash at the beginning of the reporting period		3,362,824	1,781,107
Effects of exchange rate changes on the balance of cash held in foreign currencies		74,993	(21,209)
<b>Cash at the end of the reporting period</b>	<b>13</b>	<b>4,585,297</b>	<b>3,362,824</b>

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

**Statement of changes in equity**  
for the financial year ended 30 June 2021

	Contributed equity \$'000	Retained earnings \$'000	Total Equity \$'000
<b>Year ended 30 June 2021</b>			
Opening balance	60,536,831	100,509,350	161,046,181
Net operating result	-	35,713,325	35,713,325
Other comprehensive income	-	-	-
Total comprehensive income	-	35,713,325	35,713,325
Contributions made by Government	-	-	-
Closing balance	60,536,831	136,222,675	196,759,506
<b>Year ended 30 June 2020</b>			
Opening balance	60,536,831	101,937,800	162,474,631
Net operating result	-	(1,428,450)	(1,428,450)
Other comprehensive income	-	-	-
Total comprehensive income	-	(1,428,450)	(1,428,450)
Contributions made by Government	-	-	-
Closing balance	60,536,831	100,509,350	161,046,181

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

## Schedule of commitments

as at 30 June 2021

	Notes	30 June 2021 \$'000	30 June 2020 \$'000
<b>BY TYPE</b>			
<b>CAPITAL COMMITMENTS</b>			
Collective investment vehicles	7.3	18,284,184	18,241,341
Corporate Credit (bank loans)		-	31
<b>Total capital commitments</b>		<b>18,284,184</b>	<b>18,241,372</b>
<b>OTHER COMMITMENTS</b>			
Other commitments <sup>1</sup>		33,546	39,400
<b>Total other commitments</b>		<b>33,546</b>	<b>39,400</b>
<b>BY MATURITY</b>			
<b>CAPITAL COMMITMENTS</b>			
One year or less		18,284,184	18,241,372
<b>Total capital commitments by maturity</b>		<b>18,284,184</b>	<b>18,241,372</b>
<b>OTHER COMMITMENTS</b>			
One year or less		19,797	18,556
From two to five years		13,749	20,844
<b>Total other commitments by maturity</b>		<b>33,546</b>	<b>39,400</b>

<sup>1</sup> Other commitments relate to contractual obligations for the provision of services for the Fund.

Note: Commitments are GST inclusive.

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 2021

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

The Future Fund will make provision for unfunded superannuation liabilities that will become payable during a period when an ageing population is likely to place significant pressure on the Commonwealth’s finances.

### Future Fund Management Agency

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

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

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

### Future Fund Board of Guardians

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

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

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

## Note 2: Summary of significant accounting policies

### 2.1 Basis of preparation of the financial statements

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

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

The financial statements have been prepared in accordance with:

- > Financial Reporting Rules (“FRR”) (being the *Public Governance, Performance and Accountability Rule 2015*) for reporting periods ending on or after 1 July 2020; and
- > Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (“AASB”) that apply for the reporting period.

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

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

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

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

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

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

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

Where required, for consistency comparative information has been restated for any changes to presentation made in the current year.

## Note 2: Summary of significant accounting policies (continued)

### 2.1 Basis of preparation of the financial statements (continued)

#### 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 and are consistently applied and there has been no change in the application of these principles to 30 June 2021 valuations. Further details surrounding the judgements and estimates used to value these investments are disclosed in Note 16.6 and 16.7.

#### Consolidation exemption for investment entities

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

An investment entity is defined as an entity that:

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

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

### 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 2021 made under the *Public Governance, Performance and Accountability Act 2013*.

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

#### Adoption of new accounting standards in the current reporting period

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2020 affected any of the amounts recognised in the current period or any prior period and are not 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 2021 reporting period and have not been early adopted by the Fund. None of these are expected to have a material effect on the financial statements of the Fund.

## Note 2: Summary of significant accounting policies (continued)

### 2.3 Financial assets and liabilities

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

Further details on how the fair values of financial instruments are determined are disclosed in Notes 16.6 and 16.7.

#### 2.3.1 Cash and cash equivalents

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

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

#### 2.3.2 Receivables

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

#### 2.3.3 Investments

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

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

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

## Note 2: Summary of significant accounting policies (continued)

### 2.3.3 Investments (continued)

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

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

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

## Note 2: Summary of significant accounting policies (continued)

### 2.3.4 Future Fund Investment Companies

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

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

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

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

### 2.4 Revenue

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

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

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

### 2.5 Other income

#### Services and resources received free of charge

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

#### Other income

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

## Note 2: Summary of significant accounting policies (continued)

### 2.6 Transactions with the Government as owner

#### 2.6.1 Credits to the Fund Account

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

#### 2.6.2 Debits to the Fund Account

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

- (1) the time when the balance of the Fund is greater than or equal to the target asset level; or
- (2) 1 July 2020. In May 2017 the Government announced there would be no draw down from the Fund until at least 2026-27.

### 2.7 Employee entitlements

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

#### 2.7.1 Leave

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

The leave liabilities are calculated on the basis of employees' remuneration at the end of the financial year, adjusted for expected increases in remuneration effective from 1 July 2021. 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 employee based shorthand model developed by the Australian Government Actuary has been used in determining the present value of the long service leave liability.

#### 2.7.2 Superannuation

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

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

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

## Note 2: Summary of significant accounting policies (continued)

### 2.7.3 Performance Related Payments

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

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

### 2.8 Leases

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

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

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

### 2.9 Financial Risk Management

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

### 2.10 Taxation

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

## Note 2: Summary of significant accounting policies (continued)

### 2.10 Taxation (continued)

#### Current Tax

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

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

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

#### Deferred Tax

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

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

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

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

## Note 2: Summary of significant accounting policies (continued)

### 2.10 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 FFICs, being wholly owned Australian corporate investment holding companies are taxpaying entities. The tax paid by the FFICs is recoverable via franking 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.

### 2.11 Foreign currency

#### Functional and presentation currency

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

#### Transactions and balances

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

### 2.12 Rounding of amounts

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

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

	2021 \$'000	2020 \$'000
<b>Dividend income and franking credits</b>		
Dividend income – domestic equities and listed managed investment scheme distributions	394,070	415,514
Franking credits refunded or refundable under Section 30 of the <i>Future Fund Act 2006</i>	456,902	453,089
Dividend income – related entities (FFICs) <sup>1</sup>	716,059	676,547
Dividend income – international equities	873,518	1,019,685
<b>Total dividend and franking credit income</b>	<b>2,440,549</b>	<b>2,564,835</b>
<b>Distribution income</b>		
Distributions – collective investment vehicles	883,412	794,642
<b>Total distribution income</b>	<b>883,412</b>	<b>794,642</b>

<sup>1</sup> There are no dividends receivable from FFIC related entities.

	2021 \$'000	2020 \$'000
<b>Net gains/(losses) on financial instruments at fair value through profit or loss</b>		
Net gains/(losses) on financial assets at fair value through profit or loss	33,998,849	(2,771,897)
Net losses on financial liabilities at fair value through profit or loss	(863,434)	(1,413,301)
<b>Net gains/(losses) on financial instruments<sup>1</sup></b>	<b>33,135,415</b>	<b>(4,185,198)</b>
<b>Net losses arising on foreign currency</b>	<b>(301,599)</b>	<b>(317,775)</b>

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

## Note 4: Expenses

	2021 \$'000	2020 \$'000
<b>Agency employees' remuneration</b>		
Wages and salaries	60,930	46,265
Superannuation	3,516	3,000
Leave and other entitlements payable	2,386	2,173
<b>Total Agency employees' remuneration</b>	<b>66,832</b>	<b>51,438</b>
<b>Other expenses</b>		
<b>Board remuneration</b>		
Wages and salaries	826	863
Superannuation	118	103
Total board remuneration	944	966
<b>Depreciation and amortisation</b>		
Depreciation of right of use assets, plant and equipment	9,596	5,008
Amortisation of intangibles – computer software	1,995	1,272
Total depreciation and amortisation	11,591	6,280
Other operating expenses (including audit fees)	100,141	76,962
<b>Total other expenses</b>	<b>112,676</b>	<b>84,208</b>

## Note 5: Remuneration of Auditors

Included in other operating expenses is the financial statement audit services provided to the Fund which totalled \$169,000 (2020: \$169,000) by the Australian National Audit Office ("ANAO") at no cost to the Fund. The fair value of all audit services provided by the ANAO, including the services provided free of charge and for the audits of the FFICs was:

	2021 \$	2020 \$
Auditing the financial statements – Future Fund and FFICs	239,000	239,000

No other services were provided by the ANAO.

The Fund's auditor is the ANAO who has contracted Ernst & Young (2020: Ernst & Young) to assist with the assignment.

## Note 6: Income tax expense

As per Note 2.10, the Fund is exempt from federal Australian income taxation. Tax expense reflects foreign withholding tax on income and other capital gains or corporate taxes where imposed by certain countries. Accordingly, the Australian tax rate for the Fund is 0% (2020: 0%).

	2021 \$'000	2020 \$'000
<b>Income tax expense</b>		
Current tax	56,596	72,995
Deferred tax	52,059	(18,508)
Adjustments for current tax of prior periods	-	-
<b>Total income tax expense</b>	<b>108,655</b>	<b>54,487</b>
<b>Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit before income tax	35,821,980	(1,373,963)
Tax at the applicable Australian tax rate of 0% (2020: 0%)	-	-
Tax effect of items which are not deductible/(taxable) in calculating taxable income:		
Franking credits earned from Australian subsidiaries	1,433,735	534,229
Difference in tax rates on Australian subsidiaries	(1,433,735)	(534,229)
Withholding tax	51,951	72,986
Other foreign corporate tax expense/(benefit)	56,704	(18,499)
<b>Total income tax expense</b>	<b>108,655</b>	<b>54,487</b>

## Note 7: Investments

	2021 \$'000	2020 \$'000
<b>Investment summary</b>		
Financial assets at fair value:		
Future Fund Investment Companies (FFICs)	67,519,590	53,366,575
Interest bearing securities	33,404,008	32,127,065
Listed equities and listed managed investment schemes	58,311,657	42,595,723
Collective investment vehicles	28,053,609	26,061,596
Derivatives	2,656,312	2,990,756
Restricted cash	1,470,790	1,160,140
<b>Total financial asset investments</b>	<b>191,415,966</b>	<b>158,301,855</b>
Financial liabilities at fair value:		
Derivatives	(1,679,150)	(1,233,784)
<b>Total financial liability investments</b>	<b>(1,679,150)</b>	<b>(1,233,784)</b>

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

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

	2021 \$'000	2020 \$'000
<b>FFICs</b>		
At fair value:		
Loans provided to FFICs <sup>1</sup>	39,267,593	42,875,284
Residual equity in FFICs <sup>2</sup>	28,251,997	10,491,291
<b>Total FFICs<sup>3</sup></b>	<b>67,519,590</b>	<b>53,366,575</b>

<sup>1</sup> The FFIC loans would be classified as Level 2 in accordance with Note 16.7

<sup>2</sup> The residual equity in the FFICs would be classified as Level 3 in accordance with Note 16.7. Movement in residual equity for FFIC's is due to changes in retained earnings and the current year surplus

<sup>3</sup> Refer to Note 2.3.4 for more information regarding the FFICs and loan arrangements.

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

	2021 \$'000	2020 \$'000
<b>FFICs</b>		
Beginning of the year	42,875,284	46,941,046
Loans advanced	10,675,690	8,420,935
Loan repayments received	(10,048,386)	(14,406,952)
Interest charged <sup>1</sup>	613,258	944,881
Interest repayments received	(755,885)	(950,023)
Fair value gain/(loss)	(4,092,368)	1,925,397
End of year	<b>39,267,593</b>	<b>42,875,284</b>

<sup>1</sup> Interest on the FFIC loans is included in the net gain/(loss) on financial instruments at fair value through profit or loss – refer to Note 2.4 for further details.

## Note 7: Investments (continued)

	2021 \$'000	2020 \$'000
<b>Interest bearing securities</b>		
At fair value:		
Bank bills – international	17,816	-
Negotiable certificates of deposit - domestic	17,400,300	15,676,293
Negotiable certificates of deposit - international	2,416,465	699,503
Corporate debt securities - international	945,209	880,857
Mortgage backed securities - international	38,214	140,057
Asset backed securities - international	644,339	518,358
Corporate credit (bank loans) – international	754,604	632,146
Government debt securities – domestic	-	3,470,458
Government debt securities – international	10,611,685	9,465,276
Other interest-bearing securities – domestic	-	902
Other interest-bearing securities – international	575,376	643,215
<b>Total interest bearing securities</b>	<b>33,404,008</b>	<b>32,127,065</b>
<b>Listed equities and listed managed investment schemes</b>		
At fair value:		
Domestic listed equities and listed managed investment schemes	16,285,888	10,381,095
International listed equities and listed managed investment schemes	42,025,769	32,214,628
<b>Total listed equities and listed managed investment schemes</b>	<b>58,311,657</b>	<b>42,595,723</b>
<b>Collective investment vehicles</b>		
At fair value:		
Unlisted investments	25,290,330	23,713,615
Unlisted shares	2,763,279	2,347,981
<b>Total collective investment vehicles</b>	<b>28,053,609</b>	<b>26,061,596</b>
	2021 \$'000	2020 \$'000
<b>Derivatives</b>		
At fair value: - financial assets		
<b>Total derivative financial assets</b>	<b>2,656,312</b>	<b>2,990,756</b>
	2021 \$'000	2020 \$'000
<b>Derivatives</b>		
At fair value: - financial liabilities		
<b>Total derivative financial liabilities</b>	<b>(1,679,150)</b>	<b>(1,233,784)</b>
<b>Total derivatives</b>	<b>977,162</b>	<b>1,756,972</b>

The Fund enters into certain derivative transactions under International Swaps and Derivatives Association (ISDA) agreements with various counterparties, which include provisions for netting arrangements. The derivative financial asset and financial liability balances above are stated gross of any netting arrangements.

## Note 7: Investments (continued)

The gross and net positions of financial assets and liabilities that have been offset in the statement of financial position are disclosed in the first three columns of the following table where a netting arrangement is in place. Under the terms of the ISDA agreements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. The fourth column in the tables below show the amounts which could be offset at the counterparty level. As the Fund does not presently have a legally enforceable right of set-off, these amounts have not been offset in the statement of financial position.

Financial assets	Effects of offsetting on the statement of financial position			Related amounts not offset	
	Gross amounts of financial assets \$'000	Gross amounts set off in the statement of financial position \$'000	Net amount of financial assets presented in the statement of financial position \$'000	Amounts subject to master netting arrangements \$'000	Net amount \$'000
<b>2021</b>					
Derivative financial instruments	2,296,060	-	2,296,060	(1,643,549)	652,511
<b>Total</b>	<b>2,296,060</b>	<b>-</b>	<b>2,296,060</b>	<b>(1,643,549)</b>	<b>652,511</b>
<b>2020</b>					
Derivative financial instruments	2,829,594	-	2,829,594	(935,228)	1,894,366
<b>Total</b>	<b>2,829,594</b>	<b>-</b>	<b>2,829,594</b>	<b>(935,228)</b>	<b>1,894,366</b>

Financial liabilities	Effect of offsetting on the statement of financial position			Related amounts not offset	
	Gross amounts of financial liabilities \$'000	Gross amounts set off in the statement of financial position \$'000	Net amount of financial liabilities presented in the statement of financial position \$'000	Amounts subject to master netting arrangements \$'000	Net amount \$'000
<b>2021</b>					
Derivative financial instruments	1,643,549	-	1,643,549	(1,643,549)	-
<b>Total</b>	<b>1,643,549</b>	<b>-</b>	<b>1,643,549</b>	<b>(1,643,549)</b>	<b>-</b>
<b>2020</b>					
Derivative financial instruments	935,228	-	935,228	(935,228)	-
<b>Total</b>	<b>935,228</b>	<b>-</b>	<b>935,228</b>	<b>(935,228)</b>	<b>-</b>

## Note 7: Investments (continued)

### 7.1 Restrictions on investments – cash

#### Cash provided and received as collateral

The Fund has entered into various derivative contracts which require the Fund to post or receive collateral with counterparties under certain circumstances based on minimum transfer limits. The Fund provides cash as collateral when legally required and counterparties also post collateral when legally required. Any cash provided as collateral remains a financial asset of the Fund, however, any alternate use of this cash is restricted as it is held by the counterparty. Any cash received by the Fund from counterparties is not included in the net assets of the Fund. As at 30 June 2021, the Fund has \$52,187,778 in cash which has been posted as collateral with counterparties, (2020: \$2,682,643) and has received \$1,746,908,383 in cash (2020: \$1,408,511,495).

#### 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 2021, the Fund had posted \$1,044,469,192 (2020: \$885,701,852) 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 2021, the Fund had posted \$64,097,225 (2020: \$45,558,308) in swap margins to cover open positions. This cash also remains a financial asset of the Fund, however any alternate use of this cash is also restricted.

#### Cash prepayments for investments

The Fund prepays cash for applications into some Alternative investments in advance of the effective date for allocation of units as set out in the legal documents. Therefore, the cash remains a financial asset of the Fund, however, any alternate use of this cash is restricted. As at 30 June 2021, the Fund had prepaid \$637,054,635 (2020: \$0).

### 7.2 Restrictions on investments – listed equities

The Fund has in place an automatic contractual lien over the Fund's listed equities with a counterparty when the Fund's exposure to that counterparty exceeds the base unsecured threshold. At 30 June 2021 no assets are subject to the lien (2020: no assets subject to the lien).

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

### 7.3 Collective investment vehicles

#### Commitments made to collective investment vehicles as at 30 June 2021

As disclosed in the schedule of commitments and in the following tables, the Fund, directly and via the FFICs has committed to provide capital to various collective investment vehicles. The total of these commitments at balance date is \$18,284 million (2020: \$18,241 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 included the commitments in the schedule of commitments with a maturity of one year or less in accordance with the underlying legal documents. The Fund has appropriate liquidity planning in place to ensure a suitable allocation of resources will be available to cover these future commitments of capital.

## Note 7: Investments (continued)

### 7.3 Collective investment vehicles (continued)

Investment funds of the types the Fund invests in usually allow the fund's manager, general partner or other controlling entity to require repayment of distribution payments previously made to investors in order to cover certain fund liabilities (such as obligations to indemnify or to meet warranty claims on sold assets). The Fund negotiates where possible, for these 'giveback' obligations to be limited in both total amount (e.g. to between 10-25% of total distributions received) and liability period (e.g. for no longer than two years after the distributions are received). The Fund is not aware of any giveback obligations at 30 June 2021 (or 30 June 2020).

#### 30 June 2021 – directly held by the Fund

As at 30 June 2021, the Fund had made commitments to a number of collective investment vehicles. Capital commitments (local currency), the net cost of the current investments net of returns of capital (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2021 are shown in the table below.

Description of underlying strategy	Contractual capital committed as at 30 June 2021 Local Currency '000	Outstanding commitment as at 30 June 2021 AUD equivalent \$'000	Net capital cost <sup>1</sup> as at 30 June 2021 AUD equivalent \$'000	Fair value as at 30 June 2021 AUD equivalent \$'000
Alternative strategies	AUD \$12,355,213	301,373	10,082,343	10,174,372
Alternative strategies	USD \$1,577,280	886	2,034,469	2,500,868
Debt	AUD \$2,901,714	780,701	1,713,503	1,838,657
Debt	EUR €1,317,147	1,419,289	651,058	921,423
Debt	USD \$2,564,668	1,112,652	2,042,849	2,466,528
Global Infrastructure	AUD \$1,334,372	-	1,283,062	2,741,021
Global Infrastructure	EUR €66,930	-	119,936	131,558
Global Infrastructure	USD \$2,164,288	1,138,289	1,362,253	1,484,994
Private Equity	EUR €169,987	-	188,238	97,210
Private Equity	USD \$575,848	241,751	449,211	671,957
Property	AUD \$405,500	-	56,522	88,504
Property	EUR €402,124	388,178	193,838	183,011
Property	GBP £491,407	516,319	174,193	223,344
Property	USD \$4,962,664	1,343,584	3,957,312	4,285,291
Timberlands	USD \$167,561	-	221,205	244,871
<b>Total</b>		<b>7,243,022</b>	<b>24,529,992</b>	<b>28,053,609</b>

<sup>1</sup> Net capital cost includes all capital contributed less capital returned at 30 June 2021.

## Note 7: Investments (continued)

### 7.3 Collective investment vehicles (continued)

#### 30 June 2021 – indirectly held via the FFICs

As at 30 June 2021, the Fund had made commitments to a number of collective investment vehicles via its FFICs.

Capital commitments (local currency), the net cost of the current investments net of returns of capital (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2021 are shown in the table below.

Description of underlying strategy	Contractual capital committed as at 30 June 2021 Local Currency '000	Outstanding commitment as at 30 June 2021 AUD equivalent \$'000	Net capital cost <sup>1</sup> as at 30 June 2021 AUD equivalent \$'000	Fair value as at 30 June 2021 AUD equivalent \$'000
Alternative strategies	AUD \$11,338,935	168,057	7,701,903	10,088,694
Alternative strategies	USD \$5,455,311	243,756	3,139,518	3,700,568
Debt	AUD \$41,750	-	20,201	40,715
Debt	EUR €1,033,309	795,293	22,775	58,314
Debt	USD \$9,430,397	1,951,459	2,080,916	3,023,834
Global Infrastructure	AUD \$2,762,312	175,601	1,945,963	2,743,957
Global Infrastructure	GBP £262,029	-	103,559	412,955
Global Infrastructure	USD \$955,867	140,447	514,144	726,504
Private Equity	AUD \$1,106,147	265,792	556,915	531,555
Private Equity	EUR €1,484,784	765,992	1,033,706	1,751,936
Private Equity	GBP £303,604	7,042	473,865	493,007
Private Equity	USD \$18,037,669	4,995,522	13,764,004	28,726,759
Property	AUD \$271,150	-	293,376	321,814
Property	EUR €1,158,259	738,291	705,080	716,391
Property	USD \$1,095,996	793,910	319,631	342,208
Timberlands	AUD \$511,827	-	258,148	763,961
<b>Total</b>		<b>11,041,162</b>	<b>32,933,704</b>	<b>54,443,172</b>

<sup>1</sup> Net capital cost includes all capital contributed less capital returned at 30 June 2021.

## Note 7: Investments (continued)

### 7.3 Collective investment vehicles (continued)

#### 30 June 2020 – directly held by the Fund

As at 30 June 2020, the Fund had made commitments to a number of collective investment vehicles. Capital commitments (local currency), the net cost of the current investments net of returns of capital (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2020 are shown in the table below.

Description of underlying strategy	Contractual capital committed as at 30 June 2020 Local Currency '000	Outstanding commitment as at 30 June 2020 AUD equivalent \$'000	Net capital cost <sup>1</sup> as at 30 June 2020 AUD equivalent \$'000	Fair value as at 30 June 2020 AUD equivalent \$'000
Alternative strategies	AUD \$9,236,027	-	7,744,919	6,951,893
Alternative strategies	USD \$1,566,962	-	2,279,616	2,523,906
Debt	AUD \$2,201,714	143,201	1,710,648	1,677,904
Debt	EUR €1,116,376	835,225	720,175	918,297
Debt	USD \$2,189,775	529,572	1,935,737	2,268,481
Global Infrastructure	AUD \$1,334,335	-	1,280,513	2,322,741
Global Infrastructure	EUR €66,930	-	119,936	108,796
Global Infrastructure	USD \$2,105,672	1,434,081	1,107,104	1,281,567
Listed Equities	AUD \$1,130,967	-	1,089,707	1,118,657
Listed Equities	USD \$518,073	-	714,367	954,319
Private Equity	EUR €169,987	-	196,746	136,099
Private Equity	USD \$250,018	6,421	270,676	521,985
Property	AUD \$405,500	-	59,022	94,486
Property	EUR €87,124	16,296	80,398	90,467
Property	GBP £552,332	602,516	234,541	364,003
Property	USD \$5,390,241	2,455,755	3,740,349	4,447,598
Timberlands	USD \$167,561	-	221,205	280,397
<b>Total</b>		<b>6,023,067</b>	<b>23,505,659</b>	<b>26,061,596</b>

<sup>1</sup> Net capital cost includes all capital contributed less capital returned at 30 June 2020

## Note 7: Investments (continued)

### 7.3 Collective investment vehicles (continued)

#### 30 June 2020 – indirectly held via the FFICs

As at 30 June 2020, the Fund had made commitments to a number of collective investment vehicles via its FFICs. Capital commitments (local currency), the net cost of the current investments net of returns of capital (Australian dollars), the outstanding commitment (Australian dollars) and the fair value (Australian dollars) of the investments as at 30 June 2020 are shown in the table below.

Description of underlying strategy	Contractual capital committed as at 30 June 2020 Local Currency '000	Outstanding commitment as at 30 June 2020 AUD equivalent \$'000	Net capital cost <sup>1</sup> as at 30 June 2020 AUD equivalent \$'000	Fair value as at 30 June 2020 AUD equivalent \$'000
Alternative strategies	AUD \$8,567,093	378,882	7,148,218	7,703,401
Alternative strategies	USD \$5,256,478	126,707	2,931,140	3,653,046
Debt	AUD \$59,750	-	31,206	49,745
Debt	EUR €1,032,622	822,875	23,112	76,634
Debt	USD \$9,438,397	2,037,239	2,366,112	3,442,170
Global Infrastructure	AUD \$2,762,082	175,298	1,944,778	2,421,973
Global Infrastructure	GBP £262,029	-	103,559	383,598
Global Infrastructure	USD \$982,466	154,181	613,242	772,083
Listed Equities	USD \$2,798,370	-	550,853	1,882,186
Private Equity	AUD \$875,747	143,936	487,315	380,323
Private Equity	EUR €1,486,674	969,026	878,821	1,281,916
Private Equity	GBP £303,604	11,938	490,712	512,165
Private Equity	USD \$18,004,471	6,216,045	13,614,614	21,484,840
Property	AUD \$287,150	-	293,452	354,126
Property	EUR €1,073,975	690,715	671,083	735,249
Property	USD \$781,786	491,432	283,266	321,577
Timberlands	AUD \$511,827	-	258,148	535,826
<b>Total</b>		<b>12,218,274</b>	<b>32,689,631</b>	<b>45,990,858</b>

<sup>1</sup> Net capital cost includes all capital contributed less capital returned at 30 June 2020

## Note 8: Receivables

	2021 \$'000	2020 \$'000
<b>Receivables</b>		
Franking credits refundable	1,590,767	713,695
Interest receivable	276	136
Dividends and distributions receivable	235,295	105,337
Unsettled sales <sup>1</sup>	925,304	49,831
<b>Total Receivables</b>	<b>2,751,642</b>	<b>868,999</b>

<sup>1</sup> Represents amounts receivable under normal market settlement terms for the sale of investment securities.

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

## Note 9: Payables

	2021 \$'000	2020 \$'000
<b>Payables</b>		
Unsettled purchases <sup>1</sup>	138,579	174,598
Other accrued expenses including management and performance fees payable	100,097	62,134
<b>Total Payables</b>	<b>238,676</b>	<b>236,732</b>

<sup>1</sup> Represents amounts owing under normal market settlement terms for the purchase of investment securities

## Note 10: Provisions

	2021 \$'000	2020 \$'000
<b>Employee provisions</b>		
Annual leave	4,002	2,985
Long service leave	7,131	6,300
Other employee liabilities	29,004	22,009
<b>Total Employee provisions</b>	<b>40,137</b>	<b>31,294</b>

## Note 11: Contributions by Government

	2021 \$'000	2020 \$'000
<b>Opening balance</b>	<b>60,536,831</b>	<b>60,536,831</b>
Contribution from Government - cash	-	-
<b>Closing balance</b>	<b>60,536,831</b>	<b>60,536,831</b>

Contributions are made under Schedule 1 of the Act.

## Note 12: Unconsolidated subsidiaries and interests in unconsolidated structured entities

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

The Fund also invests via non-controlled structured entities. As these are investments of the Fund they are at their fair value and any undrawn capital is shown as an outstanding commitment which equates to the Fund's maximum exposure to loss from its investment in these entities.

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

- > the requirement for the Fund (or a FFIG entity) to fund future commitments to the entity as called by the investment manager or general partner. These amounts are limited in terms of total value and callable only in accordance with the underlying legal arrangements. These amounts are disclosed in Note 7.3;
- > the lack of control over the payment of dividends, distributions or the return of capital from the entity. These are controlled by the general partner or the investment manager in accordance with the legal arrangements entered into upon initial investment;
- > limitations on transfer or redemption of the interest in the entity. The Fund ensures that these are normal commercial arrangements for investments of this type, typically existing to protect and treat all investors in an equitable manner; and
- > limited recourse to the Fund (ordinarily capped at the commitment or invested capital value) for any claims or liabilities incurred by these entities.

Name of entity	Country of incorporation/ domicile	Equity holding	
		30 June 2021 %	30 June 2020 %
Future Fund Investment Company No.1 Pty Ltd <sup>^1</sup>	Australia	100	100
Future Fund Investment Company No.2 Pty Ltd <sup>^1</sup>	Australia	100	100
Global Hedged Strategies Fund Ltd <sup>2</sup>	Cayman Islands	100	100
Future Fund Investment Company No.3 Pty Ltd <sup>^1</sup>	Australia	100	100
GWII Unit Trust 2 <sup>2</sup>	Australia	100	100
Co-Investment Fund (Parallel) LP <sup>2</sup>	United States	100	100
Future Fund Investment Company No.4 Pty Ltd <sup>^1</sup>	Australia	100	100
Future Fund Investment Company No.5 Pty Ltd <sup>^1</sup>	Australia	100	100
Blue Jay Fund Ltd <sup>2</sup>	Bermuda	100	100
Elementum Tranquillus Fund Ltd <sup>2</sup>	Bermuda	100	100
Clocktower FF LP <sup>2</sup>	Cayman Islands	100	100
Future Fund Investment Company No.6 Pty Ltd (Dormant) <sup>1</sup>	Australia	100	100
FFH No.3 Trust <sup>1</sup>	Australia	100	100
Queenscliff Trust <sup>1</sup>	Australia	100	100
Bain Capital Distressed and Special Situations 2016 (F) LP <sup>1</sup>	United States	100	100
Bain Capital Distressed and Special Situations 2016 (F-EU), LP <sup>1</sup>	England	100	100
Heathcote Fund Ltd <sup>1</sup>	Cayman Islands	100	100

<sup>^</sup> Audited by the ANAO

<sup>1</sup> Held directly by the Future Fund

<sup>2</sup> Held directly by a Future Fund subsidiary

## Note 13: Cash flow reconciliation

	2021 \$'000	2020 \$'000
<b>Reconciliation of operating result to net cash from operating activities:</b>		
Operating result	35,713,325	(1,428,450)
Depreciation and amortisation	11,591	6,280
Purchase of investments	(173,486,308)	(128,314,152)
Proceeds from sale of investments	172,148,065	130,687,330
Net (gain)/loss on revaluation of investments	(32,382,619)	931,311
Unrealised gain on foreign currency	(74,678)	(867,963)
(Increase)/decrease in accrued income	(866,860)	621,995
Increase in other assets	(2,639)	(6,694)
Increase in employee provisions	8,843	1,558
Increase/(decrease) in other payables	37,963	(5,553)
Increase/(decrease) in deferred tax liability	52,060	(18,508)
<b>Net cash provided by operating activities</b>	<b>1,158,743</b>	<b>1,607,154</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:

	2021 \$'000	2020 \$'000
<b>Cash and cash equivalents</b>	<b>4,585,297</b>	<b>3,362,824</b>

## Note 14: Contingent liabilities and assets

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

## Note 15: Related party transactions

### 15.1 Parent entity

The ultimate controlling entity of the Fund is the Commonwealth of Australia.

### 15.2 Subsidiaries

Interests in subsidiaries are set out in Note 12.

## Note 15: Related party transactions (continued)

### 15.3 Key management personnel

Key management personnel are defined as the Board, members of the Agency's Senior Leadership Team which includes the Chief Executive Officer, Chief Investment Officer, Chief Operating Officer, General Counsel and Chief Risk Officer, Deputy Chief Investment Officer, Public Markets, Deputy Chief Investment Officer, Private Markets, Chief Financial Officer (until 26th February 2021), Chief Culture Officer (until 26th February 2021), and Chief Technology Officer (until 26th February 2021) and the Commonwealth of Australia's Finance Minister and Treasurer. These persons are the only persons considered to have the capacity and responsibility for decision making that can have a material impact on the strategic direction and financial performance of the Fund.

Remuneration of the Finance Minister, Treasurer and Board members is independently determined by the Australian Government Remuneration Tribunal. No member of the Board nor the statutory Accountable Authority receive any entitlement to performance related payments in undertaking their roles. The remuneration of the Finance Minister and Treasurer is not paid by the Fund and is therefore excluded from the compensation disclosed in Note 15.4.

### 15.4 Key management personnel compensation

	2021 \$	2020 \$
Short-term employee benefits	8,334,783	6,107,637
Post-employment benefits	357,744	303,120
Other long-term benefits	315,596	399,899
<b>Total Compensation</b>	<b>9,008,123</b>	<b>6,810,656</b>

The total number of key management personnel that are included in the above table are 17 (2020: 14).

### 15.5 Transactions with related parties

	2021 \$'000	2020 \$'000
<b>Subscriptions for capital and expenses<sup>1</sup></b>		
Subsidiaries	91,057	462,591
<b>Dividend and distribution revenue<sup>1</sup></b>		
Subsidiaries	321,071	220,907
Sale of investments	-	587,095

<sup>1</sup> FFBG subsidiaries excluding FFIC entities. FFIC transactions reflected in FFIC loans (Note 7) and FFIC dividend income (Note 3).

### 15.6 Terms and conditions

Transactions relating to dividends, distributions and funding of capital and expenses with related parties were made in accordance with the individual legal agreements.

## Note 15: Related party transactions (continued)

### 15.7 Transactions with government-related entities

Transactions with other Australian government-controlled entities for normal day-to-day business operations were provided under normal terms and conditions. This includes the payment of workers compensation and insurance premiums and superannuation. They are not considered significant individually to warrant separate disclosure as related party transactions. See Note 3 for details regarding the franking credits refundable from the Australian Taxation Office.

## Note 16: Financial instruments and financial risk management

### 16.1 Risk management framework

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

### 16.2 Financial risk management objectives

The Investment Mandate set by the Government specifies a benchmark return for the Fund and requires that it take an acceptable but not excessive level of risk. The Board sets and reviews an asset allocation designed to achieve this outcome. It encapsulates a level of risk that is expected to deliver the key return objectives while limiting the downside risk. Particular attention is paid to the worst 5% of possible outcomes under portfolio modelling over a three-year period (the 'Conditional Value at Risk' or "CVaR" of the Fund), as well as a measure of the amount of broad equity exposure in the portfolio ('Equivalent Equity Exposure') to ensure that medium-term risk in the portfolio is deemed acceptable whilst pursuing long-term returns.

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

### 16.3 Market risk

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

## Note 16: Financial instruments and financial risk management (continued)

### 16.3.1 Interest rate risk

Interest rate exposure tables

The exposure to interest rates as at 30 June 2021 of the Fund and the FFICs are set out below.

	Floating Interest Rate 2021 \$'000	Fixed Interest Rate 2021 \$'000	Non-interest Bearing 2021 \$'000	Total <sup>1</sup> 2021 \$'000
<b>Financial asset</b>				
Cash and cash equivalents	5,275,431	-	-	5,275,431
Bank bills	-	17,816	-	17,816
Negotiable certificates of deposit	-	19,816,765	-	19,816,765
Corporate debt securities	177,224	1,414,557	-	1,591,781
Mortgage backed securities	31,457	6,757	-	38,214
Asset backed securities	624,672	19,667	-	644,339
Corporate credit (bank loans)	1,068,082	-	-	1,068,082
Government debt securities	54,017	11,045,095	-	11,099,112
Other interest-bearing securities	563,540	608,941	-	1,172,481
Other financial assets	-	-	159,315,274	159,315,274
<b>Total financial assets</b>	<b>7,794,423</b>	<b>32,929,598</b>	<b>159,315,274</b>	<b>200,039,295</b>
<b>Notional value of derivative positions</b>				
Swaps (notional amount) – pay	(12,422,165)	(5,932,901)		
Swaps (notional amount) – receive	18,740,223	3,251,418		

<sup>1</sup> Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes additional interest rate securities and cash and cash equivalents held by the FFICs.

As at 30 June 2021 the Fund's debt portfolio had an effective interest rate duration of 0.85 (30 June 2020: 0.95).

## Note 16: Financial instruments and financial risk management (continued)

### 16.3.1 Interest rate risk (continued)

The exposure to interest rates as at 30 June 2020 of the Fund and the FFICs are set out below.

	Floating Interest Rate 2020 \$'000	Fixed Interest Rate 2020 \$'000	Non-interest Bearing 2020 \$'000	Total <sup>1</sup> 2020 \$'000
<b>Financial asset</b>				
Cash and cash equivalents	3,945,939	-	-	3,945,939
Bank bills	-	-	-	-
Negotiable certificates of deposit	-	16,375,796	-	16,375,796
Corporate debt securities	1,237,791	268,151	-	1,505,942
Mortgage backed securities	140,057	-	-	140,057
Asset backed securities	518,358	-	-	518,358
Corporate credit (bank loans)	843,401	-	-	843,401
Government debt securities	-	13,432,346	-	13,432,346
Other interest-bearing securities	649,453	607,329	-	1,256,782
Other financial assets	-	-	124,612,266	124,612,266
<b>Total financial assets</b>	<b>7,334,999</b>	<b>30,683,622</b>	<b>124,612,266</b>	<b>162,630,887</b>
<b>Notional value of derivative positions</b>				
Swaps (notional amount) – pay	(8,632,200)	(3,772,201)		
Swaps (notional amount) – receive	13,799,231	799,934		

<sup>1</sup> Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes additional interest rate securities and cash and cash equivalents held by the FFICs.

## Note 16: Financial instruments and financial risk management (continued)

### 16.3.1 Interest rate risk (continued)

#### Interest rate derivative contracts

The Fund had open positions in exchange traded interest rate futures contracts and interest rate swap agreements as at 30 June 2021. The Act governs the use of financial derivatives as detailed in Note 2.3.3.

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

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

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

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

	Notional Value 2021 \$'000	Fair Market Value 2021 \$'000	Notional Value 2020 \$'000	Fair Market Value 2020 \$'000
<b>Total interest rate derivatives</b>	23,555,696	606,478	16,907,421	(200,332)

No interest rate derivatives are held by the FFICs.

## Note 16: Financial instruments and financial risk management (continued)

### 16.3.1 Interest rate risk (continued)

#### Interest rate sensitivity analysis

The following table demonstrates the impact on the operating result of the Fund and the FFICs for a 74 basis point (2020: 9 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 2021 and 30 June 2020) and there are concurrent movements in interest rates and parallel shifts in the yield curves. A 74 basis point (2020: 9 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 2021 Impact on operating result \$'000
+ 74 basis points	(1,030,322)
- 74 basis points	1,206,401

	30 June 2020 Impact on operating result \$'000
+ 9 basis points	(136,083)
- 9 basis points	137,662

## Note 16: Financial instruments and financial risk management (continued)

### 16.3.2 Foreign currency risk management

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

Foreign exchange contracts are used by the Fund's investment managers to manage the exposure to foreign exchange and to ensure it remains within Board approved limits. The Act governs the use of financial derivatives as detailed in Note 2.3.3. The Fund's counterparties for foreign exchange contracts include major banking firms and their affiliates. The Fund diversifies its exposure by utilising major banking firms, by considering each counterparty's credit rating, and by executing such contracts pursuant to master netting agreements. All transactions (other than spot trades) are undertaken using ISDAs.

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

30 June 2021	USD	EUR	GBP	JPY	Other <sup>1</sup>	Total
	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000
Cash and cash equivalents	1,821,534	227,760	58,644	118,514	102,955	2,329,407
Listed equities and listed managed investment schemes	26,333,650	3,832,992	1,540,209	5,350,126	15,995,616	53,052,593
Interest bearing securities	3,918,369	160,594	240,051	7,668,106	5,398,380	17,385,500
Collective investment vehicles	48,171,596	3,859,844	1,129,305	-	3,037	53,163,782
Other investments	2,197,301	71,105	13,449	12,764	6,017	2,300,636
Receivables	529,882	48,587	28,961	30,108	407,417	1,044,955
Payables	(162,028)	(16,692)	-	-	(1,847)	(180,567)
<b>Total physical exposure</b>	<b>82,810,304</b>	<b>8,184,190</b>	<b>3,010,619</b>	<b>13,179,618</b>	<b>21,911,575</b>	<b>129,096,306</b>
Derivatives						
> buy foreign currency derivatives	28,771,935	194,698	-	2,476,121	25,609,625	57,052,379
> sell foreign currency derivatives	(58,752,114)	(1,905,918)	(2,114,548)	(1,068,467)	(26,788,472)	(90,629,519)
<b>Total derivative exposure</b>	<b>(29,980,179)</b>	<b>(1,711,220)</b>	<b>(2,114,548)</b>	<b>1,407,654</b>	<b>(1,178,847)</b>	<b>(33,577,140)</b>
<b>Total net exposure</b>	<b>52,830,125</b>	<b>6,472,970</b>	<b>896,071</b>	<b>14,587,272</b>	<b>20,732,728</b>	<b>95,519,166</b>

<sup>1</sup> Other includes AUD equivalent exposures to other currencies which, when considered individually, are immaterial and an exposure to gold included in the Commodity futures derivative exposure balance.

## Note 16: Financial instruments and financial risk management (continued)

### 16.3.2 Foreign currency risk management (continued)

The Fund and FFICs' exposure in Australian equivalents to foreign currency risk at 30 June 2020 was as follows:

30 June 2020	USD	EUR	GBP	JPY	Other <sup>1</sup>	Total
	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000
Cash and cash equivalents	2,976,955	60,335	87,717	137,307	69,203	3,331,517
Listed equities and listed managed investment schemes	17,006,570	2,462,780	1,305,659	4,228,037	11,915,694	36,918,740
Interest bearing securities	3,809,629	130,442	148,977	8,643,068	1,513,241	14,245,357
Collective investment vehicles	43,834,156	3,347,457	1,259,765	-	-	48,441,378
Other investments	1,137,721	65,800	13,096	4,478	44,666	1,265,761
Receivables	52,570	116,833	4,161	5,624	56,103	235,291
Payables	(138,902)	(1,788)	(1,814)	(2,153)	(32,096)	(176,753)
<b>Total physical exposure</b>	<b>68,678,699</b>	<b>6,181,859</b>	<b>2,817,561</b>	<b>13,016,361</b>	<b>13,566,811</b>	<b>104,261,291</b>
Derivatives						
> buy foreign currency derivatives	21,471,199	2,838,089	983,573	1,735,413	19,286,047	46,314,321
> sell foreign currency derivatives	(49,972,931)	(2,893,707)	(2,588,016)	(2,456,053)	(13,757,267)	(71,667,974)
<b>Total derivative exposure</b>	<b>(28,501,732)</b>	<b>(55,618)</b>	<b>(1,604,443)</b>	<b>(720,640)</b>	<b>5,528,780</b>	<b>(25,353,653)</b>
<b>Total net exposure</b>	<b>40,176,967</b>	<b>6,126,241</b>	<b>1,213,118</b>	<b>12,295,721</b>	<b>19,095,591</b>	<b>78,907,638</b>

<sup>1</sup> Other includes AUD equivalent exposures to other currencies which, when considered individually, are immaterial and an exposure to gold included in the Commodity futures derivative exposure balance.

## Note 16: Financial instruments and financial risk management (continued)

### 16.3.2 Foreign currency risk management (continued)

#### Foreign currency sensitivity analysis

The following table demonstrates the impact on the Fund and the FFICs' operating result of a 7.89% (2020: 8.41%) movement in exchange rates relative to the Australian dollar at 30 June 2021, with all other variables held constant. If the foreign currency rises against the Australian dollar there will be a positive impact on the operating result. It is assumed that the relevant change occurs as at the reporting date and the results presented are shown after taking into account the implementation of the Board's foreign currency exposure policy (that is, the sensitivity is calculated on the net exposure presented on the two previous tables).

	30 June 2021 Impact on operating result \$'000
+ 7.89% movement	9,210,400
- 7.89% movement	(9,103,595)

	30 June 2020 Impact on operating result \$'000
+ 8.41% movement	7,480,923
- 8.41% movement	(7,406,090)

### 16.3.3 Equity price risk

#### Public markets equity price risk

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

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

	2021 \$'000	2020 \$'000
Domestic listed equities and listed managed investment schemes	16,754,291	10,585,204
International listed equities and listed managed investment schemes	53,052,636	36,918,739
<b>Total equity price risk exposure<sup>1</sup></b>	<b>69,806,927</b>	<b>47,503,943</b>

<sup>1</sup> Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes additional public market equities held by the FFICs.

## Note 16: Financial instruments and financial risk management (continued)

### 16.3.3 Equity price risk (continued)

#### Equity derivative contracts

The Fund had open positions in exchange traded equity futures contracts, exchange traded and over the counter warrants, and over the counter equity option contracts and equity swap contracts as at 30 June 2021. The Act governs the use of financial derivatives as detailed in Note 2.3.3. Equity futures, options and warrants are used to manage market exposures to equity price risk and to ensure that asset allocations remain within approved limits. The Fund's counterparties for over the counter equity options include major banking firms and their affiliates. The Fund diversifies its exposure by utilising multiple counterparties, by considering each counterparty's credit rating, and by executing such contracts pursuant to master netting agreements. All over the counter transactions are undertaken using ISDAs. The Fund's equity futures contracts are cash margined daily with the relevant futures clearing exchange. The notional value of the open contracts and their fair value are set out below:

	Notional Value 2021 \$'000	Fair Market Value 2021 \$'000	Notional Value 2020 \$'000	Fair Market Value 2020 \$'000
<b>Total equity derivatives</b>	<b>13,968,711</b>	<b>2,058,541</b>	7,867,584	469,572 <sup>1</sup>

<sup>1</sup> Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes additional equity derivatives held by the FFICs.

#### Equity price sensitivity analysis

The analysis below demonstrates the impact on the Fund and FFICs' operating result of the following movements:

- > +/- 20% on Australian equities
- > +/- 15% on International equities

The sensitivity analysis has been performed to assess the direct risk of holding equity instruments and associated derivatives. The analysis is undertaken on the base currency values of the underlying exposures. Currency risk sensitivity is considered separately in the currency sensitivity table presented in Note 16.3.2. The percentage change for each sub-class noted in the table below is measured with reference to each underlying security's forward looking beta, which is a measure of how the underlying security price would change relative to an absolute increase or decrease in the market portfolio which has a beta of 1.

	2021 Impact on operating result \$'000	2020 Impact on operating result \$'000
20% increase in Australian equities	4,970,119	3,634,493
15% increase in International equities	19,941,975	15,013,131
<b>Total</b>	<b>24,912,094</b>	18,647,624
20% decrease in Australian equities	(4,970,119)	(3,634,493)
15% decrease in International equities	(19,599,823)	(15,006,110)
<b>Total</b>	<b>(24,569,942)</b>	(18,640,603)

## Note 16: Financial instruments and financial risk management (continued)

### 16.3.4 Other price risk (collective investment vehicles)

The Fund and FFICs are exposed to other price risks arising from its investments in collective investment vehicles. The Fund and FFICs mitigate this risk through diversification of its investments.

As noted in Note 16.6, in the absence of active markets for a particular investment, judgement is required in determining fair value which introduces an increased element of uncertainty in the determination of that fair value. Collective investment vehicle pricing requires this judgement to be exercised in determining appropriate market reference transactions, pricing or earnings multiples, cash flow estimates and market discount rates.

Similarly, when estimating the potential sensitivity of the inputs into the fair values, there is judgement required as to how to determine what a reasonable change in underlying inputs might be in the next financial period. The use of proxy information to assist in determining these sensitivities is detailed below.

#### Private real estate proxy

A proxy index of publicly traded real estate investment trusts ("REITs") has been created that is appropriate for the geographical exposure of the portfolio.

#### Private equity proxy

A proxy after consideration of the investment strategy and geographical exposure of each private equity investment has been created. For example, a venture capital strategy is proxied using micro cap equities in the appropriate geography.

#### Infrastructure proxy

Utilisation of an appropriate index of publicly traded infrastructure companies in the appropriate geography and sector is used as a proxy.

#### Alternative strategy funds

An appropriate market index of public traded assets or similar alternative strategy funds is used as a proxy.

#### Other price risk sensitivity analysis

The sensitivity analysis for other price risk using the proxies noted above is incorporated within the interest rate sensitivity analysis and equity risk sensitivity analysis presented earlier in Notes 16.3.1 and 16.3.3.

## 16.4 Liquidity risk management

Liquidity risk is the vulnerability of portfolio cash-flow management to compromise or failure. In particular, it is the risk that insufficient at-call liquidity is available to meet the Fund's liabilities and obligations as they fall due.

The Fund devotes considerable resources to liquidity risk management and the Liquidity Risk Management Policy is one of four main investment policies that support the investment process and help to ensure that the Fund and the FFICs takes 'acceptable but not excessive' risk.

## Note 16: Financial instruments and financial risk management (continued)

### 16.4 Liquidity risk management (continued)

The implementation of the Liquidity Risk Management Policy relies upon the following primary inputs:

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

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

	Less than 1 year \$'000	1 to 5 Years \$'000	> 5 Years \$'000	Total contractual cashflows \$'000	Carrying amount (assets)/liabilities \$'000
<b>2021</b>					
<b>Non-derivatives</b>					
Unsettled purchases	185,771	-	-	-	185,771
Other payables	203,522	23,167	28,526	-	255,215
<b>Total non-derivatives</b>	<b>389,293</b>	<b>23,167</b>	<b>28,526</b>	<b>-</b>	<b>440,986<sup>1</sup></b>
<b>Derivatives</b>					
Net settled	319,998	57,186	-	-	377,184
Gross settled					
> (inflow)	(58,372,180)	-	-	-	(58,372,180)
> outflow	59,674,177	-	-	-	59,674,177
<b>Total derivatives</b>	<b>1,621,995</b>	<b>57,186</b>	<b>-</b>	<b>-</b>	<b>1,679,181<sup>1</sup></b>

<sup>1</sup> Total balances do not agree with the investment balance reported in Note 7 and the payables balances reported in Note 9 as the FFICs are included in this disclosure.

The Fund may be required to provide cash as collateral to counterparties under legal agreements when derivatives are in a net liability position. Refer to Note 7 for details on cash provided as collateral.

## Note 16: Financial instruments and financial risk management (continued)

### 16.4 Liquidity risk management (continued)

As at 30 June 2020:

	Less than 1 year \$'000	1 to 5 Years \$'000	> 5 Years \$'000	Total contractual cashflows \$'000	Carrying amount (assets)/liabilities \$'000
<b>2020</b>					
<b>Non-derivatives</b>					
Unsettled purchases	181,799	-	-	-	181,799
Other payables	95,477	13,158	-	-	108,635
<b>Total non-derivatives</b>	<b>277,276</b>	<b>13,158</b>	<b>-</b>	<b>-</b>	<b>290,434<sup>1</sup></b>
<b>Derivatives</b>					
Net settled	414,599	33,223	-	-	447,822
Gross settled					
> (inflow)	(31,915,561)	-	-	-	(31,915,561)
> outflow	32,701,523	-	-	-	32,701,523
<b>Total derivatives</b>	<b>1,200,561</b>	<b>33,223</b>	<b>-</b>	<b>-</b>	<b>1,233,784<sup>1</sup></b>

<sup>1</sup> Total balances do not agree with the investment balance reported in Note 7 and the payables balances reported in Note 9 as the FFICs are included in this disclosure.

## Note 16: Financial instruments and financial risk management (continued)

### 16.5 Credit risk

Credit risk is the risk of loss that arises from a counterparty failing to meet their contractual commitments in full and on time, or from losses arising from the change in value of a traded financial instrument as a result of changes in credit risk on that instrument.

The Board sets limits on the credit ratings of debt investments. These limits are reflected in the underlying investment mandates and are monitored by the Agency with compliance reported to the Board.

The Fund's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the statement of financial position.

The Fund had, at 30 June 2021, an exposure of 8.84% (2020: 9.73%) 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:	2021 \$'000	2020 \$'000
Westpac Banking Corporation	3,994,284	3,470,237
Australia and New Zealand Banking Group Limited	4,735,392	3,964,219
National Australia Bank Limited	2,755,572	4,163,876
Commonwealth Bank of Australia	5,700,082	4,027,973
Other domestic banks	214,970	49,988
<b>Total equity price risk exposure</b>	<b>17,400,300</b>	<b>15,676,293</b>

The exposures presented above reconcile to Note 7 of the financial statements as follows:

Domestic interest bearing securities issued by:	2021 \$'000	2020 \$'000
Negotiable certificates of deposit - domestic	17,400,300	15,676,293
<b>Total</b>	<b>17,400,300</b>	<b>15,676,293</b>

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

## Note 16: Financial instruments and financial risk management (continued)

### 16.5 Credit risk (continued)

#### Credit risk derivatives

The Funds' managers utilise credit default swaps to gain exposure to credit risk. The Act governs the use of financial derivatives as detailed in Note 2.3.3.

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

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

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

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

	Notional Value 2021 \$'000	Fair Market Value 2021 \$'000	Notional Value 2020 \$'000	Fair Market Value 2020 \$'000
Buy Credit Protection	224,396	(14,680)	79,056	(741)
Sell Credit Protection	81,185	(1,515)	255,058	3,648
<b>Total</b>		<b>(16,195)</b>		2,907

No credit risk derivative contracts are held by the FFICs.

## Note 16: Financial instruments and financial risk management (continued)

### 16.5 Credit risk (continued)

#### Credit exposure by credit rating

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

	2021 \$'000	2020 \$'000
<b>Long term rated securities</b>		
AAA	458,522	3,916,475
AA	645,157	179,366
A	14,866,456	12,930,501
BBB	668,147	668,702
Below Investment grade / not rated <sup>1</sup>	4,225,510	3,924,200
<b>Short term rated securities</b>		
A-1+/A-1/A-2	19,834,581	16,375,796
<b>Other</b>		
US Government Guaranteed	25,648	23,581
<b>Total debt securities and cash</b>	<b>40,724,021</b>	<b>38,018,621</b>
Other non-debt financial assets	159,315,274	124,612,266
<b>Total financial assets<sup>2</sup></b>	<b>200,039,295</b>	<b>162,630,887</b>

<sup>1</sup> The Fund and FFICs have a number of mandates with managers specialising in managing distressed debt and corporate loans portfolios.

<sup>2</sup> Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes cash and financial assets held by the FFICs.

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

There are no overdue contractual receipts due from counterparties as at 30 June 2021 (2020: nil).

### 16.6 Fair values of financial assets and liabilities

The carrying amounts of the Fund's assets and liabilities at the end of each reporting period approximate their fair values.

Financial assets and liabilities at fair value through profit or loss are measured initially at fair value. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

## Note 16: Financial instruments and financial risk management (continued)

### 16.6.1 Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in Note 2. For the majority of its public market investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's-length basis.

### 16.6.2 Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques employed by the managers the Board has engaged or by the Fund directly. These include the use of recent transactions to the extent these are available and are not distressed transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models, the use of independent valuation experts or any other valuation technique that provides an estimate of prices that could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on best estimates and the discount rate used is a market rate at the balance date applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at balance date. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The 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 16: Financial instruments and financial risk management (continued)

### 16.7 Fair value hierarchy

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The following tables provide an analysis of financial instruments held at year end that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

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

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

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

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

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

As noted in Note 16.3.4 for collective investments, the Fund has used proxy investment exposures to provide sensitivity information surrounding the possible impact on the income of the Fund should equity or interest rate markets move up or down by a specified amount.

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the beginning of the reporting period. The Fund determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole).

## Note 16: Financial instruments and financial risk management (continued)

### 16.7 Fair value hierarchy (continued)

The tables below provide information on the fair value hierarchy for the Fund and FFICs as at 30 June 2021.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total <sup>1</sup> \$'000
<b>Recurring fair value measurements</b>				
Financial assets at fair value through profit or loss:				
Interest bearing securities	15,633	33,428,019	2,004,938	35,448,590
Listed equities and listed managed investment schemes	69,618,923	20,043	167,961	69,806,927
Collective investment vehicles	-	-	82,496,995	82,496,995
Derivatives	300,368	2,355,917	694	2,656,979
Restricted Cash	1,471,586	-	-	1,471,586
<b>Total</b>	<b>71,406,510</b>	<b>35,803,979</b>	<b>84,670,588</b>	<b>191,881,077</b>
Financial liabilities at fair value through profit or loss:				
Derivatives	(9,318)	(1,669,862)	-	(1,679,180)
<b>Total</b>	<b>(9,318)</b>	<b>(1,669,862)</b>	<b>-</b>	<b>(1,679,180)</b>

<sup>1</sup> Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes the investment related assets and liabilities held by the FFICs. The difference between the table above and Note 7 is financial asset investments of \$465,111,000 and financial liability investments of \$30,000.

The following table presents the transfers between levels for the year ended 30 June 2021:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Transfers between Levels 1 and 2	(1,049)	1,049	-
Transfers between Levels 1 and 3	(29,682)	-	29,682
Transfers between Levels 2 and 3	-	(289,740)	289,740

## Note 16: Financial instruments and financial risk management (continued)

### 16.7 Fair value hierarchy (continued)

The following table presents the movement in Level 3 instruments for the year ended 30 June 2021 by class of financial instrument.

	Interest bearing securities \$'000	Equities and listed managed investment schemes \$'000	Collective investment vehicles \$'000	Derivatives \$'000	Total \$'000
<b>Financial assets at fair value through profit or loss:</b>					
Opening balance	1,574,213	122,197	72,052,453	3,618	73,752,481
Purchases	361,098	32,285	15,571,680	-	15,965,063
Sales	(202,779)	(29,659)	(14,984,641)	(3,617)	(15,220,696)
Transfers into Level 3	292,695	43,490	-	-	336,185
Gains and losses recognised in the statement of comprehensive income	(19,202)	15,323	9,857,503	693	9,854,317
Transfers out of Level 3	(1,087)	(15,675)	-	-	(16,762)
<b>Closing balance</b>	<b>2,004,938</b>	<b>167,961</b>	<b>82,496,995</b>	<b>694</b>	<b>84,670,588</b>

There were no Level 3 financial liabilities.

## Note 16: Financial instruments and financial risk management (continued)

### 16.7 Fair value hierarchy (continued)

The Fund must invest all the assets of the Fund via investment managers. Listed below are the valuation techniques and significant unobservable inputs for the investments classified in Level 2 and Level 3. Due to the diverse nature of the Fund's investments it is not possible to list the ranges of the inputs.

As at 30 June 2021:

	Fair Value \$'000	Valuation Technique	Unobservable Inputs
<b>Recurring fair value measurements</b>			
Financial assets at fair value through profit or loss:			
Interest bearing securities	35,432,957	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	188,004	Discounted cash flow	Discount Rate
		Independent Pricing Services	N/A
		Recent Transaction	N/A
		Recovery Value	Recovery Rate
Collective investment vehicles	82,029,597	Market Approach	Earnings Multiple
			Net Asset Value
	467,398	Discounted cash flow	Discount Rate
Derivatives	2,356,611	Independent Pricing Services	N/A
		Broker Quotations	N/A
<b>Total</b>	<b>120,474,567</b>		
Financial liabilities at fair value through profit or loss:			
Derivatives	(1,669,862)	Independent Pricing Services	N/A
		Broker Quotations	N/A
<b>Total</b>	<b>(1,669,862)</b>		

## Note 16: Financial instruments and financial risk management (continued)

### 16.7 Fair value hierarchy (continued)

The tables below provide information on the fair value hierarchy for the Fund and FFICs as at 30 June 2020:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total <sup>1</sup> \$'000
<b>Recurring fair value measurements</b>				
Financial assets at fair value through profit or loss:				
Interest bearing securities	8,414	32,490,055	1,574,213	34,072,682
Listed equities and listed managed investment schemes	47,302,655	79,091	122,197	47,503,943
Collective investment vehicles	-	-	72,052,453	72,052,453
Derivatives	19,359	2,967,899	3,618	2,990,876
Restricted Cash	1,160,140	-	-	1,160,140
<b>Total</b>	<b>48,490,568</b>	<b>35,537,045</b>	<b>73,752,481</b>	<b>157,780,094</b>
Financial liabilities at fair value through profit or loss				
Derivatives	(36,006)	(1,197,778)	-	(1,233,784)
<b>Total</b>	<b>(36,006)</b>	<b>(1,197,778)</b>	<b>-</b>	<b>(1,233,784)</b>

<sup>1</sup> Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes the investment related assets and liabilities held by the FFICs. The difference the table above and Note 7 is financial asset investments of \$521,761,000 and financial liability investments of \$0.

The following table presents the transfers between levels for the year ended 30 June 2020:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Transfers between Levels 1 and 2	-	-	-
Transfers between Levels 1 and 3	(35,499)	-	35,499
Transfers between Levels 2 and 3	-	6,609	(6,609)

The following table presents the movement in Level 3 instruments for the year ended 30 June 2020 by class of financial instrument.

	Interest bearing securities \$'000	Equities and listed managed investment schemes \$'000	Collective investment vehicles \$'000	Derivatives \$'000	Total \$'000
Financial assets at fair value through profit or loss:					
Opening balance	1,707,848	636,134	75,323,374	4,228	77,671,584
Purchases	131,446	48,539	18,835,865	29	19,015,879
Sales	(267,433)	(255,740)	(19,381,924)	-	(19,905,097)
Transfers into Level 3	655	37,963	-	-	38,618
Gains and losses recognised in the statement of comprehensive income	8,961	(342,235)	(2,724,862)	(639)	(3,058,775)
Transfers out of Level 3	(7,264)	(2,464)	-	-	(9,728)
<b>Closing balance</b>	<b>1,574,213</b>	<b>122,197</b>	<b>72,052,453</b>	<b>3,618</b>	<b>73,752,481</b>

There were no Level 3 financial liabilities.

## Note 16: Financial instruments and financial risk management (continued)

### 16.7 Fair value hierarchy (continued)

The Fund must invest all the assets of the Fund via investment managers. Listed below are the valuation techniques and significant unobservable inputs for the investments classified in Level 2 and Level 3. Due to the diverse nature of the Fund's investments it is not possible to list the ranges of the inputs.

As at 30 June 2020:

	Fair Value \$'000	Valuation Technique	Unobservable Inputs
<b>Recurring fair value measurements</b>			
Financial assets at fair value through profit or loss:			
Interest bearing securities	34,064,268	Discounted cash flow	Discount Rate
		Market Approach	Earnings Multiple
		Broker Quotations	N/A
		Independent Pricing Services	N/A
		Recovery Rate	Illiquidity Discount
Equities and listed managed investment schemes	201,288	Discounted cash flow	Discount Rate
		Independent Pricing Services	N/A
		Recent Transaction	N/A
		Recovery Value	Recovery Rate
Collective investment vehicles	71,621,383	Market Approach	Earnings Multiple
			Net Asset Value
	431,070	Discounted cash flow	Discount Rate
Derivatives	2,971,517	Independent Pricing Services	N/A
		Broker Quotations	N/A
<b>Total</b>	109,289,526		
Financial liabilities at fair value through profit or loss:			
Derivatives	(1,197,778)	Independent Pricing Services	N/A
		Broker Quotations	N/A
<b>Total</b>	(1,197,778)		

## Note 17: Events occurring after reporting date

There have been no significant events occurring after reporting date that would materially affect these financial statements.

## Note 18: Special Accounts

### 18.1 Special Accounts: Future Fund Special Account

Legal Authority – *Future Fund Act 2006*, section 12.

Appropriation authority – section 80 of the PGPA Act.

Purpose – establishment and ongoing operation of the Fund.

Disclosures below are on a cash basis and consolidate departmental and administered items.

	Period from 1 July 2020 to 30 June 2021 \$'000	Period from 1 July 2019 to 30 June 2020 \$'000
<b>Future fund special account</b>		
Balance carried from previous period	-	-
Bank interest amounts credited	-	-
Appropriations for reporting period	-	-
Other receipts:		
GST credits	4,213	4,833
Amounts transferred from investment account <sup>1</sup>	378,889	369,287
Amounts credited to the special account	-	-
<b>Total Credits</b>	<b>383,102</b>	<b>374,120</b>
Available for payments	383,102	374,120
Payments made:		
Investments debited from the Special Account (FFA s17)		
Payments made		
– Remuneration of Agency staff	58,004	49,890
– Remuneration of Board members	825	976
– Suppliers	117,045	104,945
– Investment expenses	182,391	213,928
– Purchase of capital equipment and software	17,985	1,207
– Lease liability principal and interest payments	6,852	3,174
<b>Total debits</b>	<b>383,102</b>	<b>374,120</b>
<b>Balance carried forward to next year<sup>2</sup></b>	<b>-</b>	<b>-</b>

<sup>1</sup> The operations of the Fund are funded via the investment revenue generated.

<sup>2</sup> Excluding investments balances, see Note 18.2.

## Note 18: Special Accounts (continued)

### 18.2 Special Accounts: Investment of Public Money

Disclosures below are on a cash basis.

Future Fund Special Account: Investment of Public Money under section 17 of the Future Fund Act 2006 (as amended)	Period from 1 July 2020 to 30 June 2021 \$'000	Period from 1 July 2019 to 30 June 2020 \$'000
<b>Opening balance</b>	<b>136,440,244</b>	131,868,470
Investments made on transfer of funds from the Special Account		
Realised investments reinvested	<b>178,814,462</b>	135,158,753
Interest earned reinvested	<b>2,120,765</b>	757,477
Dividends received reinvested	<b>2,747,536</b>	2,992,776
Franking credits received reinvested	<b>462,401</b>	1,242,956
Foreign currency realised reinvested	<b>(376,277)</b>	(4,679,970)
Amounts transferred to operations <sup>1</sup>	<b>(378,889)</b>	(369,287)
Investments realised	<b>(171,896,199)</b>	(130,530,931)
<b>Closing balance</b>	<b>147,934,043</b>	136,440,244

<sup>1</sup> The operations of the Fund are funded via the investment revenue generated.

## Note 19: Reporting of outcomes

### 19.1 Net cost of outcome delivery

Outcome 1: Strengthen the Commonwealth's financial position for the benefit of the Australian people, by managing the investment activities of the Future Fund and certain other Australian Government investment funds in line with their Investment Mandates.

The Fund's net contribution to outcome 1 is disclosed in the Statement of comprehensive income.

### 19.2 Net cost of outcome delivery – Programs

The Agency has two programs: the management of the investment of the Future Fund and the management of the investment of the Australian Government Investment Funds. These investments are held for and on behalf of the Commonwealth of Australia.

#### Program 1.1 Management of the investment of the Future Fund.

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

## Note 19: Reporting of outcomes (continued)

### 19.2 Net cost of outcome delivery – Programs (continued)

#### Program 1.2 Management of the investment of the Australian Government Investment Funds.

The role of the Agency was extended to include supporting the Board in the investment of the assets by the *DisabilityCare Australia Fund Act 2013*, the *Medical Research Future Fund Act 2015*, the *Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018*, the *Future Drought Fund Act 2019* and the *Emergency Response Fund Act 2019* to support the Board in the investment of the assets of the DCAF, MRFF, ATSILSFF, FDF and ERF. The Agency charges a monthly fee to each fund to reimburse the Agency for shared costs paid by the Agency, as agreed with the Department of Finance. During the year the Agency charged the funds a combined amount of \$10,401,889 (2020: \$7,802,000) which is included in other income in the statement of comprehensive income and the amount owing to the Agency at 30 June 2021 was \$2,736,497 (2020: \$2,333,577). Direct costs to the DCAF, MRFF, ATSILSFF, FDF and ERF, such as investment management and custody fees, were charged directly to each fund's Special Account and are not reported as part of these financial statements.

## Note 20: Current and non-current assets and liabilities disclosure

AASB 101 requires that for each asset and liability line item, the amount expected to be recovered or settled beyond 12 months is disclosed as set out in the table below:

	As at 30 June 2021 <12 months \$'000	As at 30 June 2021 >12 months \$'000	As at 30 June 2020 <12 months \$'000	As at 30 June 2021 >12 months \$'000
<b>Financial assets</b>				
Cash and cash equivalents	4,585,297	-	3,362,824	-
Receivables	2,751,642	-	868,999	-
Investments	49,485,167	141,930,799	53,121,672	105,180,183
Other financial assets	6,540	5,189	9,685	-
<b>Non-financial assets</b>				
Right of use assets	-	41,889	-	16,424
Plant and equipment	-	22,069	-	2,754
Intangibles	-	229	-	2,088
<b>TOTAL ASSETS</b>	<b>56,828,646</b>	<b>142,000,175</b>	<b>57,363,180</b>	<b>105,201,449</b>
<b>LIABILITIES</b>				
<b>Financial liabilities</b>				
Investments	1,621,964	57,186	1,200,561	33,223
Payables	238,676	-	236,732	-
Lease liability	7,583	51,693	3,464	13,158
<b>Non-financial liabilities</b>				
Employee provisions	33,455	6,682	25,439	5,855
<b>Tax liabilities</b>				
Deferred tax liabilities	-	52,076	-	16
<b>TOTAL LIABILITIES</b>	<b>1,901,678</b>	<b>167,637</b>	<b>1,466,196</b>	<b>52,252</b>

## Note 21: Budgetary reports

The following tables provide a comparison of the original budget as presented in the 2020 – 21 Portfolio Budget Statements (“PBS”) to the 2020 – 21 final outcome as presented in accordance with Australian Accounting Standards for the entity.

The budget is not audited.

The 2020 – 21 budget was based on the assumption that the mandated return is achieved for each forward estimates year. CPI is estimated in these budget numbers. In that context, the budget construct, including related investment costs, was based on the estimated mandated return therefore the actual results will always deviate from these assumed returns.

Due to the volatile nature of investment markets, it is difficult to accurately predict the financial outcomes of the Fund. Further, as PBS financial information is presented in a concise format which differs to the level of information presented in this financial report, the tables below compare actual and budgeted information for the statement of comprehensive income and statement of financial position.

	Year ended 30 June 2021	PBS – Administered 30 June 2021	PBS – Departmental 30 June 2021	Variance 30 June 2021
	\$'000	\$'000	\$'000	\$'000
<b>STATEMENT OF COMPREHENSIVE INCOME</b>				
Total income	36,175,573	11,530,906	140,619	24,504,048
Total expenses including income tax	462,248	440,234	140,619	(118,605) <sup>1</sup>
<b>OPERATING RESULT FOR THE YEAR</b>	<b>35,713,325</b>	<b>11,090,672</b>	<b>-</b>	<b>24,622,653</b>

	As at 30 June 2021	PBS – Administered 30 June 2021	PBS – Departmental 30 June 2021	Variance 30 June 2021
	\$'000	\$'000	\$'000	\$'000
<b>STATEMENT OF FINANCIAL POSITION</b>				
Total assets	198,828,821	172,737,441	94,285	25,997,095
Total liabilities	2,069,315	600,588	94,285	1,374,442
<b>TOTAL EQUITY AND AMOUNT ATTRIBUTABLE TO THE GOVERNMENT</b>	<b>196,759,506</b>	<b>172,136,853</b>	<b>-</b>	<b>24,622,653</b>

<sup>1</sup> Total expenses were lower than budgeted mainly due to the total budgeted expense estimate based on the consolidation of subsidiaries under accounting standards which is required for budget preparation. As the Fund applies the investment entity standard, expenses incurred in subsidiaries are not included in the financial statements as separate expenses but are included in the change in fair value of the investment entities in which the expenses are incurred.

## Note 22: Lease Maturity Analysis

The undiscounted maturity analysis of lease liabilities at 30 June 2021 is as follows:

	2021 \$'000	2020 \$'000
Less than one year	7,879	3,601
One to five years	23,967	7,005
More than five years	28,822	6,429
<b><i>Total undiscounted cash flows</i></b>	<b>60,668</b>	<b>17,035</b>

The maturity analysis of lease receivables, including the undiscounted lease payments to be received are as follows:

	2021 \$'000	2020 \$'000
Less than one year	540	-
One to two years	560	-
Two to three years	581	-
Three to four years	603	-
Four to five years	626	-
More than five years	2,930	-
<b><i>Total undiscounted lease payments receivable</i></b>	<b>5,840</b>	<b>-</b>

# 07

## Other mandatory reporting

### Resource statement

All costs for investment activity and the operations of the Board and Agency are met from the assets of the funds rather than from the annual appropriations through Parliament. The Board monitors the annual operating budget of the Agency to ensure the appropriate use of resources is consistent with the organisation's objectives

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

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

The outcome for the Agency is: Strengthen the Commonwealth's financial position for the benefit of the Australian people, by managing the investment activities of the Future Fund and certain other Australian Government investment funds in line with their Investment Mandates.

### Future Fund Management Agency resource statement

	Actual available appropriation - current year (a)	Payments made (b)	Balance remaining (a)-(b)
	\$'000	\$'000	\$'000
<b>Administered</b>			
Special accounts	383,102	383,102	-
<b>Total special accounts receipts</b>	<b>383,102</b>	<b>383,102</b>	<b>-</b>
<b>Total resourcing and payments for Future Fund Management Agency</b>	<b>383,102</b>	<b>383,102</b>	<b>-</b>

## Procurement

The procurement of goods and services by the Agency is consistent with the Commonwealth Procurement Rules and is based on the principles of value-for-money; open and effective competition; ethics and fair dealing; accountability and reporting; national competitiveness; and industry development and support for other Australian Government policies.

These principles have been incorporated into the appropriate internal policies, and Internal Audit conducts probity reviews to help ensure compliance.

The purchase of investment management, investment advisory, master custody, and safekeeping services for the purposes of managing and investing the assets of public asset funds are excluded from the mandatory provisions of the Commonwealth Procurement Rules.

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.

## Expenditure on reportable consultancy contracts 2020-21

During 2020-21, 11 new consultancy contracts were entered into, involving a total actual expenditure of \$1,999,983. In addition, 17 ongoing consultancy contracts were active during 2020-21, involving a total actual expenditure of \$5,377,849.

Annual reports contain information about actual expenditure on reportable consultancy contracts. Information on the value of reportable consultancy contracts is available on the AusTender website.

	Number	Expenditure GST inc. (\$)
New contracts entered into during the reporting period	11	1,999,983
Ongoing contracts entered into during a previous reporting period	17	5,377,849
<b>Total</b>	<b>28</b>	<b>7,377,833</b>

## Organisations receiving a share of reportable consultancy contract expenditure in 2020-21

Organisation	ABN	Expenditure GST inc. (\$)	Proportion of 2020-21 total spend (%)
McKinsey Pacific Rim Inc	66 055 131 443	1,759,996	24
Mantel Group Pty Ltd	38 622 268 240	1,509,544	20
Revenite Pty Ltd	87 616 642 696	1,213,630	16
Data #3 Limited	31 010 545 267	1,061,737	14
Deloitte Touche Tohmatsu	74 490 121 060	648,905	9
<b>Total</b>		<b>6,193,811</b>	<b>84</b>

## Expenditure on reportable non-consultancy contracts

During 2020-21, 202 new non-consultancy contracts were entered into, involving a total actual expenditure of \$54,124,967. In addition, 135 ongoing non-consultancy contracts that were entered into during a previous reporting period, involving a total actual expenditure of \$35,946,484.

Annual reports contain information about actual expenditure on reportable non-consultancy contracts. Information on the value of reportable non-consultancy contracts is available on the AusTender website.

	Number	Expenditure GST inc. (\$)
New contracts entered into during the reporting period	202	54,124,967
Ongoing contracts entered into during a previous reporting period	135	35,946,484
<b>Total</b>	<b>337</b>	<b>90,071,451</b>

Organisation	ABN	Expenditure GST inc. (\$)	Proportion of 2020-21 total spend (%)
Shape Australia Pty Limited	70 003 861 765	17,457,213	19
NTT Australia Digital Pty Ltd	31 100 103 268	10,543,730	12
ASG Group Limited	57 070 045 117	9,521,728	11
Accenture Australia Pty Ltd	49 096 776 895	6,701,866	7
Investa Asset Management Pty Limited	16 089 301 922	3,939,691	4
<b>Total</b>		<b>48,164,228</b>	<b>53</b>

The Agency supports small business participation in the Commonwealth Government procurement market. Small and medium enterprises (SMEs) and small enterprise participation statistics are available on the Department of Finance's website.

The Agency recognises the importance of ensuring that small businesses are paid on time. The results of the survey of Australian Government Payments to Small Business are available on the Treasury's website.

The Agency's support for small business includes using the Commonwealth Contracting Suite for procurements under \$200,000 in accordance with applicable Department of Finance resource management guidance.

## Freedom of information

Agencies subject to the *Freedom of Information Act 1982* (FOI Act) are required to publish information to the public as part of the Information Publication Scheme (IPS).

This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a Section 8 Statement in an Annual Report.

Each agency must display on its website a plan showing what information it publishes in accordance with the IPS requirements. Information regarding the Agency's Information Public Scheme Plan is available at [www.futurefund.gov.au/about-us/access-to-information/information-publication-scheme](http://www.futurefund.gov.au/about-us/access-to-information/information-publication-scheme).

## Advertising and market research

During 2020-21, the Agency undertook recruitment advertising. The total cost of this was \$6,204.

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 investment decision-making, which is the central purpose of the organisation.

The new Melbourne office at 447 Collins Street has been designed to achieve a 5.5 Star NABERS Energy Base Building rating, 6.0 Green Star rating and is Melbourne's first WELL Platinum-rated new office building.

Our building incorporates the latest technology including energy-efficient facades and high-efficiency air conditioning, and capacity for residential electric vehicle charging. These facilities are expected to deliver a minimum 20% reduction in the building's carbon footprint.

Air quality monitoring, expansive natural lighting, superior ventilation and an emphasis on bicycle access are just a few of the other sustainability features we have to enjoy at 447 Collins Street.

The Sydney office located at 100 Market Street has a 5.5 Star NABERS Energy Base Building rating. The building features energy-efficient air conditioning and lighting systems, as well as a cogeneration plant that utilises waste heat from the building's electricity generation to supply hot water, and cooling energy from absorption chillers to provide chilled water.

The air conditioning system provides greater control over the ambient temperature and uses more fresh air and less recycled air than conventional methods, ensuring a healthier working environment.

## Disability reporting mechanisms

The National Disability Strategy is Australia's overarching framework for disability reform. It acts to ensure the principles underpinning the United Nations Convention on the Rights of Persons with Disabilities are incorporated into Australia's policies and programs that affect people with disability, their families and carers.

All levels of government will continue to be held accountable for the implementation of the strategy through progress reporting to the Australian, state, territory and local governments. Progress reports can be found at [www.dss.gov.au](http://www.dss.gov.au).

Disability reporting is included the Australian Public Service Commission's State of the Service reports and the APS Statistical Bulletin. These reports are available at [www.apsc.gov.au](http://www.apsc.gov.au).

## 2020-21 annual performance statement

### Introductory statement

As required by the *Future Fund Act 2006* and the *Public Governance, Performance and Accountability Act 2013* (PGPA Act), this annual performance statement relates to the Future Fund Management Agency (Agency) and the Future Fund Board of Guardians (Board) as if they were a single Commonwealth entity (collectively referred to as the 'organisation').

As the Accountable Authority of the organisation for this purpose, I present the annual performance statement of the organisation, as required under paragraph 39(1)(a) of the PGPA Act.

In my opinion, this annual performance statement is based on properly maintained records, accurately reflects the performance of the organisation, and complies with subsection 39(2) of the PGPA Act.

#### Hon Peter Costello AC

*Accountable Authority, Future Fund Management Agency  
Chair, Future Fund Board of Guardians*

28 September 2021

### Purpose

The organisation is responsible for investing for the benefit of future generations of Australians. Established in 2006 as Australia's sovereign wealth fund, its main objective is to strengthen the Commonwealth's long-term financial position.

The Board has responsibility for investing the assets of six special purpose public asset funds including: the Future Fund; the Medical Research Future Fund; the Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILS Fund); the DisabilityCare Australia Fund; the Future Drought Fund, and the Emergency Response Fund.

Each fund is established by legislation, and the risk and return objectives for each of the funds are set by Investment Mandate Directions issued by the Treasurer and Minister for Finance, to the Board.

The Agency supports the Board with investing funds for which the Board is responsible in line with the Investment Mandate Directions for each fund.

The Portfolio Budget Statements identify the Outcome as: Strengthen the Commonwealth's financial position for the benefit of the Australian people, by managing the investment activities of the Future Fund and certain other Australian Government investment funds in line with their Investment Mandates (Outcome 1).

### Results

As an investment institution, the achievement of the return and risk objectives set by the Government for each special purpose public fund is the key measure of performance.

These expectations are set out in the Investment Mandate Directions issued by the responsible Ministers.

## Analysis of performance against purpose

### Performance criterion one – management of the investment of the Future Fund

Provide assistance and advice to the Board in pursuit of achieving the Investment Mandate target return over the long term (interpreted as rolling 10-year periods), with acceptable but not excessive risk.

The target return set out in the Investment Mandate is an average of at least the Consumer Price Index (CPI) + 4.0% to 5.0% per annum over the long term.

#### Criterion source

2020-21 performance criteria outlined in the 2020-21 Portfolio Budget Statements (Outcome 1, Program 1.1) and the 2020-21 Corporate Plan (Section 4, Performance).

#### Result against performance criterion

Performance against the Future Fund Investment Mandate Direction is set out in the table below.

Returns: Future Fund		
Period to 30 June 2021	Return (% pa)	Target return <sup>1</sup> (% pa)
From inception (May 2006)	8.4	6.6
10 years	10.1	6.1
Seven years	9.9	5.9
Five years	9.9	5.9
Three years	10.5	5.7
One year	22.2	7.8

#### Note:

<sup>1</sup> The Investment Mandate sets a benchmark target return of at least CPI + 4.5% to 5.5% per annum to 30 June 2017 and CPI + 4.0% to 5.0% per annum thereafter.

### Performance criterion two – management of the investment of the Australian Government investment funds

Provide assistance and advice to the Board in pursuit of achieving the Investment Mandate Direction target returns as follows:

- > For the Medical Research Future Fund, an average return of at least the Reserve Bank of Australia cash rate target + 1.5% to 2.0% per annum, net of investment fees, over a rolling 10-year term, with acceptable but not excessive risk.
- > For the Aboriginal and Torres Strait Islander Land and Sea Future Fund, an average return over the long term of at least the Consumer Price Index (CPI) + 2.0% to 3.0% per annum, net of costs, with an acceptable but not excessive level of risk, including having regard to the plausible capital loss from investment returns over the forward three-year period.
- > For the Future Drought Fund and the Emergency Response Fund, an average return over the long-term of at least the Consumer Price Index (CPI) + 2.0% to 3.0% per annum, net of costs, with an acceptable but not excessive level of risk.
- > For the DisabilityCare Australia Fund, adopt a benchmark return of the Australian three-month bank bill swap rate + 0.3% per annum calculated on a rolling 12-month basis. The Mandate requires that investments minimise the probability of capital loss over a 12-month horizon.

### Criterion source

2020-21 performance criteria outlined in the 2020-21 Portfolio Budget Statements (Outcome 1, Program 1.2) and the 2020-21 Corporate Plan (Section 4, Performance).

### Result against performance criterion

#### Medical Research Future Fund

Performance against the Medical Research Future Fund Investment Mandate Direction is set out in the table below.

Returns: Medical Research Future Fund		
Period to 30 June 2021	Return (% pa)	Target return <sup>1</sup> (% pa)
From inception (22 September 2015)	4.8	2.6
Five years	5.1	2.5
Three years	5.4	2.2
One year	10.9	1.6

#### Note:

<sup>1</sup> RBA cash rate + 1.5% to 2.0% per annum over the long term, with an acceptable but not excessive level of risk.

#### Aboriginal and Torres Strait Islander Land and Sea Future Fund

Performance against the ATSILS Fund Investment Mandate Direction is set out in the table below.

Returns: ATSILS Fund		
Period to 30 June 2021	Return (% pa)	Target return <sup>1</sup> (% pa)
From inception (1 October 2019)	6.9	3.7
One year	13.9	5.8

#### Notes:

<sup>1</sup> CPI + 2.0% to 3.0% per annum over the long term, with acceptable but not excessive level of risk.

It should be noted that given the fund's recent establishment, a long-term assessment of performance cannot yet be made.

Prior to inception the ATSILS Fund was in an initial transition period from 1 February to 30 September 2019 with a return of 1.3% against a target return of 1.1%.

#### Future Drought Fund

Performance against the Future Drought Fund Investment Mandate Direction is set out in the table below.

Returns: Future Drought Fund		
Period to 30 June 2021	Return (% pa)	Target return <sup>1</sup> (% pa)
From inception (1 April 2020)	14.1	3.5
One year	14.0	5.8

#### Notes:

<sup>1</sup> CPI + 2.0% to 3.0% per annum over the long term, with acceptable but not excessive level of risk.

It should be noted that given the fund's recent establishment, a long-term assessment of performance cannot yet be made.

Prior to inception the Future Drought Fund was in an initial transition period from 1 September 2019 to 31 March 2020 with a return of 0.7% against a target return of 0.6%.

## Emergency Response Fund

Performance against the Emergency Response Fund Investment Mandate Direction is set out in the table below.

Returns: Emergency Response Fund		
Period to 30 June 2021	Return (% pa)	Target return <sup>1</sup> (% pa)
From inception (1 April 2020)	14.0	3.5
One year	13.9	5.8

### Notes:

<sup>1</sup> CPI + 2.0% to 3.0% per annum over the long term, with acceptable but not excessive level of risk.

It should be noted that given the fund's recent establishment, a long-term assessment of performance cannot yet be made.

Prior to inception the Emergency Response Fund was in an initial transition period from 12 December 2019 to 31 March 2020 with a return of 0.4% against a target return of 0.3%

## DisabilityCare Australia Fund

In line with its Investment Mandate, the DisabilityCare Australia Fund is invested in long-term deposits and cash. For the 2020-21 financial year the Fund has delivered a return of 0.4% against a benchmark target of 0.4%.

## Analysis of performance against purpose

The organisation is performing well against its stated purpose.

2020-21 encompassed both the health and economic disruption of the COVID-19 pandemic, followed by a financial recovery driven by the deployment of vaccines, recovering confidence and supportive monetary and fiscal policy.

All six funds under management exceeded their target benchmarks, with the Future Fund delivering its strongest annual return in the Fund's history at 22.2%.

The Future Fund has exceeded its 10-year target benchmark return, adding \$136.3 billion to the value of the Fund since it was established in 2006.

The Medical Research Future Fund has exceeded its target benchmark return since inception. It achieved a 10.9% per annum return against a target return of 1.6% per annum. It is now valued at \$22.0 billion.

The ATSILS Fund achieved 13.9% per annum against its target return of 5.8% per annum. It is now valued at \$2.2 billion.

The Future Drought Fund achieved a return of 14.0% per annum against its target return of 5.8%. It is now valued at \$4.6 billion.

The Emergency Response Fund achieved a return of 13.9% against its target return of 5.8%. It is now valued at \$4.7 billion.

The DisabilityCare Australia Fund continues to perform in line with its Mandate achieving its benchmark target and is now valued at \$15.5 billion.

Total funds managed across all six funds increased over the year by \$40.7 billion and now stands at \$245.8 billion.

The year saw many significant changes in the investment landscape accelerated or catalysed by the pandemic.

While the near-term economic outlook appears brighter than it was a year ago, much of Australia is still in lockdown and longer term there remains uncertainty on the unwinding of stimulus, changes to the global order and how policy makers will respond. This creates a challenging environment for investors.

The Board remains focused on targeting the risk and return requirements of the Investment Mandates for each of the funds.

# 08

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# Appendix A

## Investment managers engaged by the Future Fund Board of Guardians at 30 June 2021

Asset class	Manager
<b>Equities</b>	
<b>Australian equities</b>	<ul style="list-style-type: none"> <li>&gt; Macquarie Investment Management</li> <li>&gt; UBS Securities Australia</li> </ul>
<b>Developed market equities</b>	<ul style="list-style-type: none"> <li>&gt; Insight Investment Management</li> <li>&gt; State Street Global Advisors</li> <li>&gt; UBS Securities Australia</li> </ul>
<b>Emerging market equities</b>	<ul style="list-style-type: none"> <li>&gt; Insight Investment Management</li> <li>&gt; State Street Global Advisors</li> <li>&gt; UBS Securities Australia</li> <li>&gt; Robeco Institutional Asset Management</li> </ul>
<b>Private equity</b>	
<b>Buyout</b>	<ul style="list-style-type: none"> <li>&gt; Advent International Corporation</li> <li>&gt; American Industrial Partners</li> <li>&gt; Apax Partners</li> <li>&gt; Archer Capital</li> <li>&gt; Bain Capital</li> <li>&gt; Berkshire Partners</li> <li>&gt; Charterhouse Capital Partners</li> <li>&gt; Citic Capital</li> <li>&gt; GI Partners</li> <li>&gt; Hellman &amp; Friedman</li> <li>&gt; Motive Partners</li> <li>&gt; Quadrant Private Equity</li> <li>&gt; RCP Advisors</li> <li>&gt; Seidler Equity Partners</li> <li>&gt; Siris Capital</li> <li>&gt; Southern Cross Management</li> <li>&gt; The Growth Fund</li> <li>&gt; Vitruvian Investment Partners</li> </ul>
<b>Venture and growth</b>	<ul style="list-style-type: none"> <li>&gt; Adams Street Partners</li> <li>&gt; Bessemer Venture Partners</li> <li>&gt; CDH Investments</li> <li>&gt; Columbia Capital</li> <li>&gt; FountainVest Partners</li> <li>&gt; Greenspring Associates</li> <li>&gt; Hillhouse Capital</li> <li>&gt; Horsley Bridge Partners</li> <li>&gt; Lightspeed Venture Partners</li> <li>&gt; New Enterprise Associates</li> <li>&gt; Playground Global</li> <li>&gt; Quilvest</li> <li>&gt; Sequoia Capital</li> <li>&gt; Xiang He Capital</li> </ul>
<b>Special opportunities</b>	<ul style="list-style-type: none"> <li>&gt; Adams Street Partners</li> <li>&gt; Oaktree Capital Management</li> <li>&gt; TowerBrook Capital Partners</li> </ul>
<b>Property</b>	
<b>Unlisted</b>	<ul style="list-style-type: none"> <li>&gt; Altarea Cogedim</li> <li>&gt; Berkshire Property Advisors</li> <li>&gt; Brookfield Asset Management</li> <li>&gt; Columbia Pacific Advisors</li> <li>&gt; Garrison Investment Group LP</li> <li>&gt; Greystar Equity Partners</li> <li>&gt; Harbert Management Corporation</li> <li>&gt; Hillwood Investment Properties</li> <li>&gt; ICAMAP Advisory</li> <li>&gt; Lend Lease Investment Management</li> <li>&gt; Morgan Stanley Real Estate Investing</li> <li>&gt; PEET Limited</li> <li>&gt; The Townsend Group</li> <li>&gt; Vicinity Centres</li> </ul>
<b>Listed</b>	<ul style="list-style-type: none"> <li>&gt; State Street Global Advisors</li> </ul>

Asset class	Manager	
<b>Infrastructure &amp; Timberland</b>		
<b>Unlisted</b>	<ul style="list-style-type: none"> <li>&gt; AMP Capital Investors</li> <li>&gt; Campbell Global</li> <li>&gt; Corsair Infrastructure Management</li> <li>&gt; Global Infrastructure Partners</li> <li>&gt; HRL Morrison &amp; Co</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Morgan Stanley Infrastructure</li> <li>&gt; Oaktree Capital Management</li> <li>&gt; Starwood Energy</li> <li>&gt; QIC Global Infrastructure</li> </ul>
<b>Listed</b>	<ul style="list-style-type: none"> <li>&gt; DWS</li> </ul>	<ul style="list-style-type: none"> <li>&gt; State Street Global Advisors</li> </ul>
<b>Debt</b>		
<b>High-grade debt</b>	<ul style="list-style-type: none"> <li>&gt; First Sentier Investors</li> <li>&gt; Goldman Sachs Asset Management</li> <li>&gt; M&amp;G Investment Management Limited</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Macquarie Investment Management</li> <li>&gt; PIMCO Australia</li> </ul>
<b>High-yield debt</b>	<ul style="list-style-type: none"> <li>&gt; Ares Management</li> <li>&gt; Bain Capital Credit</li> <li>&gt; BlackRock Alternative Advisors</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Oak Hill Advisors</li> <li>&gt; Oaktree Capital Management</li> </ul>
<b>Private debt</b>	<ul style="list-style-type: none"> <li>&gt; Ares Management</li> <li>&gt; Bain Capital Credit</li> <li>&gt; BlackRock Alternative Advisors</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Hayfin Asset Management</li> <li>&gt; PAG Holdings Limited</li> <li>&gt; Westbourne Credit Management Limited</li> </ul>
<b>Emerging markets debt</b>	<ul style="list-style-type: none"> <li>&gt; BlackRock Investment Management</li> <li>&gt; Glen Point Capital</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Lazard Asset Management</li> <li>&gt; Oaktree Capital Management</li> </ul>
<b>Distressed and event driven</b>	<ul style="list-style-type: none"> <li>&gt; Bain Capital Credit</li> <li>&gt; Centerbridge Partners L.P</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Oak Hill Advisors</li> <li>&gt; Oaktree Capital Management</li> </ul>
<b>Alternatives</b>		
<b>Multi-strategy/ relative value</b>	<ul style="list-style-type: none"> <li>&gt; Citadel Advisors</li> <li>&gt; Dymon Asia Capital</li> <li>&gt; Schonfeld Strategic Advisors</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Squarepoint Capital</li> <li>&gt; Wellington Investment Management</li> </ul>
<b>Macro-directional</b>	<ul style="list-style-type: none"> <li>&gt; Athanor Capital L.P.</li> <li>&gt; BlackRock Alternative Advisors</li> <li>&gt; Bridgewater Associates, Inc</li> <li>&gt; Citadel Advisors</li> <li>&gt; Clocktower Group L.P.</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Glen Point Capital</li> <li>&gt; Ionic Capital Management</li> <li>&gt; Key Square Capital Management LLC</li> <li>&gt; MAN AHL Partners LLP</li> <li>&gt; Wellington Investment Management</li> </ul>
<b>Alternative risk premia</b>	<ul style="list-style-type: none"> <li>&gt; Atom Investors L.P.</li> <li>&gt; Elementum Advisors</li> <li>&gt; Hiscox Re Insurance Linked Strategies Ltd</li> </ul>	<ul style="list-style-type: none"> <li>&gt; MAN FRM</li> <li>&gt; Wellington Investment Management</li> </ul>
<b>Global Alpha</b>	<ul style="list-style-type: none"> <li>&gt; Blackstone Alternative Asset Management</li> </ul>	<ul style="list-style-type: none"> <li>&gt; BlackRock Alternative Advisors</li> </ul>
<b>Equitised</b>	<ul style="list-style-type: none"> <li>&gt; GMO Australia</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Pental Group</li> </ul>
<b>Overlays</b>		
<b>Overlay strategies</b>	<ul style="list-style-type: none"> <li>&gt; Ashmore Investment Management Limited</li> <li>&gt; Insight Investment Management (Global)</li> <li>&gt; Legal &amp; General Investment Management Limited</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Macquarie Investment Management</li> <li>&gt; PIMCO Australia</li> <li>&gt; State Street Global Advisors Limited</li> <li>&gt; UBS Securities Australia Limited</li> </ul>
<b>Cash</b>		
<b>Cash</b>	<ul style="list-style-type: none"> <li>&gt; First Sentier Investors</li> <li>&gt; Macquarie Investment Management</li> </ul>	<ul style="list-style-type: none"> <li>&gt; PIMCO Australia</li> </ul>

## Appendix B

### List of requirements

Below is the table set out in Schedule 2 of the PGPA Rule. Section 17AJ(d) requires this table be included in entities' annual reports as an aid of access.

PGPA Rule reference	Part of report	Description	Requirement
<b>17AD(g)</b>	<b>Letter of transmittal</b>		
17AI	P4	A copy of the letter of transmittal signed and dated by Accountable Authority on date final text approved, with statement that the report has been prepared in accordance with section 46 of the Act and any enabling legislation that specifies additional requirements in relation to the annual report.	Mandatory
<b>17AD(h)</b>	<b>Aids to access</b>		
17AJ(a)	P3	Table of contents.	Mandatory
17AJ(b)	P172-174	Alphabetical index.	Mandatory
17AJ(c)	P171	Glossary of abbreviations and acronyms.	Mandatory
17AJ(d)	P165-170	List of requirements.	Mandatory
17AJ(e)	Inside front cover	Details of contact officer.	Mandatory
17AJ(f)	Inside front cover	Entity's website address.	Mandatory
17AJ(g)	Inside front cover	Electronic address of report.	Mandatory
<b>17AD(a)</b>	<b>Review by Accountable Authority</b>		
17AD(a)	P5-6	A review by the Accountable Authority of the entity.	Mandatory
<b>17AD(b)</b>	<b>Overview of the entity</b>		
17AE(1)(a)(i)	P9-14	A description of the role and functions of the entity.	
17AE(1)(a)(ii)	P14, P58-67, P75	A description of the organisational structure of the entity.	Mandatory
17AE(1)(a)(iii)	P9-14, P25-57, P158-161	A description of the outcomes and programs administered by the entity.	Mandatory
17AE(1)(a)(iv)	P9-14, P158-161	A description of the purposes of the entity as included in corporate plan.	Mandatory
17AE(1)(aa)(i)	P64	Name of the Accountable Authority or each member of the Accountable Authority	Mandatory
17AE(1)(aa)(ii)	P64	Position title of the Accountable Authority or each member of the Accountable Authority	Mandatory
17AE(1)(aa)(iii)	P64	Period as the Accountable Authority or member of the Accountable Authority within the reporting period	Mandatory
17AE(1)(b)	Not applicable	An outline of the structure of the portfolio of the entity.	Portfolio departments mandatory

PGPA Rule reference	Part of report	Description	Requirement
17AE(2)	Not applicable	Where the outcomes and programs administered by the entity differ from any Portfolio Budget Statement, Portfolio Additional Estimates Statement or other portfolio estimates statement that was prepared for the entity for the period, include details of variation and reasons for change.	If applicable, Mandatory
<b>17AD(c)</b>	<b>Report on the performance of the entity</b>		
	<b>Annual performance statements</b>		
17AD(c)(i); 16F	P158-161	Annual performance statement in accordance with paragraph 39(1)(b) of the Act and section 16F of the Rule.	Mandatory
<b>17AD(c)(ii)</b>	<b>Report on financial performance</b>		
17AF(1)(a)	P25-57, P90-153	A discussion and analysis of the entity's financial performance.	Mandatory
17AF(1)(b)	P154	A table summarising the total resources and total payments of the entity.	Mandatory
17AF(2)	Not applicable	If there may be significant changes in the financial results during or after the previous or current reporting period, information on those changes, including: the cause of any operating loss of the entity; how the entity has responded to the loss and the actions that have been taken in relation to the loss; and any matter or circumstances that it can reasonably be anticipated will have a significant impact on the entity's future operation or financial results.	If applicable, Mandatory.
<b>17AD(d)</b>	<b>Management and accountability</b>		
	<b>Corporate governance</b>		
17AG(2)(a)	P69	Information on compliance with section 10 (fraud systems).	Mandatory
17AG(2)(b)(i)	P4	A certification by Accountable Authority that fraud risk assessments and fraud control plans have been prepared.	Mandatory
17AG(2)(b)(ii)	P4	A certification by Accountable Authority that appropriate mechanisms for preventing, detecting incidents of, investigating or otherwise dealing with, and recording or reporting fraud that meet the specific needs of the entity are in place.	Mandatory
17AG(2)(b)(iii)	P4	A certification by Accountable Authority that all reasonable measures have been taken to deal appropriately with fraud relating to the entity.	Mandatory
17AG(2)(c)	P58-70	An outline of structures and processes in place for the entity to implement principles and objectives of corporate governance.	Mandatory
17AG(2)(d) – (e)	Not applicable	A statement of significant issues reported to Minister under paragraph 19(1)(e) of the Act that relates to non-compliance with finance law and action taken to remedy non-compliance.	If applicable, Mandatory
	<b>Audit committee</b>		
17AG(2A)(a)	P63	A direct electronic address of the charter determining the functions of the entity's audit committee.	Mandatory
17AG(2A)(b)	P63	The name of each member of the entity's audit committee.	Mandatory
17AG(2A)(c)	P60-62	The qualifications, knowledge, skills or experience of each member of the entity's audit committee.	Mandatory

PGPA Rule reference	Part of report	Description	Requirement
17AG(2A)(d)	P64	Information about the attendance of each member of the entity's audit committee at committee meetings.	Mandatory
17AG(2A)(e)	P84-85	The remuneration of each member of the entity's audit committee.	Mandatory
<b>External scrutiny</b>			
17AG(3)	P58-59	Information on the most significant developments in external scrutiny and the entity's response to the scrutiny.	Mandatory
17AG(3)(a)	Not applicable	Information on judicial decisions and decisions of administrative tribunals and by the Australian Information Commissioner that may have a significant effect on the operations of the entity.	If applicable, Mandatory
17AG(3)(b)	P70	Information on any reports on operations of the entity by the Auditor-General (other than report under section 43 of the Act), a Parliamentary Committee, or the Commonwealth Ombudsman.	If applicable, Mandatory
17AG(3)(c)	Not applicable	Information on any capability reviews on the entity that were released during the period.	If applicable, Mandatory
<b>Management of human resources</b>			
17AG(4)(a)	P71-74	An assessment of the entity's effectiveness in managing and developing employees to achieve entity objectives.	Mandatory
17AG(4)(aa)	P76-82	Statistics on the entity's employees on an ongoing and non-ongoing basis, including the following: <ul style="list-style-type: none"> <li>a. statistics on full-time employees;</li> <li>b. statistics on part-time employees;</li> <li>c. statistics on gender;</li> <li>d. statistics on staff location.</li> </ul>	Mandatory
17AG(4)(b)	P76-82	Statistics on the entity's APS employees on an ongoing and non-ongoing basis; including the following: <ul style="list-style-type: none"> <li>&gt; statistics on staffing classification level;</li> <li>&gt; statistics on full-time employees;</li> <li>&gt; statistics on part-time employees;</li> <li>&gt; statistics on gender;</li> <li>&gt; statistics on staff location;</li> <li>&gt; statistics on employees who identify as Indigenous.</li> </ul>	Mandatory
17AG(4)(c)	P73	Information on any enterprise agreements, individual flexibility arrangements, Australian workplace agreements, common law contracts and determinations under subsection 24(1) of the <i>Public Service Act 1999</i> .	Mandatory
17AG(4)(c)(i)	P82	Information on the number of SES and non-SES employees covered by agreements etc identified in paragraph 17AG(4)(c).	Mandatory
17AG(4)(c)(ii)	P88	The salary ranges available for APS employees by classification level.	Mandatory
17AG(4)(c)(iii)	P88	A description of non-salary benefits provided to employees.	Mandatory
17AG(4)(d)(i)	P89	Information on the number of employees at each classification level who received performance pay.	If applicable, Mandatory
17AG(4)(d)(ii)	P89	Information on aggregate amounts of performance pay at each classification level.	If applicable, Mandatory

PGPA Rule reference	Part of report	Description	Requirement
17AG(4)(d)(iii)	P89	Information on the average amount of performance payment, and range of such payments, at each classification level.	If applicable, Mandatory
17AG(4)(d)(iv)	P89	Information on aggregate amount of performance payments.	If applicable, Mandatory
<b>Assets management</b>			
17AG(5)	Not applicable	An assessment of effectiveness of assets management where asset management is a significant part of the entity's activities	If applicable, mandatory
<b>Purchasing</b>			
17AG(6)	P155	An assessment of entity performance against the Commonwealth Procurement Rules.	Mandatory
<b>Reportable consultancy contracts</b>			
17AG(7)(a)	P155	A summary statement detailing the number of new reportable consultancy contracts entered into during the period; the total actual expenditure on all such contracts (inclusive of GST); the number of ongoing reportable consultancy contracts that were entered into during a previous reporting period; and the total actual expenditure in the reporting period on those ongoing contracts (inclusive of GST).	Mandatory
17AG(7)(b)	P155	A statement that <i>'During [reporting period], [specified number] new reportable consultancy contracts were entered into involving total actual expenditure of \$ [specified million]. In addition, [specified number] ongoing reportable consultancy contracts were active during the period, involving total actual expenditure of \$ [specified million].'</i>	Mandatory
17AG(7)(c)	P155-156	A summary of the policies and procedures for selecting and engaging consultants and the main categories of purposes for which consultants were selected and engaged.	Mandatory
17AG(7)(d)	P155	A statement that <i>'Annual reports contain information about actual expenditure on reportable consultancy contracts. Information on the value of reportable consultancy contracts is available on the AusTender website.'</i>	Mandatory
<b>Reportable non-consultancy contracts</b>			
17AG(7A)(a)	P156	A summary statement detailing the number of new reportable non-consultancy contracts entered into during the period; the total actual expenditure on such contracts (inclusive of GST); the number of ongoing reportable non-consultancy contracts that were entered into during a previous reporting period; and the total actual expenditure in the reporting period on those ongoing contracts (inclusive of GST).	Mandatory
17AG(7A)(b)	P156	A statement that <i>'Annual reports contain information about actual expenditure on reportable non-consultancy contracts. Information on the value of reportable non-consultancy contracts is available on the AusTender website.'</i>	Mandatory

PGPA Rule reference	Part of report	Description	Requirement
17AD(daa)	<b>Additional information about organisations receiving amounts under reportable consultancy contracts or reportable non-consultancy contracts</b>		
17AGA	P155-156	Additional information, in accordance with section 17AGA, about organisations receiving amounts under reportable consultancy contracts or reportable non-consultancy contracts.	Mandatory
<b>Australian National Audit Office Access clauses</b>			
17AG(8)	Not applicable	If an entity entered into a contract with a value of more than \$100,000 (inclusive of GST) and the contract did not provide the Auditor-General with access to the contractor's premises, the report must include the name of the contractor, purpose and value of the contract, and the reason why a clause allowing access was not included in the contract.	If applicable, Mandatory
<b>Exempt contracts</b>			
17AG(9)	Not applicable	If an entity entered into a contract or there is a standing offer with a value greater than \$10,000 (inclusive of GST) which has been exempted from being published in AusTender because it would disclose exempt matters under the FOI Act, the annual report must include a statement that the contract or standing offer has been exempted, and the value of the contract or standing offer, to the extent that doing so does not disclose the exempt matters.	If applicable, Mandatory
<b>Small business</b>			
17AG(10)(a)	P156	A statement that ' <i>[Name of entity] 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.</i>	Mandatory
17AG(10)(b)	P156	An outline of the ways in which the procurement practices of the entity support small and medium enterprises.	Mandatory
17AG(10)(c)	P156	If the entity is considered by the Department administered by the Finance Minister as material in nature—a statement that ' <i>[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.</i>	If applicable, Mandatory
<b>Financial statements</b>			
17AD(e)	P90-154	Inclusion of the annual financial statements in accordance with subsection 43(4) of the Act.	Mandatory
<b>Executive remuneration</b>			
17AD(da)	P83-87	Information about executive remuneration in accordance with Subdivision C of Division 3A of Part 2 3 of the Rule.	Mandatory

PGPA Rule reference	Part of report	Description	Requirement
<b>17AD(f)</b>	<b>Other mandatory information</b>		
17AH(1)(a)(i)	Not applicable	If the entity conducted advertising campaigns, a statement that <i>'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.'</i>	If applicable, Mandatory
17AH(1)(a)(ii)	P157	If the entity did not conduct advertising campaigns, a statement to that effect.	If applicable, Mandatory
17AH(1)(b)	Not applicable	A statement that <i>'Information on grants awarded by [name of entity] during [reporting period] is available at [address of entity's website].'</i>	If applicable, Mandatory
17AH(1)(c)	P157	Outline of mechanisms of disability reporting, including reference to website for further information.	Mandatory
17AH(1)(d)	P157	Website reference to where the entity's Information Publication Scheme Statement pursuant to Part II of FOI Act can be found.	Mandatory
17AH(1)(e)	Not applicable	Correction of material errors in previous annual report	If applicable, mandatory
17AH(2)	P25-57	Information required by other legislation	Mandatory

# Appendix C

## Glossary of abbreviations and acronyms

AASB	Australian Accounting Standards Board
AC	Companion of the Order of Australia
AIC	Australian Investment Council
ANAO	Australian National Audit Office
AO	Officer of the Order of Australia
APS	Australian Public Service
ATO	Australian Taxation Office
ATSILS	Aboriginal and Torres Strait Islander Land and Sea Future Fund
CIO	Chief Investment Officer
CPI	Consumer Price Index
CSS	Commonwealth Superannuation Scheme
DCAF	DisabilityCare Australia Fund
EEE	Equivalent Equity Exposure
ERF	Emergency Response Fund
ESG	Environmental, social and governance (risk management)
FDf	Future Drought Fund
FBT	Fringe Benefits Tax
FFIC	Future Fund Investment Company
FFMA	Future Fund Management Agency
FOI Act	<i>Freedom of Information Act 1982</i>
GST	Goods and Services Tax

GRESB	an environmental, social and governance benchmark for real assets
ICGN	International Corporate Governance Network
IFSWF	International Forum of Sovereign Wealth Funds
IIR	Institutional Investors Roundtable
IPO	Initial public offering
KMP	Key management personnel
MRFF	Medical Research Future Fund
MC	Management Committee
NABERS	National Australian Built Environment Rating System
OECD	Organisation for Economic Co-operation and Development
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
PA	Per annum
PSS	Public Sector Superannuation Scheme
RBA	Reserve Bank of Australia
SASB	Sustainable Accounting Standards Board
SBAI	Standards Board for Alternative Investments
SLT	Senior Leadership Team
SWF	Sovereign wealth fund
TCFD	Taskforce on Climate-related Financial Disclosures

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