



Annual Report 2021–22

“There will be both challenges and opportunities in the years ahead in what is a fundamentally changed investment landscape. We need to continue filtering the noise and staying focused on achieving our mandates and delivering on our purpose.”

Hon Peter Costello AC

Chairman of the Future Fund Board of Guardians
Accountable Authority of the Future Fund Management Agency



Staying
Focused

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The document must be attributed as the *Future Fund Annual Report 2021–22*.



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 2021–22 financial year. Additional information, including periodic investment and operational updates, policies and plans, is available at www.futurefund.gov.au.

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

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

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

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

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

Material used 'as supplied'

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

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 2022

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 2021–22 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 is a long-term investor which was established in 2006 to strengthen the financial position of the Commonwealth of Australia.

As Australia's sovereign wealth fund, the Future Fund strengthens the Commonwealth Government's balance sheet by delivering strong long-term risk-adjusted returns on its original capital.



Performance

The 2021–22 financial year was a complex and challenging one for investors. It was a year of extreme market volatility, geopolitical tensions, inflationary pressures and sharp market falls.

In the prior year, the Future Fund delivered a record return of 22.2%, spurred on by a period of exceptional stimulation through monetary and fiscal policy.

What followed in FY22 were significant increases in global and domestic inflation and interest rates. While markets remained positive in the first half, they rapidly declined in the last six months of the financial year. We navigated this environment well, moving swiftly to make changes to the portfolio which repositioned it for the outlook of higher inflation and rising interest rates.

In a year in which global equities and global bonds fell by more than 10% each and where the Australian stock market fell 6.5%, the return of -1.2% was a pleasing outcome.

The Future Fund has now delivered a 10-year return of 9.7% per annum against the benchmark target return of 6.6% per annum.

Since its inception, investment returns have added \$134 billion to the original contributions from the Government. There have been no further contributions from Government since the original capital of \$60.5 billion.

The other five public asset funds invested by the Board have faced the same challenging environment. All funds benefitted from the changes made to the investment portfolios which helped preserve the capital in each fund and minimise losses.

The Medical Research Future Fund delivered a return of 0.1% per annum in 2021–22 and was valued at \$21.6 billion as at 30 June 2022. The Aboriginal and Torres Strait Islander Land and Sea Future Fund returned -0.2% for the year, taking its value to \$2.1 billion.

The Future Drought Fund and Emergency Response Fund delivered returns of -0.2% per annum and -0.1% per annum respectively, with both funds now valued at \$4.5 billion.

The DisabilityCare Australia Fund delivered an annual return of -0.4% and is now valued at \$15.3 billion.

At 30 June 2022, the Board of Guardians invested over \$242 billion across the six public asset funds for which it is responsible for the Commonwealth Government.

Outlook

We are in a world of higher inflation, higher interest rates, and lower returns. We have not seen an inflationary situation like this for decades. The days of free capital flows where investment moved with little barrier around the world are coming to an end. Deglobalisation and ongoing geopolitical tensions are significant headwinds to investment.

Investors will need to rethink portfolios and the underlying assumptions on which they have been constructed.

The Board remains focused on its mandate to maximise risk-adjusted returns over the long term, while taking acceptable but not excessive levels of risk.

Acknowledgements

This year Dr Deborah Ralston was appointed to the Board of Guardians for a five-year term, and I welcome her contribution. I thank all Members of the Board for their work throughout the year, and for their proficiency in overseeing the investment of the portfolios and the activities of the Agency.

On behalf of the Board, I thank both the former Treasurer, the Hon Josh Frydenberg and former Minister for Finance, the Hon Simon Birmingham for their support during their terms. I also thank the new Treasurer, the Hon Jim Chalmers and Minister for Finance, the Hon Katy Gallagher for their support and look forward to working with them both.

Finally, also on behalf of the Board, I thank the staff of the Future Fund Management Agency for their hard work and dedication through the year. Stewarded by Dr Raphael Arndt, the Future Fund is well-positioned to navigate the challenges that lie ahead. We have committed staff with deep expertise who are dedicated to our purpose and focused on the job at hand.



Hon Peter Costello AC

Chairman
Future Fund Board of Guardians

Report from the Chief Executive Officer

The 2021–22 year was a challenging but productive one for the organisation and our people.

We continued to implement our three-year business strategy, as well as adjust the portfolio to reflect the insights of our work on the New Investment Order which has helped position the portfolio for the evolving investment environment.



Government stimulus and record low interest rates supported asset prices and saw global economic conditions start to come back to life during FY21 and into FY22.

Supply chain pressures as a result of the pandemic led to signs of domestic and global inflation emerging.

The Russian invasion of Ukraine in February contributed to further global supply chain issues and a spike in commodity prices. As the year progressed it became clearer that inflation was more entrenched.

Central banks responded with policy tightening and a global slowdown looked increasingly likely. Asset prices responded to this, giving back much of the returns from recent years.

The financial year ended with bond and stock market returns both in negative territory together for the first time since the early 1970s and the world more divided than it has been in decades.

With this as the backdrop, our people remained steadfastly focused on our purpose and dedicated to their work. This was despite the fact that in Melbourne we spent a third of the year in hard lockdown and another third working from home under advice from the Government. Our Sydney office was also significantly disrupted by lockdown measures.

We commenced a significant three-year project in 2021 to reposition the Future Fund portfolio for a new world of higher inflation, increased volatility and lower returns. This is exactly what played out in financial markets during 2021–22. This work continued throughout the year and has helped to mitigate the impact of wider market falls.

Our Investment Team faced the challenge of completely rethinking our investment strategy and portfolio construction fundamentals that had guided our thinking and decisions since the inception of the organisation.

We continued repositioning the portfolio, making more than \$30 billion of changes to it during the year and established a new Treasury function to enhance our liquidity management, balance sheet efficiency and risk management.

We reinvigorated our focus on diversity and inclusion, committing to 12 actions designed to support a more inclusive workplace.

We formalised our culture in articulating the *Future Fund Way* and launched the Future Fund Academy to strengthen how we embed our culture and deliver training and development for our people.

We continued to thoughtfully scale up our resources across the organisation, welcoming over 50 new permanent staff, and completed 23 business plan initiatives needed to support and enable the ongoing growth and evolution of the Agency.

I was pleased to appoint Kimberley Reid to the role of Chief People, Culture and Inclusion Officer. Kimberly joined the organisation at a pivotal time in our evolution and brings with her a wealth of energy and experience in developing organisational talent, culture and capability.

I also want to thank former CIO, Sue Brake and former Deputy CIO, Public Markets, David George – both of whom left the organisation in 2022 – for their substantial contributions to the Agency during their respective tenures with us.

I also thank the Chairman and the Board of Guardians for their ongoing support and guidance throughout the year.

I also acknowledge and thank all of our people. I admire their hard work, dedication, and collaborative approach throughout the year which puts the Agency on a solid foundation for its next stage of growth and evolution.



Dr Raphael Arndt

Chief Executive Officer
Future Fund Management Agency

01

Organisation overview

The Future Fund is Australia's sovereign wealth fund.
We invest 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, the Future Fund is 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 is responsible for investing the assets of the funds, supported by the Future Fund Management Agency.

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

Our structure

Our organisation consists of two main entities – the Board and the Agency. The Board is supported by the Agency’s Senior Leadership Team and staff.

The Board

The Board operates independently from Government and comprises individuals selected for their expertise in investing in financial assets, managing investments and corporate governance. The Board’s Members are called ‘Guardians’ as part of their function is to safeguard the independence of the Future Fund.

The Board is responsible for deciding how to invest the assets of each fund, in line with the legislation and the investment mandates issued by Government. It receives recommendations and advice from the Agency and reviews, approves and oversees the investment strategy.

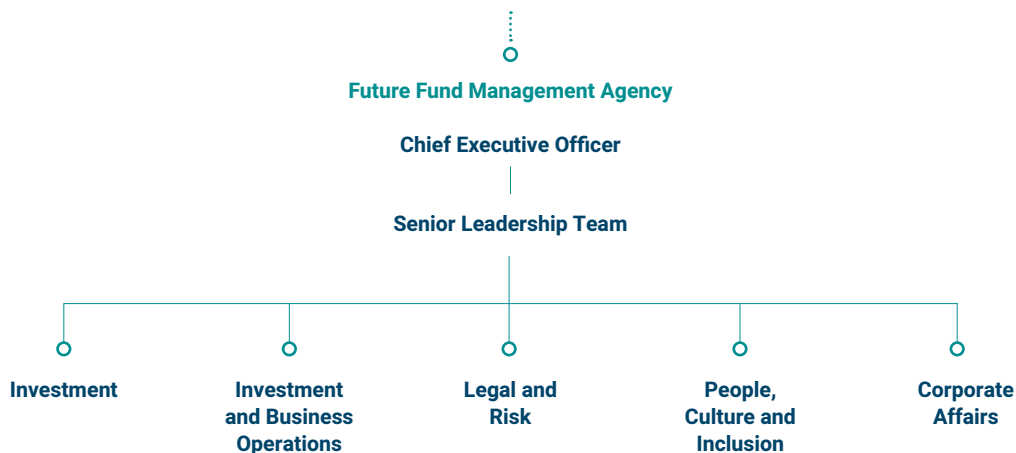
The Agency

The Agency is comprised of investment professionals 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. They are supported by a team with diverse skills including finance, data and technology, investment operations, legal and corporate services.

All administrative and operational functions associated with the management of the funds are undertaken by the Agency.

The Agency is structured into five business units under the leadership of the Chief Executive Officer. The five business units are: Investment, Investment and Business Operations, Legal and Risk, People, Culture and Inclusion, and Corporate Affairs.

Future Fund Board of Guardians



For further information on our structure please refer to the ‘Governance and accountability’ section.

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 responsibility is to invest the funds in accordance with their Investment Mandates.

The 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 \$134 billion to the value of the Future Fund since inception, more than tripling the original contribution from Government, and reaching \$194.4 billion in value as at 30 June 2022.

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.

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.

This decision will considerably strengthen the Commonwealth's long-term financial position by continuing growth in the Fund which is the largest financial asset of the Commonwealth.

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.

It 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.

At 30 June 2022, the Medical Research Future Fund was valued at \$21.6 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 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.

At 30 June 2022, the ATSILS Fund was valued at \$2.1 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.

At 30 June 2022, the Future Drought Fund was valued at \$4.5 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.

At 30 June 2022, the Emergency Response Fund was valued at \$4.5 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 July 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. The Board must invest to minimise the probability of capital loss over a 12-month horizon.

At 30 June 2022, the DisabilityCare Australia Fund was valued at \$15.3 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

Our purpose is clear: to invest for the benefit of future generations of Australians.

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

Our values

Our values are embedded into the way we behave and interact with others:

- 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.

The Future Fund way

The Future Fund Way is our shared language and a set of expectations that encapsulates our culture and ways of working.

To be successful into the future as we continue to grow and evolve, we are continuing to enhance our unique and definitive culture. In doing so, our core ideology should never change. It is who we are and what makes us unique and successful.

The Future Fund Way is underpinned by two foundational principles:

1. One team, One purpose
2. Investment performance is our focus

There are also five keys to our culture, that collectively define and describe how we unlock our full potential.

Four actions:

1. Collaborate
2. Facilitate
3. Innovate
4. Deliberate

These actions are supported by a fifth key:

5. Inclusion

Further information on the Future Fund Way can be found in 'Our people and culture'.

Our business strategy

During 2020 and 2021, the COVID-19 pandemic accelerated a number of changes that had been developing in the investment environment for some time. Other shifts were catalysed by the pandemic as markets, economies and populations were disrupted.

We took the opportunity to assess these changes and conducted a pivotal review of our investment strategy, to ensure our funds are well placed to achieve their mandates in the years ahead – a task which is becoming increasingly challenging.

We identified the paradigm shifts occurring around the world and assessed their impact on our investment strategy, as well as the foundations underpinning our investment decision-making process.

The external investment environment is increasingly challenging.

A great deal of uncertainty surrounds the investment outlook, given major global events such as the COVID-19 pandemic, the resurgence of inflation and the outbreak of a major European conflict for the first time since the second world war. The world has changed and will only continue to, and we will need to work harder in future years in seeking to meet our mandates.

We are now more than a third of the way through a three-year business strategy that we initiated in FY21. The strategy centred on maturing the organisation and revising our investment approach to better position the organisation and strengthen its ability to achieve our long-term investment mandate in a fundamentally changed investment environment.

Four focus areas

The business strategy encompasses activity that is grouped into four focus areas:

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



01

Refresh the investment model

Enhance the Agency's investment model to ensure robust performance over the long run.



02

Mature the organisation

Evolve the Agency's organisation, resolving pain points and the legacy of design choices which emerged organically.



03

Preserve our legacy

Articulate and codify the specific features of the Agency's strong culture. Institutionalise the culture in a sustainable set of processes.



04

Expand our voice

Adopt a more active and deliberate approach to engaging the Agency's various stakeholders.

1. Refresh the investment model

The ultimate priority for the Agency is generating strong, long-term investment performance.

Recognising the challenge of the pandemic as an opportunity, the Agency reviewed our investment foundations and strategy to better understand the paradigm shifts around the world and their impacts on the portfolio.

The results of this review were set out in a position paper published in September 2021 called *A New Investment Order*. The conclusion was that significant changes that were underway in the world were catalysed or accelerated by the COVID-19 pandemic.

The investment thinking that once delivered strong returns over recent decades needed to be revisited. A new approach that tests long-held assumptions and questions the conventional wisdom that has guided institutional investors over recent decades was needed.

Since the review was undertaken, many of these shifts have occurred concurrently and faster than expected. Based on our preparations and insights the Agency has been making a number of changes across the portfolio to be better positioned for a volatile and uncertain future characterised by higher inflation and lower returns.

Positioning the portfolio to be resilient to a number of scenarios has been a focus of our efforts.

Some of the achievements for this year under this focus area include:

A new investment strategy

- The completion of a deep review of the investment environment and our investment strategy
- The development of a three-year plan to reposition the portfolio.

Key appointments

- The appointment of a Chief Economist
- The refocusing of the Deputy Chief Investment Officer roles.

New Treasury Management function

- The establishment and embedding of a new Treasury Management function
- The appointment a Head of Treasury.

A strategic response to geopolitical developments

- The commencement of a new investment strategy in response to the new investment order
- The making of A\$30 billion+ of changes across the portfolio.

2. Mature the organisation

The Agency recently 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 16 years, the Future Fund has grown from one fund under management in 2006 seeded with \$60.5 billion, to six funds under management and a total portfolio of over \$242 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.

Some of the achievements for this year under this focus area include:

Technology enhancements

- The finalisation of a multi-year technology strategy
- The appointment a Head of Technology.

Uplift of our data and analytics capabilities

- The uplift of a refreshed performance and analytics system
- The establishment of an Investment Data Management function and team.

Strengthening business functions

- The introduction and consolidation of new project services, travel, and procurement functions
- The commencement of a risk governance and compliance management framework review.

3. Preserve our legacy

The Agency has been very intentional about building and fostering a high-performing and unique team culture over the last 16 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.

Throughout the year we took an opportunity to begin institutionalising our approach to onboarding new starters, and to consolidate our culture, skills acquisition and leadership training.

This is particularly important as we continue to prudently build out our headcount over the coming years.

Some of the achievements for this year under this focus area include:

Investment in our culture

- The articulation of our culture with the Future Fund Way
- The introduction of a dedicated culture module designed to formalise the standards and expectations of our people
- The roll-out of culture discussion groups which facilitated team conversations to further understanding.

Future Fund Academy launch

- The establishment of a formal learning program designed to onboard new staff and provide ongoing support to our people through their careers.

Key appointments

- The appointment a Chief People, Culture and Inclusion Officer.

Improved diversity and inclusion activity

- A CEO and Agency-wide commitment to 12 key diversity and inclusion actions.

4. Expand our voice

This area of focus prioritises the expansion and deepening of our business and stakeholder connections and networks. We aim to 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.

Some of the achievements for this year under this focus area include:

Corporate Affairs strategy and structure

- The finalisation of a new corporate affairs strategy
- The design and introduction of a new Corporate Affairs Team structure.

Key appointments

- The appointment a Director of Stakeholder Relations
- The appointment a Director of Corporate Communications.

Enhanced communication with key stakeholders

- The publishing of a position paper titled *A New Investment Order*
- The publishing of a booklet marking the first 15 years of the Agency's history
- Expanded program of industry engagement to explain our work and priorities
- The upgrading of key internal communications channels.

Purpose



Investing for the benefit of future generations of Australians

Values



Focus on what matters



Do the right thing



Work together

One team,
One purpose

Investment performance is our focus

The Future Fund Way



Collaborate



Facilitate



Innovate



Deliberate

Inclusion

Four Focus Areas



01

Refresh the investment model



02

Mature the organisation



03

Preserve our legacy



04

Expand our voice

02

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 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.

The Future Fund is a founding member of the International Forum of Sovereign Wealth Funds (IFSFW) and fully implements the Santiago Principles. The Santiago Principles promote transparency, good governance, accountability, and prudent investment practices while 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 2021–22, we appeared at hearings in October 2021, February 2022, and May 2022. 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 2022, the Future Fund Board consisted of a Chair and six 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.

He 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 currently Chair of OFX Group Ltd, a Non-Executive Director of Transurban Ltd, and is an Ambassador for the Australian Indigenous Education Foundation. She has served as a Non-Executive Director with Macquarie Group, the National Australia Bank, Qantas, Wesfarmers and Aviva plc. 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.

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. 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.

Mr Fraser is a member of the Advisory Board of AccountAbility in New York and a Non-Executive Director and Chairman of the Risk Committee of Judo Bank.

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 35 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 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, the Foreign Investment Review Board, 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, and 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.

Appointed an Officer of the Order of Australia for services to the community and business, Mr Poynton is also 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.

Dr Deborah Ralston



Dr Ralston was appointed with effect from 15 September 2021 for a five-year term.

Dr Ralston has broad-ranging experience as a Non-Executive Director on private and public sector boards. Current appointments include membership of the Reserve Bank of Australia's Payments System Board and Non-Executive director roles with the SMSF Association and SuperEd, an innovative digital advice company. She chairs the Household Capital Advisory Board and is a member of the Conexus Institute.

She was previously a Non-Executive Director of Mortgage Choice, Heritage Building Society, and Kaplan Business School and Kaplan Higher Education.

Dr Ralston's expertise in public policy, innovation and retirement issues has been reflected in appointments to the Federal Government's Retirement Income Review Panel, the Comprehensive Income Products for Retirement Framework Advisory Committee, and as inaugural Chair of ASIC's Digital Finance Advisory Board. In an executive capacity she has held senior roles in Australian universities, most recently as Executive Director of the Australian Centre for Financial Studies, and as Pro Vice-Chancellor of Business, Law and Information Sciences at the University of Canberra.

Her academic engagement continues as a Professorial Fellow with the Monash University Business School, where she is a member of the Advisory Board of Mercer CFA Institute Global Pension Index.

Dr Ralston holds bachelor and master's degrees in economics, and a PhD in finance.

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).

Mr Wachtel holds a Bachelor of Commerce and a Bachelor of Laws from the University of Cape Town and a Master of Laws from The London School of Economics.

Board and Board Committee membership 2021–22

Board/Committee	Members
Future Fund Board of Guardians Responsible for the investment of the public asset funds in accordance with the relevant legislation and Directions.	Hon Peter Costello AC (Chair) Mrs Patricia Cross Mr John Fraser Ms Carolyn Kay Mr John Poynton AO Dr Deborah Ralston ¹ Mr Michael Wachtel
Audit and Risk Committee² Focuses on the control framework, external accountability, legislative compliance, internal and external audit, and the appropriate identification and management of risks. The Audit and Risk Committee charter is available at www.futurefund.gov.au/en/About-us/access-to-information/audit-and-risk-committee-charter	Mr Michael Wachtel (Chair) Mrs Patricia Cross Mr John Fraser Ms Carolyn Kay Mr John Poynton AO Dr Deborah Ralston
Remuneration and Nominations Committee Focuses on remuneration and appointment matters for staff and appointments to boards of investment companies.	Hon Peter Costello AC (Chair) Mr John Fraser Ms Carolyn Kay Mr Michael Wachtel
Conflicts Committee Provides oversight of, and advises the Board in relation to, any questions of possible conflicts of interest arising for Board and Board Committee members.	Mr John Poynton AO (Chair) Mr John Fraser Dr Deborah Ralston
Transaction Committee Provides support and assistance to the Board in respect of any transaction, matter or issue as referred to the Committee by the Board from time to time.	Hon Peter Costello AC (Chair) Mr John Fraser Ms Carolyn Kay

Note(s):

1. Dr Deborah Ralston was appointed to the Board on 15 September 2021, and as a member of the Audit and Risk Committee and the Conflicts Committee with effect from 28 September 2021.

2. Hon Peter Costello AC attends meetings as an observer.

Information on Board remuneration can be found on pages 89–90 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 2021–22

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	9	9	0	5	6	6
Mrs Patricia Cross	9	8	5	5	0	6
Mr John Fraser	9	9	5	5	6	6
Ms Carolyn Kay	9	9	5	5	6	6
Mr John Poynton AO	9	9	5	5	0	5
Dr Deborah Ralston	7	7	3	3	0	5
Mr Michael Wachtel	9	9	5	5	6	6

Note(s):

The Conflicts Committee and the Transaction Committee are ad-hoc committees and meet on an as-needed basis. They did not formally convene during the 2021–22 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 2021–22 the Chair of the Board and the Accountable Authority for the Agency was the Hon Peter Costello AC.

Agency organisational structure

The Agency is structured into five business units under the leadership of the Chief Executive Officer. The five business units are:

- Investment, which at 30 June 2022 was led by the CEO, Raphael Arndt in an Acting CIO capacity with three Deputy CIO’s reporting directly to him
- Investment and Business Operations, led by Gordon McKellar
- Legal and Risk, led by Cameron Price
- People, Culture and Inclusion, led by Kimberley Reid
- Corporate Affairs, led by Will Hetherton.

Future Fund organisational structure at 30 June 2022

Future Fund Board of Guardians

Hon Peter Costello AC (Chairman)*

Mrs Patricia Cross

Mr John Fraser

Ms Carolyn Kay

Mr John Poynton AO

Dr Deborah Ralston

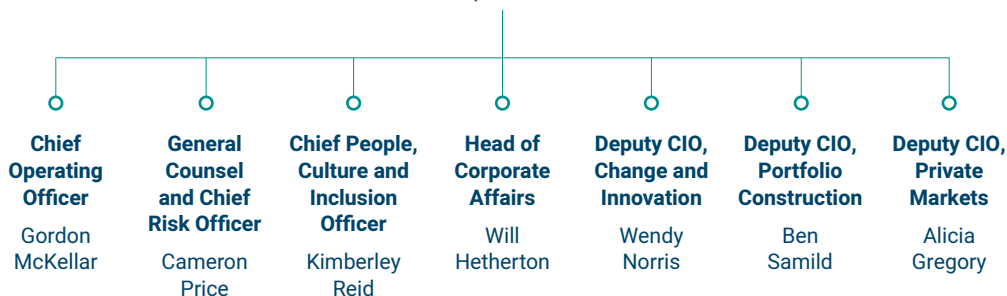
Mr Michael Wachtel



Future Fund Management Agency

Chief Executive Officer and Acting Chief Investment Officer

Dr Raphael Arndt



Note(s):

*The Chair of the Board is also the Accountable Authority for the Future Fund Management Agency. Deputy CIO, Private Markets Alicia Gregory joined the Senior Leadership Team on 1 July 2022.

Senior Leadership Team

The Senior Leadership Team (SLT) is collectively responsible for leading the Agency. This includes setting strategy and prioritising activities to deliver on the Agency's purpose and acting as custodians and role models of the Agency's culture.

The current SLT consists of the CEO and Acting CIO, three Deputy Chief Investment Officers (DCIOs), Chief Operating Officer (COO), General Counsel and Chief Risk Officer, Chief People, Culture and Inclusion Officer, and the Head of Corporate Affairs.

Senior Leadership Team at 30 June 2022

Name	Title
Dr Raphael Arndt ¹	Chief Executive Officer Acting Chief Investment Officer
Mr Will Hetherton	Head of Corporate Affairs
Mr Gordon McKellar	Chief Operating Officer
Ms Wendy Norris ²	Deputy Chief Investment Officer, Change and Innovation
Mr Cameron Price	General Counsel and Chief Risk Officer
Ms Kimberley Reid	Chief People, Culture and Inclusion Officer
Mr Ben Samild ³	Deputy Chief Investment Officer, Portfolio Construction

Note(s):

- Raphael Arndt was also Acting CIO from 21 June 2022.
 - Wendy Norris' title changed on 21 June 2022 from Deputy Chief Investment Officer, Private Markets to Deputy Chief Investment Officer, Change and Innovation.
 - Ben Samild's title changed on 21 June 2022 from Deputy Chief Investment Officer, Portfolio Strategy to Deputy Chief Investment Officer, Portfolio Construction.
- Sue Brake concluded her term on the SLT on 20 June 2022.
David George concluded his term on the SLT on 27 May 2022.
Alicia Gregory, Deputy Chief Investment Officer, Private Markets joined the SLT on 1 July 2022.

Dr Raphael Arndt



Chief Executive Officer

Acting Chief Investment Officer
from 21 June 2022

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.

He started his career as an engineer with Ove Arup & Partners in Melbourne and London and holds engineering and commerce degrees and a PhD from the University of Melbourne, which focused on risk allocation in public private partnerships.

Mr Will Hetherton



Head of Corporate Affairs

Mr Hetherton joined the Future Fund in 2007 as Head of Public Affairs.

Before joining the Future Fund, Mr Hetherton spent five years in the corporate affairs team at National Australia Bank, including in 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.

Mr Hetherton holds a degree in philosophy, politics and economics from New College, Oxford, and a postgraduate certificate in applied finance from Kaplan Professional.

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 also include Technology, Finance and Organisational Enablement to create the Agency's new 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.

Ms Wendy Norris



Deputy Chief Investment Officer, Change and Innovation from 21 June 2022

Deputy Chief Investment Officer, Private Markets 1 July–21 June 2022

Ms Norris joined the Future Fund in April 2010 as Head of Infrastructure and Timberland before being appointed DCIO, Private Markets and then DICO, Change and Innovation in June 2022.

Previously Ms Norris was 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.

Ms Norris holds an applied science degree from the University of New South Wales, a Graduate Management Diploma from the Australian Graduate School of Management and has completed the Advanced Management Program at INSEAD.

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



Chief People, Culture and Inclusion Officer

Ms Reid joined the Future Fund in May 2021.

Prior to this role, she was Executive General Manager, Organisation Effectiveness at the Commercial Bank of Qatar and Board Member of Alternatif Bank in Turkey. Ms Reid spent 10 years at ANZ in various roles based in India and Hong Kong as well as in Melbourne. She started her career as an employment lawyer at Allens Arthur Robinson and worked at the Federal Court of Australia and the Commonwealth Human Rights Commission.

She 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.

Mr Ben Samild



Deputy Chief Investment Officer, Portfolio Construction from 21 June 2022

Deputy Chief Investment Officer, Portfolio Strategy from 1 July 2021–21 June 2022

Mr Samild joined the Future Fund in October 2013 as Director, Debt and Alternatives.

He joined the Future Fund following a 10-year career in the hedge fund industry and four years as Head of Investment Strategy at Industry Super Fund LUCRF Super.

Mr Samild has a bachelor's degree from the University of Melbourne with majors in behavioural finance, psychology and history, and a Master of Applied Finance.

Ms Alicia Gregory



Deputy Chief Investment Officer, Private Markets from 21 June 2022 and appointed to the Senior Leadership Team on 1 July 2022

Ms Gregory joined the Future Fund in 2019 as the Head of Private Equity. She was appointed DCIO, Private Markets in June 2022 and is responsible for managing the strategy for the Private Markets portfolio which includes Private Equity, Property, Credit and Infrastructure and Timberland.

She previously worked for MLC for 17 years and has over 23 years' experience in the financial services sector. She holds a Bachelor of Business from the University of Technology Sydney, is a CFA charter holder, and has completed the General Management Programme at INSEAD.

Investment Committee

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

Investment Committee at 30 June 2022



Ms Wendy Norris
(Chair)

DCIO, Change
and Innovation



Dr Raphael Arndt

CEO and Acting CIO



Ms Sarah Carne

Head of Listed
Tangibles



**Ms Alicia
Gregory**

DCIO, Private
Markets



**Ms Genevieve
Murray**

Head of Listed
Equities



Mr Hugh Murray

Head of Overlays



Mr Ben Samild

DCIO, Portfolio
Construction

Note(s):

David George served on the Investment Committee until 10 May 2022.

Sue Brake served as Chair of the Investment Committee until 6 June 2022.

Wendy Norris commenced as Chair of the Investment Committee from 27 June 2022.

Genevieve Murray joined the Investment Committee on 30 May 2022 in her role as Head of Listed Equities.

Wendy Norris was on long service leave and therefore did not attend Investment Committee meetings between 19 January and 27 April 2022.

Doug Cain, Head of Unlisted Property was an interim member of the Investment Committee from 19 January until 27 April 2022 as Wendy Norris' alternate during her long service leave.

Ben Samild became DCIO, Portfolio Strategy from 16 August 2021, and became Acting DCIO Public Markets from 17 May 2022. He was made DCIO Portfolio Construction from 21 June 2022.

Alicia Gregory was promoted to DCIO, Private Markets from 21 June 2022.

Raphael Arndt took on the Acting CIO role from 21 June 2022.

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 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 management. 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

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

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). Accordingly, 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

These are 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. As 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 two committees which are directly involved in the oversight of risk management as documented in their respective charters, they are:

- 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.

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, an 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 cyber security threats, technologies and controls.

As part of this, we implement the Australian Cyber Security Centre's (ACSC's) Essential Eight mitigation strategies to prevent a cyber intrusion, and we engage with the 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.

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.

03

How we invest

Our investment approach is based on one team working together for the benefit of the portfolio as a whole. 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 long-term 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 mandate and our approach to total portfolio construction.

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

The DisabilityCare Australia Fund has a shorter-term investment horizon. The assets of 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 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 and 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 experts look at the global economy, financial markets and geo political developments, and think about how this will impact the total portfolio. Their thinking is also influenced by the level and nature of the insights coming from our bottom-up specialists. Our bottom-up specialists look across the world for the best assets and investment opportunities, thinking about whether these opportunities offer sufficient reward for the risk involved, and having regard to the big picture context evaluated by our top-down experts.

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

Instead, our investment professionals come together to share insights and perspectives 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 long-term 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 opportunity over another.

Dynamic investment process

Given that prospective risks and returns 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 we are taking.

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 for each of the funds.

Given a competitive and challenging 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 time, with a focus on long-term economic, social, demographic, geopolitical, technological, 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 to ensure they are robust to a range of conditions and scenarios.

3. Risk management

Our investment policy framework helps us clearly and effectively manage the risk of our funds at what we consider to be acceptable, not 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 is considered across multiple dimensions, including market risk and short-term liquidity risk, and how readily we can change a portfolio if needed. We refer to this as its flexibility. These risks are dynamically managed across the total portfolio.

4. Portfolio planning and investment selection

Once we have decided on appropriate portfolio-level risk settings for a given fund, we plan how we expect to allocate that risk 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.

Disruptive innovation

We consider a wide range 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 impacted by disruption trends. Given our long-term whole-of-portfolio approach, we are well placed to identify and capitalise on opportunities to invest into disruption and manage disruption risk.

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 both protect and enhance the value of our portfolios over the long term.

Investment Committee

The Agency's Investment Committee, which meets at least twice per month, provides decision-making and review 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.

For a list of members of the Investment Committee please see the 'Governance and accountability' section.



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.

Our comparative advantages describe who we are and how we operate; 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 use 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. They 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 best-in-class external investment managers around the world who execute investment strategies on our behalf, in alignment with our investment objectives.

These expert 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 2022 is available at Appendix A.

We prefer fewer, more meaningful, relationships with quality external managers. We select managers for their ability to generate robust and repeatable superior returns, 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 and effective.

Using investment managers also aligns with our intention to enable our own investment professionals to stay focused 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.

Experienced Future Fund investment professionals are responsible for undertaking rigorous investment manager and asset due diligence. They apply a structured framework to assess each manager or asset and bring forward a recommendation to the Manager Review Committee or Asset Review Committee as appropriate. We also undertake regular reviews of external managers throughout the life of their relationship with us.

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

Managing currency

As Australia's sovereign wealth fund, we are always actively seeking out quality domestic investment opportunities that align with our strategy and investment mandates. Our base currency is the Australian dollar: the return objective for the Future Fund and several of our other long-term funds are 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, with our diversified, total portfolio approach in mind.

We explicitly manage the size and nature of our foreign currency exposures, rather than simply accepting the currency exposure that comes with 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 is weaker.

Currency exposure for our long-term funds in 2021–22 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.

Long-term investment themes

A New Investment Order

We published a position paper in September 2021 titled *A New Investment Order* in which we identified several paradigm shifts, many catalysed or accelerated by COVID-19 – and this thinking has continued to influence the construct of our portfolios.

While we thought some of the themes might play out over the next decade, we have instead seen all of the themes unfold in a 12-month period – war, deglobalisation, inflation and rising interest rates.

One of the key issues contemplated in the paper was the likelihood of a change in the inflationary regime. We discussed that there was a risk of higher and more volatile inflation in the forward period, due to the convergence of structural changes catalysed by the COVID-19 epidemic. This situation was exacerbated by the Russian invasion of Ukraine.

While these factors have contributed to headline inflation moving to levels not seen in the developed world for around 40 years, our research focused on the structural tailwinds for deflation declining and becoming headwinds. These include issues such as supply chain rebuilding; capital expenditure required to meet the decarbonisation challenge; demographic changes; and potential shifts in the bargaining power of labour over capital.

Over the year we invested around A\$30 billion in strategies designed to increase our portfolio resilience to an inflationary regime that is higher than the market currently expects. These investments span public and private market opportunities and are diversified as the inflationary challenge is likely to come in many forms and will create winners and losers across the economy.

The portfolio construction challenge in a world where inflation is sustainably higher and more volatile than it has been in decades, and assets behave differently in relation to the market environment – and each other – remains a key focus.

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.

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

As a large asset owner with a long-term investment approach, we steer our focus towards the impact of ESG factors on long-term investment risk, value, and quality. Top-down views on the strategic trends that will influence outcomes for investors over extended investment horizons are a vital element in our capital allocation process. Many of these trends have strong links to ESG themes.

We believe that ESG issues have the potential to materially impact the performance of our investment portfolio and 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, biodiversity, human and labour rights, occupational health and safety, diversity and inclusion, workplace culture, supply chain risks, cyber security, bribery, and corruption.

Governance

Our framework for managing ESG issues is articulated in our ESG Policy which is published on our website. This Policy has been incorporated into our Statement of Investment Policies and 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 and our Investment Team is tasked with implementing the Policy with the support of our specialist in-house ESG Team.

Integrating ESG into the investment process

We have formally integrated the consideration of ESG issues into each stage of our investment process. This includes the macroeconomic scenarios that inform our investment strategy, how we monitor risk, the process for selecting and approving external investment managers, asset-related due diligence, and ongoing monitoring activities.

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 objectives.

This model requires thoughtful coordination and alignment between our organisation and our investment managers, as well as ongoing active monitoring on our part. We assess and monitor the extent to which our managers are effectively managing ESG-related investment and reputation risks and opportunities on our behalf.

Asset due diligence

Where we make direct investments with our external investment managers, such as infrastructure or property investments, the evaluation of ESG risks and opportunities is integrated into the process. In partnership with our investment managers, we may also engage third-party consultants for investments where ESG factors are especially complex or material.

Climate risk

For long-term investors like the Future Fund, every sector and asset we invest in will be impacted in some way by the low carbon transition. This will occur either directly or indirectly through their supply chains or changing consumer preferences.

As increasing physical risks emerge over time, this will add another layer of complexity that will disrupt economic and social systems even further. In alignment with our views on the new investment order, these large-scale shifts will make the future world into which we invest more complex to navigate.

In terms of risk management and budgeting we consider transition risk from both a total portfolio risk management and disruption perspective. We also think regional and industry lenses are more important given climate risk varies greatly across, and within, regions and industries.

We take an integrated and investment-led approach towards the low carbon transition. It is a key consideration in how we build our portfolios and is integrated dynamically into our process alongside other risks and opportunities.

This includes reviewing climate risk during due diligence for specific investments or periodic industry assessments; monitoring how our investment managers are addressing climate risk where appropriate to their strategy; engaging with the assets and companies we invest in; and considering climate-related risks in our proxy voting and Board engagement activities.

The material risks we consider in our investment process include:

- **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 also continue to enhance 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 independent 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. 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 of our investment in Tilt Renewables, our investment in wind and solar assets in Australia has grown to over \$1 billion. This makes us one of the largest investors in renewables in Australia.

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 Statement of Investment Policies and our ESG Policy. Our underpinning investment frameworks and approach guide how ESG risks, including modern slavery, are identified and managed across the investment portfolio. This includes during due diligence activities, external investment manager monitoring, engagement activities with investee entities, and portfolio monitoring activities.

During the year several actions were undertaken across the investment portfolio, including:

- Modern slavery risk assessments were undertaken for new investment opportunities, during certain due diligence activities, and through monitoring of selected investment managers.
- Strategic engagement on modern slavery was undertaken with several emerging market debt and listed equities investment managers, Australian infrastructure assets and a number of ASX-listed companies.
- An interactive digital tool was developed to visualise modern slavery country risk.
- New datasets were sourced to assist with monitoring of modern slavery risks.

More detailed information on our approach is integrated into the Commonwealth Government's Modern Slavery Statement, which covers all Commonwealth procurement and investment activities. The Commonwealth statement is published at the end of each calendar year.

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 long-term investment value.

Our investment stewardship program has three key pillars: exercising our ownership rights; engagement with investee entities; and contributing to a stronger investment system.

We have an established set of Corporate Governance Principles which are disclosed in the ESG Policy on our website. These principles are applied throughout our investment stewardship activities.

Exercising our ownership rights

Public markets

We exercise all eligible voting rights in publicly listed companies as we believe exercising our ownership rights encourages and supports good governance practices. We do not engage in share lending, which might reduce our voting rights and create misalignment with our corporate governance priorities.

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

We prioritise the application of our Corporate Governance Principles in our proxy voting decisions. We also receive voting recommendations from our investment managers and proxy advisers for all shareholder meetings. Where a company resolution is found to be in conflict with our Corporate Governance Principles, or does not align with our investment interests, we will consider voting against a company board.

During the year we directly exercised our voting rights in publicly listed Australian companies. We participated in 234 Australian shareholder meetings and voted against Australian company board recommendations in 8.8% of all resolutions.

A report outlining how we voted at each Australian shareholder meeting during 2021–22 can be found on our website.

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 overseas-domiciled investee entities. We do, however, retain the ability in all cases to override our managers' recommendations.

In aggregate in 2021–22, we participated in 4,264 international shareholder meetings and voted against company boards recommendations in 12.1% of all international resolutions.

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 our investments in Melbourne and Perth airports and the Port of Melbourne, senior members of our Investment Team sit as directors. In other cases, we have appointed high-quality directors to act on our behalf who are either employees of the relevant external manager or suitably qualified third-party professionals 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 on the advisory boards of pooled vehicles that give investors a voice on certain key decisions.

Engagement with investee entities

Active engagement with the boards and management of the entities in which we invest is key to our investment stewardship program. Engagement is a valuable tool that helps protect long-term value. Interaction with investee entities also works to influence positive change in corporate governance practices and the appropriate management of ESG risks and opportunities. It also helps us build our understanding of the strategic risks and opportunities to which these organisations are exposed.

Our engagement activities are primarily focused on Australian companies, and we tailor engagement meetings to each organisation. Over recent years we have engaged with board representatives from a broad range of Australian-listed companies, including a majority of the ASX 50.

Issues discussed during these meetings vary depending on what's material to each company, but often include board composition; management quality; remuneration; regulatory compliance; workplace culture; diversity and inclusion; modern slavery; indigenous heritage; and climate change.

Contributing to a stronger investment system

We have a direct interest in supporting financial markets that are stable, transparent and efficient over the long term. Collaboration with like-minded investors is an efficient and effective way of building knowledge, creating new perspective, 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 valuable.

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 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 the Institutional Investors Roundtable (IIR).

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

04

Investment performance

The investment environment

The past financial year was another historic one for the global economy. The pandemic and its ongoing effects were soon followed by the war in Ukraine. Both shocks entailed enormous damage to the supply side of the global economy, spanning across many goods and labour markets.

At the same time, record policy stimulus and rising vaccination rates underpinned a rapid increase in consumer demand. The result saw global inflation increase to rates not seen since the early 1980s.

Policymakers initially viewed the rise in inflation as transitory and continued to support their economies with loose policy settings. This underpinned further gains in asset prices, with valuations becoming increasingly stretched.

As the year progressed it became clearer that inflation was more entrenched, and this view gained more widespread acceptance after the Russian invasion of Ukraine. Bond markets began to price a much higher path for central bank policy rates, with yields rising significantly. Equities and property prices remained buoyant until it was apparent that the central banks had shifted focus towards fighting inflation.

With policy tightening, a global slowdown looked increasingly likely. The Russian invasion of Ukraine caused a spike in commodity prices, lifting global inflation even higher – further increasing pressure on central banks.

The probability of recession increased more significantly, and concerns mounted over the outlook for corporate earnings.

The financial year ended with bond and stock market returns both in negative territory together for the first time since the early 1970s.

While the cyclical backdrop was deteriorating significantly throughout the year, the longer-term structural trends were also changing rapidly in the wake of the negative supply shocks from the pandemic and the war in Ukraine. Some of these trends were in place well before last year, with climate change and demographic shifts becoming more dominant forces.

However, the supply shocks experienced over the past two years have accelerated these structural trends, leaving the world more divided than it has been in decades.

The unwinding of globalisation and onshoring of critical supply chains, a re-tooling of electricity grids alongside the decarbonisation trend, and a more divided and adversarial global environment will be costly. It will likely lead to structurally higher inflation.

As a result, we expect the policy backdrop to be more difficult for financial markets over coming years. The investment environment will remain challenging. It requires a disciplined and open-minded approach to finding different ways to take advantage of the new landscape to meet our mandates.

Portfolio activity in 2021–22

Our objective is to invest for the long term and the Future Fund was able to preserve capital in spite of very volatile and challenging market conditions.

The forward investment environment is very likely to be different to that of past decades and will require adjustments around where we invest; what we invest in; and the way we take risk.

Over the course of the year the bulk of portfolio activity centred on improving portfolio resilience to the risks presented by the new investment environment.

Significant investment activity focused on the risks we identified as being more likely to play out impactfully – in particular, higher inflation, higher volatility and a potential failure of traditionally defensive assets.

While our overall portfolio risk levels did not change significantly, we adjusted the way in which we take risk. We reduced listed equities and increased tangible assets, credit and alternatives.

The focus of the tangible asset investing was on assets which are well-positioned to hold value in a higher inflation environment and those that are well-positioned to assist in the energy transition thematic.

Property investing also focused on inflation resilience and supporting the global buildout of logistics solutions.

Opportunities in credit markets also began to emerge as the market environment provided more chances for skilled managers to differentiate between high and low-quality credits.

Our alternatives portfolio performed well and was able to profit from higher levels of market volatility and price shocks across commodity, interest rate and equity markets. Investment activity focused on adding to existing positions which are diversifying.

As we had doubts about the ability of traditional defensive levers to provide support to the portfolio in an investment environment punctuated by inflation risk, we held low levels of exposure to interest rates and reduced our foreign currency exposure.

Similar portfolio activity occurred for the Medical Research Future Fund, the ATSIILS Fund, the Future Drought Fund, and the Emergency Response Fund. We continue to diversify those four funds and build exposures to 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 we have established investment frameworks that guide how we resolve trade-offs like this.

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 the mix of growth and inflation is likely to be worse going forward (more inflation for each unit of growth) and key economic variables are likely to be more varied across regions and more volatile. We expect risk premia to be higher and expected real returns lower, relative to history.

Our outlook on the global economy and markets is explored in more detail in our Investment Environment Report.

During the 2021–22 financial year we maintained the structural level of portfolio risk while changing the mix of that risk-taking to align with our view of the changed investment environment.

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 was reviewed and uplifted to 55–65 for the Future Fund as part of the deep review of our investment strategy.

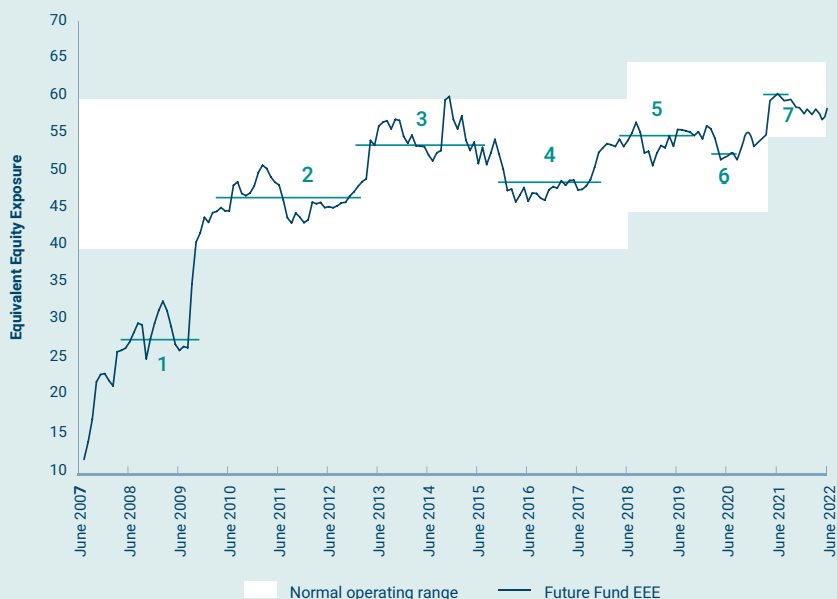
Throughout 2021–22, the portfolio risk setting has averaged close to the middle of the range and at 30 June 2022 the EEE stood at 59.

This chart 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. Subsequently, EEE has been managed reasonably close to neutral structural levels.

Future Fund Equivalent Equity Exposure since inception



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 2022, we held an exposure to foreign developed market currencies equivalent to 27% 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 7% of the Future Fund to emerging market currencies at 30 June 2022.

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 2022, the Future Fund achieved an annual return of -1.2% and a 10-year return of 9.7% per annum, exceeding its target of 6.6% per annum.

The Fund stood at \$194.4 billion at 30 June 2022, with investment returns adding \$134 billion to the original seed capital from the Australian Government.

Investment returns to 30 June 2022 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 2022

Period to 30 June 2022	Return (% pa)	Target return ¹ (% pa)	Volatility ² (%)	Sharpe ratio ³
Since inception (May 2006)	7.8	6.8	4.5	1.1
10 years	9.7	6.6	4.5	1.8
Seven years	7.5	6.5	4.8	1.3
Five years	7.8	6.6	5.2	1.4
Three years	6.1	7.2	5.9	1.0
2021–22 financial year	-1.2	10.1	4.4	-0.3

Note(s):

1. 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.
2. Volatility is an industry measure showing the level of realised volatility in the portfolio.
3. Sharpe ratio is a measure of the risk-adjusted return.

Portfolio exposures

Asset allocation at 30 June 2022

Asset class	\$m	% of Fund
Australian equities	15,821	8.1
Global equities		
Developed markets	29,194	15.0
Emerging markets	10,590	5.4
Private equity	33,439	17.2
Property	13,153	6.8
Infrastructure and Timberland	18,459	9.5
Debt securities	15,768	8.1
Alternatives	34,505	17.8
Cash	23,450	12.1
Total	194,379	100.0

Asset class exposures at 30 June 2022

Listed equities

Sector	Exposure (%)
Energy	5
Materials	10
Industrials	9
Consumer discretionary	9
Consumer staples	7
Healthcare	12
Real estate	2
Financials	19
Information technology	18
Communication services	7
Utilities	2

Private equity

Strategy	Exposure (%)
Buyout	32
Distressed	1
Secondaries	0
Venture and growth	67

Property

Sector	Exposure (%)
Retail	24
Office	13
Industrial	15
Residential	15
Diversified	20
Seniors living	5
Healthcare	3
Hospitality	4

Infrastructure and Timberland

Sector	Exposure (%)
Airports	25
Communications	20
Electricity, oil and gas	30
Timberland	9
Transport	14
Water	2

Debt

Strategy	Exposure (%)
Private debt	38
Investment-grade corporate	0
Sub-investment-grade corporate	36
Mortgage-backed securities	0
Other securitised	6
Emerging markets debt	17
Cash and other	2

Alternatives

Strategy	Exposure (%)
Diversifying	20
High beta	2
Low beta – directional	16
Low beta – relative value	50
Reinsurance	11

Asset class exposures by geography at 30 June 2022

Region	Listed equities (%)	Private equity (%)	Property (%)	Infrastructure and Timberland (%)	Debt (%)	Alternatives (%)
Australia	28	2	6	53	4	3
United States of America	34	70	61	27	46	51
Europe (ex-UK)	7	6	9	6	12	17
United Kingdom	2	5	8	6	13	3
Japan	8	0	4	0	0	6
Developed (other)	2	4	6	8	3	7
Emerging	19	13	5	0	22	12

Physical investments by geography at 30 June 2022

Region	Total exposure (%)
Australia	23
United States of America	39
Europe (ex-UK)	8
United Kingdom	4
Japan	8
Developed (other)	6
Emerging	12

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 that are truly diversifying (such as hedge funds).

Direct costs

Direct costs, historically 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 regarding performance fees that 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

	2019–20	2020–21	2021–22
Direct costs	\$326.1 million	\$462.3 million	\$447.99 million
Direct cost ratio	0.197%	0.268%	0.224%

Summary of look-through costs

	2019–20	2020–21	2021–22
Look-through costs	0.93%	2.22%	1.01%

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	Amount debited 2020–21	Amount debited 2021–22
Contracts with investment managers	\$224,666,952	\$180,023,000	\$301,737,000
Board remuneration and allowances	\$976,260	\$942,000	\$978,000
Agency remuneration and allowances	\$49,890,000	\$58,004,000	\$65,365,000
Consultants and advisers to the Board and Agency	\$20,969,639	\$25,515,954	\$23,779,897
Agency operations	\$73,390,442	\$94,213,046	\$104,525,103

Note(s):

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 at the same time.

We have established investment frameworks that guide how we resolve trade-offs like this.

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 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.

At 30 June 2022, the EEE stood at 30, which is below 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 2022, we held an exposure to foreign developed market currencies equivalent to 12% 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 4% of the Fund to emerging market currencies at 30 June 2022.

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 2022 are shown below, together with the target benchmark returns set by the Investment Mandate.

At 30 June 2022, the Medical Research Future Fund was valued at \$21.6 billion.

Medical Research Future Fund returns, target benchmarks and levels of risk at 30 June 2022

Period to 30 June 2022	Return (% pa)	Target return ¹ (% pa)	Volatility ² (%)	Sharpe ratio ³
Since inception (22 September 2015)	4.1	2.5	2.9	1.1
Five years	4.2	2.3	3.2	1.1
Three years	3.6	1.8	3.7	0.9
2021–22 financial year	0.1	1.6	2.3	0.0

Note(s):

1. RBA cash rate plus 1.5% to 2.0% per annum over the long term, with an acceptable but not excessive level of risk.
2. Volatility is an industry measure showing the level of realised volatility in the portfolio.
3. Sharpe ratio is a measure of the risk-adjusted return.

Portfolio exposures

Asset allocation at 30 June 2022

Asset class	\$m	% of Fund
Australian equities	756	3.5
Global equities		
Developed markets	1,316	6.1
Emerging markets	509	2.4
Private equity	1,154	5.3
Property	1,053	4.9
Infrastructure and Timberland	1,261	5.8
Debt securities	2,592	12.0
Alternatives	4,167	19.3
Cash	8,782	40.7
Total	21,590	100.0

Asset class exposures at 30 June 2022

Listed equities

Sector	Exposure (%)
Energy	5
Materials	11
Industrials	9
Consumer discretionary	10
Consumer staples	6
Healthcare	10
Real estate	2
Financials	20
Information technology	17
Communication services	7
Utilities	3

Private equity

Strategy	Exposure (%)
Buyout	69
Distressed	2
Venture and growth	29

Property

Sector	Exposure (%)
Retail	9
Office	9
Industrial	38
Residential	13
Seniors living	1
Diversified	22
Healthcare	4
Hospitality	2
Other	1

Infrastructure and Timberland

Sector	Exposure (%)
Airports	3
Communications	51
Electricity, oil and gas	30
Timberland	0
Transport	12
Water	4

Debt

Strategy	Exposure (%)
Private debt	13
Investment-grade corporate	10
Sub-investment-grade corporate	41
Mortgage-backed securities	4
Other securitised	12
Emerging markets debt	15
Cash and other	6

Alternatives

Strategy	Exposure (%)
Diversifying	13
High beta	3
Low beta – directional	15
Low beta – relative value	57
Reinsurance	12

Asset class exposures by geography at 30 June 2022

Region	Listed equities (%)	Private equity (%)	Property (%)	Infrastructure and Timberland (%)	Debt (%)	Alternatives (%)
Australia	29	4	3	40	8	3
United States of America	36	66	54	37	49	54
Europe (ex-UK)	7	10	13	11	14	13
United Kingdom	2	4	7	2	6	3
Japan	3	1	5	2	1	6
Developed (other)	3	4	8	8	5	8
Emerging	19	11	11	0	17	13

Physical investments by geography at 30 June 2022

Region	Total exposure (%)
Australia	20
United States of America	42
Europe (ex-UK)	10
United Kingdom	3
Japan	6
Developed (other)	8
Emerging	11

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 regarding performance fees that 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 in the following tables.

Summary of direct costs and direct cost ratio

	2019–20	2020–21	2021–22
Direct costs	\$25.4 million	\$41.4 million	\$41.7 million
Direct cost ratio	0.148%	0.196%	0.189%

Summary of look-through costs

	2019–20	2020–21	2021–22
Look-through costs	0.59%	1.52%	1.77%

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	Amount debited 2020–21	Amount debited 2021–22
Contracts with investment managers	\$17,927,465	\$29,993,013	\$34,912,595
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	\$5,062,432	\$6,590,377	\$7,282,465

Note(s):

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

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 held toward the middle of the range over 2021–22 and ended the year at an EEE of 39.

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 2022, we held an exposure to foreign developed market currencies equivalent to 15% 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 5% of the ATSILS Fund to emerging market currencies at 30 June 2022.

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

At 30 June 2022, the ATSILS Fund was valued at \$2.1 billion.

ATSILS Fund returns and target benchmarks at 30 June 2022

Period to 30 June 2022	Return (% pa)	Target return ¹ (% pa)
From inception ² (1 October 2019)	4.3	5.3
2021–22 financial year	-0.2	8.1

Note(s):

1. 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.
2. 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 2022¹

Asset class	\$m	% of Fund
Australian equities	95	4.5
Global equities		
Developed markets	168	8.0
Emerging markets	65	3.1
Private equity	145	6.9
Property	132	6.3
Infrastructure and Timberland	158	7.5
Debt securities	326	15.5
Alternatives	523	24.9
Cash	491	23.3
Total	2,103	100.0

Note(s):

1. Exposures on a look-through basis.

Asset class exposures at 30 June 2022¹

Listed equities

Sector	Exposure (%)
Energy	5
Materials	11
Industrials	9
Consumer discretionary	10
Consumer staples	6
Healthcare	10
Real estate	2
Financials	20
Information technology	17
Communication services	7
Utilities	3

Private equity

Strategy	Exposure (%)
Buyout	69
Distressed	2
Venture and growth	29

Property

Sector	Exposure (%)
Retail	9
Office	9
Industrial	38
Residential	13
Seniors living	1
Diversified	22
Healthcare	4
Hospitality	2
Other	1

Infrastructure and Timberland

Sector	Exposure (%)
Airports	3
Communications	51
Electricity, oil and gas	30
Timberland	0
Transport	12
Water	4

Debt

Strategy	Exposure (%)
Private debt	13
Investment-grade corporate	10
Sub-investment-grade corporate	41
Mortgage-backed securities	4
Other securitised	12
Emerging markets debt	15
Cash and other	6

Alternatives

Strategy	Exposure (%)
Diversifying	13
High beta	3
Low beta – directional	15
Low beta – relative value	57
Reinsurance	12

Note(s):

1. Exposures on a look-through basis.

Asset class exposures by geography at 30 June 2022

Region	Listed equities (%)	Private equity (%)	Property (%)	Infrastructure and Timberland (%)	Debt (%)	Alternatives (%)
Australia	29	4	3	40	8	3
United States of America	36	66	54	37	49	54
Europe (ex-UK)	7	10	13	11	14	13
United Kingdom	2	4	7	2	6	3
Japan	3	1	5	2	1	6
Developed (other)	3	4	8	8	5	8
Emerging	19	11	11	0	17	13

Physical investments by geography at 30 June 2022

Region	Total exposure (%)
Australia	28
United States of America	38
Europe (ex-UK)	9
United Kingdom	3
Japan	5
Developed (other)	8
Emerging	10

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 2021–22 are shown below. This includes the direct cost ratio (direct costs divided by the average net assets for the financial year).

Summary of direct costs and direct cost ratio

	2019–20	2020–21	2021–22
Direct costs	\$4.3 million	\$4.2 million	\$4.6 million
Direct cost ratio	0.216%	0.209%	0.212%

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	Amount debited 2020–21	Amount debited 2021–22
Contracts with investment managers	\$369,936	\$3,696,571	\$ 3,664,528
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	\$380,305	\$602,213	\$ 651,030

Note(s):

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.

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 EEE of the Future Drought Fund held toward the middle of the range over the course of the year and ended the year at an EEE of 39.

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 2022, we held an exposure to foreign developed market currencies equivalent to 15% 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 5% of the Future Drought Fund to emerging market currencies at 30 June 2022.

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 Future Drought Fund gained exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund. The Fund's look-through asset allocation is shown below.

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

Future Drought Fund returns at 30 June 2022 are below.

At 30 June 2022, the Fund was valued at \$4.5 billion.

Future Drought Fund returns and target benchmarks at 30 June 2022

Period to 30 June 2022	Return (% pa)	Target return ¹ (% pa)
From inception ² (1 April 2020)	7.5	5.6
2021–22 financial year	-0.2	8.1

Note(s):

1. 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.
2. 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 2022¹

Asset class	\$m	% of Fund
Australian equities	205	4.6
Global equities		
Developed markets	358	8.0
Emerging markets	139	3.1
Private equity	312	6.9
Property	285	6.3
Infrastructure and Timberland	341	7.6
Debt securities	701	15.6
Alternatives	1,126	25.1
Cash	1,026	22.8
Total	4,492	100.0

Note(s):

1. Exposures on a look-through basis.

Asset class exposures at 30 June 2022¹

Listed equities

Sector	Exposure (%)
Energy	5
Materials	11
Industrials	9
Consumer discretionary	10
Consumer staples	6
Healthcare	10
Real estate	2
Financials	20
Information technology	17
Communication services	7
Utilities	3

Private equity

Strategy	Exposure (%)
Buyout	69
Distressed	2
Venture and growth	29

Property

Sector	Exposure (%)
Retail	9
Office	9
Industrial	38
Residential	13
Seniors living	1
Diversified	22
Healthcare	4
Hospitality	2
Other	1

Infrastructure and Timberland

Sector	Exposure (%)
Airports	3
Communications	51
Electricity, oil and gas	30
Timberland	0
Transport	12
Water	4

Debt

Strategy	Exposure (%)
Private debt	13
Investment-grade corporate	10
Sub-investment-grade corporate	41
Mortgage-backed securities	4
Other securitised	12
Emerging markets debt	15
Cash and other	6

Alternatives

Strategy	Exposure (%)
Diversifying	13
High beta	3
Low beta – directional	15
Low beta – relative value	57
Reinsurance	12

Note(s):

1. Exposures on a look-through basis.

Asset class exposures by geography at 30 June 2022

Region	Listed equities (%)	Private equity (%)	Property (%)	Infrastructure and Timberland (%)	Debt (%)	Alternatives (%)
Australia	29	4	3	40	8	3
United States of America	36	66	54	37	49	54
Europe (ex-UK)	7	10	13	11	14	13
United Kingdom	2	4	7	2	6	3
Japan	3	1	5	2	1	6
Developed (other)	3	4	8	8	5	8
Emerging	19	11	11	0	17	13

Physical investments by geography at 30 June 2022

Region	Total exposure (%)
Australia	27
United States of America	38
Europe (ex-UK)	9
United Kingdom	3
Japan	5
Developed (other)	8
Emerging	10

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 2021–22 are shown below. This includes the direct cost ratio (direct costs divided by the average net assets for the financial year).

Summary of direct costs and direct cost ratio

	2019–20 (1 September 2019 to 30 June 2020)	2020–21	2021–22
Direct costs	\$8.5 million	\$8.9 million	\$9.7 million
Direct cost ratio	0.255%	0.208%	0.211%

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	Amount debited 2021–22
Contracts with investment managers	\$857,345	\$7,462,119	\$7,693,842
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	\$178,922	\$1,285,249	\$1,398,723

Note(s):

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.

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 EEE of the Emergency Response Fund held toward the middle of the range through the year and ended at an EEE of 39.

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 2022, we held an exposure to foreign developed market currencies equivalent to 16% 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 5% of the Emergency Response Fund to emerging market currencies at 30 June 2022.

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 Emergency Response Fund gained exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund. The Fund's look-through asset allocation is shown below.

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

Emergency Response Fund returns at 30 June 2022 are shown below.

At 30 June 2022, the Emergency Response Fund was valued at \$4.5 billion.

Emergency Response Fund returns and target benchmarks at 30 June 2022

Period to 30 June 2022	Return (% pa)	Target return ¹ (% pa)
From inception ² (1 April 2020)	7.5	5.6
2021–22 financial year	-0.1	8.1

Note(s):

1. 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.
2. 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 2022¹

Asset class	\$m	% of Fund
Australian equities	198	4.5
Global equities		
Developed markets	339	7.6
Emerging markets	132	3.0
Private equity	318	7.1
Property	290	6.5
Infrastructure and Timberland	347	7.8
Debt securities	713	16.0
Alternatives	1,146	25.8
Cash	967	21.7
Total	4,450	100.0

Note(s):

1. Exposures on a look-through basis.

Asset class exposures at 30 June 2022¹

Listed equities

Sector	Exposure (%)
Energy	5
Materials	11
Industrials	9
Consumer discretionary	10
Consumer staples	6
Healthcare	10
Real estate	2
Financials	20
Information technology	17
Communication services	7
Utilities	3

Private equity

Strategy	Exposure (%)
Buyout	69
Distressed	2
Venture and growth	29

Property

Sector	Exposure (%)
Retail	9
Office	9
Industrial	38
Residential	13
Seniors living	1
Diversified	22
Healthcare	4
Hospitality	2
Other	1

Infrastructure and Timberland

Sector	Exposure (%)
Airports	3
Communications	51
Electricity, oil and gas	30
Timberland	0
Transport	12
Water	4

Debt

Strategy	Exposure (%)
Private debt	13
Investment-grade corporate	10
Sub-investment-grade corporate	41
Mortgage-backed securities	4
Other securitised	12
Emerging markets debt	15
Cash and other	6

Alternatives

Strategy	Exposure (%)
Diversifying	13
High beta	3
Low beta – directional	15
Low beta – relative value	57
Reinsurance	12

Note(s):

1. Exposures on a look-through basis.

Asset class exposures by geography at 30 June 2022

Region	Listed equities (%)	Private equity (%)	Property (%)	Infrastructure and Timberland (%)	Debt (%)	Alternatives (%)
Australia	29	4	3	40	8	3
United States of America	36	66	54	37	49	54
Europe (ex-UK)	7	10	13	11	14	13
United Kingdom	2	4	7	2	6	3
Japan	3	1	5	2	1	6
Developed (other)	3	4	8	8	5	8
Emerging	19	11	11	0	17	13

Physical investments by geography at 30 June 2022

Region	Total exposure (%)
Australia	25
United States of America	39
Europe (ex-UK)	9
United Kingdom	3
Japan	5
Developed (other)	8
Emerging	10

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

Summary of direct costs and direct cost ratio

	2019–20 (12 December 2019 to 30 June 2020)	2020–21	2021–22
Direct costs	\$8.4 million	\$8.9 million	\$9.9 million
Direct cost ratio	0.359%	0.205%	0.212%

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	Amount debited 2021–22
Contracts with investment managers	\$703,456	\$7,567,917	\$7,698,020
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	\$93,562	\$1,294,933	\$1,424,913

Note(s):

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 (DCAF) 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 DCAF, 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 2021–22, 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 \$15.3 billion at 30 June 2022.

The DCAF has a low-risk mandate and is invested in cash, bank deposits and high rated corporate and securitised credit. The Fund underperformed its benchmark for the year due to a particularly challenging market backdrop and the widening of credit spreads across the year.

Looking forward, we remain confident the Fund's strategy is prudent and appropriate for the Mandate. Over time we expect the current positioning of the DCAF will deliver higher returns, but with modestly higher volatility and lower liquidity and be well placed to meet its mandate.

Earnings since inception have added over \$1 billion to the DCAF.

Portfolio exposures

Asset class exposures at 30 June 2022

Debt

Strategy	Exposure (%)
Investment-grade corporate	19
Mortgage-backed securities	25
Other securitised	4
Cash and other	51

Portfolio by geography at 30 June 2022

Region	Total exposure (%)
Australia	59
United States of America	18
Europe (ex-UK)	10
United Kingdom	5
Japan	5
Developed (other)	4

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 DCAF'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

	2019–20	2020–21	2021–22
Direct costs	\$12.6 million	\$12.8 million	\$13.7 million
Direct cost ratio	0.077%	0.082%	0.092%

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	Amount debited 2020–21	Amount debited 2021–22
Contracts with investment managers	\$12,727,730	\$10,192,434	\$12,235,196
Board remuneration and allowances	-	-	-
Agency remuneration and allowances	-	-	-
Consultants and advisers to the Board and Agency	-	-	-
Agency operations	\$1,260,811	\$1,226,094	\$1,156,951

Note(s):

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.

2021–22 performance summary

FY22 was a challenging and volatile year for markets both domestically and globally.

In the prior year, the Future Fund delivered a record return of 22.2% spurred on by a period of exceptional stimulation through monetary and fiscal policy. What then followed in FY22 were sharp increases in global and domestic inflation and interest rates, leading to a significant downturn in markets in the third and fourth quarters.

The Future Fund is a long-term fund. It was created to strengthen the Commonwealth's long-term financial position. The Fund continues to achieve this objective, with a 10-year return of 9.7% pa against a target of 6.6% pa.

In a year where global equities and global bonds fell by more than 10% each and where the Australian stock market fell 6.5%, the return of -1.2% for the Future Fund was a pleasing outcome.

The other public asset funds invested by the Board have faced the same challenging environment. The Board had been carefully assessing the changing investment environment and repositioning the portfolio accordingly.

All funds benefitted from the changes made to the investment portfolios which helped preserve the capital in each fund and minimise losses. The portfolio continues to be positioned moderately below a neutral risk setting.

05

Our people and culture

The Future Fund is a purpose-driven organisation. We have had the same clear purpose since our inception 16 years ago – to invest for the benefit of future generations of Australians.

This purpose guides our decisions, directs our resources and activities, and motivates our people to perform at their best each and every day.

Life at the Future Fund

The value our work adds to the funds we manage continues 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 National Disability Insurance Scheme.

Our organisation is home to ambitious, high-performing people who are driven to do meaningful work, grow professionally, support their peers and colleagues, and contribute to the future success of our organisation.

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
- Building a sense of psychological safety within our teams
- A workplace free from discriminatory behaviours and business practices
- Responsiveness to the needs identified by our people, as we engage on matters of diversity, equity, inclusion and belonging (DEIB)
- 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.

Our values

Our values define our ways of working – the character and behaviour we embed into the way we interact and perform.

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.

The Future Fund Way

The Future Fund Way is both our shared language and a set of expectations that encapsulates our culture. Since our inception, a collection of simple, fundamentally important notions has underpinned our culture, and has formed the basis of the Future Fund Way. We engage with one another respectfully; each and every role in the organisation is equally as important as all others; the investment

performance of the Future Fund is a common and singular goal for the whole organisation, and everyone works together collaboratively to achieve that goal.

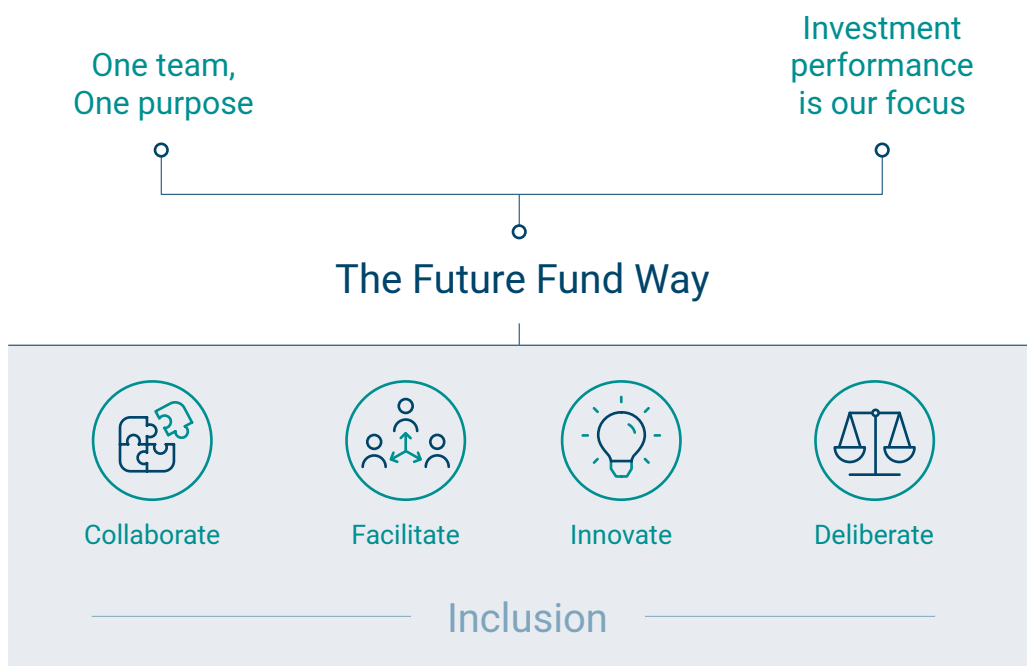
The Future Fund Way builds on this cultural ideology and is underpinned by two foundational principles, which help ensure we are all pulling in the same direction.

The first principle is **One team, One purpose**.

This phrase pervades everything we do. It helps hone our resources and concentrates our activity on the things that are most valuable overall. It means our goals are aligned across teams; we work hard to avoid silos, and we never pull in different directions or work against one another.

The second principle is **Investment performance is our focus**.

This simple phrase is our north star. It is the lens through which we make our strategic, investment and operational deliberations and decisions, and it directs our collective focus and attention on achieving our legislated mandates and our purpose.



There are also five keys to our culture, that collectively define and describe how we unlock our full potential.

Four actions:

1. Collaborate

We work together, across teams, to get things done. We share our knowledge and skills. We can't operate to our full potential – individually or collectively – without the perspective and input from our colleagues.

2. Facilitate

We help our colleagues achieve success; their success is our success. We are encouraged to offer help proactively and to be open to receiving help.

3. Innovate

We try new things, take risks where appropriate, and question when necessary. We are never satisfied with the status quo. We are prepared to do things differently. We are comfortable with failure and celebrate it as a learning opportunity.

4. Deliberate

We invest on behalf of all Australians. We welcome scrutiny and conduct ourselves in a manner that is befitting of the responsibility bestowed on us. We make decisions with this responsibility in mind so we can present them with confidence. To deliberate means that once we've made a decision, we pause to consider whether we have factored in every reasonable angle, consequence, risk and option.

These actions are all supported by a fifth key:

5. Inclusion

We know that being truly inclusive as an organisation can give us a competitive edge. Our people are part of a culture where everyone feels welcome to speak up and to contribute – a culture that values and benefits from a diverse range of perspectives and insights that will help shape our organisation and drive superior performance over the long term. Inclusion creates a sense of belonging and purpose, and it enhances innovation and productivity.

Investing in our people and culture

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

We are intentional about cultivating 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.

This year, we stepped-up our investment in our culture, including around how we work together to enhance engagement and inclusion.

In October 2021 we announced the creation of the Future Fund Academy. The Academy serves as a central point for us to codify and teach our culture, history and values, providing a consistent onboarding platform for new starters. It is also responsible for leadership and technical skills training, ensuring we focus on our people's development journey throughout their careers with us.

The first offering under the Future Fund Academy was the Culture at Future Fund Program, launched in November 2021 to 30 of our most recent new starters. The Program was designed to help those new to the Agency better connect with our organisation, our community and purpose, and understand the relevance and meaning of the Future Fund Way.

Developed especially for the Future Fund, the Program consists of five inter-connected modules that incorporate text, visuals, and video interviews with a range of Agency staff.

The module topics are:

- Strategy, priorities and culture
- Core values and systems
- Investment and enabling actions
- Risk, reputation and culture
- Our culture in the future.

There were also group discussion sessions facilitated by our People, Culture and Inclusion Team allowing our people to discuss their unique experiences throughout the training program, share their personal perspectives, and build relationships with peers and colleagues in the process.

Following the successful completion of the initial pilot program, the Culture at Future Fund Program was rolled out to every person who had joined the Agency since March 2020. Ongoing, all new joiners will participate in the Program, and it will be available to all Agency staff regardless of tenure.

New Academy learning programs and development opportunities continue to be developed for the coming year, which will help our people progress their careers at the Future Fund.

Equipping our people with the right technology

In 2021–22 we successfully delivered a major cloud migration project that has increased our efficiency and better enables quality investment outcomes. The project saw the successful and secure migration of all Agency systems to the cloud over a 12-month period.

During this financial year period there was also a focus on increased mobility, with new devices and mobile apps rolled out on Agency devices which integrated with the existing Microsoft ecosystem. This provided our people with productivity benefits within a secure and familiar platform environment.

Recruitment

As part of the 2020–21 Budget the Future Fund's average staffing level (ASL) headcount cap was lifted from 196 to 350. This will help us to pursue our objectives, deliver on our focus areas, enable us to build a mature, resilient, and sustainable organisation for the future.

The ASL cap increase also enables us to transition away from the use of contract resources and strengthen our internal capabilities. We will scale up the organisation strategically over a multi-year period in a way that best serves the business strategy.

Flexible working

We are committed to creating a workplace where everyone feels they can achieve 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 employee focus.

We introduced a new flexible work policy during the year which supports our workplace culture. Fundamental to this has been our hybrid work model which is based on our staff working from the office a minimum of three days per week, to encourage optimal collaboration and professional growth and development.

Our flexible work policy enables staff to make choices about when, where and for how long they engage in work-related tasks, supporting them 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 leave arrangements for primary and secondary carers and the ability for staff to purchase additional leave.

We continue to focus on learning from our experiences of enabling hybrid working to validate and shape our model to optimise flexible working going forward. This includes manager coaching to support them in managing teams working flexibly and understanding the workplace health and safety implications in a working-from-home situation.

Diversity, equity, inclusion and belonging (DEIB)

The Future Fund has a strong commitment to diversity and inclusion, which has increased as we have continued to grow and evolve.

For the Agency, workplace diversity means embracing a broader range of views, encouraging more creativity and innovation, and facilitating healthy deliberation and more thoughtful decision-making. From an inclusion perspective, ensuring we provide our people with a work environment that inspires and challenges them to do their best work and to be themselves, and to support others in the same way, all contribute to the high-performing and collaborative culture we enjoy.

In April 2022, the Agency's CEO prioritised the implementation of 12 initial actions designed to help support a more inclusive workplace. While the implementation of the 12 actions began through the year, many will continue to roll out and evolve over the coming years.

DEIB Program

We have had 49 Agency staff volunteer to contribute to the Agency's DEIB program. Two Affinity Networks have also been formed, focusing on gender diversity, and LGBTQIA+. The purpose of these Affinity Networks is to:

- Provide opportunities for staff to collaborate and contribute to the Agency's DEIB evolution
- Facilitate the organisation of internal and external networking events
- Provide input into the broader DEIB Strategy and Action Plan

- Support the Agency in celebrating the moments that matter for their relevant focus area
- Provide a voice for staff from under-represented groups
- Provide a platform for staff to share their lived experiences as it related to our DEIB journey.

Workplace, health and safety

The Future Fund is committed to providing a safe and healthy place of work for all staff and visitors to our offices.

We recognise that 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 us to successfully weather a difficult year in terms of staff wellbeing, and to support the physical and mental health and safety of our people.

Recognising the impact that COVID-19 was having on our staff, a dedicated resource was appointed to manage our Work Health and Safety Program.

Initially, this resource was focused on effectively and efficiently mitigating the impact COVID-19 was having on our staff.

This was achieved through:

- Awareness of and adherence to the Public Health Orders in place in Victoria and New South Wales
- Comprehensive consultation processes to ensure the voices of our staff were incorporated into our COVID-19 risk mitigation approach
- Regular communication with staff regarding any changes to our risk mitigation approach
- Ongoing 'cluster management' to ensure business continuity was able to be maintained within individual teams and across the Agency
- Integration with our Travel Management Team to ensure that staff travelling overseas who tested positive for COVID-19 remained supported and were successfully repatriated.

Our approach extended into integrating working groups involving our people leaders throughout the organisation that helped execute the Agency's evolving COVIDSafe Plan and model, as we transitioned back into the office space in Melbourne and Sydney.

Throughout all these safety-led endeavours, we were pleased that our staff reported an 81% overall satisfaction rating with our COVID-19 Risk Mitigation Program.

All those who join our workforce receive both online and in-person Health Safety and Wellbeing training.

Our workforce

Our workforce at 30 June 2022 was comprised of 220 staff.

We welcomed 54 new permanent staff during 2021–22: 39 were replacements for existing roles, and 15 were new roles. We had 26 internal promotions and 2 internal secondments.

Headcount by business area at 30 June 2022

Investment	77
Investment and Business Operations	93
Other	50
Total	220

Note(s):

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

Absenteeism rate (%) over time

2019–20	1.5
2020–21	1.2
2021–22	1.9

Like many organisations and industries across Australia, the Agency saw increased attrition in 2021–22 as a result of changes to our workforce and staff seeking new opportunities in a very competitive post-pandemic labour market.

Turnover rate (%) over time

2019–20	10.8
2020–21	7.6
2021–22	17.4

Management of human resources: reporting under the PGPA Act

Ongoing employees at 30 June 2022

	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	6	0	6	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	91	2	93	102	13	115	0	0	0	208
WA	0	0	0	0	0	0	0	0	0	0
ACT	0	0	0	0	0	0	0	0	0	0
NT	0	0	0	0	0	0	0	0	0	0
External territories	0	0	0	0	0	0	0	0	0	0
Overseas	0	0	0	0	0	0	0	0	0	0
Total	92	2	94	108	13	121	0	0	0	215

Non-ongoing employees at 30 June 2022

	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	0	0	0	4	1	5	0	0	0	5
WA	0	0	0	0	0	0	0	0	0	0
ACT	0	0	0	0	0	0	0	0	0	0
NT	0	0	0	0	0	0	0	0	0	0
External territories	0	0	0	0	0	0	0	0	0	0
Overseas	0	0	0	0	0	0	0	0	0	0
Total	0	0	0	4	1	5	0	0	0	5

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	6	0	6	0	0	0	8
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	87	12	99	0	0	0	189
WA	0	0	0	0	0	0	0	0	0	0
ACT	0	0	0	0	0	0	0	0	0	0
NT	0	0	0	0	0	0	0	0	0	0
External territories	0	0	0	0	0	0	0	0	0	0
Overseas	0	0	0	0	0	0	0	0	0	0
Total	91	1	92	93	12	105	0	0	0	197

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
Total	3	0	3	1	0	1	0	0	0	4

Australian Public Service Act ongoing employees at 30 June 2022

	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	27	1	28	16	0	16	0	0	0	44
EL 1	12	1	13	10	3	13	0	0	0	26
APS 6	26	0	26	25	3	28	0	0	0	54
APS 5	15	0	15	32	3	35	0	0	0	50
APS 4	10	0	10	21	3	24	0	0	0	34
APS 3	0	0	0	3	1	4	0	0	0	4
APS 2	0	0	0	0	0	0	0	0	0	0
APS 1	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Total	92	2	94	108	13	121	0	0	0	215

Australian Public Service Act non-ongoing employees at 30 June 2022

	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	2	0	2	0	0	0	2
EL 1	0	0	0	0	0	0	0	0	0	0
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	0	0	0	2	1	3	0	0	0	3
APS 3	0	0	0	0	0	0	0	0	0	0
APS 2	0	0	0	0	0	0	0	0	0	0
APS 1	0	0	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0	0	0
Total	0	0	0	4	1	5	0	0	0	5

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
Total	91	1	92	93	12	105	0	0	0	197

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	0	0	0	2	0	2	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
Total	1	0	1	3	0	3	0	0	0	4

Australian Public Service Act employees by full-time and part-time status at 30 June 2022

	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	43	1	44	2	0	2	46
EL 1	22	4	26	0	0	0	26
APS 6	51	3	54	0	0	0	54
APS 5	47	3	50	0	0	0	50
APS 4	31	3	34	2	1	3	37
APS 3	3	1	4	0	0	0	4
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
Total	200	15	215	4	1	5	220

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
Total	184	13	197	4	0	4	201

Australian Public Service Act employment type by location at 30 June 2022

	Ongoing	Non-ongoing	Total
NSW	7	0	7
QLD	0	0	0
SA	0	0	0
TAS	0	0	0
VIC	208	5	213
WA	0	0	0
ACT	0	0	0
NT	0	0	0
External territories	0	0	0
Overseas	0	0	0
Total	215	5	220

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

	Ongoing	Non-ongoing	Total
NSW	8	0	8
QLD	0	0	0
SA	0	0	0
TAS	0	0	0
VIC	189	4	193
WA	0	0	0
ACT	0	0	0
NT	0	0	0
External territories	0	0	0
Overseas	0	0	0
Total	197	4	201

Australian Public Service Act Indigenous employment at 30 June 2022

	Total
Ongoing	0
Non-ongoing	0
Total	0

Australian Public Service Act Indigenous employment at 30 June 2021

	Total
Ongoing	0
Non-ongoing	0
Total	0

Australian Public Service Act employment arrangements at 30 June 2022

	SES	Non-SES	Total
Individual employment contract	3	217	220
Total	3	217	220

Remuneration report

Remuneration strategy

Remuneration for all Agency staff, including members of the Agency's 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.

Fixed pay

All Agency staff members are paid fixed pay, inclusive of superannuation, commensurate with their role, classification, skills, and experience. Fixed pay is set with reference to the talent markets from which the Agency sources skilled employees.

Fixed pay for non-SES staff is referenced to salary scales that were agreed with the Australian Public Service Commission under the Bargaining Policy and Directives in 2020. In 2021–22, fixed pay salary scales were increased by 2%, with a further 0.5% provided for the increase in the Superannuation Guarantee Charge (SGC). There was no increase to the Chief Executive Officer's fixed pay in 2021–22.

Variable pay

In addition to fixed pay, ongoing staff can 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 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) set for each employee, 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 and is determined once performance results are audited and confirmed.

APSC Bonus Guidance Review

In August 2021, the Australian Public Service Commission (APSC) released guidance with respect to performance-related pay in the public sector. In 2021–22, the Agency reviewed its variable pay framework to ensure it meets the guidance provided by the APSC.

Variable pay outcomes in 2021–22

It was a difficult year with volatile markets, increased geopolitical tensions and pandemic-induced change all contributing to the challenges. Various lockdowns continued throughout Australia and the arrival of the Omicron variant caused significant disruptions over the summer period.

Our people worked hard through all this with most working from home for the majority of the first six months.

2021–22 saw double digit falls in global equities and global bonds and a 6.5% fall in the Australian stock market. Significant increases to inflation over the period were also a large factor in investment returns not meeting the Investment Mandate over the year.

Over the longer term, the Agency navigated this turmoil well and while the three-year return of 6.1% per annum was below the target benchmark return of 7.2% per annum, a further \$31.8 billion was added to the value of the Future Fund over the three-year period.

Our variable pay structure is designed to reward efforts to mitigate market falls and recognise that the Investment Mandate Direction is focused on the prudent management of risks as well as producing returns above the CPI + 4.0% per annum over the longer term. The Agency also delivered

against the full year's business plan and began repositioning the portfolio, setting us up for strong performance in the years ahead.

The Board recognised these efforts in its overall assessment of the Agency's performance and Individual performance ratings, and the variable pay component linked to individual performance outcomes was determined with regard to the variable pay structure we have in place.

Given the challenging year for the Fund, the variable pay component linked to the three-year investment returns will see only 29.2% of the available investment performance component paid out this year, a reduction from 100% applied in the 2020–21 year when the Future Fund delivered its strongest return of 22.2% per annum.

Consequently, aggregate variable pay paid to staff has decreased from \$17 million in 2020–21 to \$11.9 million in 2021–22.

With growth in our workforce resulting in the number of staff eligible for variable pay rising from 199 in 2020–21 to 208 in 2021–22, per capita average variable pay has decreased by 33.03%.

Remuneration of key management personnel in 2021–22

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 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 Tribunal's Determination 2021, taking effect from 1 July 2021, 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 initiatives and objectives that support the implementation of the Agency's 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	120	70	30
Gordon McKellar	75	25	75
David George	120	70	30
Wendy Norris	120	70	30
Cameron Price	45	25	75
Kimberley Reid*	35	25	75
Ben Samild	120	70	30

Note(s):

*Weighted variable pay % across performance year.

Remuneration outcomes for key management personnel in 2021–22

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.

Remuneration outcomes for key management personnel in 2021–22

Name	Position title	Base salary \$	Variable pay \$	Short-term benefits	Post-employment benefits	Other long-term benefits		Termination benefits	Total remuneration
				Other benefits and allowances \$	Superannuation contributions \$	Long service leave \$	Other long-term benefits ⁶ \$		
Raphael Arndt	Chief Executive Officer	724,342	399,933	0	23,569	-22,548	0	0	1,125,296
Sue Brake ¹	Chief Investment Officer	577,879	0	0	35,043	8,966	0	0	621,888
Gordon McKellar	Chief Operating Officer	611,478	321,325	0	36,295	3,139	0	0	972,237
Cameron Price	General Counsel and Chief Risk Officer	576,027	194,754	0	36,295	-935	0	0	806,141
David George ²	Deputy Chief Investment Officer, Public Markets	474,622	0	0	23,569	964	0	0	499,155
Wendy Norris	Deputy Chief Investment Officer, Change and Innovation	391,721	293,909	0	27,500	-8,352	0	0	704,778
Kimberley Reid ³	Chief People, Culture and Inclusion Officer	309,823	0	0	55,919	8,084	98,094	0	471,920
Ben Samild ⁴	Deputy Chief Investment Officer, Portfolio Construction	461,900	319,756	0	24,128	12,977	0	0	818,761
Peter Costello	Chairman	214,670	0	219	33,059	0	0	0	247,948
Patricia Cross	Board Member	107,340	0	66	16,307	0	0	0	123,713
John Fraser	Board Member	107,340	0	336	10,734	0	0	0	118,410
Carolyn Kay	Board Member	107,340	0	66	16,530	0	0	0	123,936
John Poynton	Board Member	107,340	0	1,294	16,530	0	0	0	125,164
Dr Deborah Ralston ⁵	Board Member	82,982	0	336	12,779	0	0	0	96,097
Michael Wachtel	Board Member	107,340	0	29	16,530	0	0	0	123,899

Note(s):

- Sue Brake ceased to be KMP on 20 June 2022, and remuneration is commensurate with this period.
- David George ceased to be KMP on 27 May 2022, and remuneration is commensurate with this period.
- Kimberley Reid was appointed to a KMP role on 20 September 2021, and remuneration is commensurate with this period.
- Ben Samild was appointed to a KMP role on 16 August 2021, and remuneration is commensurate with this period.
- Deborah Ralston was appointed to the Board on 15 September 2021, and remuneration is commensurate with this period.
- Under the Agency's Deferred Earnings Plan, staff can 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 2021–22

Total remuneration bands	Number of other highly paid staff	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
		\$	\$	\$	\$	\$	\$	\$	\$
\$235,001–\$245,000	6	169,993	14,018	0	17,303	2,553	4,384	30,428	238,679
\$245,001–\$270,000	10	198,467	25,635	0	21,217	1,561	12,435	0	259,315
\$270,001–\$295,000	7	171,979	15,674	0	18,030	1,606	19,961	54,071	281,321
\$295,001–\$320,000	7	232,694	44,165	0	24,429	5,305	0	0	306,593
\$320,001–\$345,000	3	227,324	74,835	0	20,994	5,231	0	0	328,384
\$345,001–\$370,000	9	244,278	73,186	3,126	24,624	3,562	7,280	0	356,056
\$370,001–\$395,000	2	145,893	225,820	0	12,410	1,248	0	0	385,371
\$395,001–\$420,000	3	299,084	60,228	0	25,935	3,521	15,978	0	404,746
\$420,001–\$445,000	6	317,965	56,758	0	24,883	2,134	33,573	0	435,313
\$445,001–\$470,000	3	320,703	70,888	1,700	29,121	2,979	31,343	0	456,734
\$470,001–\$495,000	2	334,134	113,729	0	25,534	117	0	0	473,514
\$495,001–\$520,000	2	355,588	0	0	31,897	-8,880	129,734	0	508,339
\$520,001–\$545,000	2	380,351	128,400	0	23,569	-3,517	0	0	528,803
\$545,001–\$570,000	5	386,894	113,091	7,789	30,232	4,668	12,278	0	554,952
\$570,001–\$595,000	2	387,763	155,762	0	25,534	4,797	0	0	573,856
\$595,001–\$620,000	1	349,445	212,720	0	65,437	-31,617	0	0	595,985
\$620,001–\$645,000	1	391,620	201,806	0	25,197	8,951	0	0	627,574
\$645,001–\$670,000	3	391,270	209,283	0	24,879	3,448	0	26,194	655,074
\$670,001–\$695,000	1	424,666	216,288	0	27,500	26,357	0	0	694,811
\$695,001–\$720,000	1	452,241	220,533	0	27,500	5,977	0	0	706,251
\$720,001–\$745,000	1	465,723	229,446	0	27,500	10,088	0	0	732,757
\$745,001–\$770,000	1	418,824	292,888	0	27,500	8,941	0	0	748,153
\$770,001–\$795,000	0	0	0	0	0	0	0	0	0
\$795,001–\$820,000	0	0	0	0	0	0	0	0	0
\$820,001–\$845,000	1	534,235	267,983	0	27,500	5,944	0	0	835,662

Remuneration outcomes for other highly paid staff in 2021–22 *Continued*

Total remuneration bands	Number of other highly paid staff	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 \$
\$845,001–\$870,000	1	541,471	140,630	0	36,295	-3,696	140,630	0	855,330
\$870,001–\$895,000	0	0	0	0	0	0	0	0	0
\$895,001–\$920,000	0	0	0	0	0	0	0	0	0
\$920,001–\$945,000	1	560,745	355,498	0	13,280	12,146	0	0	941,669
\$945,001–\$970,000	0	0	0	0	0	0	0	0	0
\$970,001–\$995,000	0	0	0	0	0	0	0	0	0
\$995,001–\$1,020,000	0	0	0	0	0	0	0	0	0
\$1,020,001–\$1,045,000	1	634,376	342,205	14,592	27,500	9,645	0	0	1,028,318
\$1,045,001–\$1,070,000	0	0	0	0	0	0	0	0	0
\$1,070,001–\$1,095,000	1	561,653	476,351	0	36,295	12,234	0	0	1,086,533
\$1,095,001–\$1,120,000	0	0	0	0	0	0	0	0	0
\$1,120,001–\$1,145,000	0	0	0	0	0	0	0	0	0
\$1,145,001–\$1,170,000	0	0	0	0	0	0	0	0	0
\$1,170,001–\$1,195,000	0	0	0	0	0	0	0	0	0
\$1,195,001–\$1,220,000	0	0	0	0	0	0	0	0	0
\$1,220,001–\$1,245,000	0	0	0	0	0	0	0	0	0
\$1,245,001–\$1,270,000	0	0	0	0	0	0	0	0	0
\$1,270,001–\$1,295,000	0	0	0	0	0	0	0	0	0
\$1,295,001–\$1,320,000	0	0	0	0	0	0	0	0	0
\$1,320,001–\$1,345,000	0	0	0	0	0	0	0	0	0

Note(s):

Under the Agency's Deferred Earnings Plan, staff can 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 2021–22

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.

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 2021–22

	Minimum salary \$	Maximum salary \$
SES 3	725,000	725,000
SES 2	636,000	643,000
SES 1	0	0
EL 2	254,000	633,000
EL 1	213,000	360,000
APS 6	158,000	290,000
APS 5	124,000	202,000
APS 4	89,000	145,000
APS 3	85,000	104,000
APS 2	0	0
APS 1	0	0
Other	0	0
Minimum/Maximum range	85,000	725,000

Note(s):

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 previously noted, 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.

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

Variable pay by classification level in 2021–22

	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	399,933	399,933	399,933	399,933
SES 2	2	687,162	343,581	321,325	365,838
SES 1	-	-	-	-	-
EL 2	43	6,740,008	156,744	3,975	476,351
EL 1	26	1,369,123	52,659	370	158,936
APS 6	54	1,854,042	34,334	1,434	110,073
APS 5	46	653,345	14,203	255	42,997
APS 4	32	187,962	5,874	89	18,135
APS 3	4	10,072	2,518	198	7,359
APS 2	-	-	-	-	-
APS 1	-	-	-	-	-
Other	-	-	-	-	-
Total	208	11,901,649	57,219	89	476,351

Note(s):

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. Table includes summary of all variable pay payments made for period 2021–22.

06

Financial statements

For the financial year ended 30 June 2022

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

Independent Auditor's Report



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 2022:

- (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 2022 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 as at 30 June 2022 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; and
- Notes to and forming part of the financial statements, comprising a Summary of significant accounting policies and other explanatory information.

Basis for opinion

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

Key audit matters

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

Key audit matter	How the audit addressed the matter
Valuation of collective investment vehicles held at fair value through profit or loss <i>Refer to Note 16.7 'Fair Value Hierarchy (Collective Investment Vehicles)'</i> As at 30 June 2022, collective investment vehicles (as	To assess the controls over the valuation of all collective investment vehicles, I: <ul style="list-style-type: none">• inspected the custodian's independent auditor's assurance report in respect of the design, implementation and operating effectiveness of relevant controls over the valuation of

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<p>defined in Note 7.3) totaled \$96.7 billion.</p> <p>Collective investment vehicles comprise 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.</p> <p>All investments are held in custody by the Entity's appointed custodian.</p> <p>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.</p> <p>In addition, disclosures that support the users' understanding of the valuation of collective investment vehicles are complex.</p>	<p>investments by the custodian;</p> <ul style="list-style-type: none"> • assessed the qualifications, competence and objectivity of the custodian's independent auditor; and • tested the design, implementation and operating effectiveness of a selection 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 vehicle manager, a valuation expert or management. <p>I assessed, on a sample basis, the valuation of indirectly held single infrastructure and timberland investments as at 30 June 2022. To do so I:</p> <ul style="list-style-type: none"> • 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. <p>To assess the valuation of all other collective investment vehicles as at 30 June 2022, on a sample basis, I:</p> <ul style="list-style-type: none"> • agreed the fair value to the capital account statements received from the underlying investment manager; • obtained audited financial statements of each underlying collective investment vehicle as at 30 June 2022, 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: <ul style="list-style-type: none"> ○ 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 2022 audited financial statements were unavailable, investigated significant movements from the date of the most recent audited financial statements and obtained
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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 2022 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;

Independent Auditor's Report Continued

- 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 2022

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 2022 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 2022



K Yong

Head of Finance
28 September 2022

Statement of comprehensive income for the financial year ended 30 June 2022

	Notes	Year ended 30 June 2022 \$'000	Year ended 30 June 2021 \$'000
Income			
Dividends and franking credits	3	7,293,628	2,440,549
Distributions	3	918,917	883,412
Interest income/(expense) from financial assets not at fair value through profit or loss		11,374	(884)
Net (losses)/gains on financial instruments at fair value through profit or loss	3	(10,316,130)	33,135,415
Net foreign currency gains/(losses)	3	81,837	(301,599)
Other income		11,581	18,680
Total (losses)/income		(1,998,793)	36,175,573
Expenses			
Investment management fees and advisory fees		114,321	90,968
Investment manager performance fees		6,992	36,439
Custody fees		22,596	18,256
Brokerage, duties and other statutory charges		27,659	22,238
Other investment portfolio expenses		8,771	6,184
Agency employees' remuneration	4	61,281	66,832
Other expenses	4,5	130,835	112,676
Total expenses		372,455	353,593
Operating result for the year before tax		(2,371,248)	35,821,980
Income tax expense	6	75,537	108,655
Operating result for the year		(2,446,785)	35,713,325
Other comprehensive income for the year		-	-
Total comprehensive income for the year		(2,446,785)	35,713,325

Note(s):

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

Statement of financial position as at 30 June 2022

	Notes	As at 30 June 2022 \$'000	As at 30 June 2021 \$'000
Assets			
Financial assets			
Cash and cash equivalents	13	2,171,796	4,585,297
Receivables	8	3,284,981	2,751,642
Investments	7	195,102,068	191,415,966
Other financial assets		10,664	11,729
Total financial assets		200,569,509	198,764,634
Non-financial assets			
Right of use assets		35,091	41,889
Plant and equipment		21,605	22,069
Intangibles		-	229
Total non-financial assets		56,696	64,187
Total assets		200,626,205	198,828,821
Liabilities			
Financial liabilities			
Investments	7	5,930,538	1,679,150
Payables	9	274,261	238,676
Lease liability		51,692	59,276
Total financial liabilities		6,256,491	1,977,102
Non-financial liabilities			
Employee provisions	10	36,181	40,137
Total non-financial liabilities		36,181	40,137
Tax liabilities			
Deferred tax liabilities		20,812	52,076
Total tax liabilities		20,812	52,076
Total liabilities		6,313,484	2,069,315
Net assets		194,312,721	196,759,506
Equity and amount attributable to the Government			
Contributions by Government	11	60,536,831	60,536,831
Retained earnings		133,775,890	136,222,675
Total equity and amount attributable to the Government		194,312,721	196,759,506

Note(s):

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

Statement of cash flows

for the financial year ended 30 June 2022

	Notes	Year ended 30 June 2022 \$'000	Year ended 30 June 2021 \$'000
Cash flows from operating activities			
Proceeds from sale of financial instruments at fair value through profit or loss		175,099,396	172,148,065
Purchase of financial instruments at fair value through profit or loss		(183,987,925)	(173,486,308)
Interest received/(paid)		10,385	(1,083)
Dividends received		5,412,438	1,935,737
Distributions received		1,016,915	811,799
Franking credit refunds received		438,882	462,401
Net settlement of foreign exchange contracts		76,161	(376,277)
GST refund received		4,461	4,213
Other income received		11,399	19,108
Investment management fees and advisory fees paid		(94,159)	(76,067)
Investment manager performance fees paid		(39,899)	(7,235)
Custody fees paid		(18,003)	(20,115)
Brokerage, duties and other statutory charges paid		(29,886)	(22,378)
Taxes paid		(106,800)	(56,596)
Interest paid on right of use asset leases		(272)	(316)
Other expenses paid		(207,800)	(176,205)
Net cash (used in)/provided by operating activities	13	(2,414,707)	1,158,743
Cash flows from investing activities			
Lease incentive received		-	12,886
Sublease asset principal repayments received		372	372
Purchase of plant and equipment and software		(3,965)	(17,985)
Lease liability principal payments		(7,584)	(6,536)
Net cash used in investing activities		(11,177)	(11,263)
Net decrease in cash held		(2,425,884)	1,147,480
Cash at the beginning of the reporting period		4,585,297	3,362,824
Effects of exchange rate changes on the balance of cash held in foreign currencies		12,383	74,993
Cash at the end of the reporting period	13	2,171,796	4,585,297

Note(s):

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

Statement of changes in equity for the financial year ended 30 June 2022

	Year ended 30 June 2022		
	Contributed equity \$'000	Retained earnings \$'000	Total Equity \$'000
Opening balance	60,536,831	136,222,675	196,759,506
Net operating result	-	(2,446,785)	(2,446,785)
Other comprehensive income	-	-	-
Total comprehensive income	-	(2,446,785)	(2,446,785)
Contributions made by Government	-	-	-
Closing balance	60,536,831	133,775,890	194,312,721

	Year ended 30 June 2021		
	Contributed equity \$'000	Retained earnings \$'000	Total Equity \$'000
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

Note(s):

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

Schedule of commitments as at 30 June 2022

	Notes	30 June 2022 \$'000	30 June 2021 \$'000
By type			
Capital commitments			
Collective investment vehicles	7.3	19,126,529	18,284,184
Total capital commitments		19,126,529	18,284,184
Other commitments			
Other commitments ¹		33,825	33,546
Total other commitments		33,825	33,546
By maturity			
Capital commitments			
One year or less		19,126,529	18,284,184
Total capital commitments by maturity		19,126,529	18,284,184
Other commitments			
One year or less		25,245	19,797
From two to five years		8,580	13,749
Total other commitments by maturity		33,825	33,546

Note(s):

1. Other commitments relate to contractual obligations for the provision of services for the Fund.

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 2022

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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 provide an asset to cover Commonwealth liabilities including 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 2021; 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. 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

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 2022 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 2022 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 2021 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 2022 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.

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 and cash equivalents includes cash on hand and deposits held at bank with maturities less than three months. 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.

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.

Note 2: Summary of significant accounting policies Continued

- 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.

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.

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. However, 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 2022. 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.

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

Note 2: Summary of significant accounting policies Continued

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 *AASB 16 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.

Current tax

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

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

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

Deferred tax

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

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

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

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

Fringe Benefits Tax and Goods and Services Tax

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

	2022 \$'000	2021 \$'000
Dividend income and franking credits		
Dividend income – domestic equities and listed managed investment scheme distributions	1,472,554	394,070
Franking credits refunded or refundable under Section 30 of the <i>Future Fund Act 2006</i>	1,853,363	456,902
Dividend income – related entities (FFICs) ¹	2,937,402	716,059
Dividend income – international equities	1,030,309	873,518
Total dividend and franking credit income	7,293,628	2,440,549
Distribution income		
Distributions – collective investment vehicles	918,917	883,412
Total distribution income	918,917	883,412

Note(s):

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

	2022 \$'000	2021 \$'000
Net gains/(losses) on financial instruments at fair value through profit or loss		
Net (losses)/gains on financial assets at fair value through profit or loss	(8,856,551)	33,998,849
Net losses on financial liabilities at fair value through profit or loss	(1,459,579)	(863,434)
Net (losses)/gains on financial instruments¹	(10,316,130)	33,135,415
Net gains/(losses) arising on foreign currency	81,837	(301,599)

Note(s):

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

Note 4: Expenses

	2022 \$'000	2021 \$'000
Agency employees' remuneration		
Wages and salaries	56,046	60,930
Superannuation	3,954	3,516
Leave and other entitlements payable	1,281	2,386
Total Agency employees' remuneration	61,281	66,832
Other expenses		
Board remuneration		
Wages and salaries	837	826
Superannuation	123	118
Total board remuneration	960	944
Depreciation & amortisation		
Depreciation of right of use assets, plant and equipment	11,226	9,596
Amortisation of intangibles – computer software	229	1,995
Total depreciation & amortisation	11,455	11,591
Other operating expenses (including audit fees)	118,420	100,141
Total other expenses	130,835	112,676

Note 5: Remuneration of Auditors

Included in other operating expenses is the financial statement audit services provided to the Fund which totalled \$169,000 (2021: \$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:

	2022 \$	2021 \$
Auditing the financial statements – Future Fund and FFICs	239,000	239,000

Note(s):

No other services were provided by the ANAO.

The Fund's auditor is the ANAO who has contracted EY (2021: EY) 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 income tax rate for the Fund is 0% (2021: 0%).

	2022 \$'000	2021 \$'000
Income tax expense		
Current tax	106,800	56,596
Deferred tax	(31,263)	52,059
Total income tax expense	75,537	108,655
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax	(2,371,248)	35,821,980
Tax at the applicable Australian tax rate of 0% (2021: 0%)	-	-
Tax effect of items which are not deductible/(taxable) in calculating taxable income:		
Franking credits earned from Australian subsidiaries	2,046,259	1,433,735
Difference in tax rates on Australian subsidiaries	(2,046,259)	(1,433,735)
Withholding tax	77,615	51,951
Other foreign corporate tax expense/(benefit)	(2,078)	56,704
Total income tax expense	75,537	108,655

Note 7: Investments

	2022 \$'000	2021 \$'000
Investment Summary		
Financial assets at fair value:		
Future Fund Investment Companies (FFICs)	71,136,318	67,519,590
Interest bearing securities	30,646,764	33,404,008
Listed equities and listed managed investment schemes	50,216,077	58,311,657
Collective investment vehicles	37,494,301	28,053,609
Derivatives	2,599,085	2,656,312
Restricted cash	3,009,523	1,470,790
Total financial asset investments	195,102,068	191,415,966
Financial liabilities at fair value:		
Derivatives	(5,930,538)	(1,679,150)
Total financial liability investments	(5,930,538)	(1,679,150)

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.

	2022 \$'000	2021 \$'000
FFICs		
At fair value:		
Loans provided to FFICs ¹	39,994,229	39,267,593
Residual equity in FFICs ²	31,142,089	28,251,997
Total FFICs³	71,136,318	67,519,590

Note(s):

- The FFIC loans would be classified as Level 2 in accordance with Note 16.7.
- 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.
- 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.

	2022 \$'000	2021 \$'000
FFICs		
Beginning of the year	39,267,593	42,875,284
Loans advanced	16,100,214	10,675,690
Loan repayments received	(12,778,183)	(10,048,386)
Interest charged ¹	773,037	613,258
Interest repayments received	(665,505)	(755,885)
Fair value gain/(loss)	(2,702,927)	(4,092,368)
End of year	39,994,229	39,267,593

Note(s):

- 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

	2022 \$'000	2021 \$'000
Interest bearing securities		
At fair value:		
Bank bills – international	30,692	17,816
Negotiable certificates of deposit – domestic	13,474,722	17,400,300
Negotiable certificates of deposit – international	1,498,879	2,416,465
Corporate debt securities – international	1,844,422	945,209
Mortgage backed securities – international	32,206	38,214
Asset backed securities – international	814,899	644,339
Corporate credit (bank loans) – international	1,399,005	754,604
Government debt securities – international	11,163,422	10,611,685
Other interest-bearing securities – international	388,517	575,376
Total interest bearing securities	30,646,764	33,404,008

Listed equities and listed managed investment schemes

At fair value:		
Domestic listed equities and listed managed investment schemes	15,123,329	16,285,888
International listed equities and listed managed investment schemes	35,092,748	42,025,769
Total listed equities and listed managed investment schemes	50,216,077	58,311,657

Collective investment vehicles

At fair value:		
Unlisted investments	34,197,310	25,290,330
Unlisted shares	3,296,991	2,763,279
Total collective investment vehicles¹	37,494,301	28,053,609

Note(s):

1. Excludes collective investment vehicles held via the FFICs.

	2022 \$'000	2021 \$'000
Derivatives		
At fair value: – financial assets		
Total derivative financial assets	2,599,085	2,656,312

	2022 \$'000	2021 \$'000
Derivatives		
At fair value: – financial liabilities		
Total derivative financial liabilities	(5,930,538)	(1,679,150)
Total derivatives	(3,331,453)	977,162

The Fund enters into certain derivative transactions under International Swaps and Derivatives Association (ISDA) agreements with various counterparties, which include provisions for netting arrangements. The derivative financial asset and financial liability balances above are stated gross of any netting arrangements.

The gross and net positions of financial assets and liabilities that have been offset in the 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	Effect of offsetting on the statement of financial position			Related amounts not offset	
	Gross amounts of financial assets	Gross amounts set off in the statement of financial position	Net amount of financial liabilities presented in the statement of financial position	Amounts subject to master netting arrangements	Net amount
	\$'000	\$'000	\$'000	\$'000	\$'000
2022					
Derivative financial instruments	2,160,008	-	2,160,008	(2,160,008)	-
Total	2,160,008	-	2,160,008	(2,160,008)	-
2021					
Derivative financial instruments	2,296,060	-	2,296,060	(1,643,549)	652,511
Total	2,296,060	-	2,296,060	(1,643,549)	652,511

Financial liabilities	Effect of offsetting on the statement of financial position			Related amounts not offset	
	Gross amounts of financial liabilities	Gross amounts set off in the statement of financial position	Net amount of financial liabilities presented in the statement of financial position	Amounts subject to master netting arrangements	Net amount
	\$'000	\$'000	\$'000	\$'000	\$'000
2022					
Derivative financial instruments	4,719,140	-	4,719,140	(2,160,008)	2,559,132
Total	4,719,140	-	4,719,140	(2,160,008)	2,559,132
2021					
Derivative financial instruments	1,643,549	-	1,643,549	(1,643,549)	-
Total	1,643,549	-	1,643,549	(1,643,549)	-

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 included in the net assets of the Fund. As at 30 June 2022, the Fund has \$1,087,488,686 in cash which has been posted as collateral with counterparties, (2021: \$52,187,778) and has received \$598,091,478 in cash (2021: \$1,746,908,383).

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 2022, the Fund had posted \$1,144,995,533 (2021: \$1,044,469,192) 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 2022, the Fund had posted \$1,220,580,824 (2021: \$64,097,225) 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 2022, the Fund had prepaid \$622,632,960 (2021: \$637,054,635).

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 2022 no assets are subject to the lien (2021: 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 2022

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 \$19,127 million (2021: \$18,284 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.

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 2022 (or 30 June 2021).

30 June 2022 – directly held by the Fund

As at 30 June 2022, 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 2022 are shown in the table below.

Description of underlying strategy	Contractual capital committed as at 30 June 2022 Local Currency '000	Outstanding commitment as at 30 June 2022 AUD equivalent \$'000	Net capital cost ¹ as at 30 June 2022 AUD equivalent \$'000	Fair value as at 30 June 2022 AUD equivalent \$'000
Alternative strategies	AUD \$13,228,746	-	12,402,124	14,421,033
Alternative strategies	USD \$1,581,905	-	1,933,050	3,503,210
Debt	AUD \$3,734,480	552,701	2,507,960	2,471,470
Debt	EUR €1,517,147	1,625,314	642,615	891,286
Debt	USD \$2,654,649	1,680,104	2,131,236	2,920,644
Global Infrastructure	AUD \$1,339,604	-	1,288,294	3,291,343
Global Infrastructure	EUR €66,930	2,443	117,060	163,881
Global Infrastructure	USD \$2,241,789	939,560	1,674,778	2,093,834
Private Equity	EUR €169,987	-	182,158	87,446
Private Equity	USD \$803,850	297,018	579,938	999,806
Property	AUD \$405,500	-	54,722	89,956
Property	EUR €402,124	402,068	141,658	129,855
Property	GBP £258,777	148,118	121,737	144,605
Property	USD \$6,876,309	3,179,844	4,731,817	5,989,812
Timberlands	USD \$167,561	-	221,205	296,120
Total		8,827,170	28,730,352	37,494,301

Note(s):

1. Net capital cost includes all capital contributed less capital returned at 30 June 2022.

Note 7: Investments Continued

30 June 2022 – indirectly held via the FFICs

As at 30 June 2022, 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 2022 are shown in the table below.

Description of underlying strategy	Contractual capital committed as at 30 June 2022 Local Currency '000	Outstanding commitment as at 30 June 2022 AUD equivalent \$'000	Net capital cost ¹ as at 30 June 2022 AUD equivalent \$'000	Fair value as at 30 June 2022 AUD equivalent \$'000
Alternative strategies	AUD \$14,228,725	470,407	10,007,436	12,715,408
Alternative strategies	USD \$3,934,000	370,828	3,277,093	3,864,145
Debt	EUR €1,033,309	763,883	16,152	10,730
Debt	USD \$7,285,238	2,113,894	1,594,608	2,240,815
Global Infrastructure	AUD \$3,958,689	177,343	3,443,853	4,980,445
Global Infrastructure	GBP £262,029	-	103,924	421,321
Global Infrastructure	USD \$994,516	153,322	511,385	567,066
Private Equity	AUD \$1,260,147	286,689	666,379	625,544
Private Equity	EUR €1,325,768	451,592	1,163,550	1,931,916
Private Equity	GBP £303,604	409	452,436	331,355
Private Equity	USD \$18,459,579	4,417,585	14,555,150	29,069,193
Property	AUD \$271,150	-	293,376	341,009
Property	EUR €922,625	326,791	658,919	844,201
Property	USD \$1,062,648	766,616	310,714	338,355
Timberlands	AUD \$386,827	-	129,468	944,391
Total		10,299,359	37,184,443	59,225,894

Note(s):

1. Net capital cost includes all capital contributed less capital returned at 30 June 2022.

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' 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
Total		7,243,022	24,529,992	28,053,609

Note(s):

1. Net capital cost includes all capital contributed less capital returned at 30 June 2021.

Note 7: Investments 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 ¹ 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
Total		11,041,162	32,933,704	54,443,172

Note(s):

1. Net capital cost includes all capital contributed less capital returned at 30 June 2021.

Note 8: Receivables

	2022 \$'000	2021 \$'000
Receivables		
Franking credits refundable	2,665,769	1,590,767
Interest receivable	1,264	276
Dividends & distributions receivable	187,300	235,295
Unsettled sales ¹	430,648	925,304
Total Receivables	3,284,981	2,751,642

Note(s):

1. 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

	2022 \$'000	2021 \$'000
Payables		
Unsettled purchases ¹	177,535	138,579
Other accrued expenses including management and performance fees payable	96,726	100,097
Total Payables	274,261	238,676

Note(s):

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

Note 10: Provisions

	2022 \$'000	2021 \$'000
Employee provisions		
Annual leave	4,591	4,002
Long service leave	6,451	7,131
Other employee liabilities	25,139	29,004
Total Employee provisions	36,181	40,137

Note 11: Contributions by Government

	2022 \$'000	2021 \$'000
Opening balance	60,536,831	60,536,831
Contribution from Government - cash	-	-
Closing balance	60,536,831	60,536,831

Note(s):

Contributions are made under Schedule 1 of the Act.

Note 12: Unconsolidated subsidiaries and interests in unconsolidated structured entities

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

The Fund also invests via non-controlled structured entities. As these are investments of the Fund they are at their fair value and any undrawn capital is shown as an outstanding commitment which equates to the Fund's maximum exposure to loss from its investment in these entities.

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

- the requirement for the Fund (or a FFIC entity) to fund future commitments to the entity as called by the investment manager or general partner. These amounts are limited in terms of total value and callable only in accordance with the underlying legal arrangements. These amounts are disclosed in Note 7.3;
- the lack of control over the payment of dividends, distributions or the return of capital from the entity. These are controlled by the general partner or the investment manager in accordance with the legal arrangements entered into upon initial investment;
- limitations on transfer or redemption of the interest in the entity. The Fund ensures that these are normal commercial arrangements for investments of this type, typically existing to protect and treat all investors in an equitable manner; and
- limited recourse to the Fund (ordinarily capped at the commitment or invested capital value) for any claims or liabilities incurred by these entities.

Name of entity	Country of incorporation/domicile	Equity holding	
		30 June 2022 %	30 June 2021 %
Future Fund Investment Company No.1 Pty Ltd¹	Australia	100	100
Future Fund Investment Company No.2 Pty Ltd¹	Australia	100	100
Global Hedged Strategies Fund Ltd ²	Cayman Islands	-	100
Future Fund Investment Company No.3 Pty Ltd¹	Australia	100	100
GWII Unit Trust ²	Australia	-	100
Co-Investment Fund (Parallel) LP ²	United States	100	100
Future Fund Investment Company No.4 Pty Ltd¹	Australia	100	100
Future Fund Investment Company No.5 Pty Ltd¹	Australia	100	100
Blue Jay Fund Ltd ²	Bermuda	-	100
Elementum Tranquillus Fund Ltd ²	Bermuda	100	100
Clocktower FF LP ²	Cayman Islands	100	100
Future Fund Investment Company No.6 Pty Ltd (Dormant)¹	Australia	100	100
FFH No.3 Trust¹	Australia	100	100
Queenscliff Trust¹	Australia	100	100
Bain Capital Distressed and Special Situations 2016 (F) LP¹	United States	100	100
Bain Capital Distressed and Special Situations 2016 (F-EU), LP¹	England	100	100
Heathcote Fund Ltd¹	Cayman Islands	-	100
The Freycinet Fund Discretionary Portfolio, Ltd¹	Cayman Islands	100	-

Note(s):

^ . Audited by the ANAO.

1. Held directly by the Future Fund.

2. Held indirectly by a FFIC.

Note 13: Cash flow reconciliation

	2022 \$'000	2021 \$'000
Reconciliation of operating result to net cash from operating activities:		
Operating result	(2,446,785)	35,713,325
Depreciation and amortisation	11,455	11,591
Purchase of investments	(183,987,925)	(173,486,308)
Proceeds from sale of investments	175,099,396	172,148,065
Net loss/(gain) on revaluation of investments	10,089,145	(32,382,619)
Unrealised gain on foreign currency	(5,676)	(74,678)
(Increase) in accrued income	(1,135,008)	(866,860)
Decrease/(Increase) in other assets	1,289	(2,639)
(Decrease)/Increase in employee provisions	(3,956)	8,843
(Decrease)/Increase in other payables	(5,378)	37,963
(Decrease)/Increase in deferred tax liability	(31,264)	52,060
Net cash (used)/provided by operating activities	(2,414,707)	1,158,743

Note(s):

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:

	2022 \$'000	2021 \$'000
Cash and cash equivalents	2,171,796	4,585,297

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.

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 (until 20th June 2022), Chief Operating Officer, Chief People, Culture and Inclusion Officer, General Counsel & Chief Risk Officer, Deputy Chief Investment Officer Public Markets (until 27th May 2022), Deputy Chief Investment Officer Change and Innovation, Deputy Chief Investment Officer Portfolio Construction 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

	2022 \$'000	2021 \$'000
Short-term employee benefits	6,494,167	8,334,783
Post-employment benefits	384,787	357,744
Other long-term benefits	100,389	315,596
Total Compensation	6,979,343	9,008,123

Note(s):

The total number of key management personnel that are included in the above table are 15 (2021: 17).

15.5 Transactions with related parties

	2022 \$'000	2021 \$'000
Subscriptions for capital and expenses¹		
Subsidiaries	1,657,483	91,057
Dividend and distribution revenue¹		
Subsidiaries	291,300	321,071
Sale of investments	1,885,991	-

Note(s):

1. 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.

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 taking acceptable 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 2022 of the Fund and the FFICs are set out below.

Financial asset	Floating Interest Rate 2022	Fixed Interest Rate 2022	Non-interest Bearing 2022	Total ¹ 2022
	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents	3,353,146	-	-	3,353,146
Bank bills	-	30,692	-	30,692
Negotiable certificates of deposit	-	14,973,602	-	14,973,602
Corporate debt securities	69,782	2,468,882	-	2,538,664
Mortgage backed securities	26,620	5,585	-	32,205
Asset backed securities	781,500	33,399	-	814,899
Corporate credit (bank loans)	1,705,961	-	-	1,705,961
Government debt securities	71,367	11,807,073	-	11,878,440
Other interest-bearing securities	404,386	467,638	-	872,024
Other financial assets	-	-	165,366,288	165,366,288
Total financial assets	6,412,762	29,786,871	165,366,288	201,565,921

Notional value of derivative positions

Swaps (notional amount) – pay	(87,030,931)	(7,796,538)	
Swaps (notional amount) – receive	73,192,960	20,526,479	

Note(s):

- 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 2022 the Fund's debt portfolio had an effective interest rate duration of 1.42 (30 June 2021: 0.85).

The exposure to interest rates as at 30 June 2021 of the Fund and the FFICs are set out below.

Financial asset	Floating Interest Rate 2021	Fixed Interest Rate 2021	Non-interest Bearing 2021	Total ¹ 2021
	\$'000	\$'000	\$'000	\$'000
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
Total financial assets	7,794,423	32,929,598	159,315,274	200,039,295

Notional value of derivative positions

Swaps (notional amount) – pay	(12,422,165)	(5,932,901)	
Swaps (notional amount) – receive	18,740,223	3,251,418	

Note(s):

- 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.

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 2022. 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 2022 \$'000	Fair Market Value 2022 \$'000	Notional Value 2021 \$'000	Fair Market Value 2021 \$'000
Total interest rate derivatives	52,703,855	273,257	23,555,696	606,478

Note(s):

1. No interest rate derivatives are held by the FFICs.

Interest rate sensitivity analysis

The following table demonstrates the impact on the operating result of the Fund and the FFICs for a 79 basis point (2021: 74 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 2022 and 30 June 2021) and there are concurrent movements in interest rates and parallel shifts in the yield curves. A 79 basis point (2021: 74 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 and equity includes the increase/(decrease) in interest income on floating rate securities from the basis point change.

	30 June 2022 Impact on operating result \$'000
+ 79 basis points	(2,163,007)
- 79 basis points	2,314,587

	30 June 2021 Impact on operating result \$'000
+ 74 basis points	(1,030,322)
- 74 basis points	1,206,401

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 2022	USD	EUR	GBP	JPY	Other ¹	Total
	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000
Cash & cash equivalents	2,395,625	143,280	183,657	101,981	76,663	2,901,206
Listed equities and listed managed investment schemes	22,905,186	2,922,507	1,418,900	4,481,970	12,184,755	43,913,318
Interest bearing securities	5,639,266	192,346	222,243	8,108,353	4,645,846	18,808,054
Collective investment vehicles	51,787,040	4,146,434	906,125	-	-	56,839,599
Other investments	851,085	20,996	1,323	11,591	32,330	917,325
Receivables	197,427	32,893	13,112	7,579	103,314	354,325
Payables	(215,459)	(2,200)	(2,234)	-	(31,132)	(251,025)
Total physical exposure	83,560,170	7,456,256	2,743,126	12,711,474	17,011,776	123,482,802
Derivatives						
- buy foreign currency derivatives	34,244,078	335,711	29,680	2,926,294	22,071,060	59,606,823
- sell foreign currency derivatives	(71,113,206)	(3,801,952)	(1,704,622)	(2,214,804)	(21,801,456)	(100,636,040)
Total derivative exposure	(36,869,128)	(3,466,241)	(1,674,942)	711,490	269,604	(41,029,217)
Total net exposure	46,691,042	3,990,015	1,068,184	13,422,964	17,281,380	82,453,585

Note(s):

1. Other includes AUD equivalent exposures to other currencies which, when considered individually, are immaterial and an exposure to gold included in the Commodity futures derivative exposure balance.

The Fund and FFICs' exposure in Australian equivalents to foreign currency risk at 30 June 2021 was as follows:

30 June 2021	USD	EUR	GBP	JPY	Other ¹	Total
	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000	AUD \$'000
Cash & 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)
Total physical exposure	82,810,304	8,184,190	3,010,619	13,179,618	21,911,575	129,096,306
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)
Total derivative exposure	(29,980,179)	(1,711,220)	(2,114,548)	1,407,654	(1,178,847)	(33,577,140)
Total net exposure	52,830,125	6,472,970	896,071	14,587,272	20,732,728	95,519,166

Note(s):

1. Other includes AUD equivalent exposures to other currencies which, when considered individually, are immaterial and an exposure to gold included in the Commodity futures derivative exposure balance.

Foreign currency sensitivity analysis

The following table demonstrates the impact on the Fund and the FFICs' operating result and equity of a 8.31% (2021: 7.89%) movement in exchange rates relative to the Australian dollar at 30 June 2022, 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 (excluding derivatives). 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 2022 Impact on operating result \$'000
+ 8.31% movement	9,025,519
- 8.31% movement	(7,490,439)

	30 June 2021 Impact on operating result \$'000
+ 7.89% movement	9,210,400
- 7.89% movement	(9,103,595)

Note 16: Financial instruments and financial risk management Continued

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:

	2022 \$'000	2021 \$'000
Domestic listed equities and listed managed investment schemes	15,123,329	16,754,291
International listed equities and listed managed investment schemes	35,092,748	53,052,636
Total equity price risk exposure¹	50,216,077	69,806,927

Note(s):

1. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes additional public market equities held by the FFICs.

Equity derivative contracts

The Fund had open positions in exchange traded equity futures contracts, exchange traded and over the counter warrants, and over the counter equity option contracts and equity swap contracts as at 30 June 2022. 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 2022 \$'000	Fair Market Value 2022 \$'000	Notional Value 2021 \$'000	Fair Market Value 2021 \$'000
Total equity derivatives	7,642,758	(1,030,177)	13,968,711	2,058,541 ¹

Note(s):

1. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes additional equity derivatives held by the FFICs.

Equity price sensitivity analysis

The analysis below demonstrates the impact on the Fund and FFICs' operating result of the following movements:

- +/- 20% on Australian equities
- +/- 15% on International equities

The sensitivity analysis has been performed to assess the direct risk of holding equity instruments and associated derivatives. The analysis is undertaken on the base currency values of the underlying exposures. Currency risk sensitivity is considered separately in the currency sensitivity table presented in Note 16.3.2. The percentage change for each sub-class noted in the table below is measured with reference to each underlying security's forward looking beta, which is a measure of how the underlying security price would change relative to an absolute increase or decrease in the market portfolio which has a beta of 1 and the impact of equity.

	2022 Impact on operating result \$'000	2021 Impact on operating result \$'000
20% increase in Australian equities	4,172,460	4,970,119
15% increase in International equities	10,684,365	19,941,975
Total	14,856,825	24,912,094
20% decrease in Australian equities	(3,961,740)	(4,970,119)
15% decrease in International equities	(11,146,026)	(19,599,823)
Total	(15,107,766)	(24,569,942)

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.

Note 16: Financial instruments and financial risk management Continued

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 the main investment policies that support the investment process and help to ensure that the Fund and the FFICs takes 'acceptable but not excessive' risk.

The implementation of the Liquidity Risk Management Policy relies upon the following primary inputs:

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

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

As at 30 June 2022:

	Less than 1 year	1 to 5 Years	> 5 Years	Total contractual cashflows	Carrying amount (assets) /liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000
2022					
Non-derivatives					
Unsettled purchases	261,052	-	-	-	261,052
Other payables	220,977	24,192	22,081	-	267,250
Total non-derivatives	482,029	24,192	22,081	-	528,302
Derivatives					
Net settled	1,972,532	10,166	-	-	1,982,698
Gross settled					
– (inflow)	(46,274,245)	-	-	-	(46,274,245)
– outflow	50,222,092	-	-	-	50,222,092
Total derivatives	5,920,379	10,166	-	-	5,930,545¹

Note(s):

1. Total balances do not agree with the investment balance reported in Note 7 and the payables balances reported in Note 9 as the FFICs are included in this disclosure.

The Fund may be required to provide cash as collateral to counterparties under legal agreements when derivatives are in a net liability position. Refer to Note 7 for details on cash provided as collateral.

As at 30 June 2021:

	Less than 1 year	1 to 5 Years	> 5 Years	Total contractual cashflows	Carrying amount (assets) /liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000
2021					
Non-derivatives					
Unsettled purchases	185,771	-	-	-	185,771
Other payables	203,522	23,167	28,526	-	255,215
Total non-derivatives	389,293	23,167	28,526	-	440,986¹
Derivatives					
Net settled	319,998	57,186	-	-	377,184
Gross settled					
- (inflow)	(58,372,180)	-	-	-	(58,372,180)
- outflow	59,674,177	-	-	-	59,674,177
Total derivatives	1,621,995	57,186	-	-	1,679,181¹

Note(s):

1. Total balances do not agree with the investment balance reported in Note 7 and the payables balances reported in Note 9 as the FFCs are included in this disclosure.

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 2022, an exposure of 6.93% (2021: 8.84%) 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:	2022 \$'000	2021 \$'000
Westpac Banking Corporation	3,100,478	3,994,284
Australia and New Zealand Banking Group Limited	3,836,586	4,735,392
National Australia Bank Limited	3,364,756	2,755,572
Commonwealth Bank of Australia	3,172,902	5,700,082
Other domestic banks	-	214,970
Total	13,474,722	17,400,300

Note 16: Financial instruments and financial risk management Continued

The exposures presented in the previous table reconcile to Note 7 of the financial statements as follows:

Domestic interest bearing securities issued by:	2022 \$'000	2021 \$'000
Negotiable certificates of deposit – domestic	13,474,722	17,400,300
Total	13,474,722	17,400,300

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

Credit risk derivatives

The 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 2022 \$'000	Fair Market Value 2022 \$'000	Notional Value 2021 \$'000	Fair Market Value 2021 \$'000
Buy Credit Protection	336,756	3,721	224,396	(14,680)
Sell Credit Protection	844,808	(31,663)	81,185	(1,515)
Total		(27,942)		(16,195)

Note(s):

No credit risk derivative contracts are held by the FFICs.

Credit exposure by credit rating

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

	2022 \$'000	2021 \$'000
<i>Long term rated securities</i>		
AAA	17,411	30,936
AA	42,862	36,865
A	3,393,331	4,699,871
BBB	430,598	668,147
Below Investment grade / not rated ¹	6,154,690	4,225,510
<i>Short term rated securities</i>		
A-1+/A-1/A-2	26,088,258	31,042,638
<i>Other</i>		
US Government Guaranteed	72,483	20,055
Total debt securities and cash	36,199,633	40,724,021
Other non-debt financial assets	165,366,288	159,315,274
Total financial assets²	201,565,921	200,039,295

Note(s):

1. The Fund and FFICs have a number of mandates with managers specialising in managing distressed debt and corporate loans portfolios.
2. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes cash and financial assets held by the FFICs.

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

There are no overdue contractual receipts due from counterparties as at 30 June 2022 (2021: 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.

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

Note 16: Financial instruments and financial risk management Continued

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.

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).

The tables below provide information on the fair value hierarchy for the Fund and FFICs as at 30 June 2022.

Recurring fair value measurements	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total ¹ \$'000
Financial assets at fair value through profit or loss:				
Interest bearing securities	10,897	31,673,511	1,162,079	32,846,487
Listed equities and listed managed investment schemes	59,127,858	6,037	287,159	59,421,054
Collective investment vehicles	-	-	96,720,195	96,720,195
Derivatives	-	2,599,123	-	2,599,123
Restricted Cash	3,104,456	-	-	3,104,456
Total	62,243,211	34,278,671	98,169,433	194,691,315
Financial liabilities at fair value through profit or loss:				
Derivatives	-	5,930,545	-	5,930,545
Total	-	5,930,545	-	5,930,545

Note(s):

1. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes the investment related assets and liabilities held by the FFICs. The difference between the table above and Note 7 is financial asset investments of \$410,753,000 and financial liability investments of \$7,000.

The following table presents the transfers between levels for the year ended 30 June 2022:

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Transfers between Levels 1 and 2	-	-	-
Transfers between Levels 1 and 3	(64,547)	-	64,547
Transfers between Levels 2 and 3	-	362,390	(362,390)

The following table presents the movement in Level 3 instruments for the year ended 30 June 2022 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	2,004,938	167,961	82,496,995	694	84,670,588
Purchases	206,231	161,446	21,574,389	4,577	21,946,643
Sales	(688,304)	(93,889)	(13,969,179)	(662)	(14,752,034)
Transfers into Level 3	1	72,076	-	-	72,077
Gains and losses recognised in the statement of comprehensive income	3,144	(14,446)	6,617,990	(4,609)	6,602,079
Transfers out of Level 3	(363,931)	(5,989)	-	-	(369,920)
Closing balance	1,162,079	287,159	96,720,195	-	98,169,433

Note(s):

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 2022:

Recurring fair value measurements	Fair Value \$'000	Valuation Technique	Unobservable Inputs
Financial assets at fair value through profit			
Interest bearing securities	32,835,590	Discounted cash flow Market Approach Broker Quotations Independent Pricing Services Recovery Rate	Discount Rate Earnings Multiple N/A N/A Illiquidity Discount
Equities and listed managed investment schemes	293,196	Discounted cash flow Independent Pricing Services Recent Transaction Recovery Value	Discount Rate N/A N/A Recovery Rate
Collective investment vehicles	96,720,195	Market Approach Discounted cash flow	Earnings Multiple Net Asset Value Discount Rate
Derivatives	2,599,123	Independent Pricing Services Broker Quotations	N/A N/A
Total	132,448,104		
Financial liabilities at fair value through profit or loss:			
Derivatives	(5,930,545)	Independent Pricing Services Broker Quotations	N/A N/A
Total	(5,930,545)		

The tables below provide information on the fair value hierarchy for the Fund and FFICs as at 30 June 2021.

Recurring fair value measurements	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total ¹ \$'000
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
Total	71,406,510	35,803,979	84,670,588	191,881,077
Financial liabilities at fair value through profit or loss:				
Derivatives	(9,318)	(1,669,862)	-	(1,679,180)
Total	(9,318)	(1,669,862)	-	(1,679,180)

Note(s):

1. Total balances will not agree with the investment balances reported in Note 7 as this disclosure includes the investment related assets and liabilities held by the FFICs. The difference between the table above and Note 7 is financial asset investments of \$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

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
Financial assets at fair value through profit or loss:					
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)
Closing balance	2,004,938	167,961	82,496,995	694	84,670,588

Note(s):

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:

Recurring fair value measurements	Fair Value \$'000	Valuation Technique	Unobservable Inputs
Financial assets at fair value through profit			
Interest bearing securities	35,432,957	Discounted cash flow Market Approach Broker Quotations Independent Pricing Services Recovery Rate	Discount Rate Earnings Multiple N/A N/A Illiquidity Discount
Equities and listed managed investment schemes	188,004	Discounted cash flow Independent Pricing Services Recent Transaction Recovery Value	Discount Rate N/A N/A 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 Broker Quotations	N/A N/A
Total	120,474,567		
Financial liabilities at fair value through profit or loss:			
Derivatives	(1,669,862)	Independent Pricing Services Broker Quotations	N/A N/A
Total	(1,669,862)		

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.

Future Fund Special Account	Period from 1 July 2021 to 30 June 2022 \$'000	Period from 1 July 2020 to 30 June 2021 \$'000
Balance carried from previous period	-	-
Bank interest amounts credited	-	-
Appropriations for reporting period	-	-
Other Receipts:		
GST credits	4,461	4,213
Amounts transferred from investment account ¹	503,355	378,889
Amounts credited to the special account	-	-
Total Credits	507,816	383,102
Available for payments	507,816	383,102
Payments made:		
Investments debited from the Special Account (FFA s17)		
Payments made:		
– Remuneration of Agency staff	65,365	58,004
– Remuneration of Board members	860	825
– Suppliers	141,023	117,045
– Investment expenses	288,747	182,391
– Purchase of capital equipment and software	3,965	17,985
– Lease liability principal and interest payments	7,856	6,852
Total Debits	507,816	383,102
Balance carried forward to next year²	-	-

Note(s):

1. The operations of the Fund are funded via the investment revenue generated.
2. Excluding investments balances, see Note 18.2.

Note 18: Special Accounts Continued

18.2 Special Accounts: Investment of Public Money

Disclosures below are on a cash basis.

Future Fund Special Account: Investment of Public Money under section 17 of the Future Fund Act 2006 (as amended)	Period from 1 July 2021 to 30 June 2022 \$'000	Period from 1 July 2020 to 30 June 2021 \$'000
Opening balance	147,934,043	136,440,244
Investments made on transfer of funds from the Special Account		
Realised investments reinvested	169,707,629	178,814,462
Interest earned reinvested	609,567	2,120,765
Dividends received reinvested	6,429,353	2,747,536
Franking credits received reinvested	438,882	462,401
Foreign currency realised reinvested	76,161	(376,277)
Amounts transferred to operations ¹	(503,355)	(378,889)
Investments realised	(171,651,928)	(171,896,199)
Closing Balance	153,040,352	147,934,043

Note(s):

1. The operations of the Fund are funded via the investment revenue generated.

Note 19: Reporting of outcomes

19.1 Net cost of outcome delivery

Outcome 1: Strengthen the Commonwealth's financial position for the benefit of the Australian people, by managing the investment activities of the Future Fund and certain other Australian Government investment funds in line with their Investment Mandates.

The Fund's net contribution to outcome 1 is disclosed in the Statement of comprehensive income.

19.2 Net cost of outcome delivery – Programs

The Agency has two programs: the management of the investment of the Future Fund and the management of the investment of the Australian Government Investment Funds. These investments are held for and on behalf of the Commonwealth of Australia.

Program 1.1 Management of the investment of the Future Fund.

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

Program 1.2 Management of the investment of the Australian Government Investment Funds.

The role of the Agency was extended to include supporting the Board in the investment of the assets by the *DisabilityCare Australia Fund Act 2013*, the *Medical Research Future Fund Act 2015*, the *Aboriginal and Torres Strait Islander Land and Sea Future Fund Act 2018*, the *Future Drought Fund Act 2019* and the *Emergency Response Fund Act 2019* to support the Board in the investment of the assets of the DCAF, MRFF, ATSILSFF, FDF and ERF. The Agency charges a monthly fee to each fund to reimburse the Agency for shared costs paid by the Agency, as agreed with the Department of Finance. During the year the Agency charged the funds a combined amount of \$10,844,186 (2021: \$10,401,889) which is included in other income in the statement of comprehensive income and the amount owing to the Agency at 30 June 2022 was \$2,749,699 (2021: \$2,736,497). 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 2022 <12 months \$'000	As at 30 June 2022 >12 months \$'000	As at 30 June 2021 <12 months \$'000	As at 30 June 2021 >12 months \$'000
Financial assets				
Cash and cash equivalents	2,171,796	-	4,585,297	-
Receivables	3,284,981	-	2,751,642	-
Investments	51,561,162	143,540,906	49,485,167	141,930,799
Other financial assets	6,011	4,653	6,540	5,189
Non-financial assets				
Right of use assets	-	35,091	-	41,889
Plant and equipment	-	21,605	-	22,069
Intangibles	-	-	-	229
Total assets	57,023,950	143,602,255	56,828,646	142,000,175
Liabilities				
Financial liabilities				
Investments	5,920,372	10,166	1,621,964	57,186
Payables	274,261	-	238,676	-
Lease liability	5,420	46,272	7,583	51,693
Non-financial liabilities				
Employee provisions	30,184	5,997	33,455	6,682
Tax liabilities				
Deferred tax liabilities	-	20,812	-	52,076
Total liabilities	6,230,237	83,247	1,901,678	167,637

Note 21: Budgetary reports

The following tables provide a comparison of the original budget as presented in the 2021–22 Portfolio Budget Statements (“PBS”) to the 2021–22 final outcome as presented in accordance with Australian Accounting Standards for the entity. The budget is not audited.

The 2021–22 budget was based on the assumption that the mandated return is achieved for each forward estimates year. CPI is estimated in these budget numbers. In that context, the budget construct, including related investment costs, was based on the estimated mandated return therefore the actual results will always deviate from these assumed returns.

Due to the volatile nature of investment markets, it is difficult to accurately predict the financial outcomes of the Fund. Further, as PBS financial information is presented in a concise format which differs to the level of information presented in this financial report, the tables below compare actual and budgeted information for the statement of comprehensive income and statement of financial position.

Statement of comprehensive income	Year ended 30 June 2022 \$'000	PBS – Administered 30 June 2022 \$'000	PBS – Departmental 30 June 2022 \$'000	Variance 30 June 2022 \$'000
Total income/(loss)	(1,998,793)	11,744,353	152,044	(13,895,190)
Total expenses including income tax	447,992	432,380	152,044	(136,432) ¹
Operating result for the year	(2,446,785)	11,311,973	-	(13,758,758)

Statement of financial position	Year ended 30 June 2022 \$'000	PBS – Administered 30 June 2022 \$'000	PBS – Departmental 30 June 2022 \$'000	Variance 30 June 2022 \$'000
Total assets	200,626,205	193,244,525	94,384	7,287,296
Total liabilities	6,313,484	692,541	94,384	5,526,559
Total equity and amount attributable to the Government	194,312,721	192,551,984	-	1,760,737

Note(s):

- 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 2022 is as follows:

	2022 \$'000	2021 \$'000
Less than one year	5,662	7,879
One to five years	24,873	23,967
More than five years	22,254	28,822
Total undiscounted cash flows	52,789	60,668

The maturity analysis of lease receivables, including the undiscounted lease payments to be received are as follows:

	2022 \$'000	2021 \$'000
Less than one year	560	540
One to two years	581	560
Two to three years	603	581
Three to four years	626	603
Four to five years	649	626
More than five years	2,280	2,930
Total undiscounted lease payments receivable	5,299	5,840

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Other mandatory reporting

Resource statement

All costs for investment activity and the operations of the Board and Agency are met from the assets of the funds rather than from the annual appropriations through Parliament.

The Board monitors the annual operating budget of the Agency to ensure the use of resources is appropriate and 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) \$'000	Payments made (b) \$'000	Balance remaining (a)-(b) \$'000
Administered			
Special accounts	507,816	507,816	-
Total special accounts receipts	507,816	507,816	-
Total resourcing and payments for Future Fund Management Agency	507,816	507,816	-

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; 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 2021–22

During 2021–22, five new consultancy contracts were entered into, involving a total actual expenditure of \$177,701. In addition, 10 ongoing consultancy contracts were active during 2021–22, involving a total actual expenditure of \$1,733,268.

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.

Expenditure on reportable consultancy contracts 2021–22

	Number	Expenditure GST included \$
New contracts entered into during the reporting period	5	177,701
Ongoing contracts entered into during a previous reporting period	10	1,733,268
Total	15	1,910,969

Organisations receiving a share of reportable consultancy contract expenditure in 2021–22

Organisation	ABN	Expenditure GST included \$	Proportion of 2021–22 total spend %
Mantel Group Pty Ltd	38 622 268 240	1,079,953	57
Data #3 Limited	31 010 545 267	251,570	13
Deloitte Touche Tohmatsu	74 490 121 060	185,394	10
The Missing Link Pty Ltd	90 164 772 427	101,463	5
PricewaterhouseCoopers Consulting (Australia) Pty Ltd	20 607 773 295	84,016	4
Total		1,702,396	89

Expenditure on reportable non-consultancy contracts

During 2021–22, 298 new non-consultancy contracts were entered into, involving a total actual expenditure of \$31,190,592. In addition, there were 199 ongoing non-consultancy contracts that were entered into during a previous reporting period, involving a total actual expenditure of \$54,622,052. 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.

Expenditure on reportable non-consultancy contracts 2021–22

Organisation	Number	Expenditure GST included \$
New contracts entered into during the reporting period	298	31,190,592
Ongoing contracts entered into during a previous reporting period	199	54,622,052
Total	497	85,812,645

Organisations receiving a share of reportable non-consultancy contract expenditure 2021–22

Organisation	ABN	Expenditure GST included \$	Proportion of 2021–22 total spend %
NTT Australia Digital Pty Ltd	65 003 371 239	10,516,972	12
ASG Group Limited	57 070 045 117	8,911,260	10
Leaders IT Services Pty Ltd	92 162 113 546	5,950,520	7
Accenture Australia Pty Ltd	49 096 776 895	5,477,798	6
Profusion PAC Pty Ltd	13 600 188 396	4,563,114	5
Total		35,419,663	41

The Agency supports small business participation in the Commonwealth Government procurement market. Small and medium enterprises (SMEs) and small enterprise participation statistics are available on the Department of Finance's website.

The Agency recognises the importance of ensuring that small businesses are paid on time. The results of the survey of Australian Government payments to small business are available on the Treasury's website.

The Agency's support for small business includes using the Commonwealth Contracting Suite for procurements under \$200,000 in accordance with applicable Department of Finance resource management guidance.

Freedom of information

Agencies subject to the *Freedom of Information Act 1982* (FOI Act) are required to publish information to the public as part of the Information Publication Scheme (IPS). This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a Section 8 Statement in an Annual Report.

Each agency must display on its website a plan showing what information it publishes in accordance with the IPS requirements. Information regarding the Agency's Information Public Scheme Plan is available at www.futurefund.gov.au/about-us/access-to-information/information-publication-scheme.

Advertising and market research

During 2021–22, the Agency undertook recruitment advertising. The total cost of this was \$3,888.

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 Agency's Melbourne office at 447 Collins Street has been designed to achieve a 5.5 Star NABERS Energy Base Building rating and a 6.0 Green Star rating and was Melbourne's first WELL Platinum-rated office building when it was completed in 2020.

Our building incorporates the latest technology including energy-efficient facades and high-efficiency air conditioning, and capacity for residential electric vehicle charging.

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.

Our Sydney office 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 uses 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 living with disability, and 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.

Disability reporting is included in 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.

2021–22 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 2022

Purpose

The Agency 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 risk and return objectives set by Government for each special purpose public fund is the key measure of performance.

These expectations are set out in the Investment Mandate Directions issued by the responsible Ministers.

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

2021–22 performance criteria outlined in the 2021–22 Portfolio Budget Statements (Outcome 1, Program 1.1) and the 2021–22 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 2022	Return (% pa)	Target return ¹ (% pa)
From inception (May 2006)	7.8	6.8
10 years	9.7	6.6
Seven years	7.5	6.5
Five years	7.8	6.6
Three years	6.1	7.2
One year	-1.2	10.1

Note(s):

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

Performance criterion two – management of the investment of the Australian Government's 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, the Australian three-month bank bill swap rate + 0.3% per annum calculated on a rolling 12-month basis. The Investment Mandate requires that investments minimise the probability of capital loss over a 12-month horizon.

Criterion source

2021–22 performance criteria outlined in the 2021–22 Portfolio Budget Statements (Outcome 1, Program 1.2) and the 2021–22 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 2022	Return (% pa)	Target return ¹ (% pa)
From inception (22 September 2015)	4.1	2.5
Five years	4.2	2.3
Three years	3.6	1.8
One year	0.1	1.6

Note(s):

1. 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 2022	Return (% pa)	Target return ¹ (% pa)
From inception ² (1 October 2019)	4.3	5.3
One year	-0.2	8.1

Note(s):

1. CPI + 2.0% to 3.0% per annum over the long term, with acceptable but not excessive level of risk.
2. 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%.

It should be noted that, given the Fund's recent establishment, a long-term assessment of performance cannot yet be made.

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 2022	Return (% pa)	Target return ¹ (% pa)
From inception ² (1 April 2020)	7.5	5.6
One year	-0.2	8.1

Note(s):

1. CPI + 2.0% to 3.0% per annum over the long term, with acceptable but not excessive level of risk.
2. 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%.

It should be noted that, given the Fund's recent establishment, a long-term assessment of performance cannot yet be made.

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 2022	Return (% pa)	Target return ¹ (% pa)
From inception ² (1 April 2020)	7.5	5.6
One year	-0.1	8.1

Note(s):

1. CPI + 2.0% to 3.0% per annum over the long term, with acceptable but not excessive level of risk.
2. 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%

It should be noted that, given the Fund's recent establishment, a long-term assessment of performance cannot yet be made.

DisabilityCare Australia Fund

In line with its investment Mandate, the DisabilityCare Australia Fund is invested in long-term deposits and cash. For the 2021–22 financial year the Fund delivered a return of -0.4% per annum against a benchmark target of 0.4% per annum.

Analysis of performance against purpose

The Future Fund is a long-term investor and continues to perform well against its stated purpose.

2021–22 was a challenging and volatile year for markets both domestically and globally.

In the prior year, the Future Fund delivered a record return of 22.2% spurred on by a period of exceptional stimulation through monetary and fiscal policy. Following that, 2021–22 saw sharp increases in global and domestic inflation and interest rates, leading to a significant downturn in markets in the third and fourth quarters.

Central banks responded by tightening policy and it is likely that further interest rate rises will be needed to achieve their inflation objectives. It is expected that deglobalisation, geopolitical tensions, trade barriers, and high inflation will be a feature in the investment climate going forward.

The Board has been carefully assessing the changing investment environment and repositioning the portfolio accordingly. This dynamic approach has helped protect the portfolio from significant market losses. The portfolio continues to be positioned moderately below a neutral risk setting.

The Future Fund is a long-term fund. It was created to strengthen the Commonwealth's long-term financial position. The Fund continues to achieve this objective, with a 10-year return of 9.7% per annum against a target of 6.6% per annum.

In a year where global equities and global bonds fell by more than 10% each and where the Australian stock market fell 6.5%, the return of -1.2% per annum for the Future Fund was a pleasing outcome.

The Future Fund stands at \$194.4 billion. Earnings have added \$134 billion since the Fund was created.

The other public asset funds invested by the Board have faced the same challenging environment. All funds benefitted from the changes made to the investment portfolios which helped preserve the capital in each fund and minimise losses.

The Investment Mandate Directions for the Medical Research Future Fund, ATSILS Fund, Future Drought Fund and Emergency Response Fund set risk and return objectives over the long term and performance should be considered against these long-term objectives.

The Medical Research Future Fund delivered a 0.1% return against a target return of 1.6% for the year. Since inception it has returned 4.1% per annum against a target return of 2.5% per annum. It is now valued at \$21.6 billion.

The ATSILS Fund delivered -0.2% per annum against its target return of 8.1% per annum. Since inception it has returned 4.3% per annum against a target return of 5.3% per annum. It is now valued at \$2.1 billion.

The Future Drought Fund delivered a return of -0.2% per annum against its target return of 8.1% per annum. Since inception it has returned 7.5% per annum against a target return of 5.6% per annum. It is now valued at \$4.5 billion.

The Emergency Response Fund delivered a return of -0.1% against its target return of 8.1%. Since inception it has returned 7.5% per annum against a target return of 5.6% per annum. It is now valued at \$4.5 billion.

The DisabilityCare Australia Fund delivered a return of -0.4% per annum against its benchmark target of 0.4% per annum and is now valued at \$15.3 billion.

Total funds managed across all six funds now stands at \$242.4 billion.

The current and near-future economic outlook is expected to remain volatile with ongoing rate rises both domestically and globally, and inflationary risk remaining prevalent. In this environment, it is more important than ever that the Board remains sharply focused on its long-term objective to maximise risk-adjusted returns while taking acceptable but not excessive levels of risk.

To be successful at delivering investment performance in a higher inflation world, we need to continue our work to reposition the portfolio and keep innovating and finding new ways of doing things.

In a low-return environment, the value of skilled investment managers is only increasing. We are focused on identifying and taking advantage of our managers' skills and expertise, and on finding new talent to work with, so that we can add additional return or reduce risk across the portfolio.

The Agency is well prepared for this new world and will continue to respond to market conditions with agility and purpose, as we remain focused on our purpose of investing for the benefit of future generations of Australians.

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References and index

Appendix A

Investment managers engaged by the Future Fund Board of Guardians at 30 June 2022

Asset class	Manager
Equities	
Australian equities	<ul style="list-style-type: none"> • Macquarie Investment Management • UBS Securities Australia
Developed market equities	<ul style="list-style-type: none"> • Insight Investment Management • State Street Global Advisors • UBS Securities Australia
Emerging market equities	<ul style="list-style-type: none"> • Insight Investment Management • State Street Global Advisors • UBS Securities Australia • Robeco Institutional Asset Management • Legal & General Investment Management Limited
Private equity	
Buyout	<ul style="list-style-type: none"> • Advent International Corporation • American Industrial Partners • Apax Partners • Archer Capital • Bain Capital • Charterhouse Capital Partners • Citic Capital • GI Partners • Hellman & Friedman • Motive Partners • Quadrant Private Equity • RCP Advisors • Seidler Equity Partners • Siris Capital • The Growth Fund • Vitruvian Investment Partners
Venture and growth	<ul style="list-style-type: none"> • Adams Street Partners • Bessemer Venture Partners • Blackbird Ventures • CDH Investments • Clocktower Technology Ventures • Columbia Capital • FountainVest Partners • Hillhouse Capital • Horsley Bridge Partners • Lightspeed Venture Partners • New Enterprise Associates • Playground Global • Quilvest • Sequoia Capital • Stepstone Group (previously Greenspring Associates) • Xiang He Capital
Special opportunities	<ul style="list-style-type: none"> • Adams Street Partners • Oaktree Capital Management • TowerBrook Capital Partners

Investment managers engaged by the Future Fund Board of Guardians at 30 June 2022 *Continued*

Asset class	Manager
Property	
Unlisted	<ul style="list-style-type: none"> • Altarea Cogedim • Berkshire Property Advisors • Brookfield Asset Management • Columbia Pacific Advisors • Garrison Investment Group LP • Greystar Equity Partners • Harbert Management Corporation • Hillwood Investment Properties • ICAMAP Advisory • Lendlease Investment Management • Logistics Property Company • Macquarie Asset Management Real Estate • Morgan Stanley Real Estate Investing • PEET Limited • Starlight Investments • Vicinity Centres • Blackstone Real Estate
Listed	<ul style="list-style-type: none"> • State Street Global Advisors • Legal & General Investment Management Limited • Massachusetts Financial Services
Infrastructure and Timberland	
Unlisted	<ul style="list-style-type: none"> • AMP Capital Investors • Campbell Global • Corsair Infrastructure Management • Global Infrastructure Partners • HRL Morrison & Co • Morgan Stanley Infrastructure • Oaktree Capital Management • Starwood Energy • QIC Global Infrastructure
Listed	<ul style="list-style-type: none"> • DWS • State Street Global Advisors • Legal & General Investment Management Limited
Debt	
High-grade debt	<ul style="list-style-type: none"> • First Sentier Investors • Goldman Sachs Asset Management • M&G Investment Management Limited • Macquarie Investment Management • PIMCO Australia
High-yield debt	<ul style="list-style-type: none"> • Ares Management • Bain Capital Credit • Oak Hill Advisors • Oaktree Capital Management
Private debt	<ul style="list-style-type: none"> • Ares Management • Bain Capital Credit • BlackRock Alternative Advisors • Hayfin Asset Management • PAG Holdings Limited • Westbourne Credit Management Limited

Asset class	Manager
Emerging markets debt	<ul style="list-style-type: none"> • BlackRock Investment Management • Lazard Asset Management • Oaktree Capital Management
Distressed and event driven	<ul style="list-style-type: none"> • Bain Capital Credit • BlackRock Alternative Advisors • Centerbridge Partners L.P • Oak Hill Advisors • Oaktree Capital Management
Alternatives	
Multi-strategy/relative value	<ul style="list-style-type: none"> • Citadel Advisors • Dymon Asia Capital • Schonfeld Strategic Advisors • Squarepoint Capital • Wellington Investment Management
Macro-directional	<ul style="list-style-type: none"> • Athanor Capital L.P. • BlackRock Alternative Advisors • Bridgewater Associates, Inc • Citadel Advisors • Clocktower Group L.P. • Ionic Capital Management • MAN AHL Partners LLP • Wellington Investment Management
Alternative risk premia	<ul style="list-style-type: none"> • Atom Investors L.P. • Elementum Advisors • Hiscox Re Insurance Linked Strategies Ltd • MAN FRM • Wellington Investment Management
Global Alpha	<ul style="list-style-type: none"> • Blackstone Alternative Asset Management • BlackRock Alternative Advisors
Equitised	<ul style="list-style-type: none"> • GMO Australia
Overlays	
Overlay strategies	<ul style="list-style-type: none"> • Ashmore Investment Management Limited • Insight Investment Management (Global) • Legal & General Investment Management Limited • Macquarie Investment Management • PIMCO Australia • State Street Global Advisors Limited • UBS Securities Australia Limited
Cash	
Cash	<ul style="list-style-type: none"> • First Sentier Investors • Macquarie Investment Management • PIMCO Australia

Appendix B

List of requirements

Below is the table set out in Schedule 2 of the PGPA Rule. Paragraph 17AJ(d) requires this table be included in entities' annual reports as an aid of access.

PGPA Rule reference	Part of report	Description	Requirement
17AD(g)	Letter of transmittal		
17AI	P7	A copy of the letter of transmittal signed and dated by Accountable Authority on date final text approved, with statement that the report has been prepared in accordance with section 46 of the Act and any enabling legislation that specifies additional requirements in relation to the annual report.	Mandatory
17AD(h)	Aids to access		
17AJ(a)	P5	Table of contents.	Mandatory
17AJ(b)	P168–172	Alphabetical index.	Mandatory
17AJ(c)	P167	Glossary of abbreviations and acronyms.	Mandatory
17AJ(d)	P162–166	List of requirements.	Mandatory
17AJ(e)	P4	Details of contact officer.	Mandatory
17AJ(f)	P4	Entity's website address.	Mandatory
17AJ(g)	P4	Electronic address of report.	Mandatory
17AD(a)	Review by Accountable Authority		
17AD(a)	P8–9	A review by the Accountable Authority of the entity.	Mandatory
17AD(b)	Overview of the entity		
17AE(1)(a)(i)	P12–21	A description of the role and functions of the entity.	Mandatory
17AE(1)(a)(ii)	P13, P22–33	A description of the organisational structure of the entity.	Mandatory
17AE(1)(a)(iii)	P12–21, P48–75, P154–157	A description of the outcomes and programs administered by the entity.	Mandatory
17AE(1)(a)(iv)	P12–21, P154–157	A description of the purposes of the entity as included in corporate plan.	Mandatory
17AE(1)(aa)(i)	P29	Name of the Accountable Authority or each member of the Accountable Authority.	Mandatory
17AE(1)(aa)(ii)	P29	Position title of the Accountable Authority or each member of the Accountable Authority.	Mandatory
17AE(1)(aa)(iii)	P29	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
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

PGPA Rule reference	Part of report	Description	Requirement
17AD(c)	Report on the performance of the entity		
	Annual performance statements		
17AD(c)(i); 16F	P154–157	Annual performance statement in accordance with paragraph 39(1)(b) of the Act and section 16F of the Rule.	Mandatory
17AD(c)(ii)	Report on financial performance		
17AF(1)(a)	P48–75, P94–149	A discussion and analysis of the entity's financial performance.	Mandatory
17AF(1)(b)	P151	A table summarising the total resources and total payments of the entity.	Mandatory
17AF(2)	Not applicable	If there may be significant changes in the financial results during or after the previous or current reporting period, information on those changes, including: the cause of any operating loss of the entity; how the entity has responded to the loss and the actions that have been taken in relation to the loss; and any matter or circumstances that it can reasonably be anticipated will have a significant impact on the entity's future operation or financial results.	If applicable, mandatory
17AD(d)	Management and accountability		
	Corporate governance		
17AG(2)(a)	P36	Information on compliance with section 10 (fraud systems)	Mandatory
17AG(2)(b)(i)	P7	A certification by Accountable Authority that fraud risk assessments and fraud control plans have been prepared.	Mandatory
17AG(2)(b)(ii)	P7	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)	P7	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)	P22–37	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. Finance law and action taken to remedy non-compliance.	If applicable, mandatory
	Audit Committee		
17AG(2A)(a)	P28	A direct electronic address of the charter determining the functions of the entity's audit committee.	Mandatory
17AG(2A)(b)	P28	The name of each member of the entity's audit committee.	Mandatory
17AG(2A)(c)	P24–27	The qualifications, knowledge, skills or experience of each member of the entity's audit committee.	Mandatory
17AG(2A)(d)	P28	Information about the attendance of each member of the entity's audit committee at committee meetings.	Mandatory
17AG(2A)(e)	P90	The remuneration of each member of the entity's audit committee.	Mandatory
	External scrutiny		
17AG(3)	P22–23	Information on the most significant developments in external scrutiny and the entity's response to the scrutiny.	Mandatory
17AG(3)(a)	Not applicable	Information on judicial decisions and decisions of administrative tribunals and by the Australian Information Commissioner that may have a significant effect on the operations of the entity.	If applicable, mandatory
17AG(3)(b)	Not applicable	Information on any reports on operations of the entity by the Auditor-General (other than report under section 43 of the Act), a Parliamentary Committee, or the Commonwealth Ombudsman.	If applicable, mandatory
17AG(3)(c)	Not applicable	Information on any capability reviews on the entity that were released during the period.	If applicable, mandatory

List of requirements Continued

PGPA Rule reference	Part of report	Description	Requirement
Management of human resources			
17AG(4)(a)	P76–81	An assessment of the entity's effectiveness in managing and developing employees to achieve entity objectives.	Mandatory
17AG(4)(aa)	P82–87	Statistics on the entity's employees on an ongoing and non-ongoing basis, including the following: (a) statistics on full-time employees (b) statistics on part-time employees (c) statistics on gender (d) statistics on staff location.	Mandatory
17AG(4)(b)	P82–87	Statistics on the entity's APS employees on an ongoing and non-ongoing basis; including the following: • Statistics on staffing classification level • Statistics on full-time employees • Statistics on part-time employees • Statistics on gender • Statistics on staff location • Statistics on employees who identify as Indigenous Australian.	Mandatory
17AG(4)(c)	P79	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)	P87	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)	P93	The salary ranges available for APS employees by classification level.	Mandatory
17AG(4)(c)(iii)	P92	A description of non-salary benefits provided to employees.	Mandatory
17AG(4)(d)(i)	P93	Information on the number of employees at each classification level who received performance pay.	If applicable, mandatory
17AG(4)(d)(ii)	P93	Information on aggregate amounts of performance pay at each classification level.	If applicable, mandatory
17AG(4)(d)(iii)	P93	Information on the average amount of performance payment, and range of such payments, at each classification level.	If applicable, mandatory
17AG(4)(d)(iv)	P93	Information on aggregate amount of performance payments.	If applicable, mandatory
Assets management			
17AG(5)	Not applicable	An assessment of effectiveness of assets management where asset management is a significant part of the entity's activities.	If applicable, mandatory
Purchasing			
17AG(6)	P151	An assessment of entity performance against the <i>Commonwealth Procurement Rules</i> .	Mandatory
Reportable consultancy contracts			
17AG(7)(a)	P151–152	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)	P151	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)	P151–152	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

PGPA Rule reference	Part of report	Description	Requirement
17AG(7)(d)	P151	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
		Reportable non-consultancy contracts	
17AG(7A)(a)	P152	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)	P152	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
17AD(daa)		Additional information about organisations receiving amounts under reportable consultancy contracts or reportable non-consultancy contracts	
17AGA	P151–152	Additional information, in accordance with section 17AGA, about organisations receiving amounts under reportable consultancy contracts or reportable non-consultancy contracts.	Mandatory
		Australian National Audit Office Access clauses	
17AG(8)	Not applicable	If an entity entered into a contract with a value of more than \$100,000 (inclusive of GST) and the contract did not provide the Auditor-General with access to the contractor's premises, the report must include the name of the contractor, purpose and value of the contract, and the reason why a clause allowing access was not included in the contract.	If applicable, mandatory
		Exempt contracts	
17AG(9)	Not applicable	If an entity entered into a contract or there is a standing offer with a value greater than \$10,000 (inclusive of GST) which has been exempted from being published in AusTender because it would disclose exempt matters under the FOI Act, the annual report must include a statement that the contract or standing offer has been exempted, and the value of the contract or standing offer, to the extent that doing so does not disclose the exempt matters.	If applicable, mandatory
		Small business	
17AG(10)(a)	P152	A statement that <i>'[Name of entity] supports small business participation in the Commonwealth Government procurement market. Small and Medium Enterprises (SME) and Small Enterprise participation statistics are available on the Department of Finance's website.'</i>	Mandatory
17AG(10)(b)	P152	An outline of the ways in which the procurement practices of the entity support small and medium enterprises.	Mandatory
17AG(10)(c)	P152	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
		Financial statements	
17AD(e)	P94–149	Inclusion of the annual financial statements in accordance with subsection 43(4) of the Act.	Mandatory
		Executive remuneration	
17AD(da)	P88–93	Information about executive remuneration in accordance with Subdivision C of Division 3A of Part 2-3 of the Rule.	Mandatory

List of requirements Continued

PGPA Rule reference	Part of report	Description	Requirement
17AD(f)	Other mandatory information		
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)	P153	If the entity did not conduct advertising campaigns, a statement to that effect.	If applicable, mandatory
17AH(1)(b)	P153	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)	P153	Outline of mechanisms of disability reporting, including reference to website for further information.	Mandatory
17AH(1)(d)	P153	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)	P48–75	Information required by other legislation.	Mandatory

Appendix C

Glossary of abbreviations and acronyms

AASB	Australian Accounting Standards Board	OECD	Organisation for Economic Co-operation and Development
AC	Companion of the Order of Australia	PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
ACSC	Australian Cyber Security Centre	PA	Per annum
AIC	Australian Investment Council	PSS	Public Sector Superannuation Scheme
ANAO	Australian National Audit Office	RBA	Reserve Bank of Australia
AO	Officer of the Order of Australia	SASB	Sustainable Accounting Standards Board
APEC	Asia-Pacific Economic Cooperation	SBAI	Standards Board for Alternative Investments
APS	Australian Public Service	SLT	Senior Leadership Team
ASL	Average staffing level	SWF	Sovereign wealth fund
ATO	Australian Taxation Office	TCFD	Taskforce on Climate-related Financial Disclosures
ATSILS	Aboriginal and Torres Strait Islander Land and Sea Future Fund		
CEO	Chief Executive Officer		
CIO	Chief Investment Officer		
CPI	Consumer Price Index		
CSS	Commonwealth Superannuation Scheme		
DCAF	DisabilityCare Australia Fund		
DCIO	Deputy Chief Investment Officer		
DEIB	Diversity, Equity, Inclusion and Belonging		
EEE	Equivalent Equity Exposure		
ERF	Emergency Response Fund		
ESG	Environmental, social and governance (risk management)		
DFD	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		
ICGN	International Corporate Governance Network		
IFSWF	International Forum of Sovereign Wealth Funds		
IIR	Institutional Investors Roundtable		
IMF	International Monetary Fund		
IPS	Information Publication Scheme		
KMP	Key management personnel		
LGBTQIA+	Lesbian, gay, bisexual, transgender, queer, intersex, asexual		
MRFF	Medical Research Future Fund		
NABERS	National Australian Built Environment Rating System		

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Australia's Sovereign Wealth Fund