

DINNER TO MARK THE 10TH ANNIVERSARY OF THE FUTURE FUND

5TH DECEMBER 2016

Prime Minister, Malcolm Turnbull, Treasurer Scott Morrison, Guardians and former Guardians, distinguished guests, ladies and gentlemen.

In 2004, as the Australian Government came within sight of its goal of eliminating debt, it gave careful consideration to whether it could build a net financial asset position and, if so, how that could best be done. In September that year a paper called “Investing in the Future” was released proposing for the first time that the Commonwealth Government set up a “Future Fund”. The idea was to build savings to help address spending pressures brought on by the ageing of the population and other pressures which had been identified by the Government’s Inter-Generational Report.

After that, things moved swiftly. Legislation to establish the Future Fund was introduced in 2005 and gained Royal Assent in March 2006. Our best estimate was that the Commonwealth became debt free on 21 April 2006. In May the first allocation of \$18 billion was made into the Future Fund. In all, capital of \$60.5 billion would be allocated to the Fund from the budget surpluses of 2005/06, 2006/07, together with part of the proceeds from the privatisation of Telstra. The Future Fund was then launched here in Melbourne on 13 November 2006.

Tonight we celebrate its 10th Anniversary.

No further money has been deposited into the Future Fund since the allocation of that original \$60.5 billion, but over the last 10 years the Commonwealth has doubled its money. That \$60.5 billion has grown to around \$125 billion. Given the investment conditions – the financial crisis of 2008 and the extraordinary low yields of recent years - this has been a remarkable achievement.

At this point I would like to pay tribute to the founding Chairman of the Future Fund Mr David Murray who is with us here today and to the founding Guardians, Jeffrey Browne, Susan Doyle, John Mulcahy, Trevor Rowe, Brian Watson, and John Paterson who did an outstanding job in establishing the

framework to manage the Fund. They set the original asset allocation, and they were largely responsible for the design of the Portfolio. The Fund is now recognised as a world leader.

Section 3 of the Future Fund Act provides as follows:

“The main object of this Act is to strengthen the Commonwealth’s long term financial position by establishing the Future Fund”.

There is no doubt the Fund has fulfilled this objective. Unfortunately the Commonwealth’s long term financial position has severely weakened in other respects – as shown by the heavy borrowing program that began in 2008 – but this has made the Future Fund all the more important as the principal asset that the Government holds.

Sometimes people wrongly think of the Future Fund as a superannuation fund. It is no such thing. A superannuation fund receives contributions from its members - in Australia, 9.5% of members’ wages per annum. A superannuation fund is owned by its members. They are entitled to its assets.

The money in the Future Fund is not owned by any individual or group. It has no members. No-one contributes to it. It is owned by the Commonwealth Government. It is a Sovereign Wealth Fund. As such it is a member of the International Forum of the Sovereign Wealth Funds of the world and in the top ten by value. Again I pay tribute to Mr David Murray who was very instrumental in the establishment of that forum and indeed was its inaugural Chairman.

I am also pleased to acknowledge and thank our three Managing Directors all here tonight – Paul Costello (no relation), Mark Burgess and David Neal.

The Future Fund invests in all classes of assets – equities, fixed interest, credit, hedge funds, infrastructure, property, private equity. It invests around the globe with around two thirds of its investments outside of Australia. The Future Fund has invested in water businesses in the United Kingdom, gas pipelines in the U.S., in the Airport in Melbourne, in Perth Airport and Gatwick Airport in the United Kingdom. It has owned stakes in a major Birmingham shopping centre in England and

commercial buildings in Brisbane Australia. It has stakes in commercial buildings in Vienna, on the Champs Elysees in Paris and 3rd Avenue in New York. It has recently taken a large stake in the Port of Melbourne. Through its private equity program it was an early investor in Uber, Air BnB and Snapchat. Its private equity portfolio is unrivalled in Australia.

The Future Fund is fiercely independent from the Australian Government. The Government does not tell it where to invest. This independence is respected by both sides of politics. It has been respected by Governments of both Liberal and Labor persuasion, by five Treasurers, and by five Prime Ministers.

It has been an enormous strength to the Future Fund that its statute protects its independence and gives it a clear mandate. Its mandate is to target a return of CPI plus 4.5 - 5.5% per annum without engaging in excessive levels of risk. Such a mandate is formidable in the current environment. It has now met that mandate after its first 10 years.

While it is a matter of regret that the Fund has not had any new capital since its original injection, the Fund has been asked to manage other Funds on behalf of the Commonwealth. It is still administering two of the so called "Building Australia Funds" which were financed out of the 2007/08 Budget Surplus. It has been asked to hold and manage money in a Disability Care Fund to help defray some of the costs of the National Disability Insurance Scheme (NDIS). In September 2015 funds were first set aside for the Medical Research Future Fund which currently holds around \$4.5 billion. All up, including these other Funds, around \$140 billion is held by the Board of Guardians.

The legislation which established the Future Fund provides that funds can be drawn out of the Fund from 1 July 2020 if the Commonwealth Government has not funded its pension liabilities by that time. At present these pensions are being paid out of recurrent taxes. From 1 July 2020 the Commonwealth will still be paying the pensions it owes out of annual tax revenue but it can meet some of the cost by drawing down from the Future Fund. To the extent that it does draw down on the Future Fund, taxes which would have otherwise gone to pensions will be released for other purposes – either to reduce

the deficit and borrowing requirements or to improve the surplus and repay debt. Either way the Future Fund will be making a contribution to strengthening the Commonwealth's financial position.

The Future Fund has been recognised with many awards for its performance in investing. It is not just the returns that have been good it is the quality of institutional framework and the delivery and the discipline of its process. The Future Fund is highly regarded among the Sovereign Wealth Funds of the world. In that world it is a leader in terms of transparency. When many of its peers decline to report the amounts which they hold, returns which they make, and the assets in which they invest, the Future Fund reports all of these things on a quarterly basis and accounts to Parliament through Ministers and the Senate's Estimate Process.

The Future Fund has given young Australians the opportunity to work in a first class investment environment in a fund of global scale. Operating in markets as it does, it is able to provide a valuable source of advice to Government. Around the world it has been sought out for advice by the White House, No. 10 Downing Street, and other foreign Governments. Tonight we have with us some of the Future Fund's managers who have flown long distances from New York, London, Beijing, Hong Kong and other financial centres to join us tonight. We have with us representatives of other Sovereign Wealth Funds. We are particularly pleased to have with us the leaders of the Australian Government.

The Future Fund has completed its first ten years. It has a track record of success. Whilst it is now maturing it has, I hope, a long life in front of it.

Thank you very much for your attendance today.