



Australian Government

Future Fund

25 October 2022

Future Fund Board of Guardians (“Board”)

Determination pursuant to section 34(1) of the *Medical Research Future Fund Act 2015* (Cth) (the “Act”)

Maximum annual distribution for financial year 2023-24

Background

Under section 34 of the Act, the Board must make a written determination of the maximum annual distribution for each financial year.

In making each determination, the Board must take into account:

- a) the principle that the nominal amount of the cumulative contributions to the Medical Research Future Fund (“**MRFF**”) by Government (the “**Cumulative Contributions**”) should be preserved over the long term;
- b) the principle that the volatility of the maximum annual distributions be moderated from financial year to financial year (to the extent possible);
- c) the requirement to maintain the Board’s ability to comply with the *Medical Research Future Fund Investment Mandate Direction 2015* (the “**Investment Mandate**”);
- d) the relevant costs, expenses, obligations and liabilities likely to be incurred by the Board in connection with the MRFF in respect of the relevant financial year for the purposes of section 18 or 19 of the Act; and
- e) any additional matters specified in writing by the Finance Minister in accordance with the Act for this purpose,

(together, the “**Prescribed Considerations**”).

Pursuant to a notice to the Board from the Finance Minister dated 27 October 2015, the Board’s determination for the financial year 2023-24 has been requested to:

- a) be provided by the first Friday in November of the preceding financial year; and
- b) indicate the specific amount available to the Health Minister for the provision of grants of financial assistance from the MRFF, and the management expenses the Board expects to incur in relation to the MRFF.

Determination

Pursuant to section 34(1) of the Act, and after having taken into account the Prescribed Considerations, the Board determines that the maximum annual distribution for the financial year 2023-24 is \$967m, of which \$870m is available for grants of financial assistance.

Methodology and Considerations

In addition to specifying the amount of the maximum annual distribution for a financial year, the Act requires that the Board's determination describe the method used for working out that amount and the considerations taken into account. These are set out in Attachment A to this Determination.

Terms defined in the Act have the same meaning when used in this Determination.

Signed for and on behalf of the **Future Fund Board of Guardians:**

A handwritten signature in blue ink, appearing to read 'P Costello', is positioned above the printed name and title.

Hon Peter Costello AC
Chairman
Future Fund Board of Guardians

ATTACHMENT A

Methodology and Considerations for calculating the maximum annual distribution (2023-24)

When calculating the maximum annual distribution amount, the Board's methodology took into account all the Prescribed Considerations and calculated the sum according to the following components:

- a) the target distribution amount ("**TDA**");
- b) the amortisation amount;
- c) the section 18/19 allowance; and
- d) the experience and outlook adjustment ("**EOA**").

Each of these components is described below.

a) Target distribution amount

The TDA reflects the targeted earnings on the Cumulative Contributions. The TDA was calculated as the target distribution rate ("**TDR**") multiplied by the Cumulative Contributions as at the relevant calculation date. The calculation date in this case was 30 September 2022 (the "**Calculation Date**").

The TDR reflects the mid-point of the benchmark return for the MRFF under the Investment Mandate as at the Calculation Date. That benchmark return is an average net return of the Reserve Bank of Australia cash rate target + 1.5 to 2.0% pa. At the Calculation Date, the mid-point of that benchmark return was 4.35% (2.6% + 1.75%), and the Cumulative Contributions were A\$20bn.

Accordingly, the TDA was A\$870m for 2023-24.

b) Amortisation amount

The Board is required by the Prescribed Considerations to take into account the principle that Cumulative Contributions should be preserved over the long term, and that the volatility of maximum annual distributions be moderated from financial year to financial year (to the extent possible). These are naturally competing objectives because, for a given investment strategy, the greater the stability in the MRFF balance the greater the volatility in maximum annual distribution amounts, and the converse.

At any point in time, the difference between the balance of the MRFF (the "**MRFF Balance**") and the amount of Cumulative Contributions could be a surplus (if positive) or a deficit (if negative). There are various ways in which a surplus or deficit could emerge over time, such as where the realised investment return is different to the TDR.

To be consistent with the requirement to preserve Cumulative Contributions over the long term, the Board takes an amortisation approach to any surplus or deficit to help guide the MRFF Balance towards the amount of Cumulative Contributions over time, while also seeking to moderate the volatility of maximum annual distributions from financial year to financial year.

At the Calculation Date, the MRFF Balance exceeded the Cumulative Contributions by approximately A\$1,477m. Under the Board's amortisation approach to any surplus or deficit, the Board applied an amortisation period of 10 years. This resulted in the addition of an amortisation amount of A\$148m for 2023-24, being one-tenth of that surplus (rounded).

c) Section 18/19 allowance

Under section 16 of the Act, the total amount debited from the MRFF Special Account in a financial year must not exceed the maximum annual distribution amount for that year. As contemplated by sections 18 and 19 of the Act, debits will be made from the MRFF Special Account for expenses incurred during the relevant financial year in managing and investing the MRFF portfolio.

Those sections of the Act effectively require the Board to estimate those expenses for the following financial year, and incorporate an allowance for them in its maximum annual distribution amount (a "**Section 18/19 allowance**"). Given the uncertainties about future investment performance of the MRFF portfolio, there are uncertainties around estimating an appropriate Section 18/19 allowance. In this context the Board took into account the need for certainty of amounts available for grants of financial assistance, its experience with expenses of the Future Fund and the MRFF, and its forward estimate of the size of the funds under management in connection with the MRFF in 2023-24 (assuming no further contributions by the Government).

As a result, the Board set a Section 18/19 allowance of A\$97m for 2023-24.

d) The experience and outlook adjustment

The sum of the preceding components under (a) to (c) provided the Board with an indication of a reasonable maximum annual distribution amount for 2023-24 before taking account of any other considerations which the Board considers relevant. The EOA component may be used by the Board to reflect such other relevant considerations in the maximum annual distribution amount, for example, unusual or abnormal investment conditions.

The Board noted the current uncertain market outlook and the large increase in the Reserve Bank of Australia's cash rate target since its last determination. Given the Prescribed Considerations include the principle that the volatility of the maximum annual distribution be moderated, from financial year to financial year, and that the nominal amount of the Cumulative Contributions should be preserved over the long term, the Board decided to apply an EOA of minus A\$148 for 2023-24. This has the effect of reversing the impact of component (b) of the maximum annual distribution calculation, and reduces the likelihood of a large reduction being required in future years' maximum annual distribution amounts.

Summary of calculation for 2023-24

	FY2023-24 A\$m
(a) Target distribution amount	870
(b) Amortisation amount	148
(c) Section 18/19 allowance	97
(d) Experience and outlook adjustment	-148
Maximum annual distribution amount (a) + (b) + (c) + (d)	967
Amount available for grants of financial assistance (a) + (b) + (d)	870