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Treasurer

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Minister for Finance

Future Fund - Statement of Expectations

This statement outlines the Government's expectations of the Future Fund Board of Guardians (Board) and the Future Fund Management Agency (Agency), including issues of governance, transparency and accountability. The expectations set out in this statement are subject to obligations set out in the applicable legislation and Investment Mandate Directions.

The Future Fund is Australia's sovereign wealth fund. The Future Fund is an important economic and financial institution for Australia. The Board is responsible for investing hundreds of billions of dollars on behalf of the Australian Government, in a variety of asset classes and destinations around the globe.

Australia faces opportunities and challenges associated with climate change and an uncertain global economic and national security environment. The Board is expected, subject to its obligations under the enabling legislation and Investment Mandate Directions, to consider Australia's economic prosperity by having regard to national priorities when making and managing investments. The national priorities are supporting an energy transition as part of the net zero transformation of the Australian economy, increasing the supply of residential housing in Australia and delivering improved infrastructure located in Australia.

As responsible Ministers under the *Future Fund Act 2006*, we expect the Board and the Agency to adhere to the highest standards of governance, performance, accountability and transparency. We acknowledge the functions and governance arrangements as set out in the enabling legislation, as well as the Investment Mandate Directions that include directions on risk and return parameters for all of the investment funds managed by the Board on behalf of the Australian Government.¹

We respect the independence of the Board in making commercial investment decisions for the Australian Government investment funds at arms-length from the Government. This feature has received bipartisan support since the Future Fund was established in 2006 and the Government remains committed to upholding this independence.

Purpose and Objectives

The Future Fund was established in 2006 to strengthen the Australian Government's long-term financial position by making provision for unfunded superannuation liabilities in the future. The Future Fund has been successfully invested by the Board since establishment and now represents a significant store of value for the benefit of future generations. The Board, with the support of the Agency, also manages other investment funds on behalf of the Government, which generate funding streams for important public policy initiatives in relation to medical research, assistance to Aboriginal and Torres Strait Islander peoples to acquire and manage land, water and water-related rights, drought and disaster resilience, and social and affordable housing, as well as supporting the financing of the National Disability Insurance Scheme.

¹ As of October 2024, the Board manages seven Australian Government investment funds. Each investment fund is established by its own Act (enabling legislation) and has an individual Investment Mandate Direction.

To the Chair of the Future Fund Board of Guardians

The Board is a body corporate with responsibility for managing investment funds on behalf of the Australian Government. The Board makes its investment decisions independent of the Government and holds investments in its own name, however, the Australian Government retains beneficial ownership of the funds at all times.

This section of the Statement of Expectations applies to the Chair of the Board, as appointed by the responsible Ministers under subsection 38(2) of the *Future Fund Act 2006*.

Investment Strategy

The primary role of the Board is to maximise returns consistent with the *Future Fund Act 2006* and the Future Fund Investment Mandate Direction.

To support Australia's economic prosperity, the Board is expected to have regard to national priorities (supporting an energy transition as part of the net zero transformation of the Australian economy, increasing the supply of residential housing in Australia and delivering improved infrastructure located in Australia) as part of its overarching investment and investment management strategy for the portfolio. This includes when considering new investments, as well as when managing its investments.

The responsible Ministers also expect the Board (through the Agency), subject to any confidentiality constraints, to engage in knowledge sharing and collaborative consultations with the Government's Special Investment Vehicles on the national priority investment areas listed in the Future Fund Investment Mandate Direction and on broader investment market and global trends. The responsible Ministers also expect the Board to engage and collaborate with proposed arrangements and structures that are designed to attract global and domestic capital to Australia, including those being established by the Australian Government under its Future Made in Australia agenda to support Australia's national priorities.

Compliance with legislative framework

The Board will perform its functions, including managing the investments of the investment funds, and perform any other functions in accordance with the requirements of:

- the enabling legislation for the investment funds managed by the Board on behalf of the Government, including but not limited to the *Future Fund Act 2006*;
- the Investment Mandate Directions issued for each of the investment funds managed by the Board on behalf of the Australian Government; and
- any other statutory and legal obligations of the Board.

The Board should seek to maximise the risk-adjusted returns for the investment funds under its management, consistent with international best practice for institutional investment and within the risk tolerances specified in the investment mandates. All investments made by the Board must have a clear legislative basis. We expect all investments to comply with any directions provided by the Australian Government in accordance with the *Future Fund Act 2006* and other relevant enabling legislation.

The Board must act in a way that minimises the potential of causing any abnormal change to the volatility or efficient operation of Australian financial markets and is unlikely to cause any negative impact on the Australian Government's reputation in Australian and international financial markets.

Governance and accountability

The Board is accountable to the responsible Ministers and the Government. The Government expects that each member of the Board will comply with the duties set out in the *Future Fund Act 2006* and any other Acts that relate to the functions of the Board. In particular, and without limiting the Board's responsibilities, Board members have the following duties under the *Future Fund Act 2006*:

- Duty of care and diligence (section 56)
- Duty to discharge duties in good faith (sections 57 and 60)
- Duty to not improperly use position (sections 58 and 61)
- Duty to not improperly use information (sections 59 and 62)
- Duty to disclose material conflicts of interest (sections 68 to 70)

The Chair should periodically review the appropriateness of the Board's skills mix and provide a board skills matrix and recommended Board succession plan to the responsible Ministers annually.

Communication and engagement with government

While recognising the collective responsibility of the Board, the Chair of the Board will be the main conduit for information between the Board and the responsible Ministers.

The departments of Finance and the Treasury should also be kept informed, to facilitate the provision of timely advice to the responsible Ministers. Where information is requested by either responsible Minister (or their respective departments), that request should be regarded as being on behalf of the other. To avoid doubt, the response to the request is to be provided to both the Treasurer and Minister for Finance (and their respective departments).

The Board and the Agency should work cooperatively with the Department of Finance, which assists the Minister for Finance to undertake additional roles under the enabling legislation.

Reporting and Transparency

The operations and functions of the Board are a matter of strong public interest. The Board has developed its reporting and disclosure arrangements over time as it has established its operations and investment strategy, and grown in scale. The Government is committed to transparency and expects that the Board complies with a range of reporting obligations under primary and subordinate legislation, including:

- disclosing its investment holdings in a manner consistent with the requirements in the Future Fund (Investment Funds Periodic Investment Report) Rules 2023;
- providing Annual Reports and audited financial statements to the nominated Minister as per the requirements of the *Future Fund Act 2006* and relevant sections of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act);²
- publishing quarterly portfolio updates on the Future Fund website, including asset allocations and performance against benchmarks, as required by investment mandates;³
- publishing the Board's Statement of Investment Policies;
- providing any reports or information requested by the Minister for Finance under the enabling legislation; and
- keeping the responsible Ministers informed of the operations of the Board, including but not limited to circumstances where sensitive issues arise (or may arise) from particular investments held by the Board.

² The Board and the Agency are treated as a single entity for annual reporting purposes.

³ This requirement is contained in the Investment Mandate Directions for most but not all investment funds managed by the Board.

The Chair of the Board will inform the responsible Ministers, in a timely manner, of any event that is likely to impact on the reputation of the Board, the Agency or the Government, including but not limited to:

- significant investment losses at the investment fund level, in particular where the loss has the potential to impact on the legislated objective and/or disbursement obligations of the affected investment fund(s);
- material legal proceedings relating to any of the Board's operations, including its investment functions;
- improper conduct by any person (including members of the Board, staff and consultants of the Agency) that has impacted adversely on the investments of any of the investment funds;
- providing advance notice of matters of potential interest including anticipated changes in key appointments, significant public speeches or media releases; and
- failure to comply with the enabling legislation, Investment Mandate Directions or any other material legal obligation on the Board or the Agency.

More broadly, the Government expects the Board to continue to build trust in its operations and performance and periodically review and enhance its practices on public reporting and disclosure.

We acknowledge the efforts already made by the Board and the Agency in this regard, including publishing on the Future Fund website:

- a list of all investment managers engaged by the Board;
- a summary of the Board's proxy voting for general meetings of Australian listed entities together with an analysis of its voting engagement activity; and
- a yearly 'Financial Year in Review' publication.

The Board should not publish any information that is commercially sensitive to individual investments, investment managers, the Board, the Agency or the Government.

Environmental, Social and Governance matters

The responsible Ministers expect that the Board has regard to the risks and opportunities of environmental, social and governance (ESG) factors and the extent to which they may impact the financial risk-return profile of the portfolios.

The Board should ensure that material risk and opportunity considerations, such as climate risk, are integrated into the investment strategy, decision-making and oversight, and that appropriate resources are applied to identify and manage material ESG factors. The Board should also consider how, as a significant long-term investor, it can share knowledge and insights with like-minded investors to support a stronger and more sustainable investment system. The Board should publicly report on its ESG policy, governance and the management of material risks and opportunities.

The Board is responsible for deciding whether to implement any investment exclusions and should regularly review its policy for, and application of, investment exclusions. The Board should publish its investment exclusions policy on the Future Fund website.

Accountable Authority of the Agency

Under the *Future Fund Act 2006*, the Chair of the Board is the Accountable Authority of the Agency and an official of the Agency within the meaning of the PGPA Act. As an official under the PGPA Act, the Chair is subject to the general duties of officials as well as the duties that apply to an accountable authority governing a Commonwealth entity.

The duties of the Chair, as the Accountable Authority, include:

- The duty to govern the Agency in a way that promotes the proper use of public resources, promotes the achievement of the purposes of the Agency and promotes the financial sustainability of the Agency.
- The duty to establish appropriate systems of risk management and internal controls.
- The duty to keep the responsible Ministers informed.

In accordance with the duty to keep the responsible Ministers informed, the Chair should ensure that the responsible Ministers and their departments are kept up-to-date and well-informed on the activities of the Agency, including:

- changes to key management personnel;
- significant public speeches, publications, submissions or media releases;
- material changes to the Agency's organisational structure or operating environment;
- responses to Parliamentary Questions on Notice; and
- any other parliamentary and ministerial briefings as required from time to time.

The Chair, as the Agency Head for the *Public Service Act 1999*, should also set a remuneration structure that is transparent, appropriately aligned to key performance indicators and justifiable to the Parliament and the Australian public.

To the CEO of the Future Fund Management Agency

The Agency is a non-corporate Commonwealth entity within the Finance portfolio. The Agency CEO is responsible for the day-to-day administration of the Agency and should assist the Board in performing its functions, consistent with the enabling legislation and Investment Mandate Directions.

We expect the CEO of the Agency in their day-to-day administration of the Agency to support and assist the Chair in managing the affairs and staff of the Agency in accordance with all applicable legislation including the PGPA Act and the *Public Service Act 1999*, including promoting and upholding the Australian Public Service Values and Code of Conduct.

Collaboration with other Commonwealth entities

The Government acknowledges the significant expertise and knowledge of Agency staff in a range of fields including portfolio construction, risk management, corporate governance, finance and economics.

The Government expects the Agency to share knowledge and have ongoing, open and collaborative consultations with other Commonwealth entities, where it is appropriate and practical to do so.

This may include, subject to any confidentiality constraints, engaging with Specialist Investment Vehicles and with proposed arrangements and structures that are designed to attract global and domestic capital to Australia, including those that are being established by the Australian Government under the Future Made in Australia agenda to support Australia's national priorities. Collaboration may also include the exchange of information with relevant boards and committees of the Specialist Investment Vehicles and other government entities to provide insights regarding investment market and broader global trends.

We expect that effective Commonwealth consultation can improve the outcomes for individual entities as well as contribute to Australia's national priorities.

Application

This Statement of Expectations replaces the previous Statement of Expectations for the Future Fund. This statement applies from the date of receipt until otherwise amended or replaced by the responsible Ministers. This statement may be updated in consultation with the Board and Agency, as required, to reflect future government decisions.

We look forward to receiving the Future Fund Statement of Intent, outlining how the Board and the Agency propose to implement these expectations.

Jim Chalmers
Treasurer

Katy Gallagher
Minister for Finance