



Australian Government
Future Fund



MCFS Industry Briefing

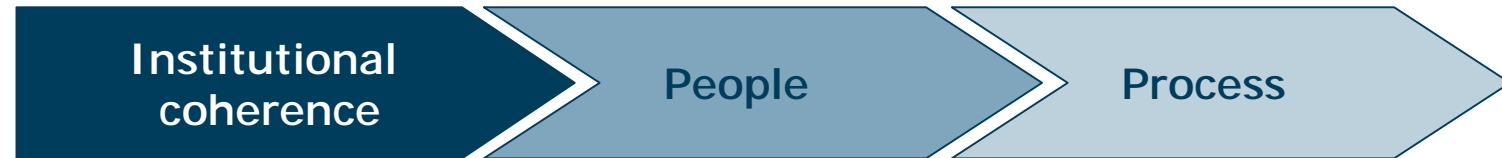
16 December 2008

Long term asset allocation

| Category | Includes | Long Term Portfolio Weighting |
|---|---|-------------------------------|
| Equities (provides exposure to corporate enterprise at various stages of development) | Australian equities, global developed markets equities, developing markets equities, private equity | 35% |
| Tangible Assets (provides exposure to investments where return comes largely from the yield on a physical asset) | Property, infrastructure, utilities. Assets can be held in a listed or unlisted form | 30% |
| Debt (provides exposure to interest bearing securities) | Government and non-government fixed interest securities extending to mortgage backed securities, high yield credit and corporate debt | 20% |
| Alternative Assets (provides diversifying exposure relative to the other categories) | A range of alternative risk premia and skill based absolute return investments | 15% |
| Cash | Cash or cash equivalents | 0% |



Striving for excellence in institutional investing



- Clearly defined goals and a demonstrated commitment to achieving these
 - Clear responsibilities and accountabilities throughout the organisation and a strong governance framework for decision-making
 - Sufficient resources to support the appropriate model (internal/external management) to maximise comparative advantages
- Highly competent Board
 - Highly competent executive team
 - Strong, coherent culture that encourages change and challenges convention, supported by effective compensation policies
- Clear set of foundation investment principles commanding organisation wide support
 - Strong risk budget framework
 - Robust real time decision processes
 - Strong, enduring relationships with external parties to maximise ideas flow and leverage

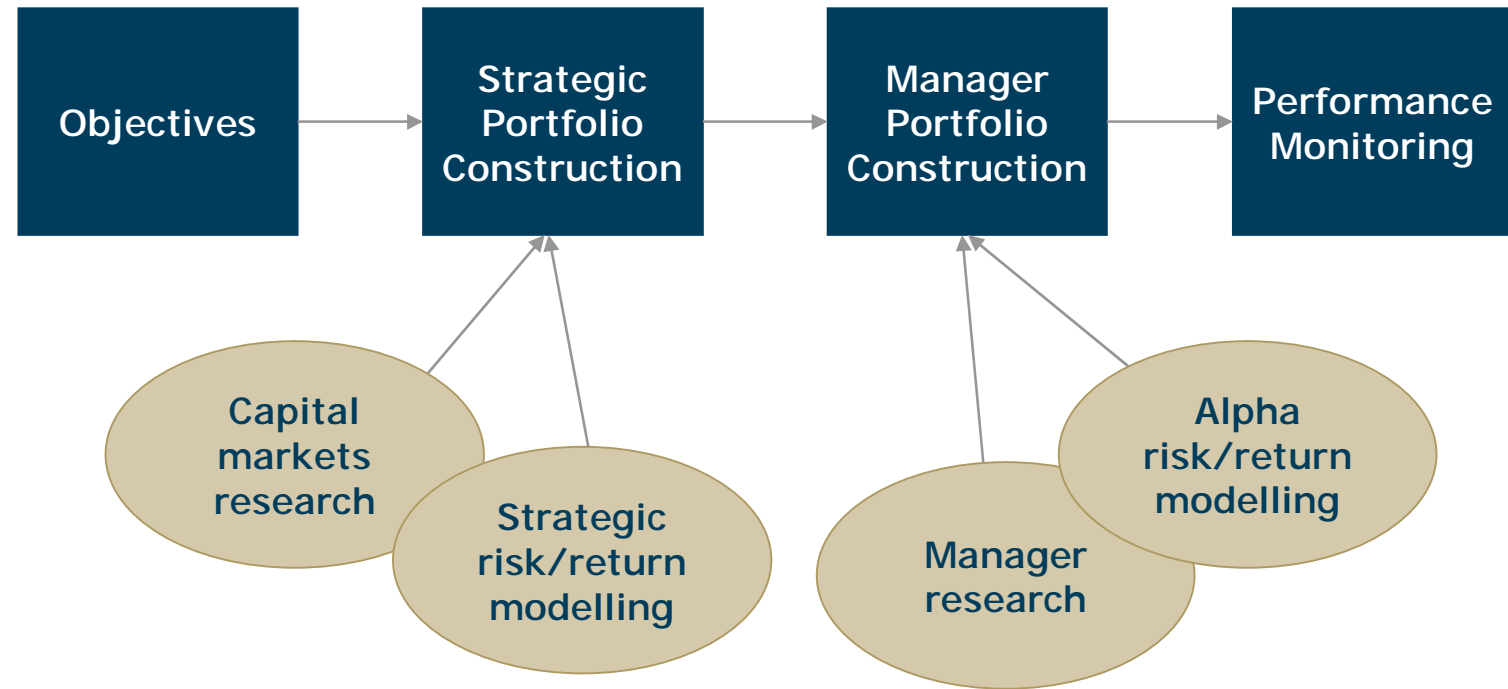
Adapted from Clark & Urwin, 2007

Our investment philosophy

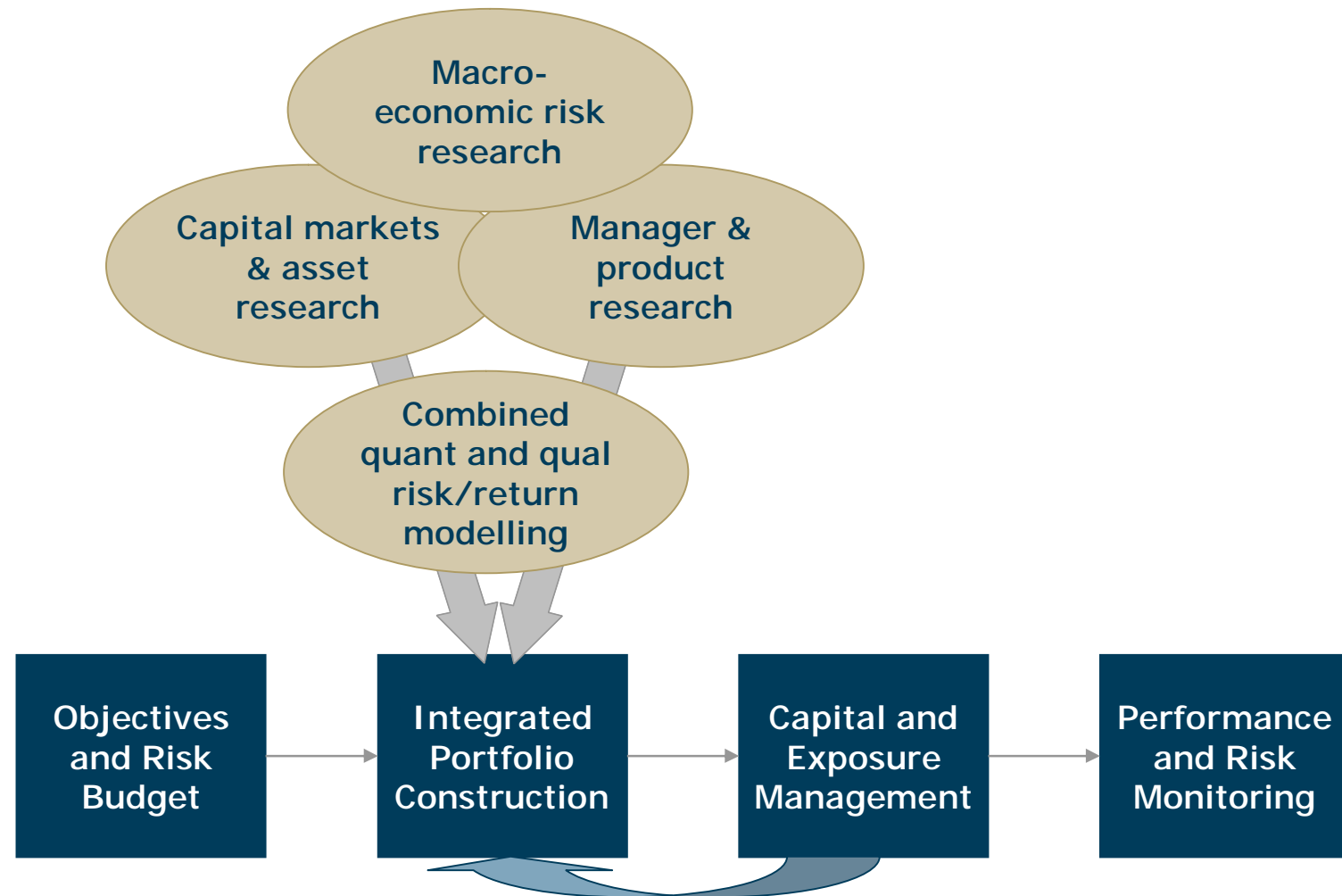
- We focus on the management of the total fund portfolio
- We are objective-driven, not benchmark-driven
- We believe that successful investing requires:
 - § a recognition of the uncertainty in investing and encouragement of an approach of sceptical enquiry
 - § a promotion of portfolio diversity
 - § a recognition that dynamic management of the portfolio is unavoidable
 - § a brand as an “investor-of-choice”
- We aim to maximise the quality and richness of the total portfolio construction management by bringing to bear a wide range of skill-sets and perspectives in a single joined-up process



The traditional linear process



The integrated investment process





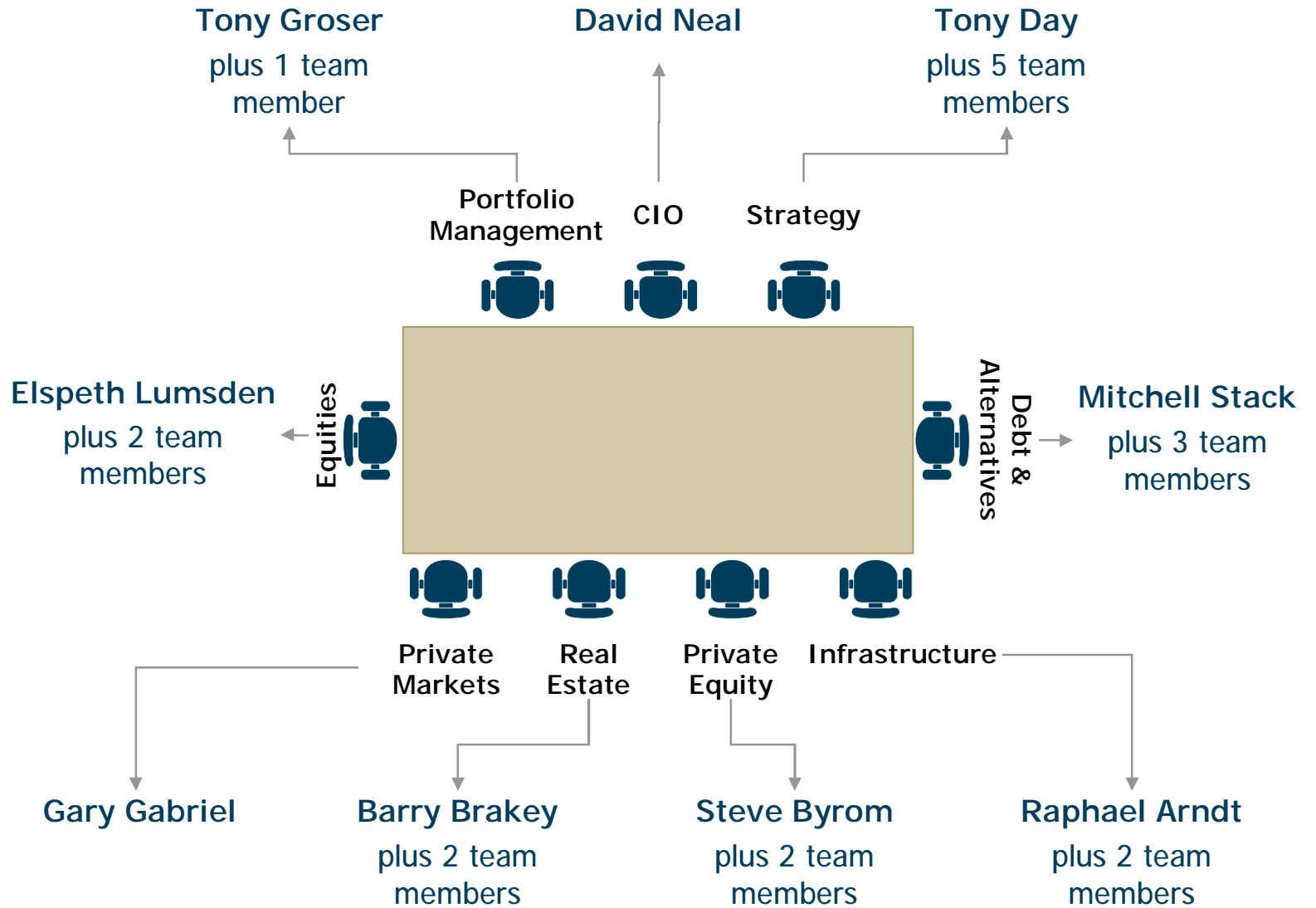
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An integrated process needs a joined-up team

- One team (as far as possible)
- Whole team contributes meaningfully to the total portfolio (as far as possible)
- Implies a relatively small team
- Implies a relatively top heavy team
- Implies a relatively heavy leverage of external skills



Our joined-up team

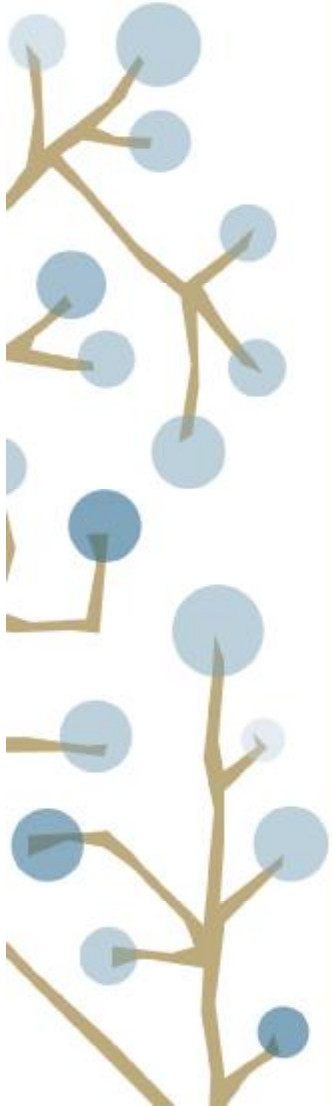




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Leveraging external expertise

- We like:
 - § Fewer, bigger, stronger relationships
 - § Flexible, extendable platforms
 - § Firms with more to add



Our portfolio

| Category | Long Term Strategy | Portfolio as at end November | |
|-----------------|--------------------|------------------------------|--|
| Equities | 35 | 28.8 | <ul style="list-style-type: none"> Over \$5bn committed (\$900m invested) in private equity Active management program being progressively introduced |
| Tangible Assets | 30 | 2.9 | <ul style="list-style-type: none"> Patient investment program as valuations adjust |
| Debt | 20 | 17.6 | <ul style="list-style-type: none"> Broad range of attractive opportunities |
| Alternatives | 15 | 2.5 | <ul style="list-style-type: none"> Market dislocation is creating some interesting opportunities |
| Cash | - | 48.1 | |

