

Senate Finance and Public Administration Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
BUDGET ESTIMATES 2011-2012

Finance and Deregulation Portfolio

Department/Agency: Future Fund Management Agency

Outcome/Program: Management of the Future Fund

Topic: Emerging market currency foreign exchange

Senator: Cormann

Question reference number: F30

Type of question: Hansard F&PA, Pg 16, 26 May 2011

Date set by the committee for the return of answer: Friday, 8 July 2011

Number of pages: 2

Question:

Can you tell me how much the Future Fund has gained or lost on emerging market currency foreign exchange positions over the past three financial years?

Answer:

The Board seeks to build a portfolio that combines asset classes with differing characteristics and that is robust in a variety of economic scenarios. Currency exposures provide important diversification benefits to the investment program and can also be significant in terms of portfolio liquidity. As such currency exposures should only be considered in the context of the overall investment strategy and portfolio design.

In building a diversified global portfolio consistent with its mandate, the Board expects to have the bulk of the portfolio invested overseas and therefore, absent any hedging, it would be exposed to foreign currency volatility. However, the Board's starting position is to consider investments on a fully hedged basis (back to AUD) and then consider the extent to which it wishes to maintain currency exposures as part of the program as a whole. As outlined in the 2009-10 annual report the Board determined to maintain an exposure of 10% of the Fund to emerging market currencies.

While over the last three years there has been significant volatility in the value of the Australian dollar relative to other currencies, overall the Australian dollar has significantly strengthened over the period. With some 80% of the portfolio exposed to the Australian dollar (after hedging) this strengthening has benefited the portfolio. Naturally, however, as a result of this strengthening, the emerging market currency exposure of the Fund over the past three financial years generated a loss relative to an Australian dollar holding.

Across the portfolio, and at different times, there are elements of the portfolio that generate gains and some that incur losses. It would not be meaningful to provide details on these in

isolation. The Board focuses on performance at the portfolio level and over the period since July 2008 the Fund has grown from \$64.2 billion to \$74.6 billion (as at end March 2011).