

## **EXPLANATORY STATEMENT**

### **Objective of the Directions**

As stated in the *Higher Education Endowment Fund Act 2007* (the Act), the Government has established the Higher Education Endowment Fund (the Fund) to make grants of financial assistance to eligible higher education institutions in relation to capital expenditure and research facilities.

The Government will invest seed capital of \$6 billion in the Fund in 2007-08. In addition, the Government will seek to make further transfers to the Fund from future realised budget surpluses, subject to other policy priorities.

The responsible Ministers are to give directions, under subsection 24(1) of the Act, providing the Government's broad expectations for how the Fund will be invested and managed by the Future Fund Board of Guardians (the Board).

In developing these directions, subsection 24(3) of the Act requires that the responsible Ministers must have regard to maximising the return earned on the Fund over the long term, consistent with international best practice for institutional investments; enhancing the Commonwealth's ability to make grants of financial assistance to eligible higher education institutions in relations to capital expenditure and research facilities; any Maximum Grants Rules that are in place; and such other matters as the responsible Ministers consider relevant.

One of the other matters that the responsible Ministers consider important is that there be an Investment Mandate in place at the time the \$6 billion seed capital is credited to the Fund. This Mandate will be in place pending the development of a longer-term Investment Mandate that takes into account all relevant matters. The Mandate requires that there be a negligible chance of capital loss to facilitate a transition to a longer-term mandate, which is expected to be in place before the end of June 2008.

Subsection 24(12) of the Act requires that the Board must seek to maximise the return earned on the Fund over the long term and enhance the Commonwealth's ability to make grants of financial assistance to eligible higher education institutions in relation to capital expenditure and research facilities. The responsible Ministers recognise that the Board's obligation to seek to achieve the objectives set out in subsection 24(12) is subject to its obligations to take all reasonable steps to comply with this Mandate.

### **Directions**

In setting this Investment Mandate, the Government has considered it prudent to confine investments to assets that would maximise returns, subject to a negligible chance of capital loss, for the initial period of the Fund. A longer-term Investment Mandate will subsequently be set after appropriate analysis is complete.

#### *Limits on investment*

Investments under this direction are confined to assets that would maximise returns, subject to a negligible change of capital loss, such as securities of the Commonwealth, or of a State or Territory; securities guaranteed by the Commonwealth, a State or a

Territory; a deposit with an authorised deposit-taking institution, including a deposit evidenced by a certificate of deposit; and a bill of exchange accepted or endorsed only by an authorised deposit-taking institution. An authorised deposit-taking institution means the Reserve Bank of Australia and a body corporate in relation to which an authority under subsection 9(3) of the *Banking Act 1959* is in force.

When making decisions on investments, the Board should consider the Government's intention to issue further investment directions in the future.

*Benchmark return*

For the period that these directions are in place, the Government has directed to Board to adopt a benchmark return that is consistent with the type of assets listed under subsection 5(1) of the direction.