



Future Drought Fund Investment Mandate Direction 2019

We, JOSH FRYDENBERG, Treasurer, and MATHIAS HUBERT PAUL CORMANN, Minister for Finance, give this Direction under section 41(1) of the *Future Drought Fund Act 2019*.

Dated 15th November 2019

JOSH FRYDENBERG
Treasurer

MATHIAS HUBERT PAUL CORMANN
Minister for Finance

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Part 1 Preliminary

1 Name

This Direction is the *Future Drought Fund Investment Mandate Direction 2019*.

2 Commencement

This Direction commences on the 15th day after it is given to the Board.

Note 1: Section 42 (disallowance) of the *Legislation Act 2003* does not apply to the direction—see regulations made for the purposes of paragraph 44(2)(b) of that Act.

Note 2: Part 4 of Chapter 3 (sunsetting) of the *Legislation Act 2003* does not apply to the direction—see regulations made for the purposes of paragraph 54(2)(b) of that Act.

3 Authority

This Direction is made under the *Future Drought Fund Act 2019*.

4 Definitions

In this Direction:

Act means the *Future Drought Fund Act 2019*.

Board means the Future Fund Board of Guardians established by section 34 of the *Future Fund Act 2006*.

Consumer Price Index means the All Groups Consumer Price Index number, being the weighted average of the 8 capital cities, published by the Australian Bureau of Statistics.

Fund means the Future Drought Fund established by the Act.

Future Fund Act means the *Future Fund Act 2006*.

Responsible Ministers has the same meaning as in the Act.

Part 2 Direction

5 Object

- (1) The object of this Direction is to give guidance to the Board in relation to its investment strategy for the Fund.
- (2) The Board must seek to maximise the return earned on the Fund over the long term, consistent with international best practice for institutional investment, pursuant to section 42 of the Act, and subject to its obligations under the Act and any directions given by the Responsible Ministers under subsection 41(1) of the Act.
- (3) This Direction is given under subsection 41(1) of the Act to articulate the Government's expectations for how the Fund will be invested and managed by the Board. This sets out matters of risk and return for the Fund.

6 Benchmark return and acceptable level of risk

- (1) The Board is to adopt an average return over the long term of at least the Consumer Price Index + 2.0 to + 3.0 per cent per annum, net of costs, as the benchmark return on the Fund.
- (2) During the initial transition period, as the Board develops a long-term strategic asset allocation, the Government anticipates a return lower than the benchmark return.

Acceptable level of risk

- (1) In constructing a portfolio, the Board:
 - (a) must determine an acceptable but not excessive level of risk for the Fund; and
 - (b) must have regard to its obligations under section 18 of the Act.
- (2) The Government acknowledges that targeting the long-term benchmark return implies accepting the risk of capital losses, in adverse markets, that may be 15-20 per cent of the portfolio over a three-year period.

7 Board must consider impacts from its investment strategy

- (1) In undertaking its investment activities, the Board must act in a way that:
 - (a) minimises the potential to effect any abnormal change in the volatility or efficient operation of Australian financial markets; and
 - (b) is unlikely to cause any diminution of the Australian Government's reputation in Australian and international financial markets.

8 Corporate governance

- (1) The Board must have regard to international best practice for institutional investment in determining its approach to corporate governance principles, including in relation to its voting policy.

9 Reporting

The Board must publish quarterly portfolio updates on its website showing:

- (a) actual returns against benchmark return; and
- (b) asset allocations by category.