Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 36

Topic: **Future Fund Investment in the United States of America**

Hansard Page: E15(02/06/2010)

Senator ABETZ asked:

Senator MILNE—I remain concerned about Australia's exposure to the fallout of the subprime mortgage crisis in the US and the GFC. I want to know what our vulnerability is in relation to the Future Fund and in relation to any loans that the US Federal Reserve might have made to the Reserve Bank. I understand the Future Fund has a considerable investment in the USA. Can you tell me what percentage of that investment in the US was invested in derivatives or collateralised debt obligations and what losses the Future Fund has incurred because of that.

Dr Gruen—You have a higher estimate of the number of things I keep my head than I in fact do. We can take a question like that on notice. Do you have a copy of the budget with you?

Senator MILNE—No, I do not have those papers here.

Dr Gruen—On page 7-6 there is a table which gives the asset allocation for the Future Fund as of 31 March 2010. The categories are: Australian equities, global equities, private equity, property, infrastructure, debt securities, alternative assets, cash and Telstra holdings. So there is a breakdown there that can at least give you some information about that.

Senator MILNE—Maybe you could just take it on notice for me what percentage of the Future Fund is invested in the US, what was invested in derivatives and collateralised debt obligations, and what your estimate is of any losses to the Future Fund because of that.

Senator Sherry—The questions you are asking go to the Future Fund itself, which appeared in Finance last week. To the best of my recollection, some of the issues you have touched on were put to the Future Fund. But they should definitely go to the Future Fund. Macro do not have responsibility.

Senator MILNE—Could I just ask macro to tell me whether they think we do have ongoing exposure through the other question I asked, which was: did the US Federal Reserve loan the Reserve Bank money which it then loaned on to the banks, and what is our vulnerability about that?

Dr Gruen—My understanding is that there was a swap agreement between the Reserve Bank and the Fed, but we can certainly find out what information there is and get back to you on that.

Answer:

What percentage of the Future Fund is invested in the US?

41%. This is across all sectors of the investment program.

What was invested in derivatives and collateralised debt obligations and what is your estimate of any losses to the Future Fund because of that?

At 30 June 2010, the Board directly held A$883.6 million in Collateralised Debt Obligation securities. On those securities, there were mark to market capital gains of A$55.4 million. That number excludes interest income received, which would add to the positive returns on the assets.

Section 25 of the *Future Fund Act 2006* permits the Board to acquire derivatives for the purposes of protecting the value of an investment of the Fund, protecting the return on an investment of the Fund, achieving indirect exposure to financial assets or achieving transactional efficiency. The Board is not permitted to acquire derivatives for the purpose of speculation or leverage. The Board uses derivatives in accordance with the Act.

The most significant use of derivatives by the Board is to hedge the majority of the foreign currency exposure gained through the investment program back to AUD. At 30 June 2010, the net value of open FX derivative positions was minus A$762 million (out of a total net position of all derivative contracts of minus $864 million). Over the 2009/10 financial year (including the year end position outlined above) there was a net gain of A$1,107 million from the use of derivatives for hedging foreign currency exposure.

The audited financial statements and accompanying notes, which will be included in the 2009/10 Annual Report, provide further detail.