

Standing Committee on Finance and Public Administration

ANSWER TO QUESTION ON NOTICE

Budget Estimates Hearing – May 2009

Future Fund Management Agency

Finance and Deregulation Portfolio

Outcome 1, Program 1.1

Topic: Growth assumptions in portfolio modelling

Question reference number: F44

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Senator Bernardi asked:

Could you please tell me the assumptions, over the longer term, that you put into your model about global economic growth?

Answer:

We consider a number of macro-economic scenarios and factors when formulating asset allocation decisions over the longer term, consistent with our obligation to maximise returns with acceptable but not excessive levels of risk.

Any particular rate of growth can be accompanied by combinations of other variables including rates of inflation, fiscal and monetary positions, productivity rates and currency values. Accordingly we construct a portfolio we believe will be robust to a range of scenarios.

We operate with a range of what may eventuate with respect to long-run global economic growth rather than single point estimates. For modelling purposes, the range of possible real global growth forecasts over the long-run is as follows:

2009 - 2014

Annual average growth range of 0.8% to 3.7%

2015 onwards

Annual average growth range of 2.1% to 3.6%