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Joe Hockey's medical research future fund plan better than none

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The new Medical Research Future Fund is a sovereign wealth fund that is mandated to show its cards in advance. Source: News Limited

The biomedical sector is looking like a once-in-a-blue-moon investment opportunity following Joe Hockey's announcement in the budget of the Medical Research Future Fund.

Where we sit along the political spectrum influences our view on the merits of the budget.

However, one thing we can all agree on is that it delivers us smaller government.

For investors, this is a positive development as it should allow free enterprise a greater role in allocating private capital to seek attractive returns and manage risks. The end result is a better economy and greater prosperity.

Many critics have developed a distorted view about what the role of government is in a liberal democracy such as Australia. Some express views that would be more in keeping with a socialist economy in which the central government is expected to accomplish all.

Of course, a modern society should have safety nets, but the observations that Australians' reliance on government has risen, not reduced, concerns many domestic and foreign investors.

Even under our so-called conservative government, Australia still appears to lean heavily to the Left and the pendulum does not appear to be swinging back anytime soon. This was evidenced by the egalitarian announcement of a high-income-only deficit levy.

This may very likely increase the impetus for many to look offshore and seek out economies that more fairly balance free enterprise, civic responsibilities and taxes. You may like to look to France as an example of what happens when the government targets affluent people.

You also could view the futility of such notions in terms of a drop in the bucket once you actually work out how few are involved and how small the extra revenue is likely to be.

Whether redistribution efforts are superficial or genuine, they equally contradict the core tenets of a liberal democracy. Even worse, they ring alarm bells for domestic and global investors.

Irrespective of our views on the budget, there appears to be a diamond in the rough that excites those who see it: the newly established Medical Research Future Fund.

Australian ultra-high-net-worth and global investors alike recognise that this is a second opportunity to invest alongside a sovereign wealth fund that is mandated to show its cards in advance and has the resources to make sizeable parlays.

They know that the independently managed Australian government Future Fund (“Future Fund One”), established in 2006, openly engages the institutional and wholesale markets and often leaves trails of breadcrumbs in places where smart investors want to be. This community recognises that the announcement of this second future fund presents better opportunities than the last because not only is a new bellwether joining the flock but this one has already said it will exclusively invest in Australian medical research.

We don't need to look too far for examples of what happens to an investment asset class when governments crowd in.

The funding of biomedicine in Australia has fallen far behind the rest of the world. The funding markets to support these free enterprises remain far more fragmented in Australia than those seen in the US or Europe.

This has caused a concerning dislocation between opportunities and investments. The global investor knows that with the attention of a new, well-funded sovereign wealth fund, this dislocation will likely be reversed.

This resolution will bring a reduction in risk. This is a good outcome because this previously heightened risk was not due to the specifics of the investments but the industry fragmentation surrounding them.

This is an apt example of small government in practice. Small government does not mean no government and this example highlights why.

This is also what US president Ronald Reagan meant when, during his first inaugural speech, he said “government is not the solution to our problem; government is the problem”. Reagan was advocating smaller government that didn't hamper free enterprise but supported it.

George Maltezos, principal of Maltisian Capital, believes “this leadership helps trigger the conversation among local investors who are seeking alternative investment opportunities to build out their portfolios”.

He goes on to say that this does not mean that all opportunities are winners, but that this development more clearly helps the market separate opportunities and risks. This scenario highlights the active role governments should be playing in this process. Instead of replacing or replicating free enterprise they should be a facilitator of a national debate about what our plan for the future is. The ultra-high-net-worth investment community recognises that even if economies such as those of the US, Europe or China have the right or wrong plans, it is better than the alternative of having no plans at all. They see wisdom in the adage that if we fail to plan, we plan to fail, and this is certainly true of Australia which, to date, appears to hold no plans at all.

Until Australia decides to hold a forum where the plans for our economy can be discussed, many ultra-high-net-worth investors will continue to allocate larger proportions of their portfolios to overseas markets.

This hedges out the uncertainty that Australia's macro-political confusion has caused.

We may not like China's authoritarian central government, but when making investment decisions in China we know, at any given point, where the politburo stands on any number of issues.

This constancy of consistency aids the investment decision process for all investors. The Chinese, since 1949, have on every occasion mobilised all of their political (and thus economic) will in seeing to fruition their respective five-year plans.

These plans continued to be followed even when the results proved to have infernal consequences, such as the Great Leap Forward and the Cultural Revolution.

Australia, in contrast, continues to drift, with no plans in sight. Worse still, the national conversation appears centred on lamenting the removal of over-generous entitlements that have done little more than to suppress our free enterprise and what is referred to as our "animal spirits".

It has also confused the responsibilities of a compassionate society with those of a socialist welfare state.

The ultra-high-net-worth investment community questions why we presume that non-mining activity will automatically pick up solely because the mining boom has ended. They see no logic in this thinking.

The establishment of a second future fund is a step in the right direction but, more important, this is the time to host a national dialogue about our plans for the present and future.

The upcoming Australia in China's Century conference will help start this conversation.

Lacking a plan is the real emergency that confronts us.

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