



27 April 2017

Portfolio update at 31 March 2017

- Future Fund stands at nearly A\$130bn
- Future Fund returns 7.7% pa since inception
- The Board of Guardians now invests A\$148bn across five public asset funds

The Future Fund Board of Guardians today released its portfolio update¹ as at 31 March 2017.

Hon Peter Costello AC, Chairman of the Future Fund Board of Guardians, said:

"The Future Fund is designed to help strengthen the Commonwealth's long term financial position and it continues to perform well. Global markets have continued to deliver positive returns to investors and the portfolio has benefited from that.

"At the same time the Board remains conscious of uncertainty around global growth, global monetary policy, international political tensions and the potential for shocks to investment markets. We also expect prospective returns to be lower than in recent times. With all this in mind we continue to take a patient approach to investing, balancing the need to deliver returns against our obligation not to take excessive risk."

Mr David Neal, Managing Director, said:

"The Future Fund's overall risk level remains unchanged and towards the lower end of our normal expectations. This reflects our view that we should only take on additional risk where the expected returns are appropriate. We continue to work hard and in a disciplined way to identify areas of opportunity, taking up those with attractive risk-adjusted returns and ensuring the portfolio is flexible and efficient.

"We have continued to diversify the Medical Research Future Fund and this, as well as the other portfolios we manage, is performing well."

Future Fund performance

As at 31 March 2017 the value of the Future Fund was A\$129.6bn. The Fund has returned 7.7% pa since the Fund was established in 2006, exceeding the benchmark return target of 6.9% pa.

Since 2006 investment returns have added over \$69bn to the original contributions from government which were valued at \$60.5bn at the time of transfer.

¹ All data is unaudited and may not sum due to rounding.

The Future Fund's investment returns to 31 March 2017 are shown in Table 1, together with the target benchmark return set by the Investment Mandate:

| Table 1: Future Fund returns | | |
|-------------------------------------|----------------------|---|
| Period to 31 March 2017 | Return pa (%) | Target return pa (%) (CPI +4.5%) |
| From May 2006 | 7.7 | 6.9 |
| Ten years | 7.8 | 7.0 |
| Seven years | 9.8 | 6.7 |
| Five years | 11.0 | 6.5 |
| Three years | 9.9 | 6.1 |
| One year | 10.5 | 6.6 |
| Financial year to date | 5.6 | 5.1 |
| Quarter | 1.6 | 1.6 |

Note: Quarterly and financial year to date data is not annualised

Future Fund asset allocation

The asset allocation of the Future Fund at 31 March 2017 is shown in Table 2:

| Table 2: Future Fund asset allocation at 31 March 2017 | | |
|---|----------------|-------------------------------|
| Asset class | A\$m | Percentage of Fund (%) |
| Australian equities | 8,419 | 6.5 |
| Global equities | | |
| Developed markets | 19,655 | 15.2 |
| Emerging markets | 9,521 | 7.3 |
| Private equity | 13,714 | 10.6 |
| Property | 7,768 | 6.0 |
| Infrastructure & Timberland | 9,907 | 7.6 |
| Debt securities | 14,624 | 11.3 |
| Alternative assets | 19,560 | 15.1 |
| Cash | 26,475 | 20.4 |
| TOTAL | 129,644 | 100.0 |

Medical Research Future Fund performance

The first contribution to the Medical Research Future Fund was made on 22 September 2015 in the form of a transfer of A\$1bn from the Health and Hospitals Fund. Since then there have been two transfers from government of A\$2.1bn on 1 December 2015 and A\$1.3bn on 26 August 2016.

Initially the Medical Research Future Fund was invested in accordance with the Mandate for the Health and Hospitals Fund being the Australian three month bank bill swap rate +0.3% pa calculated on a rolling 12 month basis.

An Investment Mandate for the Medical Research Future Fund was signed by the responsible Ministers on 8 November 2015 and applied by the Board from 1 December 2015. The Investment Mandate sets a target return of at least the Reserve Bank of Australia Cash Rate target + 1.5% to 2.0% pa, net of investment fees, over a rolling 10 year term, as the benchmark return on the Fund.

The Medical Research Future Fund has achieved a return of 3.8% pa since inception, against a benchmark target return of 3.1% pa.

| Table 3: Medical Research Future Fund returns | | |
|--|---------------|----------------------|
| Period to 31 March 2017 | Return | Target return |
| From inception (22 September 2015) (% pa) | 3.8 | 3.1 |
| One year (%) | 6.3 | 3.1 |
| Financial year to date (%) | 3.6 | 2.3 |
| Quarter (%) | 1.3 | 0.7 |

Medical Research Future Fund asset allocation

The asset allocation of the Medical Research Future Fund continues to be developed and is shown in Table 4:

| Table 4: Medical Research Future Fund asset allocation at 31 March 2017 | | |
|--|--------------|-------------------------------|
| Asset class | A\$m | Percentage of Fund (%) |
| Australian equities | 173 | 3.7 |
| Global equities | | |
| Developed markets | 439 | 9.5 |
| Emerging markets | 185 | 4.0 |
| Private equity | 237 | 5.1 |
| Debt securities | 1,303 | 28.1 |
| Alternatives | 716 | 15.5 |
| Cash | 1,578 | 34.1 |
| TOTAL | 4,630 | 100.0 |

DisabilityCare Australia Fund

The Investment Mandate for the DisabilityCare Australia Fund sets a benchmark return of the Australian three month bank bill swap rate +0.3% pa calculated on a rolling 12 month basis. The Mandate requires that investments minimise the probability of capital loss over a 12 month horizon.

Consistent with the Mandate, the assets of the DisabilityCare Australia Fund are invested in a combination of short- and medium-term debt instruments.

At 31 March 2017 the value of the DisabilityCare Australia Fund was A\$6.2bn having generated a return of 2.7% over a one year period, against a benchmark target return of 2.2%.

Nation-building Funds

The Investment Mandates for the Nation-building Funds (the Education Investment Fund and the Building Australia Fund) set a benchmark return of the Australian three month bank bill swap rate +0.3% pa calculated on a rolling 12 month basis. The Mandates require that investments minimise the probability of capital loss over a 12 month horizon.

Consistent with the Mandates, the assets of the Nation-building Funds are invested in combinations of short- and medium-term debt instruments.

At 31 March 2017 the value of the Education Investment Fund was A\$3.8bn and the Building Australia Fund stood at A\$3.8bn.

The Building Australia Fund and Education Investment Fund both generated a return of 2.5% over 12 months, exceeding their benchmark return for the period of 2.2%.

ENDS

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