

# Future Fund

**Investing for the benefit of future generations of Australians**

Media briefing

**11 February 2019**

# Agenda

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3. Future Fund performance
4. Good long-term returns with lower risk
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8. Appendix
  - Investment strategy principles

# Overview

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- The Future Fund continues to perform strongly against its long-term investment mandate.
- The Fund achieved a 10-year return of 9.7% pa against a target return of 6.6% pa.
- Strong long-term results have been delivered without taking excessive risk.
- The Fund has been well positioned to navigate market volatility impacting investors globally.
- We continue to focus on our disciplined approach to managing the Fund's risk and return objective.

## Future Fund asset allocation at 31 December 2018

- We continue to focus on taking acceptable but not excessive risk: aiming to generate good long-term returns with a carefully managed level of risk.
- We have been gradually reducing risk and selling some illiquid assets in order to begin preparing for increased volatility.
- The Fund's diversified approach has continued to control risk levels whilst our selection of managers and strategies, particularly across private markets, has driven strong returns.

Future Fund asset allocation at 31 December 2018		
Asset class	A\$m	Percentage of Fund (%)
<b>Australian equities</b>	8,502	5.8
<b>Global equities</b>		
Developed markets	23,920	16.3
Emerging markets	10,706	7.3
<b>Private equity</b>	23,266	15.8
<b>Property</b>	10,534	7.2
<b>Infrastructure &amp; Timberland</b>	12,513	8.5
<b>Debt securities</b>	14,790	10.1
<b>Alternative assets</b>	21,442	14.6
<b>Cash</b>	21,354	14.5
<b>TOTAL</b>	<b>147,026</b>	<b>100.0</b>

# Future Fund performance at 31 December 2018

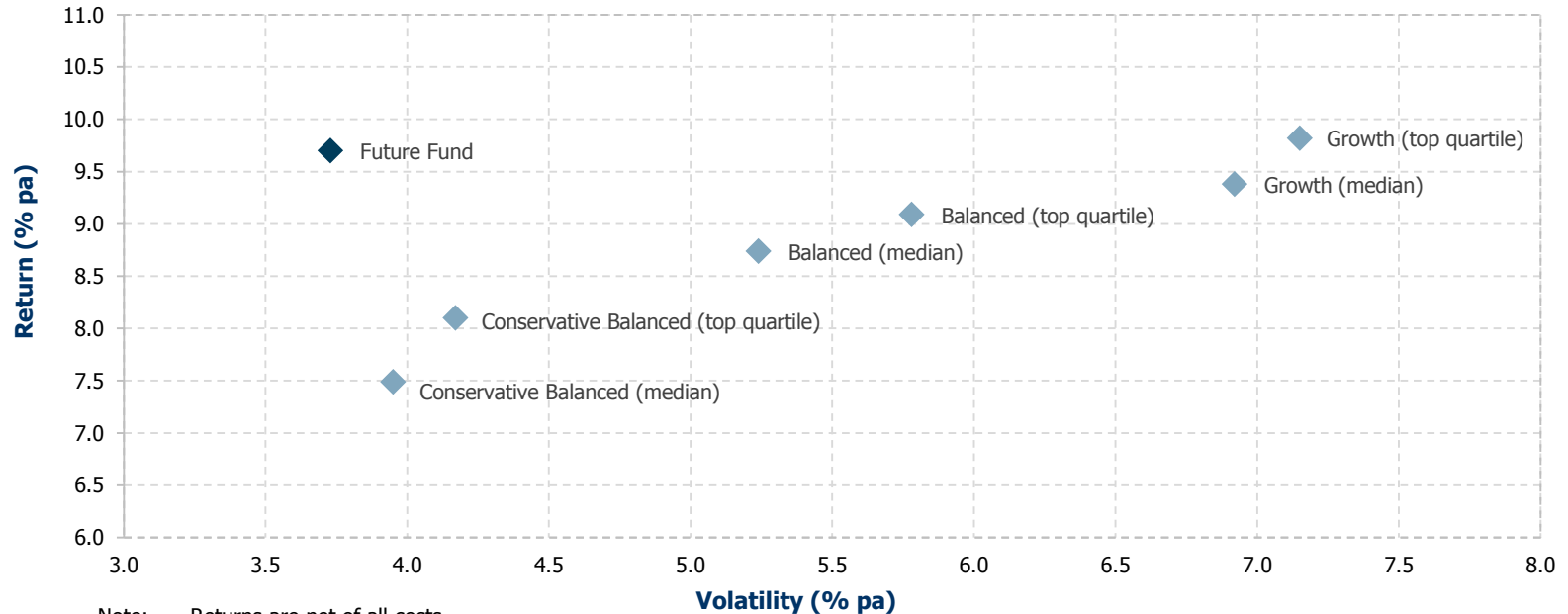
<b>Returns</b>			
<b>Period to 31 December 2018</b>	<b>Return (% pa)</b>	<b>Target return (% pa) (CPI + target return)</b>	<b>Volatility (%)</b>
From May 2006	7.6	6.8	4.1
Ten years	9.7	6.6	3.7
Seven years	10.5	6.3	3.5
Five years	8.8	6.1	3.6
Three years	7.5	6.0	3.2
One year	5.8	5.8	3.0

Note:

1. The Investment Mandate sets a benchmark target return of at least CPI + 4.5% to 5.5% pa to 30 June 2017 and CPI + 4% to 5% pa thereafter.

# Good long-term returns with lower risk

10-year risk and return Future Fund and superannuation options  
(tax adjusted)



- Comparisons between portfolios should recognise different contexts, time horizons, liquidity needs and cashflows.
- Future Fund portfolio has produced good returns with a moderate level of risk.
- Over the ten year period shown above higher risk has been well rewarded reflecting the strong bull market post financial crisis. The MSCI World Index posted a return of 12.1% pa<sup>1</sup> over the decade.
- Returns over the next decade are very unlikely to be this strong, meaning the ability to generate returns alongside disciplined risk management will be important

<sup>1</sup>Hedged to Australian dollars

# Medical Research Future Fund

- Long-term fund. Lower return and lower risk than the Future Fund.
- Investment mandate sets a target return of the Reserve Bank of Australia Cash Rate target + 1.5% to 2.0% pa, net of fees, over rolling 10-year terms.
  - acceptable but not excessive risk
  - nominal value of credits to the MRFF to be preserved over the long term
  - moderation of the volatility of maximum annual distributions
- Portfolio will be further built out and diversified over time, including as additional contributions are received.

Medical Research Future Fund asset allocation at 31 December 2018		
Asset class	A\$m	Percentage of Fund (%)
<b>Australian equities</b>	402	4.3
<b>Global equities</b>		
Developed markets	978	10.4
Emerging markets	569	6.1
<b>Private equity</b>	300	3.2
<b>Property</b>	155	1.7
<b>Debt securities</b>	2,267	24.2
<b>Alternatives</b>	1,648	17.6
<b>Cash</b>	3,055	32.6
<b>TOTAL</b>	<b>9,374</b>	<b>100.0</b>

Returns		
Period to 31 December 2018	Return (% pa)	Target return (% pa)
From inception (September 2015)	3.3	3.1
Three years	3.7	3.1
One year	1.4	3.0

# Environment and outlook

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- Equity markets experienced significant volatility in the second half of 2018.
- Looking forward, risks around economic growth, the normalisation of interest rates and geopolitical and trade tensions continue to point to a challenging outlook for investors.
- We have been carefully positioning the portfolio to navigate the volatile environment and the expectation that prospective long-term returns will be lower than in recent years.
- We continue to prioritise and balance diversification and flexibility to ensure the portfolio is as robust as possible to a range of scenarios.



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# Q & A

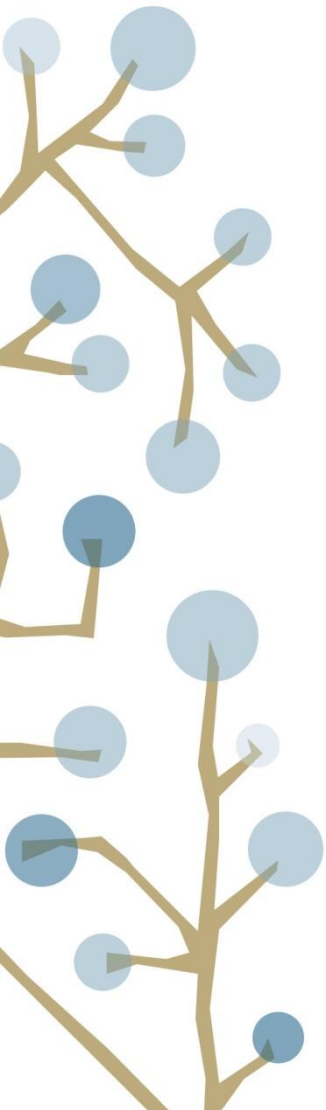
# Proven investment strategy

## Key principles

1. Our portfolio management is focused on the specific objectives of the Fund:
  - Maximise return, subject to acceptable but not excessive risk;
  - Investment Mandate benchmarks the Fund against at least CPI + 4% to 5% pa; and
  - Assessed over the long term, which we define as 10 years.
2. We construct a diversified portfolio that is, as far as possible, robust to an uncertain future
3. We believe prospective returns and risks change through time, and therefore manage the portfolio dynamically
4. We act as a single team, running an integrated process, managing a single, total portfolio
5. We seek a relatively small number of relatively large relationships
6. We manage for a net of costs return

## Implications

- Robust and disciplined investment process
- Combine long-term views of critical themes with more granular focus and the flexibility to make portfolio adjustments where needed
- Asset allocation, risk levels, performance, liquidity and investment manager relationships likely to differ to those of others



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