



28 January 2020

Portfolio update at 31 December 2019

- Future Fund reaches \$168bn.
- 10-year return of 9.9% pa exceeds benchmark target on 6.4% pa.
- 14.3% return in 2019 calendar year.
- Strong long-term results have been delivered without taking excessive risk.

The Future Fund Board of Guardians today released its portfolio update¹ as at 31 December 2019.

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

'The Future Fund is performing strongly against its objective. The Fund has earned \$107bn from its one-off capital contribution of \$61bn and now stands at \$168bn.

'The Future Fund Board of Guardians pursues long-term risk-adjusted returns. The ability to generate strong returns while carefully managing risk is paramount. At 31 December 2019 the Future Fund exceeded its benchmark target across all time horizons while meeting its risk profile.

'Equity markets performed strongly in the last quarter, supported by easy monetary policy. It is important to assess which asset values are supported by earnings as opposed to those supported merely by cheap money. Looking forward, a number of risks remain. Global debt levels and demographic pressures will shape economies and markets over the medium to long term. We maintain our long-held view that prospective returns will be lower than recent returns.

'On 12 December 2019 the Board took on management of the Emergency Response Fund, which was seeded with capital from the Education Investment Fund.

'Across six different public asset funds, the Future Fund Board of Guardians is now investing over \$212bn for the benefit of future generations of Australians.'

Mr David Neal, Chief Executive Officer, said:

'We remain sharply focused on our purpose of investing for the benefit of future generations of Australians.

'We have been carefully positioning the portfolio to navigate the challenging investment environment. We are maintaining an average level of risk in the portfolio, sitting around the middle of the expected range. We continue to prioritise portfolio flexibility to ensure we can adjust the portfolio quickly to respond to emerging opportunities and risks.

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

'We are also focused on identifying and taking advantage of our managers' skill so that we can add additional return or reduce risk. This includes our focus on strategies that have low correlation with risk assets.

'On Monday, 23 December 2019 we were pleased to acquire a material interest in Canberra Data Centres, a leading operator of data centre facilities. This is a high-quality asset that takes advantage of the powerful secular trend of data growth and cloud computing.'

Future Fund

Performance

The Future Fund is valued at \$168bn delivering a return of 9.9% pa over the last 10 years.

Since 2006 when the Future Fund was established investment returns have added over \$107bn to the original contributions received from government which were valued at \$60.5bn at the time of transfer.

The Future Fund's investment returns to 31 December 2019 are shown below, together with the target benchmark return set by the Investment Mandate:

Table 1: Future Fund returns and volatility			
	Return (% pa)	Target return¹ (% pa) (CPI + target return)	Volatility² (%)
From May 2006	8.1	6.7	4.1
10 years	9.9	6.4	3.6
7 years	10.7	6.2	3.6
5 years	9.0	5.9	3.8
3 years	9.6	5.8	3.4
1 year	14.3	5.5	3.6

Notes:

1. From 1 July 2017 the Fund's Investment Mandate benchmark return was reduced from CPI + 4.5% to 5.5% pa to CPI + 4% to 5% pa over the long term, with an acceptable but not excessive level of risk.
2. Industry measure showing the level of realised volatility in the portfolio.
3. The Future Fund returned 1.4% over the quarter.

Asset allocation

Asset class	\$m	% of Fund
Australian equities	11,450	6.8
Global equities		
Developed markets	31,997	19.0
Emerging markets	17,144	10.2
Private equity	24,967	14.9
Property	10,545	6.3
Infrastructure & Timberland	11,844	7.0
Debt securities	14,432	8.6
Alternatives	22,600	13.4
Cash	23,076	13.7
TOTAL	168,054	100.0

Medical Research Future Fund

Performance

The Medical Research Future Fund is valued at \$18bn, delivering a return of 4.4% pa since inception exceeding its target return of 3.0% pa.

The Medical Research Future Fund is a long-term fund. The Investment Mandate for the Fund was applied by the Board from 1 December 2015 and sets a 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.

The Medical Research Future Fund's investment returns to 31 December 2019 are shown below, together with the target benchmark return set by the Investment Mandate:

	Return (% pa)	Target return (% pa) (RBA cash rate + 1.5% pa)
From inception (22 September 2015)	4.4	3.0
3 years	4.8	2.9
1 year	8.0	2.7

Asset allocation

Asset class	\$m	% of Fund
Australian equities	844	4.7
Global equities		
Developed markets	1,946	10.9
Emerging markets	1,216	6.8
Private equity	379	2.1
Property	538	3.0
Infrastructure	618	3.5
Debt securities	2,247	12.6
Alternatives	1,630	9.1
Cash	8,434	47.2
TOTAL	17,851	100.0

Aboriginal and Torres Strait Islander Land and Sea Future Fund

The Aboriginal and Torres Strait Islander Land and Sea Future Fund (“**ATSILS Fund**”) was established in February 2019 to enhance the Commonwealth’s ability to make payments to the Indigenous Land and Sea Corporation.

The ATSILS Fund was established with a capital contribution of \$2bn transferred from the Aboriginal and Torres Strait Islander Land Account.

The Fund’s Investment Mandate requires the Board to target an average return, net of costs, of at least the Consumer Price Index + 2.0% to 3.0% pa over the long term while taking an acceptable but not excessive level of risk.

During the development of a long-term investment strategy the ATSILS Fund was invested in a combination of cash and short-term deposit instruments.

From 1 October 2019 the ATSILS Fund gained exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund. Measurement of performance against the Investment Mandate commenced on 1 October 2019.

The ATSILS Fund has generated a return of 2.4% since inception, exceeding its target return of 1.9%.

The ATSILS Fund is valued at \$2bn.

Asset allocation

Asset class	\$m	% of Fund
Australian equities	123	6.1
Global equities		
Developed markets	284	14.2
Emerging markets	176	8.8
Private equity	55	2.7
Property	78	3.9
Infrastructure	90	4.5
Debt securities	236	11.8
Alternatives	236	11.8
Cash	723	36.1
TOTAL	2,002	100.0

1. Exposures on a look through basis.

Future Drought Fund

The Future Drought Fund was established in 2019 to support initiatives that enhance the drought resilience of Australian farms and communities.

The Future Drought Fund was established with a capital contribution of \$4bn, transferred from the Building Australia Fund which was closed on 1 September 2019.

The Future Drought Fund is in an initial transition phase while the Board develops a long-term investment strategy.

From the conclusion of the transition period, the Investment Mandate for the Future Drought Fund requires the Board to target an average return, net of costs, of at least the Consumer Price Index plus 2.0% to 3.0% pa over the long term while taking an acceptable but not excessive level of risk.

At 31 December 2019 the Fund generated a return of 0.4% since inception and is valued at \$4bn.

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 mandates require 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-term and medium-term debt instruments.

The DisabilityCare Australia Fund is valued at \$16.4bn, delivering a return of 1.9% over the last 12 months against a benchmark target of 1.8%.

Emergency Response Fund and Education Investment Fund

The Emergency Response Fund was established with a capital contribution of \$4bn, transferred from the Education Investment Fund which was closed on 12 December 2019.

Over the 12 months to 30 November 2019 the Education Investment Fund generated a return of 2.0% against its benchmark of 1.9%.

The government will issue the Board with the Emergency Response Fund's investment mandate in due course. The Future Fund Board of Guardians will develop a long-term investment strategy for the Fund in line with its investment mandate.

The Emergency Response Fund is valued at \$4bn.

Total funds under management

Table 6: Funds under management at 31 December 2019	
	Value \$m
Future Fund	168.1
Medical Research Future Fund	17.9
Aboriginal and Torres Strait Islander Land and Sea Future Fund	2.0
DisabilityCare Australia Fund	16.4
Future Drought Fund	4.0
Emergency Response Fund	4.0
TOTAL	212.4

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