



1 February 2022

Portfolio update at 31 December 2021

- Future Fund surpasses \$200bn for the first time
- Fund returns 19.1% for the year, against a target of 7.5%
- 10-year return of 10.8% pa against a target of 6.2% pa
- Total funds under management stand at \$252bn

The Board of Guardians today released its portfolio updateⁱ to 31 December 2021.

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

"The Future Fund continued to grow over the December quarter, contributing to an annual return of 19.1% for the calendar year.

"Over 10 years the Fund has delivered a 10-year return of 10.8% pa against a target of 6.2% pa. The Future Fund reached a record \$204bn as at the end of 2021. It has had no additional capital since formation. Investment returns have added over \$143bn to the \$60.5bn originally contributed by Government when the Fund was established in 2006.

"The Fund has been carefully positioned to successfully navigate the challenges thrown up by the COVID-19 pandemic over the last few years and it has delivered exceptional returns.

"The biggest challenge for investment at present is rising inflation, rising interest rates and the effect these will have on asset prices. We have come through a period of exceptional stimulation through monetary policy. This policy will have to come to an end. The adjustment will be significant.

"The Board's focus is on positioning the portfolio to be resilient to an environment of greater uncertainty and we expect future returns to be lower than in recent years."

Dr Raphael Arndt, Chief Executive Officer, said:

"The portfolio continues to be positioned with a neutral risk setting and around the middle of the range we would normally expect. However, we have taken some risk off, particularly in the listed equities program, given the run-up in prices and our view is that risk is likely to be less well-rewarded in future.

"Our work last year to analyse how the pandemic was accelerating changes in the investment landscape is proving valuable.

"We anticipate lower returns in the future. In response we are seeking out opportunities to access value from less liquid and more skill-based investments and working our relationships with partners to identify more focused opportunities both to secure returns and to manage risk.

"Looking ahead we remain focused on sustaining a portfolio that is as robust as possible to a range of scenarios, and that balances our risk and return objectives."

Future Fund

Performance

Table 1: Future Fund returns, target benchmarks and volatility

	Return (% pa)	Target return¹ (% pa)	Volatility² (%)
From inception (May 2006)	8.3	6.6	4.4
10 years	10.8	6.2	4.3
Seven years	9.3	6.0	4.7
Five years	9.8	6.0	4.8
Three years	11.5	6.1	5.6
One year	19.1	7.5	6.0

Note: The Future Fund returned 2.2% over the quarter to 31 December 2021 and 3.4% for the financial year to date.

1. From 1 July 2017 the Fund's Investment Mandate target 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.

Asset allocation

Table 2: Future Fund asset allocation

Asset class	\$m	% of Fund
Australian equities	15,449	7.6%
Global equities		
Developed markets	31,871	15.7
Emerging markets	15,656	7.7
Private equity	34,255	16.8
Property	13,149	6.5
Infrastructure & Timberland	16,309	8.0
Debt securities	14,250	7.0
Alternatives	28,405	14.0
Cash	34,239	16.8
TOTAL	203,583	100.0

Medical Research Future Fund

Performance

Table 3: Medical Research Future Fund returns and target benchmarks

	Return (% pa)	Target return¹ (% pa)
From inception (22 September 2015)	4.7	2.5
Five years	5.1	2.4
Three years	6.3	2.0
One year	8.6	1.5

Note: The Medical Research Future Fund returned 1.5% over the quarter to 31 December 2021 and 1.9% for the financial year to date.

1. RBA cash rate plus 1.5% to 2.0% pa over the long term, with an acceptable but not excessive level of risk.

Asset allocation

Table 4: Medical Research Future Fund asset allocation

Asset class	\$m	% of Fund
Australian equities	859	3.9
Global equities		
Developed markets	1,469	6.6
Emerging markets	849	3.8
Private equity	1,080	4.8
Property	1,015	4.6
Infrastructure & Timberland	1,093	4.9
Debt securities	2,706	12.1
Alternatives	3,615	16.2
Cash	9,598	43.1
TOTAL	22,283	100.0

ATSILS Fund

Performance

Table 5: ATSILS Fund returns and target benchmarks

	Return (% pa)	Target return¹ (% pa)
From inception (1 October 2019)	6.4	4.2
One year	10.7	5.5

Note: The ATSILS Fund returned 1.8% over the quarter to 31 December 2021 and 2.3% for the financial year to date.

1. CPI + 2.0% to 3% pa over the long term, with acceptable but not excessive level of risk.

Asset allocation

Table 6: ATSILS Fund asset allocation¹

Asset class	\$m	% of Fund
Australian equities	108	5.0
Global equities		
Developed markets	188	8.7
Emerging markets	108	5.0
Private equity	136	6.3
Property	128	5.9
Infrastructure & Timberland	137	6.4
Debt securities	340	15.8
Alternatives	455	21.1
Cash	558	25.9
TOTAL	2,157	100.0

1. Exposures on a look-through basis.

Future Drought Fund

Performance

Table 7: Future Drought Fund returns and target benchmarks

	Return (% pa)	Target return¹ (% pa)
From inception (1 April 2020)	11.3	4.3
One year	10.8	5.5

Note: The Future Drought Fund returned 1.8% over the quarter to 31 December 2021 and 2.4% for the financial year to date.

1. The Investment Mandate for the Future Drought Fund is CPI + 2.0% to 3.0% pa over the long term, with an acceptable but not excessive level of risk.

Asset allocation

Table 8: Future Drought Fund asset allocation¹

Asset class	\$m	% of Fund
Australian equities	234	5.0
Global equities		
Developed markets	400	8.6
Emerging markets	231	5.0
Private equity	292	6.3
Property	275	5.9
Infrastructure & Timberland	296	6.3
Debt securities	733	15.7
Alternatives	979	21.0
Cash	1,220	26.2
TOTAL	4,659	100.0

1. Exposures on a look-through basis.

Emergency Response Fund

Performance

Table 9: Emergency Response Fund returns and target benchmarks

	Return (% pa)	Target return ¹ (% pa)
From inception (1 April 2020)	11.3	4.3
One year	10.8	5.5

Note: The Emergency Response Fund returned 1.8 % over the quarter to 31 December 2021 and 2.4% for the financial year to date.

1. The Investment Mandate for the Emergency Response Fund is CPI + 2.0% to 3.0% pa over the long term, with an acceptable but not excessive level of risk.

Asset allocation

Table 10: Emergency Response Fund asset allocation¹

Asset class	\$m	% of Fund
Australian equities	238	5.0
Global equities		
Developed markets	408	8.6
Emerging markets	235	4.9
Private equity	298	6.2
Property	280	5.9
Infrastructure & Timberland	301	6.3
Debt securities	746	15.7
Alternatives	996	20.9
Cash	1,263	26.5
TOTAL	4,764	100.0

1. Exposures on a look-through basis.

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.

In line with its Investment Mandate, the DisabilityCare Australia Fund is invested in long-term deposits and cash.

The Fund is valued at \$14.9bn as at 31 December 2021, delivering a return of 0.1% over the last 12 months against a benchmark target of 0.3%.

Total funds under management

	Value \$bn
Future Fund	203.6
Medical Research Future Fund	22.3
Aboriginal and Torres Strait Islander Land and Sea Future Fund	2.2
Future Drought Fund	4.7
Emergency Response Fund	4.8
DisabilityCare Australia Fund	14.9
TOTAL	252.5

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Notes:

1. All data in this update is unaudited and may not sum due to rounding.
2. The ATSILS Fund, Future Drought Fund and Emergency Response Fund gain exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund and exposures are provided on a look-through basis.