

Future Fund

Investing for the benefit of future generations of Australians

Media briefing

28 January 2020

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Overview

- Future Fund reaches \$168bn
- 10-year return of 9.9% pa exceeds benchmark target of 6.4% pa
- 2019 annual return of 14.3%
- Total earnings now over \$107bn on \$61bn of capital
- Strong returns on a risk-adjusted basis

Future Fund performance at 31 December 2019

Table 1: Future Fund returns

Period to 31 December 2019	Return (% pa)	Target return (% pa) (CPI + target return)	Volatility (%)
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

Note: 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.

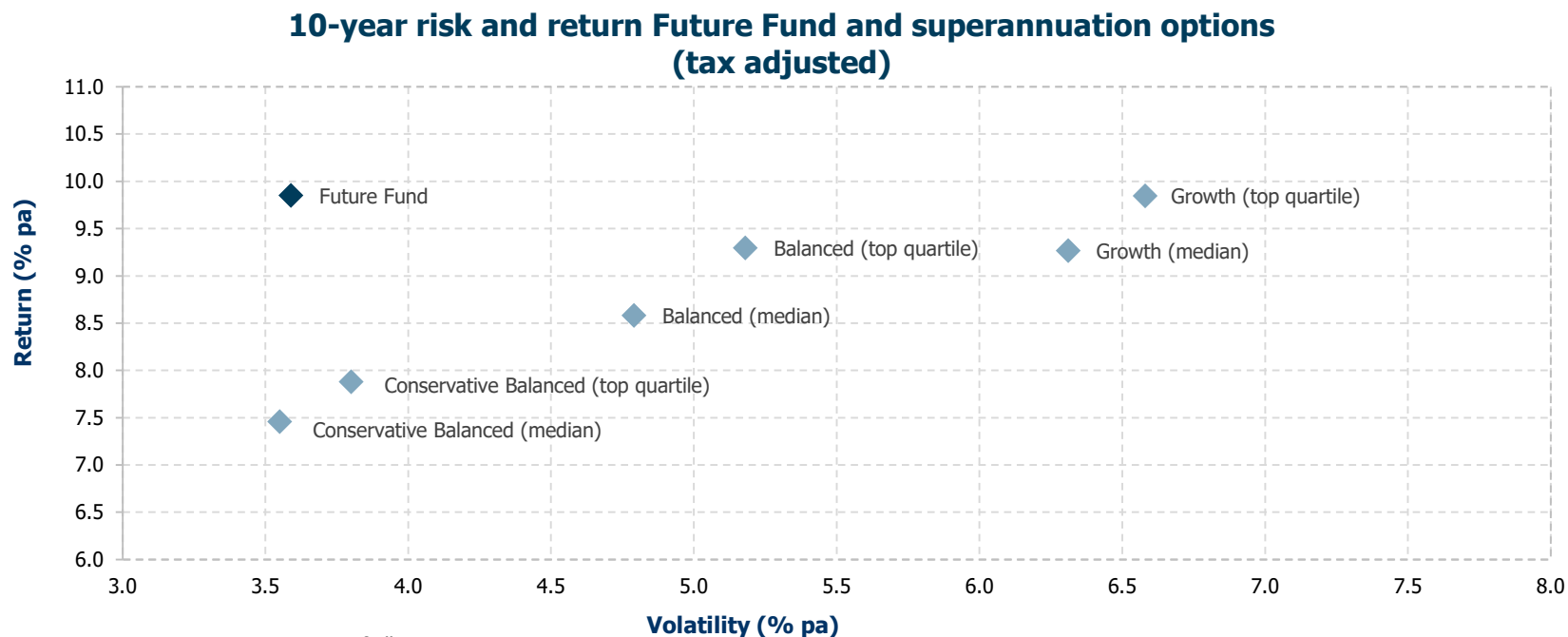
Future Fund asset allocation at 31 December 2019

- We have been carefully positioning the portfolio to navigate the challenging investment environment. Risk levels are sitting at 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.
- At the end of 2019 we were pleased to acquire a material interest in Canberra Data Centres, a leading operator of data centre facilities.

Table 2: Future Fund asset allocation at 31 December 2019

Asset class	A\$m	Percentage 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

Good long-term returns with lower risk



Source: SuperRatings data grossed up to address the Future Fund's tax position using an estimate derived by the Future Fund.

- 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.
- 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.

Medical Research Future Fund (“MRFF”)

- 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

Table 3: MRFF asset allocation at 31 December 2019

Asset class	A\$m	Percentage 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

Table 4: MRFF returns

Period to 31 December 2019	Return (% pa)	Target return (% pa)
From inception (September 2015)	4.4	3.0
3 years	4.8	2.9
1 year	8.0	2.7

Aboriginal and Torres Strait Islander Land and Sea Future Fund ("ATSILS Fund")

- 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.
- 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%.

Table 5: ATSILS asset allocation at 31 December 2019¹

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.

Environment and outlook

- Equity markets performed strongly in the last quarter of 2019, supported by easy monetary policy.
- We remain alert to a range of uncertainties and risks.
- Global debt levels and demographic pressures will shape economies and markets over the medium to long term.
- We continue to prioritise portfolio flexibility, ensuring the portfolio is as robust as possible to a range of possible scenarios.
- We maintain our view that prospective long-term real returns will be lower than recent returns.

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 Future Fund 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.
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.