

# Future Fund

Investing for the benefit of future generations of Australians

Media briefing

31 January 2017

# Agenda

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3. Dynamic portfolio management
4. Future Fund asset allocation
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  - Investment strategy principles

# Overview

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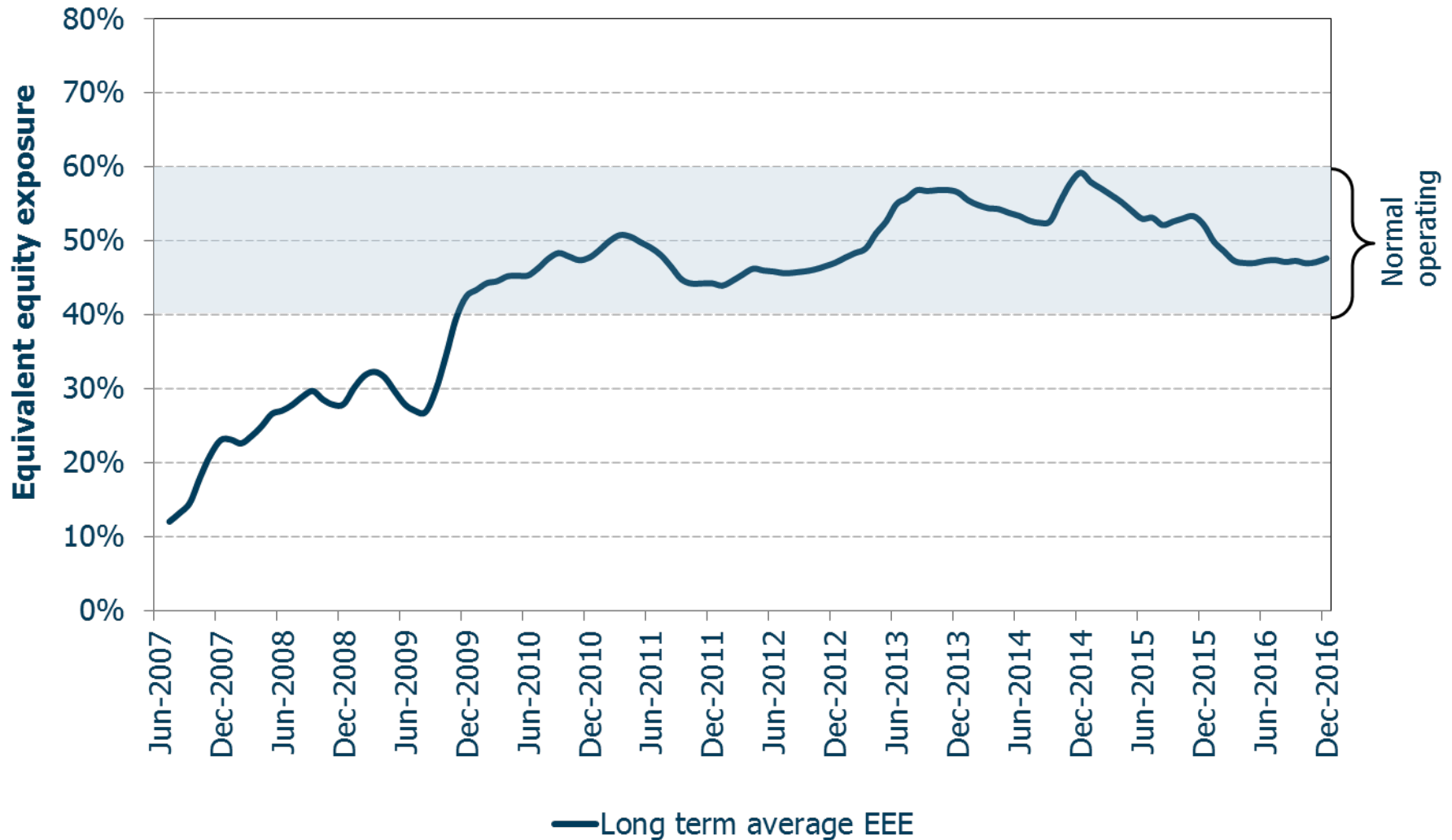
- Future Fund has grown to \$127.66bn.
- The portfolio has exceeded its benchmark return over both short and long-term time horizons.
- Investment returns have added over \$67bn to the original contributions of \$60.5bn.
- Outlook for the investment environment remains challenging and we continue to see prospective returns as lower than in recent years.
- The Board now invests five public asset Funds for the benefit of future generations of Australians with a combined value of over A\$145bn.

# Future Fund performance at 31 December 2016

Returns		
Period to 31 December 2016	Return pa (%)	Target return pa (%) (CPI +4.5%)
From May 2006	7.7%	6.9%
Ten years	7.8%	6.9%
Seven years	10.0%	6.7%
Five years	11.8%	6.5%
Three years	9.8%	6.1%
One year	7.8%	6.0%
Financial year to date	4.0%	3.6%
Quarter	2.4%	1.7%

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

# We dynamically manage the portfolio to reflect the investment environment



## Future Fund asset allocation at 31 December 2016

- We have continued to position the portfolio below a neutral risk setting.
- We are comfortable that our positioning is appropriate given the outlook for the investment environment and our belief that we should only take on risk where the potential rewards justify it.
- We continue to identify and pursue investment opportunities that offer strong risk-adjusted returns.

Future Fund asset allocation at 31 December 2016		
Asset class	A\$ m	Percentage of Fund
<b>Australian equities</b>	8,501	6.7%
<b>Global equities</b>		
Developed markets	19,166	15.0%
Emerging markets	9,426	7.4%
<b>Private equity</b>	13,866	10.9%
<b>Property</b>	7,926	6.2%
<b>Infrastructure &amp; Timberland</b>	10,064	7.9%
<b>Debt securities</b>	15,332	12.0%
<b>Alternative assets</b>	18,179	14.2%
<b>Cash</b>	25,197	19.7%
<b>TOTAL</b>	<b>127,658</b>	<b>100.0%</b>

# Medical Research 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
- Lower return and lower risk than the Future Fund.
- Contributions of \$4.43bn received to date.
- Current portfolio will be further diversified over time.

Medical Research Future Fund asset allocation at 31 December 2016		
Asset class	A\$ m	Percentage of Fund
<b>Australian equities</b>	182	4.0%
<b>Global equities</b>		
Developed markets	477	10.4%
Emerging markets	199	4.4%
<b>Private equity</b>	248	5.4%
<b>Debt securities</b>	1,442	31.6%
<b>Alternatives</b>	443	9.7%
<b>Cash</b>	1,576	34.5%
<b>TOTAL</b>	<b>4,568</b>	<b>100.0%</b>

**Note:** The reduction in debt securities in comparison to previous updates reflects a reclassification of some low risk securities into the cash portfolio rather than a material change in the portfolio.

Returns		
Period to 31 December 2016	Return	Target return
From inception (22 September 2015)	3.4% pa	3.1% pa
One year	4.5%	3.2%
Quarter	0.8%	0.7%

# Environment and outlook

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- Global equity markets have strengthened over recent months.
- At the same time, uncertainty regarding global monetary policy and a range of geopolitical factors remains.
- We continue to cautiously and prudently manage our capital given the uncertain environment.
- Diversification remains a key part of our investment approach.
- The portfolio is positioned so that it is capable of generating good returns in positive markets while having some protection from market weakness.



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# Q & A

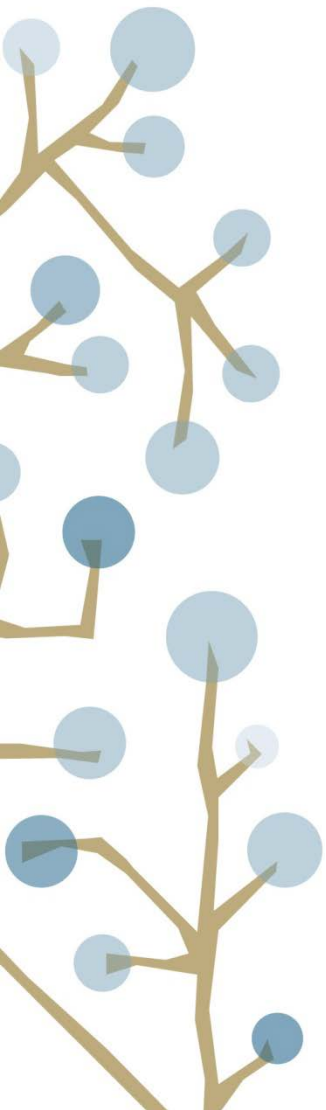
# Proven investment strategy

## 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+4.5 – 5.5% 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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