



21 October 2019

Portfolio update at 30 September 2019

- Future Fund stands at \$165.7bn
- 10-year return of 10.0% pa exceeds benchmark target of 6.5% pa
- Strong returns on a risk-adjusted basis
- Future Fund Board of Guardians now invests \$210bn across six public asset funds.

The Future Fund Board of Guardians today released its portfolio update¹ as at 30 September 2019.

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

'The Future Fund continues to perform strongly in pursuit of its objective, which is to strengthen the Commonwealth's long-term financial position.

'The Fund delivered a 10-year return of 10% pa, growing to \$166bn. The Fund's strong long-term returns have been achieved while carefully and prudently managing risk levels in the portfolio.

'The Board remains alert to the uncertain outlook for global growth and the potential for shocks to markets while recognising that accommodative monetary policy continues to support asset prices.

'Looking to the longer-term, the global economy remains challenged by factors including demographics and debt levels. Adding to this, prospective long-term returns remain lower than in recent years. The Board's thoughtful and disciplined approach to investing will remain paramount as we navigate this environment.

'Taking the Future Fund together with the five other public asset funds the Board is responsible for investing, the Board of Guardians today invests \$210bn for the benefit of future generations of Australians.'

Mr David Neal, Chief Executive Officer, said:

'The Future Fund continues to deliver strong risk-adjusted long-term returns. Its overall portfolio positioning and levels of risk are unchanged. We continue to prioritise diversification to help manage risk and flexibility to support our ability to adjust the portfolio dynamically as the investment environment changes.

'A \$7.8bn contribution to the Medical Research Future Fund was received in July 2019 and is being invested in line with our investment strategy for this portfolio.'

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

Future Fund

Performance

The Future Fund is valued at \$165.7bn, delivering a return of 10% pa over the last 10 years.

Since 2006 when the Future Fund was established, investment returns have added \$105bn to the original contributions made by the government which were \$60.5bn at the time of transfer. No contributions have been made to the Fund since 2008.

The Future Fund has exceeded its benchmark return over each relevant time period while prudently managing risk, as shown below:

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	10.0	6.5	3.6
Seven years	11.0	6.1	3.6
Five years	9.7	5.9	3.8
Three years	10.0	5.9	3.5
One year	11.3	5.6	4.3

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 1.9% over the quarter.

Asset allocation

Table 2: Future Fund asset allocation

Asset class	\$m	% of Fund
Australian equities	11,797	7.1
Global equities		
Developed markets	31,889	19.2
Emerging markets	16,504	10.0
Private equity	26,196	15.8
Property	11,037	6.7
Infrastructure & Timberland	11,753	7.1
Debt securities	14,835	9.0
Alternatives	22,754	13.7
Cash	18,968	11.4
TOTAL	165,733	100.0

Medical Research Future Fund

Performance

The Medical Research Future Fund is valued at \$17.6bn, delivering a return of 4.4% pa since inception exceeding its target return of 3.0%.

The Fund received a contribution of \$7.8bn from the Australian Government in July 2019.

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.

Prior to this, the Fund was invested in accordance with the Mandate for the Health and Hospitals Fund being the Australian three-month bank bill swap rate + 0.3% pa calculated on a rolling 12-month basis.

Table 3: Medical Research Future Fund returns

	Return (% pa)	Target return (% pa) (RBA cash rate + 1.5% pa)
From inception (22 September 2015)	4.4	3.0
Three years	4.7	3.0
One year	5.1	2.9

Asset allocation

Table 4: Medical Research Future Fund asset allocation

Asset class	\$m	% of Fund
Australian equities	835	4.7
Global equities		
Developed markets	1,957	11.1
Emerging markets	1,138	6.5
Private equity	486	2.8
Property	590	3.3
Infrastructure	387	2.2
Debt securities	2,412	13.7
Alternatives	1,911	10.8
Cash	7,932	44.9
TOTAL	17,648	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 \$2.0bn 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.

Asset class	\$m	% of Fund
Australian equities	125	6.3
Global equities		
Developed markets	293	14.8
Emerging markets	178	9.0
Private equity	62	3.1
Property	75	3.8
Infrastructure	49	2.5
Debt securities	238	12.0
Alternatives	240	12.1
Cash	718	36.3
TOTAL	1,978	100.0

Note:

1. Exposures are at 1 October 2019 on a look through basis.

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 will commence therefore from 1 October 2019.

The ATSILS Fund has generated a return of 1.3% since the Board took on responsibility for the ATSILS Fund on 1 February 2019.

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 \$16.6bn, delivering a return of 2.1% over the last 12 months against a benchmark target of 2.0%.

Education Investment Fund

The Investment Mandate for the Education Investment 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.

Consistent with its mandate, the assets of the Education Investment Fund are invested in a combination of short-term and medium-term debt instruments.

The Education Investment Fund stands at \$4.0bn, delivering a one-year return of 2.1% against a benchmark of 2.0%.

Future Drought Fund and Building Australia Fund

The assets of the Building Australia Fund (\$4.0bn) were transferred to the new Future Drought Fund on 1 September 2019.

Over the 12 months to 31 August 2019 the Building Australia Fund had generated a return of 2.2% against its benchmark of 2.1%

The Government will issue the Board with the Future Drought 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.

During the initial transition period the Fund is invested in line with the Building Australia Fund Investment Mandate.

The Future Drought Fund is valued at \$4.0bn.

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