



27 January 2016

Portfolio update at 31 December 2015

- Future Fund returns 8.4% for calendar year
- Future Fund value grows to A\$118.4bn

The Future Fund, Australia's Sovereign Wealth Fund, today released its portfolio update¹ as at 31 December 2015 and conducted its regular media briefing. A copy of the briefing pack is available at http://www.futurefund.gov.au/news_room/media_releases

Future Fund performance

The Future Fund generated a return of 8.4% for the 12 months ending 31 December 2015.

The Fund grew to A\$118.4bn. Since 2006 investment returns of A\$57.9bn have been generated on the original contributions from government which were valued at \$60.5bn at the time of transfer.

Returns		
Period to 31 December 2015	Return pa	Target return (CPI+4.5%) ²
From May 2006	7.7%	7.0%
Seven years	10.7%	6.8%
Five years	10.5%	6.8%
Three years	12.9%	6.5%
One year	8.4%	6.1%
Six months	1.0%	3.1%
Quarter	0.5%	1.4%

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

"Our purpose is to invest over the long-term for the benefit of future generations of Australians. Given this objective we aim to position the portfolio so that it is capable of generating good returns in positive markets while having some protection from market weakness.

"For some time we have highlighted that the run up in asset prices has been driven by record low interest rates and that the withdrawal of monetary stimulus would likely see prospective returns lower than in recent years. We have also been conscious of the risks across markets as central banks adjust their policy settings and as policy makers attempt to generate sustainable growth. This outlook means greater volatility and lower prospective returns and we have been adjusting the portfolio accordingly."

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¹ Data is unaudited

² The Future Fund's mandate is to target a return of at least CPI+4.5 to 5.5%pa over the long term with acceptable but not excessive risk.

Mr David Neal, Managing Director of the Future Fund, said:

“We have gradually reduced the level of risk in the portfolio through 2015, reflecting our view of the investment environment. In addition to reducing our global equity exposure we have also rebalanced our private equity portfolio locking in some of the strong gains which had been achieved. This has contributed to the rise in our cash holdings. With the help of our managers and research partners, we’re continuing to work hard to identify opportunities that offer diversification to the portfolio and that can help us achieve returns in line with our mandate whilst controlling risk in these challenging times.”

Future Fund asset allocation

Asset class	31 December 2015	
	A\$ million	Percentage of Fund
Australian equities	7,713	6.5
Global equities		
Developed markets	20,335	17.2
Emerging markets	8,690	7.3
Private equity	12,316	10.4
Property	7,657	6.5
Infrastructure & Timberland	8,462	7.1
Debt securities	13,915	11.8
Alternative assets	14,881	12.6
Cash	24,445	20.6
TOTAL	118,416	100

Data may not sum due to rounding

Medical Research Future Fund

The first contribution to the Medical Research Future Fund was made on 22 September 2015 in the form of a transfer of \$1.010 billion from the Health and Hospitals Fund with a further transfer from government of \$2.139 billion on 1 December 2015.

Initially the Medical Research Future 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.

An investment mandate for the Medical Research Future Fund was signed by the responsible Ministers on 8 November 2015 and applied by the Board from 1 December 2015. The investment mandate sets a target return of at least the Reserve Bank of Australia Cash Rate target + 1.5 to 2.0 per cent per annum, net of investment fees, over a rolling 10 year term as the benchmark return on the Fund.

The Medical Research Future Fund has generated a return of minus 0.1% since the first contribution to the Fund. At 31 December 2015 the Medical Research Future Fund was valued at A\$3.139 billion.

Medical Research Future Fund asset allocation

In line with the investment mandate the Board has begun investing the Medical Research Future Fund. The Board will continue to develop the portfolio in accordance with its investment strategy.

Asset class	31 December 2015	
	A\$ million	Percentage of Fund
Australian equities	192	6.1
Global equities		
Developed markets	468	14.9
Emerging markets	49	1.6
Debt securities	1,514	48.3
Cash	914	29.1
TOTAL	3,139	100

Nation-building Funds

The investment mandates for the Nation-building Funds (the Education Investment Fund and the Building Australia Fund) set 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 mandates, the assets of the three funds are invested in combinations of short- and medium-term debt instruments.

At 31 December 2015 the value of the Education Investment Fund was A\$3.708 billion, the Building Australia Fund stood at \$3.651 billion. The Health and Hospitals Fund was discontinued as part of the establishment of the Medical Research Future Fund with \$1.01 billion transferred to the Medical Research Future Fund and \$453 million returned to government.

Over the last 12 months the Building Australia Fund and Education Investment Fund returned 2.7% and 2.6% respectively. The target benchmark return for both funds during that period was 2.6%.

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- and medium-term debt instruments.

At 31 December 2015 the value of the DisabilityCare Australia Fund was A\$4.29 billion having generated a return of 2.8% for the 12 months against a target of 2.6%.

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