



31 January 2017

Portfolio update at 31 December 2016

- Future Fund grows to over A\$127 billion
- Future Fund returns 7.8% for 2016 calendar year

The Future Fund Board of Guardians today released its portfolio update¹ as at 31 December 2016.

Future Fund performance

The Future Fund generated a return of 7.8% for the 12 months ending 31 December 2016, growing to A\$127.66bn.

Since 2006 when the Future Fund was established investment returns have added returns of over A\$67bn to the original contributions from government which were valued at A\$60.5bn at the time of transfer.

The Future Fund's investment returns to 31 December 2016 are shown below, together with the target benchmark return set by the Investment Mandate:

Returns: Future Fund		
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

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

"The object of the Future Fund is to strengthen the long-term financial position of the Commonwealth Government. To that end the Fund's mandate is to achieve strong returns while avoiding excessive risk.

"In the pursuit of strong returns we are keenly aware of our responsibility to manage risk. With our long-term objective front of mind the Board exercises patience and diligence in investing the assets of the Fund, ensuring we do not expose the portfolio to undue risks for the sake of short-term gains.

¹ Data is unaudited and may not sum due to rounding.

“We are pleased with our performance to 31 December 2016. The results are a reflection of a disciplined investment approach, with the Future Fund consistently exceeding its long-term benchmark.

“While global equity markets have strengthened over recent months, uncertainty regarding global monetary policy and a range of geopolitical factors remains. We maintain our long-held view that we see a challenging investment environment ahead with elevated risks and lower prospective returns than in previous years.”

Mr David Neal, Managing Director, said:

“We continue to cautiously and prudently manage the assets of the Future Fund. Given the uncertain and challenging outlook for investment returns, we are focused on maintaining our discipline to only take risk where it is adequately rewarded.

“Over the quarter we deployed capital into our Private Equity program, primarily through co-investments in venture capital and growth. Our cash allocation has reduced largely due to the fall in the Australian dollar against the US dollar over the period. We also reached financial close on the Port of Melbourne transaction during the quarter, which is reflected in our infrastructure allocation.

“The Medical Research Future Fund continues to perform in line with its mandate. We will continue to diversify the portfolio over time.”

Future Fund asset allocation

The asset allocation of the Future Fund at 31 December 2016 is shown below:

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

Medical Research Future Fund performance

The first contribution to the Medical Research Future Fund was made on 22 September 2015 in the form of a transfer of A\$1.010bn from the Health and Hospitals Fund. Since then there have been two transfers from government of A\$2.139bn on 1 December 2015 and A\$1.277bn on 26 August 2016.

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% pa, net of investment fees, over a rolling 10 year term as the benchmark return on the Fund.

The Medical Research Future Fund has achieved a return of 3.4% pa since inception, against a benchmark target return of 3.1% pa.

Medical Research Future Fund 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%

Medical Research Future Fund asset allocation

The asset allocation of the Medical Research Future Fund continues to be developed and is shown below:

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

Note: The reduction in debt securities in comparison to previous updates reflects a reclassification of some low risk securities into the cash portfolio, not a material change in the portfolio.

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.

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 2016 the value of the DisabilityCare Australia Fund was A\$6.165bn having generated a return of 2.6% over a one year period, against a benchmark target return of 2.4%.

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 Nation-building Funds are invested in combinations of short- and medium-term debt instruments.

At 31 December 2016 the value of the Education Investment Fund was A\$3.755bn and the Building Australia Fund stood at A\$3.744bn.

Over the last 12 months the Funds both generated a return of 2.5%, exceeding their benchmark target return of 2.4%.

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