



31 October 2016

Portfolio update at 30 September 2016

- Future Fund stands at over A\$124bn
- Future Fund returns 7.6% pa since inception
- The Board of Guardians now invests A\$143bn across five public asset funds

The Future Fund Board of Guardians today released its portfolio update¹ as at 30 September 2016.

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

“The Future Fund was established in 2006 to strengthen the Commonwealth’s long-term financial position. The Fund continues to perform well, meeting its benchmark since inception. Like all investors across major global economies, we are facing a low-return environment. We are maintaining a disciplined and prudent approach to finding opportunities. The Board’s focus remains on growing and protecting our capital for the benefit of future generations of Australians.

“The Board was particularly pleased this quarter to add the Port of Melbourne to its portfolio of assets. Once this deal completes it will be an important part of our infrastructure holdings contributing to our long-term investment objectives.”

Mr David Neal, Managing Director, said:

“We continue to see the expected reward for taking risk as relatively low and we are holding a lower level of risk than would normally be the case. At the same time, we are positioning ourselves to be nimble and opportunistic, working alongside our partners across the globe to identify those niches that we believe offer the best risk-adjusted returns.”

“We continue to develop the Medical Research Future Fund portfolio to generate returns in line with its mandate.”

Future Fund performance

As at 30 September 2016 the value of the Future Fund was A\$124.650bn, meeting its benchmark return over the quarter and showing a return of 7.6% pa since the Fund was established in 2006 against a benchmark return target of 6.9% pa.

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

The Future Fund's investment returns to 30 September 2016 are shown below, together with the target benchmark return set by the Investment Mandate:

Returns: Future Fund		
Period to 30 September 2016	Return pa (%)	Target return pa (%) (CPI +4.5%)
From May 2006	7.6%	6.9%
Ten years	7.7%	6.8%
Seven years	10.0%	6.7%
Five years	11.2%	6.3%
Three years	10.8%	6.1%
One year	5.8%	5.4%
Quarter	1.5%	1.5%
Note: quarterly data is not annualised		

Future Fund asset allocation

The asset allocation of the Future Fund at 30 September 2016 is shown below:

Future Fund asset allocation at 30 September 2016		
Asset class	A\$ million	Percentage of Fund
Australian equities	8,159	6.5%
Global equities		
Developed markets	19,111	15.3%
Emerging markets	9,501	7.6%
Private equity	12,410	10.0%
Property	8,116	6.5%
Infrastructure & Timberland	8,198	6.6%
Debt securities	14,689	11.8%
Alternative assets	16,972	13.6%
Cash	27,494	22.1%
TOTAL	124,650	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 3.5% pa since inception, against a benchmark target return of 3.2% pa.

Medical Research Future Fund returns		
Period to 30 September 2016	Return	Target return
From inception (22 September 2015)	3.5% pa	3.2% pa
Quarter	1.4%	0.8%

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 30 Sep 2016		
Asset class	A\$ million	Percentage of Fund
Australian equities	170	3.7%
Global equities		
Developed markets	415	9.1%
Emerging markets	188	4.1%
Private equity	226	5.0%
Debt securities	1,864	41.1%
Alternatives	356	7.9%
Cash	1,314	29.0%
TOTAL	4,532	100.0%

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 30 September 2016 the value of the DisabilityCare Australia Fund was A\$6.134bn having generated a return of 2.8% over a one year period, against a benchmark target return of 2.5%.

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 30 September 2016 the value of the Education Investment Fund was A\$3.739bn and the Building Australia Fund stood at A\$3.722bn.

The Building Australia Fund and Education Investment Fund have both generated a return of 2.6% over a one year period, ahead of their benchmark target return of 2.5%.

ENDS

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