



11 February 2019

Portfolio update at 31 December 2018

- 10-year return of 9.7% pa exceeds benchmark target of 6.6% pa
- Strong long-term results while avoiding excessive risk
- 5.8% return to 31 December 2018 despite market falls in second half

The Future Fund Board of Guardians today released its portfolio update¹ as at 31 December 2018.

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

'The Future Fund's objective is to strengthen the Government's long-term financial position by maximising returns over the long term without taking excessive risk.

'The Fund has performed strongly against this mandate, achieving a 10-year return of 9.7% pa against a target return of 6.6% pa while avoiding excessive risk.

'The Fund produced a strong return during 2018 despite market falls in the second half of the year. In the longer term, risks around economic growth, the normalisation of interest rates and geopolitical and trade tensions continue to point to a challenging outlook for investors.

'The Board has been carefully positioning the portfolio to pursue its long-term return objective, while navigating the volatile environment and the expectation that prospective long-term returns will be lower than in recent years.

'The Board's long-term purpose, clarity of mandate and governance arrangements combine to give us the necessary focus and confidence to apply our investment strategy and processes through the cycle.

'On 1 February 2019 the Board of Guardians took on management of the Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILS Fund). The ATSILS Fund was established with a capital contribution of \$2bn transferred from the Aboriginal and Torres Strait Islander Land Account. This will be invested in line with the ATSILS Fund's mandate.'

Mr David Neal, Chief Executive Officer, said:

'We continue to focus on our disciplined approach to managing the Future Fund's risk and return objective.

'With rising risks around the economic cycle and geopolitics, and generally fully valued asset prices, our portfolio construction continues to emphasise and balance diversification and flexibility and we are managing our liquidity closely.

'We have continued to gradually reduce risk in the Fund's portfolio. In 2018 we commenced work to sell around \$5bn of illiquid assets in order to prepare for potentially increased volatility and to increase portfolio flexibility.

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

'Over the past year the Future Fund's diversified approach has continued to control risk levels whilst our management of the portfolio, particularly across private markets, has driven strong returns.'

Future Fund performance

As at 31 December 2018 the value of the Future Fund was \$147bn, delivering a return of 9.7% pa over the last 10 years.

Since 2006 when the Future Fund was established, investment returns have added over \$86bn 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's actual returns and target benchmark return to 31 December 2018 are below, together with measures of volatility:

Table 1: Future Fund returns			
Period to 31 December 2018	Return (% pa)	Target return¹ (% pa) (CPI + target return)	Volatility² (%)
From inception (May 2006)	7.6	6.8	4.1
Ten years	9.7	6.6	3.7
Seven years	10.5	6.3	3.5
Five years	8.8	6.1	3.6
Three years	7.5	6.0	3.2
One year	5.8	5.8	3.0

Notes:

- 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.
- Industry measure showing the level of realised volatility in the portfolio.
- The Future Fund returned -1.2% over the quarter to 31 December 2018.

Future Fund asset allocation

The asset allocation of the Future Fund at 31 December 2018 is shown below:

Table 2: Future Fund asset allocation at 31 December 2018		
Asset class	\$m	% of Fund
Australian equities	8,502	5.8
Global equities		
Developed markets	23,920	16.3
Emerging markets	10,706	7.3
Private equity	23,266	15.8
Property	10,534	7.2
Infrastructure & Timberland	12,513	8.5
Debt securities	14,790	10.1
Alternative assets	21,442	14.6
Cash	21,354	14.5
TOTAL	147,026	100.0

Medical Research Future Fund performance

The Medical Research Future Fund was valued at \$9.4bn at 31 December 2018. We continue to build out the portfolio and it will be further diversified over time, including as further capital contributions from government are received.

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

Period to 31 December 2018	Return (% pa)	Target return (% pa) (RBA cash rate + 1.5% pa)
From inception (22 September 2015)	3.3	3.1
Three years	3.7	3.1
One year	1.4	3.0

Medical Research Future Fund asset allocation

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

Table 4: Medical Research Future Fund asset allocation at 31 December 2018

Asset class	\$m	% of Fund
Australian equities	402	4.3
Global equities		
Developed markets	978	10.4
Emerging markets	569	6.1
Private equity	300	3.2
Property	155	1.7
Debt securities	2,267	24.2
Alternatives	1,648	17.6
Cash	3,055	32.6
TOTAL	9,374	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 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.

At 31 December 2018 the DisabilityCare Australia Fund was valued at \$14.4bn, generating a return of 2.2% over the last 12 months, meeting its benchmark target of 2.2%.

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 their mandates, the assets of the Nation-building Funds are invested in combinations of short-term and medium-term debt instruments.

At 31 December 2018 the Education Investment Fund and the Building Australia Fund each stood at \$3.9bn.

Over the last 12 months the Education Investment Fund and Building Australia Fund each generated a return of 2.1% against their benchmark of 2.2%.

For more information contact:

Will Hetherington
Head of Public Affairs & Strategic Relations
+61 (0)3 8656 6400
+61 (0)439 016 678

Jennifer Dearn
Manager, Public Affairs & Strategic Relations
+61 (0)3 8656 6400
+61 (0)439 181 153