



26 October 2022

Portfolio update at 30 September 2022

- Quarterly return of -0.6% notwithstanding large falls in global markets
- 10-year return of 9.2% pa against a target of 6.6%
- Portfolio is positioned for a challenging and volatile environment
- Future Fund stands at \$193bn. Total funds under management stands at \$241bn

The Board of Guardians today released its portfolio update¹ to 30 September 2022.

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

"Developed listed markets fell 5.2% in the first quarter of FY23 after double digit falls in FY22. Bonds also continued to fall after double digit falls in FY22. In this quarter the Future Fund returned -0.6%, proving resilient and well positioned for these market shocks.

"Over 12 months to 30 September 2022, while the ASX 200 fell nearly 8% the Future Fund return was -3.0%. Over the longer term, the Future Fund has delivered a 10-year return of 9.2% pa against a target of 6.6% pa. The Fund stands at \$193bn.

"As was anticipated by the Fund, the exceptional monetary and fiscal stimulus of the last few years is being withdrawn, reducing asset prices and introducing much more volatility.

"The inflationary pressure unleashed by unprecedented stimulation, together with political events, has led to central banks tightening policies by raising interest rates.

"Central banks are responding by tightening policy and will continue to increase rates to fight inflation, increasing the risk of a policy induced recession.

"Looking ahead, key issues will be the extent of monetary policy tightening required to achieve inflation targets, how markets will respond to tightening measures, and the impact of fiscal policy measures on global financial systems. Ongoing geopolitical tensions also continue to pose risks to investors.

"The Board continues to take a prudent approach to positioning the portfolio. We are focused on sustaining a portfolio that is as robust as possible to a range of scenarios, and that balances our risk and return objectives. We expect that real returns will continue to be much lower than in recent decades."

Dr Raphael Arndt, Chief Executive Officer, said:

"One year ago we released a position paper, [New Investment Order](#), explaining our perspective on how the world was changing. The paradigm shifts we spoke about have accelerated over the past 12 months.

"We have been actively repositioning the portfolio to respond to this environment. We are focused on enhancing portfolio resilience while increasing our allocation to strategies designed to protect the portfolio against inflationary scenarios. In addition, the risk of a global recession has increased at the same time, further testing investment strategies.

"The portfolio continues to be positioned moderately below a neutral risk setting."

Future Fund

Performance

	Return (% pa)	Target return¹ (% pa)	Volatility² (%)
From inception (May 2006)	7.6	6.9	4.6
10 years	9.2	6.6	4.6
Seven years	7.3	6.6	4.9
Five years	7.5	6.9	5.4
Three years	5.2	7.6	6.2
One year	-3.0	11.3	5.1

Note: The Future Fund returned -0.6% over the quarter to 30 September 2022.

1. From 1 July 2017 the Fund's Investment Mandate target 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.

Asset allocation

Asset class	\$m	% of Fund
Australian equities	16,092	8.3
Global equities		
Developed markets	28,509	14.8
Emerging markets	10,678	5.5
Private equity	35,127	18.2
Property	13,193	6.8
Infrastructure & Timberland	18,280	9.5
Debt securities	16,859	8.7
Alternatives	35,623	18.4
Cash	18,767	9.7
TOTAL	193,128	100.0

Medical Research Future Fund

Performance

Table 3: Medical Research Future Fund returns and target benchmarks			
	Return (% pa)	Target return¹ (% pa)	Volatility² (%)
From inception (22 September 2015)	3.9	2.5	2.9
Five years	3.9	2.3	3.3
Three years	3.2	1.8	3.8
One year	-0.6	2.0	2.6

Note: The Medical Research Future Fund returned -0.3% over the quarter to 30 September 2022.

1. RBA cash rate plus 1.5% to 2.0% 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.

Asset allocation

Table 4: Medical Research Future Fund asset allocation		
Asset class	\$m	% of Fund
Australian equities	708	3.3
Global equities		
Developed markets	1,205	5.6
Emerging markets	478	2.2
Private equity	1,219	5.7
Property	1,066	5.0
Infrastructure & Timberland	1,147	5.3
Debt securities	2,776	12.9
Alternatives	3,880	18.1
Cash	8,998	41.9
TOTAL	21,477	100.0

Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILS Fund)

Performance

Table 5: ATSILS Fund returns and target benchmarks		
	Return (% pa)	Target return ¹ (% pa)
From inception (1 October 2019)	3.7	5.6
One year	-1.2	9.3

Note: The ATSILS Fund returned -0.5% over the quarter to 30 September 2022.

1. CPI + 2.0% to 3% pa over the long term, with acceptable but not excessive level of risk.

Asset allocation

Table 6: ATSILS Fund asset allocation ¹		
Asset class	\$m	% of Fund
Australian equities	83	4.1
Global equities		
Developed markets	138	6.8
Emerging markets	56	2.8
Private equity	156	7.7
Property	137	6.7
Infrastructure & Timberland	147	7.2
Debt securities	356	17.5
Alternatives	497	24.4
Cash	465	22.9
TOTAL	2,036	100.0

1. Exposures on a look-through basis.

Future Drought Fund

Performance

Table 7: Future Drought Fund returns and target benchmarks

	Return (% pa)	Target return ¹ (% pa)
From inception (1 April 2020)	6.6	5.9
One year	-1.1	9.3

Note: The Future Drought Fund returned -0.4% over the quarter to 30 September 2022.

1. The Investment Mandate for the Future Drought Fund is CPI + 2.0% to 3.0% pa over the long term, with an acceptable but not excessive level of risk.

Asset allocation

Table 8: Future Drought Fund asset allocation¹

Asset class	\$m	% of Fund
Australian equities	177	4.0
Global equities		
Developed markets	295	6.7
Emerging markets	121	2.7
Private equity	341	7.7
Property	298	6.7
Infrastructure & Timberland	321	7.2
Debt securities	776	17.5
Alternatives	1,084	24.5
Cash	1,014	22.9
TOTAL	4,426	100.0

1. Exposures on a look-through basis.

Emergency Response Fund

Performance

	Return (% pa)	Target return¹ (% pa)
From inception (1 April 2020)	6.5	5.9
One year	-1.1	9.3

Note: The Emergency Response Fund returned -0.4% over the quarter to 30 September 2022.

1. The Investment Mandate for the Emergency Response Fund is CPI + 2.0% to 3.0% pa over the long term, with an acceptable but not excessive level of risk.

Asset allocation

Asset class	\$m	% of Fund
Australian equities	187	4.2
Global equities		
Developed markets	316	7.1
Emerging markets	126	2.9
Private equity	334	7.5
Property	292	6.6
Infrastructure & Timberland	314	7.1
Debt securities	760	17.1
Alternatives	1,062	24.0
Cash	1,040	23.5
TOTAL	4,431	100.0

1. Exposures on a look-through basis.

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.

In line with its Investment Mandate, the DisabilityCare Australia Fund is invested in long-term deposits and cash.

The Fund is valued at \$15.1bn as at 30 September 2022, delivering a return of 0.0% over the last 12 months against a benchmark target of 0.8%.

Total funds under management

Table 11: Funds under management at 30 September 2022	
	Value \$bn
Future Fund	193.1
Medical Research Future Fund	21.5
ATSILS Fund	2.0
Future Drought Fund	4.4
Emergency Response Fund	4.4
DisabilityCare Australia Fund	15.1
TOTAL	240.5

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Notes:

1. All data in this update is unaudited and may not sum due to rounding.
2. The ATSILS Fund, Future Drought Fund and Emergency Response Fund gain exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund and exposures are provided on a look-through basis.