



21 October 2020

Portfolio update at 30 September 2020

- Future Fund grows 1.1% in September quarter to \$163bn.
- Year on year down 1.8% as Covid impact in the March quarter works through.
- 10-year return of 8.9% pa exceeds benchmark target of 6.2% pa.
- Total funds under management stands at \$210bn.

The Board of Guardians today release its portfolio updateⁱ to 30 September 2020.

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

'As Australia's sovereign wealth fund, the Future Fund exists to strengthen the Commonwealth's long-term financial position. Since inception in 2006 it has earned over \$102bn for the Commonwealth Government.

'In an exceptionally challenging environment brought on by the Covid pandemic the Future Fund has performed strongly. In the March quarter, Global stock markets fell dramatically and the Australian equities index dropped over one third. There has been recovery since then, but the local market still remains significantly below the levels of 12 months ago.

'As always, the Board remains focused on long-term performance which has returned nearly 9% pa over 10 years.

'The global economy has begun to rebound and is showing signs of consolidating. Markets in some developed economies have fully recovered the price falls brought on by the Covid shock. Whether this can be maintained depends on the health outlook, the level of Government lockdowns, and the support of expansionary fiscal and monetary policy. Given the extent of economic dislocation globally, we remain cautious about the long-term investment outlook.

'The Board of Guardians remains highly disciplined in balancing its risk and return objectives as it invests on behalf of future generations of Australians. This prudent approach has delivered strong long-term returns and remains the cornerstone of all investment decisions the Board makes.'

Dr Raphael Arndt, Chief Executive Officer, said:

'The Future Fund continues to deliver strong long-term returns.

'Our dynamic investment approach protected the Fund's assets and helped navigate the unprecedented dislocation brought about by Covid-19. For some time, we have been focused on increasing portfolio flexibility, ensuring the Future Fund is well positioned to take advantage of opportunities that arise in the current market.

'Year on year returns have been impacted by the rolling off of strong market performance towards the end of 2019 and the impact of market disruption in March and April. This will continue to affect one year returns in the next quarter. Looking forward sustaining asset prices at current levels will be dependent on ongoing monetary and fiscal support.

'For now, we remain cautious given that we are yet to see the full economic effect of the Covid-19 induced economic shutdowns around the world and the potential for ongoing fiscal stimulus remains unclear.

'Our purpose has never been more important than it is today. The value we add to the funds we manage will strengthen the Commonwealth's long-term financial position, support medical research, assist Indigenous Australians, support drought resilience and communities impacted by natural disaster and help fund Australia's National Disability Insurance Scheme.

'We remain focused on delivering strong long-term, risk-adjusted investment returns for the benefit of future generations of Australians.'

Future Fund

Performance

Table 1: Future Fund investment returns and volatility			
	Return (% pa)	Target return¹ (% pa)	Volatility² (%)
From inception (May 2006)	7.4	6.5	4.2
10 years	8.9	6.2	3.9
7 years	8.6	5.8	4.1
5 years	6.7	5.6	4.1
3 years	6.6	5.3	4.5
1 year	-1.8	4.2	5.1

Note: The Future Fund returned 1.1% over the quarter.

- 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.
- Industry measure showing the level of realised volatility in the portfolio.

Asset allocation

Table 2: Future Fund asset allocation		
Asset class	\$m	% of Fund
Australian equities	10,522	6.5
Global equities		
Developed markets	27,361	16.8
Emerging markets	13,599	8.4
Private equity	22,958	14.1
Property	9,044	5.6
Infrastructure & Timberland	11,278	6.9
Debt securities	12,266	7.5
Alternatives	24,643	15.1
Cash	31,184	19.1
TOTAL	162,856	100.0

Medical Research Future Fund

Performance

	Return (% pa)	Target return¹ (% pa)
From inception (22 September 2015)	3.6	2.8
3 years	3.5	2.6
1 year	0.6	1.9

Note: The Medical Research Future Fund returned 1.2% over the quarter.

1. RBA cash rate plus 1.5% to 2.0% pa over the long term, with an acceptable but not excessive level of risk.

Asset allocation

Asset class	\$m	% of Fund
Australian equities	761	3.7
Global equities		
Developed markets	1,813	8.8
Emerging markets	939	4.6
Private equity	647	3.1
Property	491	2.4
Infrastructure	565	2.7
Debt securities	2,055	10.0
Alternatives	2,292	11.1
Cash	10,991	53.5
TOTAL	20,554	100.0

Note: The Fund received a contribution of \$3.2bn from the Australian Government on 21 July 2020.

ATSILS Fund

Performance

	Return (%)	Target return¹ (%)
Initial transition period (1 February to 30 September 2019)	1.3	1.1
From inception (1 October 2019)	0.2	2.2

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

Asset allocation

Asset class	\$m	% of Fund
Australian equities	93	4.8
Global equities		
Developed markets	218	11.3
Emerging markets	114	5.9
Private equity	94	4.9
Property	71	3.7
Infrastructure	82	4.2
Debt securities	297	15.4
Alternatives	332	17.2
Cash	626	32.5
TOTAL	1,928	100.0

1. Exposures on a look through basis.

Future Drought Fund

Performance

Table 7: Future Drought Fund returns

	Return¹ (%)
Initial transition period (1 September 2019 to 31 March 2020)	0.6
From inception ¹ (1 April 2020)	5.0

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. Given that measurement against the Fund's Investment Mandate commenced only on 1 April 2020, it is not appropriate to assess short-term performance against a long-term target.

Asset allocation

Table 8: Future Drought Fund asset allocation¹

Asset class	\$m	% of Fund
Australian equities	199	4.8
Global equities		
Developed markets	462	11.2
Emerging markets	242	5.9
Private equity	199	4.8
Property	151	3.7
Infrastructure	174	4.2
Debt securities	633	15.3
Alternatives	706	17.1
Cash	1,369	33.1
TOTAL	4,137	100.0

1. Exposures on a look through basis.

Emergency Response Fund

Performance

Table 9: Emergency Response Fund returns

	Return¹ (%)
Initial transition period (12 December 2019 to 31 March 2020)	0.4
From inception ¹ (1 April 2020)	5.0

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. Given that measurement against the Fund's Investment Mandate commenced only on 1 April 2020, it is not appropriate to assess short-term performance against a long-term target.

Asset allocation

Table 10: Emergency Response Fund asset allocation¹

Asset class	\$m	% of Fund
Australian equities	199	4.8
Global equities		
Developed markets	462	11.0
Emerging markets	242	5.8
Private equity	199	4.8
Property	151	3.6
Infrastructure	174	4.1
Debt securities	633	15.1
Alternatives	705	16.8
Cash	1,428	34.0
TOTAL	4,193	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 \$16.1bn, delivering a return of 1.1% over the last 12 months against a benchmark target of 0.9%

Total funds under management

Table 11: Funds under management at 30 September 2020	
	Value \$bn
Future Fund	162.9
Medical Research Future Fund	20.6
Aboriginal and Torres Strait Islander Land and Sea Future Fund	1.9
Future Drought Fund	4.1
Emergency Response Fund	4.2
DisabilityCare Australia Fund	16.1
TOTAL	209.8

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Notes:

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