



27 April 2023

## Portfolio update at 31 March 2023

The Board of Guardians today released its portfolio update for 31 March 2023.

- Future Fund delivers positive 12-month return in volatile markets with sharply rising interest rates
- Fund delivers 10-year returns of 9.1% pa against target return of 6.8% pa
- Total FUM exceeds \$250bn
- Increased focus on fund manager skill as higher inflation and rates make market returns less reliable

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

"High inflation and sharply rising interest rates that began in 2022 and continued into 2023 have combined to build uncertainty and volatility into global markets.

"Developed economies have continued to raise rates in an attempt to control inflation, reversing course on the emergency low rates and liquidity of previous years. Since April last year the Fed Funds Rate has gone from almost zero to 5%. In Australia the cash rate has risen from 0.1% to 3.6% over the same period.

"The effects of higher rates are playing out in different ways across different markets around the world, making investing conditions unpredictable.

"The ASX 200 was flat (0.1% return, including dividends) for the 12 months ending March and the S&P500 was down 7.7%. Against this backdrop the Future Fund delivered a positive 1.1% return for the 12 months.

"The positive returns achieved in the second half of 2022 continued with a 3.4% gain in the March quarter.

"Over the past decade the Future Fund has delivered an average annual return of 9.1% against a target of 6.8%. Since 2006, with an initial contribution of \$60.5bn, the Fund has grown to its present \$202.8bn at the end of March, without any further contribution from the Federal Government.

"Whilst some central banks have slowed or temporarily paused the pace of interest rate increases, it is unlikely the cycle of rising rates to control inflation is finished. Fiscal policy is still accommodative in most developed countries. Productivity growth is low or non-existent.

"The Board continues to focus on ensuring the portfolio is resilient to a range of scenarios while delivering attractive risk-adjusted returns. We expect that real returns to investors, with the context of significant inflation, will be substantially below those of recent years."

### **Dr Raphael Arndt, Chief Executive Officer, said:**

"Recent events have confirmed that the changes we anticipated in our recent position papers continue to unfold across economies and investment markets. Benign conditions that endured for decades are in the process of significant change, demanding that investors explore new ways to deliver sustainable, long-term returns.

“The Future Fund portfolio is positioned below neutral risk settings. We are making continuing changes to the portfolio towards investments that rely on investor skill rather than market risk, reflecting our belief that this approach will be better rewarded in an environment where higher inflation and rates make market returns less certain.

“Our focus remains on protecting the portfolio from a range of scenarios, including sticky inflation leading to prolonged higher rates and the risk of a global recession, while seeking opportunities to generate long-term returns.

“The risk of this type of stagflationary environment is rising.”

## Future Fund

### Performance

<b>Table 1: Future Fund returns, target benchmarks and volatility</b>			
	<b>Return (% pa)</b>	<b>Target return<sup>1</sup> (% pa)</b>	<b>Volatility<sup>2</sup> (%)</b>
From inception (May 2006)	7.7	7.0	4.6
10 years	9.1	6.8	4.7
Seven years	8.1	7.0	5.0
Five years	7.6	7.3	5.6
Three years	7.7	8.4	5.8
One year	1.1	11.0	6.3

Note: The Future Fund returned 3.4% over the quarter to 31/03/2023 and 4.3% for the financial year to date.

- 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

<b>Table 2: Future Fund asset allocation</b>		
<b>Asset class</b>	<b>\$m</b>	<b>% of Fund</b>
<b>Australian equities</b>	17,913	8.8
<b>Global equities</b>		
Developed markets	34,536	17.0
Emerging markets	11,955	5.9
<b>Private equity</b>	33,320	16.4
<b>Property</b>	13,118	6.5
<b>Infrastructure &amp; Timberland</b>	19,166	9.4
<b>Debt securities</b>	16,706	8.2
<b>Alternatives</b>	34,616	17.1
<b>Cash</b>	21,488	10.6
<b>TOTAL</b>	<b>202,818</b>	<b>100.0</b>

## Medical Research Future Fund

### Performance

<b>Table 3: Medical Research Future Fund returns and target benchmarks</b>			
	<b>Return (% pa)</b>	<b>Target return<sup>1</sup> (% pa)</b>	<b>Volatility<sup>2</sup> (%)</b>
From inception (22 September 2015)	4.0	2.6	2.9
Five years	4.0	2.4	3.4
Three years	5.5	2.2	2.8
One year	1.3	3.5	3.4

Note: The Medical Research Future Fund returned 2.2% over the quarter to 31 March 2023 and 2.7% for the financial year to date.

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

<b>Table 4: Medical Research Future Fund asset allocation</b>		
<b>Asset class</b>	<b>\$m</b>	<b>% of Fund</b>
<b>Australian equities</b>	794	3.7
<b>Global equities</b>		
Developed markets	1,349	6.2
Emerging markets	552	2.5
<b>Private equity</b>	1,200	5.5
<b>Property</b>	1,082	5.1
<b>Infrastructure &amp; Timberland</b>	1,254	5.8
<b>Debt securities</b>	2,621	12.1
<b>Alternatives</b>	3,573	16.5
<b>Cash</b>	9,291	42.8
<b>TOTAL</b>	<b>21,716</b>	<b>100.0</b>

## 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 <sup>1</sup> (% pa)
From inception (1 October 2019)	4.1	6.1
One year	0.7	9.0

Note: The ATSILS Fund returned 2.5% over the quarter to 31 March 2023 and 2.7% for the financial year to date.

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 <sup>1</sup>		
Asset class	\$m	% of Fund
<b>Australian equities</b>	96	4.6
<b>Global equities</b>		
Developed markets	162	7.7
Emerging markets	67	3.2
<b>Private equity</b>	154	7.3
<b>Property</b>	139	6.6
<b>Infrastructure &amp; Timberland</b>	161	7.7
<b>Debt securities</b>	336	16.0
<b>Alternatives</b>	458	21.8
<b>Cash</b>	529	25.2
<b>TOTAL</b>	<b>2,101</b>	<b>100.0</b>

1. Exposures on a look-through basis.

## Future Drought Fund

### Performance

	<b>Return (% pa)</b>	<b>Target return<sup>1</sup> (% pa)</b>
From inception (1 April 2020)	6.6	6.4
One year	0.8	9.0

Note: The Future Drought Fund returned 2.5% over the quarter to 31 March 2022 and 2.8% for the financial year to date.

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

<b>Asset class</b>	<b>\$m</b>	<b>% of Fund</b>
<b>Australian equities</b>	201	4.4
<b>Global equities</b>		
Developed markets	351	7.7
Emerging markets	142	3.1
<b>Private equity</b>	335	7.4
<b>Property</b>	302	6.7
<b>Infrastructure &amp; Timberland</b>	350	7.7
<b>Debt securities</b>	732	16.1
<b>Alternatives</b>	999	22.0
<b>Cash</b>	1,129	24.8
<b>TOTAL</b>	<b>4,542</b>	<b>100.0</b>

1. Exposures on a look-through basis.

## Disaster Ready Fund

### Performance

**Table 9: Disaster Ready Fund returns and target benchmarks**

	<b>Return (% pa)</b>	<b>Target return<sup>1</sup> (% pa)</b>
From inception (1 April 2020)	6.6	6.4
One year	0.8	9.0

Note: The Disaster Ready Fund returned 2.5% over the quarter to 31 March 2023 and 2.8% for the financial year to date.

1. The Investment Mandate for the Disaster Ready 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 10: Disaster Ready Fund asset allocation<sup>1</sup>**

<b>Asset class</b>	<b>\$m</b>	<b>% of Fund</b>
<b>Australian equities</b>	191	4.4
<b>Global equities</b>		
Developed markets	319	7.3
Emerging markets	134	3.1
<b>Private equity</b>	328	7.5
<b>Property</b>	296	6.8
<b>Infrastructure &amp; Timberland</b>	343	7.8
<b>Debt securities</b>	717	16.4
<b>Alternatives</b>	978	22.4
<b>Cash</b>	1,065	24.4
<b>TOTAL</b>	<b>4,372</b>	<b>100.0</b>

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 \$14,942bn as at 31 March 2023, delivering a return of 2.3% over the last 12 months against a benchmark target of 2.3%.

## Total funds under management

	<b>Value \$bn</b>
Future Fund	202,818
Medical Research Future Fund	21,716
ATSILS Fund	2,101
Future Drought Fund	4,542
Disaster Ready Fund	4,372
DisabilityCare Australia Fund	14,942
<b>TOTAL</b>	<b>250,491</b>

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