



19 October 2015

Portfolio update at 30 September 2015

- **Future Fund approaches \$118 billion**
- **Total funds under management over \$130 billion**

The Future Fund Board of Guardians today released an update on the performance and asset allocation of the Future Fund, Nation-building Funds, DisabilityCare Australia Fund and Medical Research Future Fund as at 30 September 2015.

Future Fund performance

The Future Fund grew by over \$600 million over the quarter to 30 September 2015 being valued at over \$117.8 billion.

Since 2006 when the Future Fund was established investment returns have added \$57.3 billion to the original contributions received from Government which were valued at \$60.5 billion at the time of transfer.

The Future Fund's investment returns to 30 September 2015 are shown below, together with the target benchmark return set by the Investment Mandate:

Returns		
Period to 30 September 2015	Return	Target return (CPI+4.5%) ¹
From May 2006	7.8% pa	7.1% pa
Seven years	9.6% pa	6.7% pa
Five years	11.1% pa	6.8% pa
Three years	13.8% pa	6.5% pa
One year	12.8% pa	6.1% pa
September quarter	0.5%	1.6%

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

"The Future Fund is designed to generate strong risk adjusted returns over the long-term, growing well in strong markets and moderating the impact of market falls. We are pleased with how the portfolio has operated during a period when there was a large correction in Australian equities and increased volatility generally. Again, we reiterate that going forward we expect returns to be lower than in the immediate past. We will continue to take a prudent approach to managing the portfolio.

"The Board is also pleased to have taken on responsibility for investing the Medical Research Future Fund which received its first contribution in September. When added to the existing funds, the Board now invests over \$130 billion for the benefit of future generations of Australians."

¹ The Future Fund's mandate is to target a return of at least CPI+4.5 to 5.5% per annum over the long term with acceptable but not excessive risk.

Mr David Neal, Managing Director, said:

“We have seen significant volatility across markets during the quarter. The global impact of US monetary policy has been a source of volatility as the US Federal Reserve inches closer to starting to raise its interest rates off the zero bound. Adding to the uncertainty over the quarter was a series of events in China which raised doubts for many about how successfully the Chinese government will manage its transition to a more sustainable economy.

Our approach looks through this short term volatility and focuses on the long term. Having said that, these events are consistent with our expectation of lower long term prospective returns. Accordingly we continue to have the portfolio positioned with a somewhat lower level of risk than in the past few years, but we continue to work hard to identify and exploit interesting opportunities.”

Future Fund asset allocation

The asset allocation of the Future Fund at 30 September 2015 is shown below:

Future Fund asset allocation		
	30 September 2015	
Asset class	A\$ million	Percentage of Fund
Australian equities	7,597	6.4
Global equities		
Developed markets	22,115	18.8
Emerging markets	9,266	7.9
Private equity	14,115	12.0
Property	7,504	6.4
Infrastructure & Timberland	9,052	7.7
Debt securities	14,993	12.7
Alternative assets	15,451	13.1
Cash	17,740	15.1
Total	117,832	100

Data may not sum due to rounding

Nation-building Funds

The investment mandates for the Nation-building Funds (the Education Investment Fund, the Building Australia Fund and the Health and Hospitals Fund) set a benchmark return of the Australian three month bank bill swap rate +0.3% per annum 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 three funds are invested in combinations of short and medium term debt instruments.

At 30 September 2015 the value of the Education Investment Fund was \$3.69 billion, the Building Australia Fund stood at \$3.64 billion and the Health and Hospitals Fund stood at \$459 million.

Over the last 12 months each of the Building Australia Fund and Health and Hospitals Fund generated returns of 2.8% and the Education Investment Fund returned 2.6%. The 12 month benchmark target for the three funds was 2.8%.

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% per annum 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 combinations of short and medium term debt instruments.

At 30 September 2015 the value of the DisabilityCare Australia Fund was \$3.40 billion. The DisabilityCare Australia Fund has generated a return of 2.2% since the first contribution was received on 26 November 2014 against a target for the period of 2.3%.

Medical Research Future Fund

Legislation to establish the Medical Research Future Fund was passed in August 2015. The first contribution to the Medical Research Future Fund was made on 22 September 2015 in the form of a transfer of \$1.01 billion from the Health and Hospitals Fund.

Pending the issue of an investment mandate, the transferred assets continue to be invested in accordance with the mandate for the Health and Hospitals Fund.

At 30 September 2015 the value of the Medical Research Future Fund was \$1.01 billion.

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