



27 April 2020

## Portfolio update at 31 March 2020

- Future Fund stands at \$162bn
- 10-year return of 9.2% pa exceeds benchmark target of 6.4%
- Investment strategy mitigates the impact of falling global markets
- Financial year to date return of -0.2%

The Board of Guardians today release its portfolio update<sup>i</sup> to 31 March 2020<sup>ii</sup>.

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

'In a quarter where the ASX 200 fell 23.1% and the S&P 500 fell 19.7%, the Future Fund recorded a negative return of 3.4% meaning that for the financial year to date the Fund return was -0.2%.

'For some time we have warned about the risks to markets and the need to position the portfolio for a range of uncertainties. Over the past few years, the Board has been selling down a number of illiquid exposures due to high pricing and to increase portfolio flexibility. Our dynamic approach has been extremely valuable in helping us prepare for and navigate a historic dislocation brought about by COVID-19. The Board is focused on positioning for what remains a challenging and volatile environment.

'As the global economic impact of COVID-19 unfolds, the Board will continue to prioritise portfolio flexibility, ensuring the portfolio is robust to a range of possible scenarios and has significant liquidity. This will open opportunities from the current market to position ourselves for long-term returns.

'The Future Fund has always marked its illiquid assets to market as at 30 June after rigorous testing and under a methodology supervised by independent audit. This will be done as usual after 30 June 2020. However to give some idea of the scale, if private market valuations had been marked down by 7.5%, the Fund's financial year to date return would have been -3.5%.

'The Future Fund is designed to strengthen the long-term financial position of the Commonwealth and the Board remains focused on generating strong long-term risk-adjusted returns.'

Dr Raphael Arndt, Chief Investment Officer, said:

'The Future Fund came into the current period of market disruption in a strong position. Over recent years we have focused on increasing portfolio flexibility and liquidity and this has included selling or reducing more than 30 individual illiquid positions. Our defensive strategies have performed as expected through the extreme market environment of the last quarter.

'It is too early to know whether the unprecedented fiscal and monetary policy stimulus by governments around the world will be sufficient to offset the significant impact to global growth due to the COVID-19 pandemic. As a result, while we have participated in several opportunities created by the market disruption over recent weeks, we remain cautious in terms of overall portfolio positioning. In these challenging times, portfolio diversification, flexibility and prudent management of risk remain as important as ever.'

## Future Fund

### Performance

|                              | <b>Return<br/>(% pa)</b> | <b>Target return<sup>1</sup><br/>(% pa)</b> | <b>Volatility<sup>2</sup><br/>(%)</b> |
|------------------------------|--------------------------|---|---------------------------------------|
| From inception<br>(May 2006) | 7.7                      | 6.7   | 4.3                                   |
| 10 years                     | 9.2                      | 6.4   | 3.9                                   |
| 7 years                      | 9.6                      | 6.2   | 4.1                                   |
| 5 years                      | 6.8                      | 6.0   | 4.3                                   |
| 3 years                      | 7.8                      | 5.9   | 4.5                                   |
| Financial year to date       | -0.2                     | 4.7   | n/a                                   |

Notes:

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.
3. The Future Fund returned -3.4% over the quarter.

### Asset allocation

| <b>Asset class</b>                     | <b>\$m</b> | <b>% of Fund</b> |
|--|------------|------------------|
| <b>Australian equities</b>             | 9,874      | 6.1              |
| <b>Global equities</b>                 |            |                  |
| Developed markets                      | 30,823     | 19.0             |
| Emerging markets                       | 13,919     | 8.6              |
| <b>Private equity</b>                  | 29,514     | 18.2             |
| <b>Property</b>                        | 10,726     | 6.6              |
| <b>Infrastructure &amp; Timberland</b> | 12,260     | 7.6              |
| <b>Debt securities</b>                 | 15,729     | 9.7              |
| <b>Alternatives</b>                    | 23,837     | 14.7             |
| <b>Cash</b>                            | 15,596     | 9.6              |
| <b>TOTAL</b>                           | 162,278    | 100.0            |

## Medical Research Future Fund

### Performance

|                                    | <b>Return<br/>(% pa)</b> | <b>Target return<sup>1</sup><br/>(% pa)</b> |
|------------------------------------|--------------------------|---|
| From inception (22 September 2015) | 3.3                      | 2.9   |
| 3 years                            | 3.0                      | 2.8   |
| Financial year to date             | -1.9                     | 1.7   |

Notes:

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. The Medical Research Future Fund returned -3.7% over the quarter.

### Asset allocation

| <b>Asset class</b>         | <b>\$m</b> | <b>% of Fund</b> |
|----------------------------|------------|------------------|
| <b>Australian equities</b> | 742        | 4.3              |
| <b>Global equities</b>     |            |                  |
| Developed markets          | 2,076      | 12.2             |
| Emerging markets           | 1,051      | 6.2              |
| <b>Private equity</b>      | 464        | 2.7              |
| <b>Property</b>            | 548        | 3.2              |
| <b>Infrastructure</b>      | 647        | 3.8              |
| <b>Debt securities</b>     | 1,940      | 11.4             |
| <b>Alternatives</b>        | 1,886      | 11.0             |
| <b>Cash</b>                | 7,719      | 45.2             |
| <b>TOTAL</b>               | 17,075     | 100.0            |

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

Following its establishment on 1 February 2019 the ATSILS Fund was in an initial transition phase while the Board developed a long-term investment strategy.

On 1 October 2019 the Fund gained exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund. The Fund’s asset allocation is shown below.

Measurement of performance against the Investment Mandate commenced on 1 October 2019. The Fund’s Investment Mandate requires the Board to target an average return of at least the Consumer Price Index plus 2.0% to 3.0% pa over the long term while taking an acceptable but not excessive level of risk.

### Performance

|  | <b>Return (%)</b> | <b>Target return<sup>1</sup> (% pa)</b> |
|--|-------------------|---|
| Initial transition period<br>(1 February to 30 September 2019) | 1.3               | n/a                                     |
| From inception<br>(1 October 2019)                             | -3.9              | 2.2                                     |

Note:

1. CPI plus 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> | 108          | 5.7              |
| <b>Global equities</b>     |              |                  |
| Developed markets          | 303          | 15.9             |
| Emerging markets           | 152          | 8.0              |
| <b>Private equity</b>      | 67           | 3.5              |
| <b>Property</b>            | 79           | 4.2              |
| <b>Infrastructure</b>      | 94           | 4.9              |
| <b>Debt securities</b>     | 281          | 14.8             |
| <b>Alternatives</b>        | 273          | 14.4             |
| <b>Cash</b>                | 545          | 28.7             |
| <b>TOTAL</b>               | <b>1,902</b> | <b>100.0</b>     |

Note:

1. Exposures on a look through basis.

## Future Drought Fund

### *Performance*

Since it was established on 1 September 2019 the Future Drought Fund has been in an initial transition phase while the Board developed a long-term investment strategy.

On 1 April 2020 the Fund gained exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund. The Fund's asset allocation at 1 April 2020 is shown below.

Measurement of performance against the Investment Mandate commenced on 1 April 2020. The Fund's Investment Mandate requires the Board to target an average return of at least the Consumer Price Index plus 2.0% to 3.0% pa over the long term while taking an acceptable but not excessive level of risk.

During the transition period, from 1 September 2019 to 31 March 2020, the Fund generated a return of 0.7%.

### *Asset allocation*

| <b>Asset class</b>         | <b>\$m</b>   | <b>% of Fund</b> |
|----------------------------|--------------|------------------|
| <b>Australian equities</b> | 290          | 7.3              |
| <b>Global equities</b>     |              |                  |
| Developed markets          | 605          | 15.2             |
| Emerging markets           | 332          | 8.3              |
| <b>Private equity</b>      | 100          | 2.5              |
| <b>Property</b>            | 164          | 4.1              |
| <b>Infrastructure</b>      | 176          | 4.4              |
| <b>Debt securities</b>     | 415          | 10.4             |
| <b>Alternatives</b>        | 467          | 11.7             |
| <b>Cash</b>                | 1,442        | 36.1             |
| <b>TOTAL</b>               | <b>3,991</b> | <b>100.0</b>     |

Note:

1. Exposures on a look through basis at 1 April 2020.

## Emergency Response Fund

### *Performance*

Since it was established on 12 December 2019 the Emergency Response Fund has been in an initial transition phase while the Board developed a long-term investment strategy.

On 1 April 2020 the Fund gained exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund. The Fund's asset allocation at 1 April 2020 is shown below.

Measurement of performance against the Investment Mandate commenced on 1 April 2020. The Fund's Investment Mandate requires the Board to target an average return of at least the Consumer Price Index plus 2.0% to 3.0% pa over the long term while taking an acceptable but not excessive level of risk.

During the transition period, from 12 December 2019 to 31 March 2020, the Fund generated a return of 0.4%.

### *Asset allocation*

| <b>Asset class</b>         | <b>\$m</b>   | <b>% of Fund</b> |
|----------------------------|--------------|------------------|
| <b>Australian equities</b> | 290          | 7.3              |
| <b>Global equities</b>     |              |                  |
| Developed markets          | 605          | 15.1             |
| Emerging markets           | 332          | 8.3              |
| <b>Private equity</b>      | 100          | 2.5              |
| <b>Property</b>            | 164          | 4.1              |
| <b>Infrastructure</b>      | 175          | 4.4              |
| <b>Debt securities</b>     | 415          | 10.4             |
| <b>Alternatives</b>        | 467          | 11.7             |
| <b>Cash</b>                | 1,449        | 36.3             |
| <b>TOTAL</b>               | <b>3,996</b> | <b>100.0</b>     |

Note:

1. Exposures on a look through basis at 1 April 2020.

## 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.

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 1.4% over the last 12 months against a benchmark target of 1.5%.

## Total funds under management

| <b>Fund</b>  | <b>Value \$bn</b> |
|--|-------------------|
| Future Fund  | 162.3             |
| Medical Research Future Fund                                   | 17.1              |
| Aboriginal and Torres Strait Islander Land and Sea Future Fund | 1.9               |
| Future Drought Fund  | 4.0               |
| Emergency Response Fund  | 4.0               |
| DisabilityCare Australia Fund                                  | 16.1              |
| <b>TOTAL</b>   | <b>205.4</b>      |

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<sup>i</sup> All data in this update is unaudited and may not sum due to rounding.

<sup>ii</sup> 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. The Future Drought Fund and Emergency Response Fund gained exposure to this arrangement on 1 April 2020.