



1 September 2016

## Portfolio update at 30 June 2016

- Future Fund stands at around A\$123 billion
- Earnings since 2006 have surpassed the original amount deposited and thereby doubled the size of the Future Fund

The Future Fund Board of Guardians today released its portfolio update<sup>1</sup> as at 30 June 2016.

### Future Fund performance

As at 30 June 2016 the value of the Future Fund was A\$122.79 billion showing a return of 7.7% per annum over the last 10 years.

Since 2006 when the Future Fund was established investment returns have added A\$62.3bn to the original contributions received from Government which were A\$60.5bn at the time of transfer.

No contributions have been made to the Fund since 2008. The only addition to the Fund has been earnings.

The Future Fund's investment returns to 30 June 2016 are shown below, together with the target benchmark return set by the Investment Mandate:

Future Fund returns		
Period to 30 June 2016	Return pa (%)	Target return (%) (CPI+4.5%) <sup>2</sup>
From May 2006	7.7	6.9
Ten years	7.7	6.9
Seven years	10.7	6.8
Five years	10.2	6.3
Three years	11.4	6.3
One year	4.8	5.5
Quarter	4.6	1.5

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

"The Future Fund is now 10 years old and in that time it has doubled. Earnings have now surpassed the original sum invested. Following a disciplined long-term investment strategy has balanced the twin risk and return objectives of the government's Investment Mandate Directions, exceeding the return objective while avoiding excessive risk.

<sup>1</sup> Data is unaudited and subject to finalisation through the normal end of year processes.

<sup>2</sup> The Future Fund's mandate is to target a return of at least CPI+4.5% to 5.5% pa over the long term with acceptable but not excessive risk.

“Looking forward the investment environment is challenging with returns likely to be lower and risk higher. While global growth remains weak, Monetary Authorities globally continue to have limited flexibility to stimulate activity. With this outlook it is prudent to hold the level of risk in the portfolio at a lower level than would normally be the case.

Mr David Neal, Managing Director, said:

“We maintain our overall view that risks are elevated and we are careful to take on risk only where the rewards justify it. This has led us to maintain lower levels of portfolio risk through the year. At the same time we continue to work closely with our global network of partners to seek out and access pockets of opportunity particularly in our private market and alternatives programs.

“During the quarter we also introduced an exposure to alternative assets in the Medical Research Future Fund and continue to build diversification into that portfolio.”

### Future Fund asset allocation

The asset allocation of the Future Fund at 30 June 2016 is shown below:

Future Fund asset allocation at 30 June 2016		
Asset class	A\$ m	% of Fund
<b>Australian equities</b>	7,697	6.3
<b>Global equities</b>		
Developed markets	18,712	15.2
Emerging markets	8,960	7.3
<b>Private equity</b>	12,798	10.4
<b>Property</b>	8,559	7.0
<b>Infrastructure &amp; Timberland</b>	8,243	6.7
<b>Debt securities</b>	14,275	11.6
<b>Alternative assets</b>	16,849	13.7
<b>Cash</b>	26,700	21.7
<b>TOTAL</b>	<b>122,792</b>	<b>100.0</b>

Notes: Data may not sum due to rounding

### Medical Research Future Fund performance

The first contribution to the Medical Research Future Fund was made on 22 September 2015 in the form of a transfer of A\$1.010bn from the Health and Hospitals Fund with a further transfer from government of A\$2.139bn on 1 December 2015.

Initially the Medical Research Future Fund was invested in accordance with the mandate for the Health and Hospitals Fund being the Australian three month bank bill swap rate +0.3%pa calculated on a rolling 12 month basis.

An investment mandate for the Medical Research Future Fund was signed by the responsible Ministers on 8 November 2015 and applied by the board from 1 December 2015. The Investment Mandate sets a target return of at least the Reserve Bank of Australia Cash Rate target + 1.5% to 2.0% pa, net of investment fees, over a rolling 10 year term as the benchmark return on the Fund.

<b>Medical Research Future Fund returns</b>		
<b>Period to 30 June 2016</b>	<b>Return pa (%)</b>	<b>Target return (%) (RBA cash rate +1.5%)<sup>3</sup></b>
From 22 September 2015	2.1	2.5
Quarter	2.6	0.8

### **Medical Research Future Fund asset allocation**

The asset allocation of the Medical Research Future Fund continues to be developed and is shown below:

<b>Medical Research Future Fund asset allocation at 30 June 2016</b>		
<b>Asset class</b>	<b>A\$ m</b>	<b>% of Fund</b>
<b>Australian equities</b>	113	3.5
<b>Global equities</b>		
Developed markets	199	6.2
Emerging markets	51	1.6
<b>Private equity</b>	240	7.5
<b>Debt securities</b>	1,824	56.9
<b>Alternatives</b>	282	8.8
<b>Cash</b>	499	15.5
<b>TOTAL</b>	<b>3,208</b>	<b>100.0</b>

### **Nation-building Funds**

The investment mandates for the Nation-building Funds (the Education Investment Fund, the Building Australia Fund) set 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.

Consistent with the mandates, the assets of the Nation-building Funds are invested in combinations of short and medium term debt instruments.

At 30 June 2016 the value of the Education Investment Fund was A\$3.721bn and the Building Australia Fund stood at A\$3.697bn.

Over the last 12 months both the Building Australia Fund and Education Investment Fund generated a return of 2.5%. The 12 month benchmark target return for both funds was 2.5%.

### **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.

<sup>3</sup> The Medical Research Future Fund is to target a return of at least the Reserve bank of Australia's cash rate +1.5% to 2.0% pa over a rolling 10 year term.

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The mandates require 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 a combination of short- and medium-term debt instruments.

At 30 June 2016 the value of the DisabilityCare Australia Fund was A\$6.087bn having generated a return of 2.6% over the last 12 months, against a benchmark target of 2.5%.

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**For more information contact:**

Will Hetheron  
Head of Public Affairs  
+61 (0)3 8656 6400  
+61 (0)439 016 678

Jennifer Dearn  
Public Affairs Adviser  
+61 (0)3 8656 6400  
+61 (0)439 181 153