



1 February 2018

Portfolio update at 31 December 2017

- Future Fund grows to \$139bn
- 10 year return of 8.1% pa exceeds benchmark target of 6.8% pa
- Across five public asset funds, the Board of Guardians now invests \$164bn

The Future Fund Board of Guardians today released its portfolio update¹ as at 31 December 2017.

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

"The Future Fund continues to perform strongly. It is delivering against its objective, which is to strengthen the Commonwealth's long-term financial position. Returns have exceeded the target benchmark across all timeframes. From seed capital of \$60.5bn the Fund has now earned \$78bn.

"The global growth outlook improved through the year supported by synchronised growth in America, Europe and Japan. Unemployment is falling but inflation is still contained and low. A number of the risks we have been cautious about for some time have receded. Given the positive near-term outlook we have modestly increased the Fund's risk levels.

"Despite the recent buoyancy, in the longer term the global economy continues to face structural challenges including demographic shifts and high levels of debt and we expect long-term prospective returns to be lower relative to history.

"Although markets are currently optimistic, the easy monetary policy that has driven this environment is coming to an end. As interest rates around world rise towards more normal levels, we expect to see downward pressure on asset prices. Our strategy is designed to allow us to benefit from stronger markets while avoiding excessive risk."

Mr David Neal, Chief Executive Officer, said:

"Overall our risk profile continues to sit around the middle of our expected range, slightly above a neutral setting. Reflecting the more positive economic environment and improving market conditions we have increased our listed equity exposure, particularly in developed markets.

"Our portfolio construction continues to emphasise and balance two key characteristics: diversification and flexibility. Our private market and alternatives programs are performing well whilst helping to moderate market risk. Portfolio flexibility helps us to withstand, and potentially take advantage of, market dislocations as they occur."

¹ All data in this update is unaudited. Data may not sum due to rounding.

Future Fund performance

As at 31 December 2017 the value of the Future Fund was \$138.9bn, delivering a return of 8.1% pa over the last 10 years against a target benchmark return of 6.8% pa.

Since 2006 when the Future Fund was established investment returns have added \$78bn to the original contributions made by the Government which were \$60.5bn at the time of transfer. No contributions have been made to the Fund since 2008.

From 1 July 2017 the Fund's Investment Mandate benchmark return was reduced from CPI + 4.5% to 5.5% pa to CPI + 4% to 5% per annum over the long term, with an acceptable but not excessive level of risk.

The Future Fund's actual returns and target benchmark return to 31 December 2017 are below:

Future Fund returns		
Period to 31 December 2017	Return pa (%)	Target return pa (%) (CPI + target return)
From inception (May 2006)	7.8	6.9
Ten years	8.1	6.8
Seven years	9.9	6.6
Five years	11.0	6.4
Three years	8.3	6.2
One year	8.8	6.4

Note:

- The Investment Mandate sets a benchmark target return of at least CPI + 4.5% to 5.5% pa to 30 June 2017 and CPI + 4% to 5% pa thereafter.

Future Fund asset allocation

The asset allocation of the Future Fund at 31 December 2017 is shown below:

Future Fund asset allocation at 31 December 2017		
Asset class	\$m	% of Fund
Australian equities	8,918	6.4
Global equities		
Developed markets	25,866	18.6
Emerging markets	10,761	7.7
Private equity	16,847	12.1
Property	8,437	6.1
Infrastructure & Timberland	10,755	7.7
Debt securities	13,340	9.6
Alternative assets	21,179	15.2
Cash	22,802	16.4
TOTAL	138,905	100.0

Medical Research Future Fund performance

Capital contributions from government to the Medical Research Future Fund totalled \$6.7bn at 31 December 2017.

The Investment Mandate for the Medical Research Future Fund was applied by the Board from 1 December 2015 and sets a 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.

Prior to this, the 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.

Medical Research Future Fund returns		
Period to 31 December 2017	Return pa (%)	Target return pa (%) (RBA cash rate + 1.5% pa)
From inception (22 September 2015)	4.2	3.1
One year	5.2	3.0

Medical Research Future Fund asset allocation

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

Medical Research Future Fund asset allocation at 31 December 2017		
Asset class	\$m	% of Fund
Australian equities	265	3.8
Global equities		
Developed markets	758	10.8
Emerging markets	311	4.4
Private equity	253	3.6
Debt securities	2,166	30.8
Alternatives	1,378	19.6
Cash	1,913	27.2
TOTAL	7,043	100.0

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.

Consistent with the mandate, the assets of the DisabilityCare Australia Fund are invested in a combination of short- and medium-term debt instruments.

At 31 December 2017 the DisabilityCare Australia Fund was valued at \$10.4bn, generating a return of 2.1% over the last 12 months against a benchmark target of 2.1%.

Nation-building Funds

The investment mandates for the Nation-building Funds (the Education Investment Fund and 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 their mandates, the assets of the Nation-building Funds are invested in combinations of short- and medium-term debt instruments.

At 31 December 2017 the Education Investment Fund and the Building Australia Fund each stood at \$3.8bn.

Over the last 12 months the Building Australia Fund and the Education Investment Fund both generated a return of 2.2%, exceeding their benchmark target of 2.1%.

ENDS

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