



31 August 2017

## Portfolio update at 30 June 2017

- Future Fund stands at \$133bn
- Returns have exceeded the target benchmark return over each time period since inception adding over \$73bn to the value of the Fund.

The Future Fund Board of Guardians today released its portfolio update<sup>1</sup> as at 30 June 2017.

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

"The Future Fund continues to perform well and has exceeded its benchmark return objective. Investment returns have added over \$73bn to the original contributions from government of \$60.5bn. Alongside its strong performance over its first decade, the organisation has established itself as one of the largest and most respected sovereign wealth funds globally.

"We intend to build on this success in what we expect to be a challenging investment environment.

"The Government's announcement in May 2017 that it would not draw on the Fund in 2020-21, and its intention to defer withdrawals further, will allow the Fund to grow and strengthen the Commonwealth's long-term financial position. Although it is still a challenging target, lowering the Fund's return target by half a percentage point provides the Board with a clearer sense of the Government's view of the balance it wants between risk and return going forward. These are important decisions that set the framework for the Future Fund for our next 10 years.

"Looking at the investment environment, markets have been buoyant over the last year on the back of an improvement in economic conditions across many of the major economies. Key to this has been the continued accommodative monetary policy settings. Central bankers are still grappling with the timing of moves to adjust rates upwards. This is a big uncertainty in the climate looking forward as are risks such as international political tensions. In this environment the Board is maintaining its patient long-term approach to investment.

Mr David Neal, Chief Executive Officer, said:

"A fundamental part of our approach is to only take risk where we believe it will be adequately rewarded. With low yields on offer, investors globally are being driven up the risk curve to strive for their target returns. This tends to drive prices up and further reduce expected returns. Given the risks we see and the rewards on offer, we believe this is a time to maintain our discipline.

"We have continued to diversify the Medical Research Future Fund in line with our investment strategy.

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<sup>1</sup> All data in this update is unaudited and subject to finalisation through the normal end of year processes. Data may not sum due to rounding.

“More broadly, we are implementing a variety of projects to ensure our organisation is both resilient and nimble for the next decade. This includes enhancements to our investment data, systems and analytics capabilities, initiatives to improve efficiency and productivity and a continued focus on building the skills and capabilities of our staff.”

### Future Fund performance

As at 30 June 2017 the value of the Future Fund was \$133.5bn showing a return of 7.9% pa over the last 10 years.

Since 2006 when the Future Fund was established investment returns have added \$73bn to the original contributions received from Government which were \$60.5bn at the time of transfer. No contributions have been made to the Fund since 2008.

The Future Fund’s actual returns and target benchmark return to 30 June 2017 are below:

Future Fund returns		
Period to 30 June 2017	Return pa (%)	Target return pa (%) (CPI + 4.5% pa) <sup>2</sup>
From May 2006	7.8	6.9
Ten years	7.9	6.9
Seven years	10.4	6.6
Five years	11.6	6.5
Three years	9.5	6.0
One year	8.7	6.4
Quarter	2.9	1.3

Notes: Quarterly data is not annualised.

### Future Fund asset allocation

The asset allocation of the Future Fund at 30 June 2017 is shown below:

Future Fund asset allocation at 30 June 2017		
Asset class	\$m	% of Fund
<b>Australian equities</b>	8,002	6.0
<b>Global equities</b>		
Developed markets	19,864	14.9
Emerging markets	9,229	6.9
<b>Private equity</b>	15,520	11.6
<b>Property</b>	8,239	6.2
<b>Infrastructure &amp; Timberland</b>	10,714	8.0
<b>Debt securities</b>	14,123	10.6
<b>Alternative assets</b>	19,746	14.8
<b>Cash</b>	28,021	21.0
<b>TOTAL</b>	<b>133,458</b>	<b>100.0</b>

<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. With effect from 1 July 2017 the target return was reduced to at least CPI + 4% to 5% pa over the long term with acceptable but not excessive risk.

## Medical Research Future Fund performance

The first contribution to the Medical Research Future Fund was made on 22 September 2015. Contributions totalling \$4.4bn had been made at 30 June 2017, with a further \$2.2bn received after year end.

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 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.

Medical Research Future Fund returns		
Period to 30 June 2017	Return pa (%)	Target return pa (%) (RBA cash rate + 1.5% pa) <sup>3</sup>
From 22 September 2015	3.9	3.1
One year	4.8	3.0
Quarter	1.2	0.7

Notes: Quarterly data is not annualised.

## 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 30 June 2017		
Asset class	\$m	% of Fund
<b>Australian equities</b>	154	3.3
<b>Global equities</b>		
Developed markets	396	8.6
Emerging markets	179	3.9
<b>Private equity</b>	256	5.5
<b>Debt securities</b>	1,339	29.0
<b>Alternatives</b>	777	16.8
<b>Cash</b>	1,522	32.9
<b>TOTAL</b>	<b>4,624</b>	<b>100.0</b>

<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.

## **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 2017 the value of the Education Investment Fund was \$3.8bn and the Building Australia Fund also stood at \$3.8bn.

Over the last 12 months both the Building Australia Fund and Education Investment Fund generated a return of 2.4%. The 12-month benchmark target return for both funds was 2.1%.

## **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. A capital contribution of \$4.2bn was received from government on 27 June 2017.

At 30 June 2017 the value of the DisabilityCare Australia Fund was \$10.4bn having generated a return of 2.4% over the last 12 months, against a benchmark target of 2.1%.

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