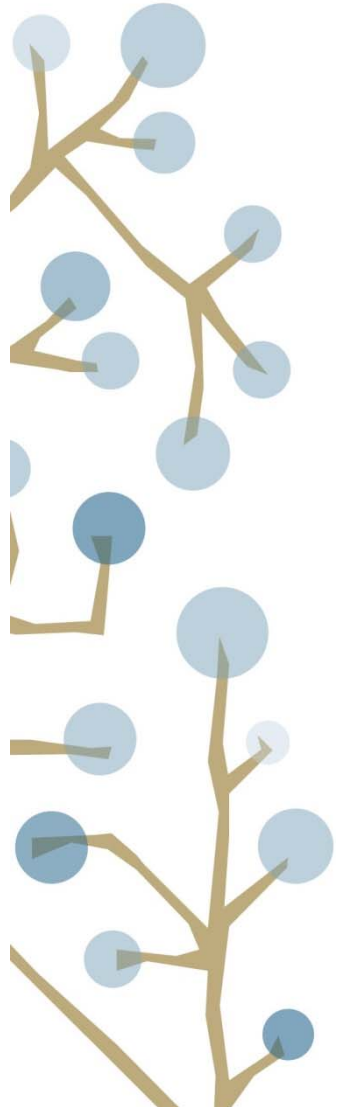


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*Australia's Sovereign Wealth Fund*



# Future Fund

Investing for the benefit of future generations of Australians

Media briefing

29 August 2018

# Agenda

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1. Overview
2. Future Fund asset allocation
3. Future Fund performance
4. Good returns with lower risk
5. Medical Research Future Fund
6. Environment and outlook
7. Q & A
8. Appendix
  - Investment strategy principles

# Overview

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- Annual return of 9.3% lifts the Future Fund to \$146bn.
- Investment returns have added over \$85bn to the original contributions from the government.
- The Fund continues to perform strongly against its long-term investment objective, delivering a 10-year return of 8.7% pa. This represents a real return of 6.6% pa.
- We continue to focus on taking acceptable but not excessive risk: aiming to generate good long-term returns with a lower level of risk.
- During the year we moderately increased risk in the Future Fund in light of the more positive shorter term economic outlook – however we remain cautious over the longer term.
- The Board now invests five public asset funds for the benefit of future generations of Australians with a combined value of A\$175bn.

## Future Fund asset allocation at 30 June 2018

- Our portfolio construction continues to emphasise and balance diversification and flexibility.
- We are attracted to investment strategies that are uncorrelated to equity returns.

Future Fund asset allocation at 30 June 2018		
Asset class	A\$m	Percentage of Fund (%)
<b>Australian equities</b>	9,753	6.7
<b>Global equities</b>		
Developed markets	26,500	18.2
Emerging markets	10,609	7.3
<b>Private equity</b>	20,607	14.1
<b>Property</b>	9,366	6.4
<b>Infrastructure &amp; Timberland</b>	11,728	8.0
<b>Debt securities</b>	12,934	8.9
<b>Alternative assets</b>	22,390	15.4
<b>Cash</b>	21,950	15.1
<b>TOTAL</b>	<b>145,837</b>	<b>100.0</b>

## Future Fund performance at 30 June 2018

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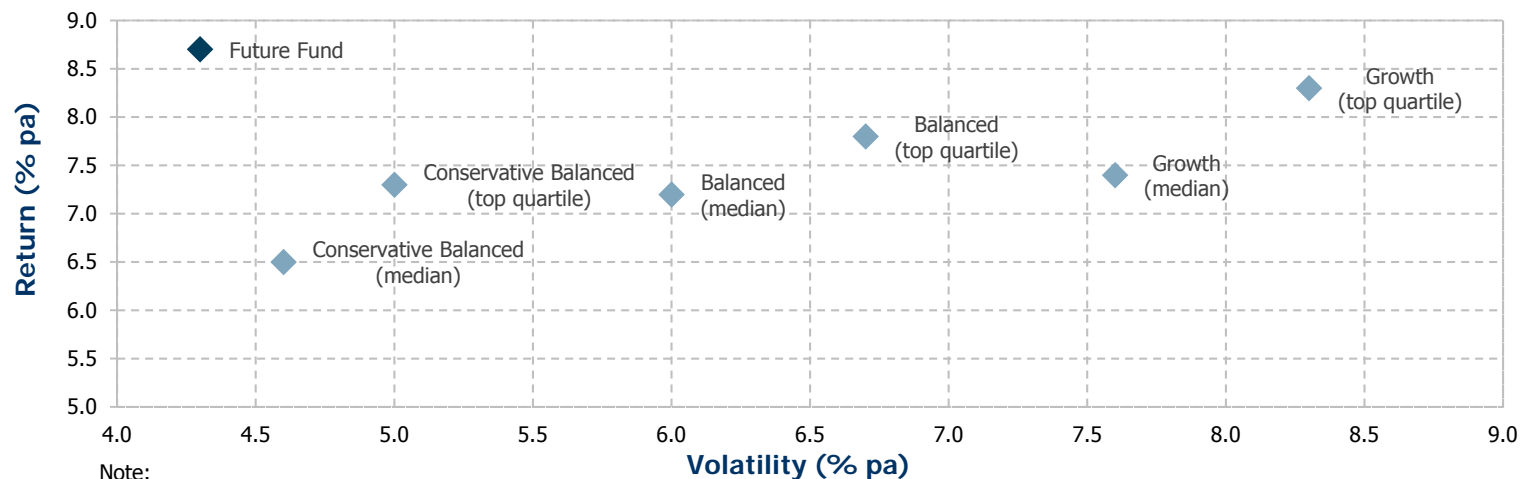
Returns			
Period to 30 June 2018	Return (% pa)	Target return (% pa) (CPI + target return)	Volatility (%)
From May 2006	7.9	6.8	4.1
Ten years	8.7	6.6	4.3
Seven years	9.9	6.3	3.6
Five years	10.4	6.3	3.6
Three years	7.6	6.0	3.6
One year	9.3	6.1	3.1

Note:

1. 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.

# Good returns with lower risk

10 year risk and return Future Fund and superannuation options  
(tax adjusted)



Note:

1. Returns are net of all costs

Source: Superatings data with superfund returns grossed up to address Future Fund tax position

- Comparisons between portfolios should recognise different contexts, time horizons, liquidity needs and cashflows
- Future Fund portfolio has produced good returns with a moderate level of risk.
- Managing risk levels is an equally important part of our mandate as the requirement to maximise returns.

## Medical Research Future Fund

- Investment mandate sets a target return of the Reserve Bank of Australia Cash Rate target + 1.5% to 2.0% pa, net of fees, over rolling 10-year terms.
  - acceptable but not excessive risk
  - nominal value of credits to the MRFF to be preserved over the long term
  - moderation of the volatility of maximum annual distributions
- Lower return and lower risk than the Future Fund.
- Contributions of \$6.7bn received to 30 June 2018.
- During the year we made our first allocations to property. The portfolio will be further diversified over time.

Medical Research Future Fund asset allocation at 30 June 2018		
Asset class	A\$m	Percentage of Fund (%)
<b>Australian equities</b>	269	3.7
<b>Global equities</b>		
Developed markets	710	9.9
Emerging markets	294	4.1
<b>Private equity</b>	297	4.1
<b>Property</b>	106	1.5
<b>Debt securities</b>	2,345	32.6
<b>Alternatives</b>	1,468	20.4
<b>Cash</b>	1,698	23.6
<b>TOTAL</b>	<b>7,188</b>	<b>100.0</b>

Returns		
Period to 30 June 2018	Return (% pa)	Target return (% pa)
From inception (22 September 2015)	4.2	3.1
One year	4.7	3.0

## Environment and outlook

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- We are cautiously optimistic about the short-term outlook.
- Across the year, economic growth was stronger than expected and global markets strengthened.
- Over the longer term the global economy faces headwinds from ageing demographics and a significant debt burden.
- We remain alert to a range of uncertainties and risks, including the response of central banks to the changing economic environment, international political tensions and the potential for shocks to investment markets.
- We have an obligation to deliver strong returns while not exposing the assets in our care to excessive risk.
- We are prioritising portfolio flexibility, ensuring the portfolio is as robust as possible to range of possible scenarios.
- We maintain our view that prospective long-term real returns are lower relative to history.



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# Q & A

# Proven investment strategy

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## Key principles

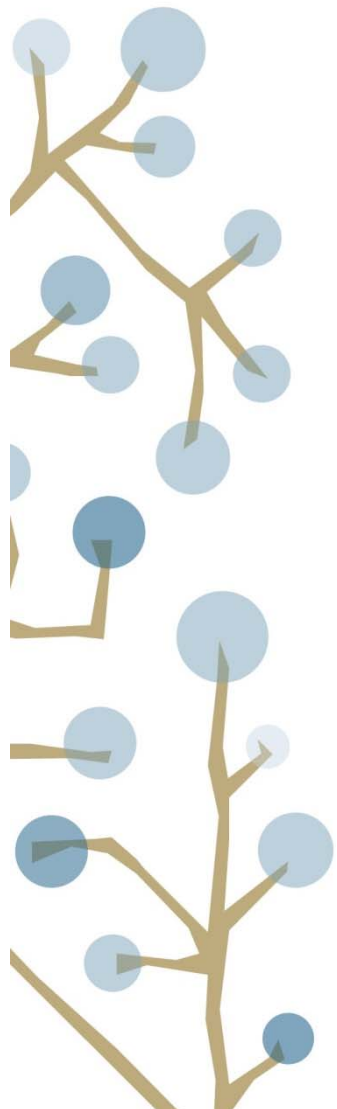
1. Our portfolio management is focused on the specific objectives of the Fund:
  - Maximise return, subject to acceptable but not excessive risk;
  - Investment Mandate benchmarks the Fund against at least CPI + 4% to 5% pa; and
  - Assessed over the long term, which we define as 10 years.
2. We construct a diversified portfolio that is, as far as possible, robust to an uncertain future
3. We believe prospective returns and risks change through time, and therefore manage the portfolio dynamically
4. We act as a single team, running an integrated process, managing a single, total portfolio
5. We seek a relatively small number of relatively large relationships
6. We manage for a net of costs return

## Implications

- Robust and disciplined investment process
- Combine long-term views of critical themes with more granular focus and the flexibility to make portfolio adjustments where needed
- Asset allocation, risk levels, performance, liquidity and investment manager relationships likely to differ to those of others

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