futurefund
Australia's Sovereign Wealth Fund

Future Fund

Investing for the benefit of future generations of Australians

Media briefing

27 April 2020

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Overview

- Future Fund stands at $162.3bn
- 10-year return of 9.2% pa exceeds benchmark target of 6.4% pa
- Investment strategy mitigates the impact of falling global markets
- Financial year to date return of -0.2%

Future Fund performance at 31 March 2020

Table 1: Future Fund returns			
Period to 31 March 2020	**Return (% pa)**	**Target return (% pa)** (CPI + target return)	**Volatility (%)**
From 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

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.

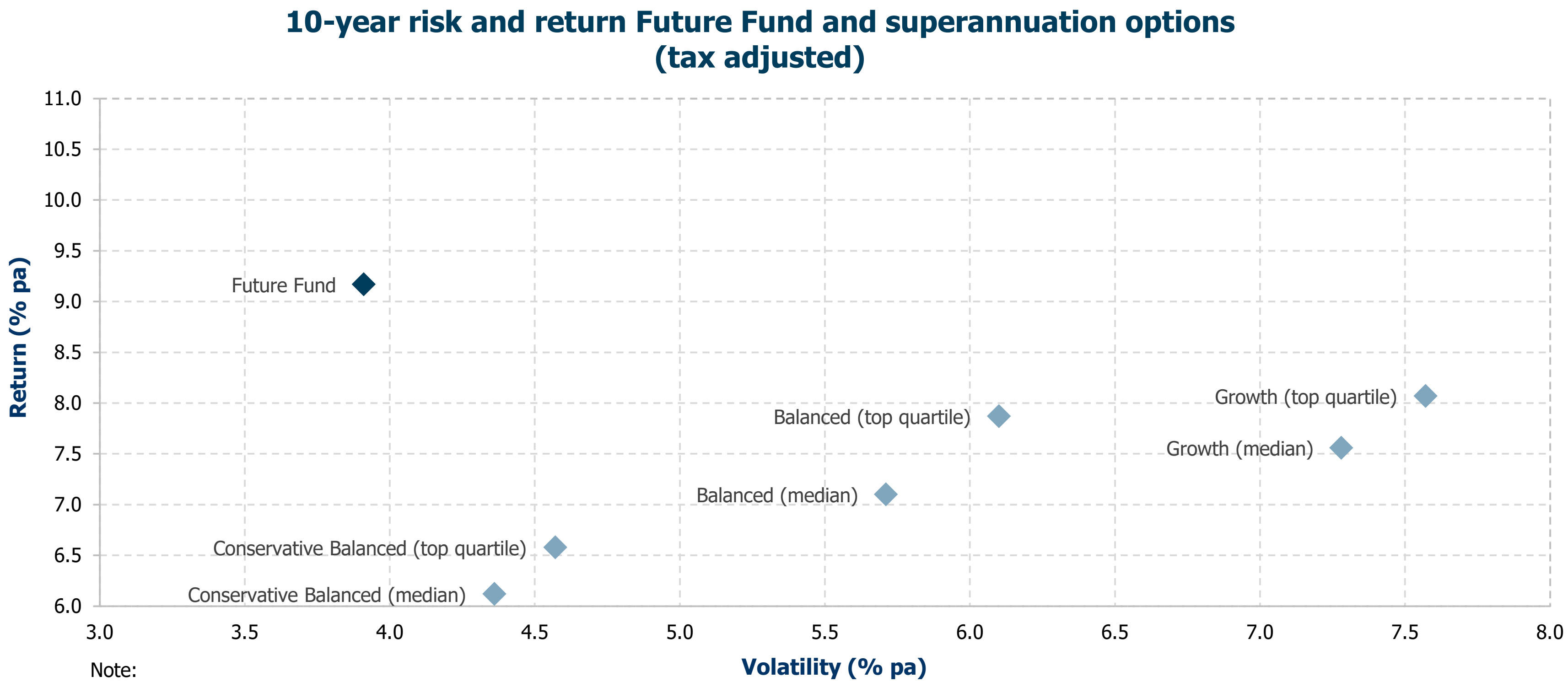
Future Fund asset allocation at 31 March 2020

- We have been carefully positioning the portfolio to navigate the challenging investment environment.
- Over recent years we have 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.
- We continue to prioritise portfolio flexibility to ensure we can adjust the portfolio quickly to respond to emerging opportunities and risks.

Table 2: Future Fund asset allocation

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

Good long-term returns with lower risk



Note:
1. Returns are net of all costs.

Source: SuperRatings data grossed up to address the Future Fund's tax position using an estimate derived by the Future Fund.

- 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.
- Returns over the next decade are very unlikely to be this strong, meaning the ability to generate returns alongside disciplined risk management will be important.

Medical Research Future Fund ("MRFF")

- Long-term fund. Lower return and lower risk than the 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

Table 3: Medical Research Future Fund asset allocation

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

Table 4: MRFF returns

Period to 31 March 2020	Return (% pa)	Target return (% pa)
From inception (September 2015)	3.3	2.9
3 years	3.0	2.8
Financial year to date	-1.9%	1.7

Aboriginal and Torres Strait Islander Land and Sea Future Fund ("ATSILS Fund")

- Investment mandate requires the Board to target an average return, net of costs, of at least the Consumer Price Index + 2.0% to 3.0% pa over the long term while taking an acceptable but not excessive level of risk.
- From 1 October 2019 the ATSILS Fund gained exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund. Measurement of performance against the Investment Mandate commenced on 1 October 2019.
- The ATSILS Fund has generated a return of -3.9% since inception against its target return of 2.2%.

Table 5: ATSILS asset allocation[1]

Asset class	$m	% of Fund
Australian equities	108	5.7
Global equities		
Developed markets	303	15.9
Emerging markets	152	8.0
Private equity	67	3.5
Property	79	4.2
Infrastructure	94	4.9
Debt securities	281	14.8
Alternatives	273	14.4
Cash	545	28.7
TOTAL	1,902	100.0

Note:

1. Exposures on a look through basis.

Future Drought Fund

- Investment mandate requires the Board to target an average return, net of costs, of at least the Consumer Price Index + 2.0% to 3.0% pa over the long term while taking an acceptable but not excessive level of risk.
- 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.
- From 1 April 2020 the Future Drought Fund gained exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund.
- During the transition period, from 1 September 2019 to 31 March 2020, the Fund generated a return of 0.7%.

Table 6: Future Drought Fund asset allocation[1]

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

Note:

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

Emergency Response Fund

- Investment mandate requires the Board to target an average return, net of costs, of at least the Consumer Price Index + 2.0% to 3.0% pa over the long term while taking an acceptable but not excessive level of risk.
- 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.
- From 1 April 2020 the Emergency Response Fund gained exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund.
- During the transition period, from 12 December 2019 to 31 March 2020, the Fund generated a return of 0.4%.

Table 7: Emergency Response Fund asset allocation[1]

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

Note:

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

Environment and outlook

- We are actively managing the portfolio and continuing to carefully monitor the investment environment.
- 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, we have been selling down 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 what remains a challenging and volatile environment.
- As the global economic impact of COVID-19 unfolds, we will continue to prioritise portfolio flexibility, ensuring the portfolio is robust to a range of possible scenarios.

Q & A

Proven investment strategy

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 Future Fund 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.
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.