

Future Fund

Investing for the benefit of future generations of Australians

Media briefing

28 August 2019

Agenda

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

Overview

- Future Fund stands at \$162.6bn at 30 June 2019
- Annual return of 11.5%
- Total earnings now over \$102bn on \$60.5bn of capital
- 10-year return of 10.4% pa exceeds benchmark target of 6.5% pa
- Strong returns on a risk-adjusted basis

Future Fund performance at 30 June 2019

Table 1: Future Fund returns			
Period to 30 June 2019	Return (% pa)	Target return (% pa) (CPI + target return)	Volatility (%)
From May 2006	8.2	6.7	4.1
Ten years	10.4	6.5	3.7
Seven years	11.3	6.3	3.6
Five years	9.9	5.9	3.8
Three years	9.8	6.0	3.5
One year	11.5	5.6	4.4

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.

Future Fund asset allocation at 30 June 2019

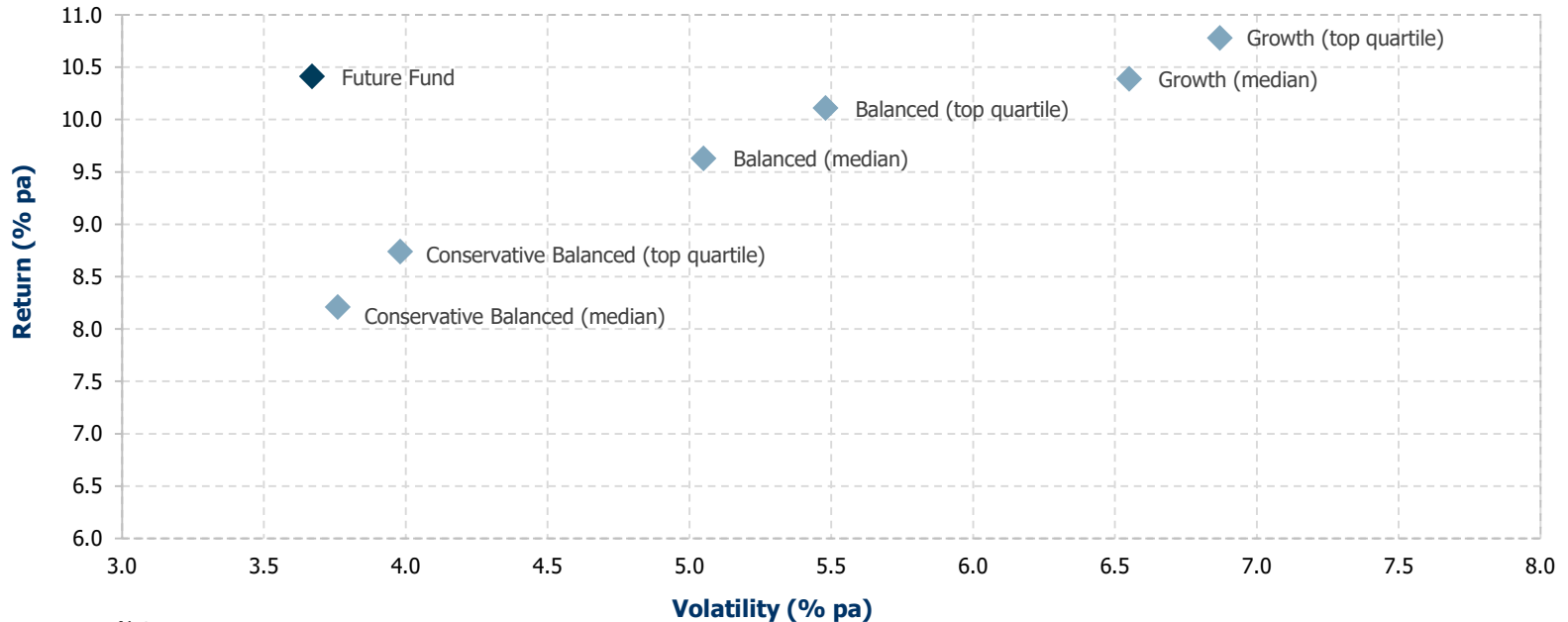
- The Future Fund portfolio continues to operate as intended, delivering good returns without excessive risk.
- As we navigate a complex investment environment we are focused on constructing the most efficient portfolio possible for generating strong long-term returns.
- We continue to prioritise diversification and flexibility as we dynamically manage the portfolio.

Table 2: Future Fund asset allocation at 30 June 2019

Asset class	A\$m	Percentage of Fund (%)
Australian equities	11,457	7.0
Global equities		
Developed markets	30,097	18.5
Emerging markets	16,317	10.0
Private equity	25,705	15.8
Property	10,886	6.7
Infrastructure & Timberland	12,215	7.5
Debt securities	14,621	9.0
Alternative assets	21,960	13.5
Cash	19,363	11.9
TOTAL	162,621	100.0

Good long-term 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: 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
- Capital contribution of \$7.8bn was received on 23 July 2019.
- Portfolio will be further built out and diversified over time.

Table 3: MRFF asset allocation at 30 June 2019

Asset class	A\$m	Percentage of Fund (%)
Australian equities	308	3.2
Global equities		
Developed markets	731	7.5
Emerging markets	437	4.5
Private equity	458	4.7
Property	474	4.9
Infrastructure	302	3.1
Debt securities	2,373	24.3
Alternatives	1,643	16.8
Cash	3,033	31.1
TOTAL	9,759	100.0

Table 4: MRFF returns

Period to 30 June 2019	Return (% pa)	Target return (% pa)
From inception (September 2015)	4.5	3.0
Three years	4.9	3.0
One year	5.2	3.0

Environment and outlook

- The first half of the financial year was characterised by volatile markets as concerns regarding the trade dispute between the US and China and other geopolitical issues came to the fore.
- This led to a period of monetary policy easing by central banks which, together with market expectations of further easing and continued global economic growth, has supported strong asset returns in the second half of the year.
- In the longer term the global economy will face structural challenges including demographic shifts and high levels of debt.
- We remain alert to a range of uncertainties and risks and the potential for shocks to investment markets.
- We are prioritising portfolio flexibility, ensuring the portfolio is as robust as possible to a range of possible scenarios.
- We maintain our view that prospective long-term real returns are lower relative to history.

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 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