

Future Fund

Investing for the benefit of future generations of Australians

Media briefing

27 January 2016

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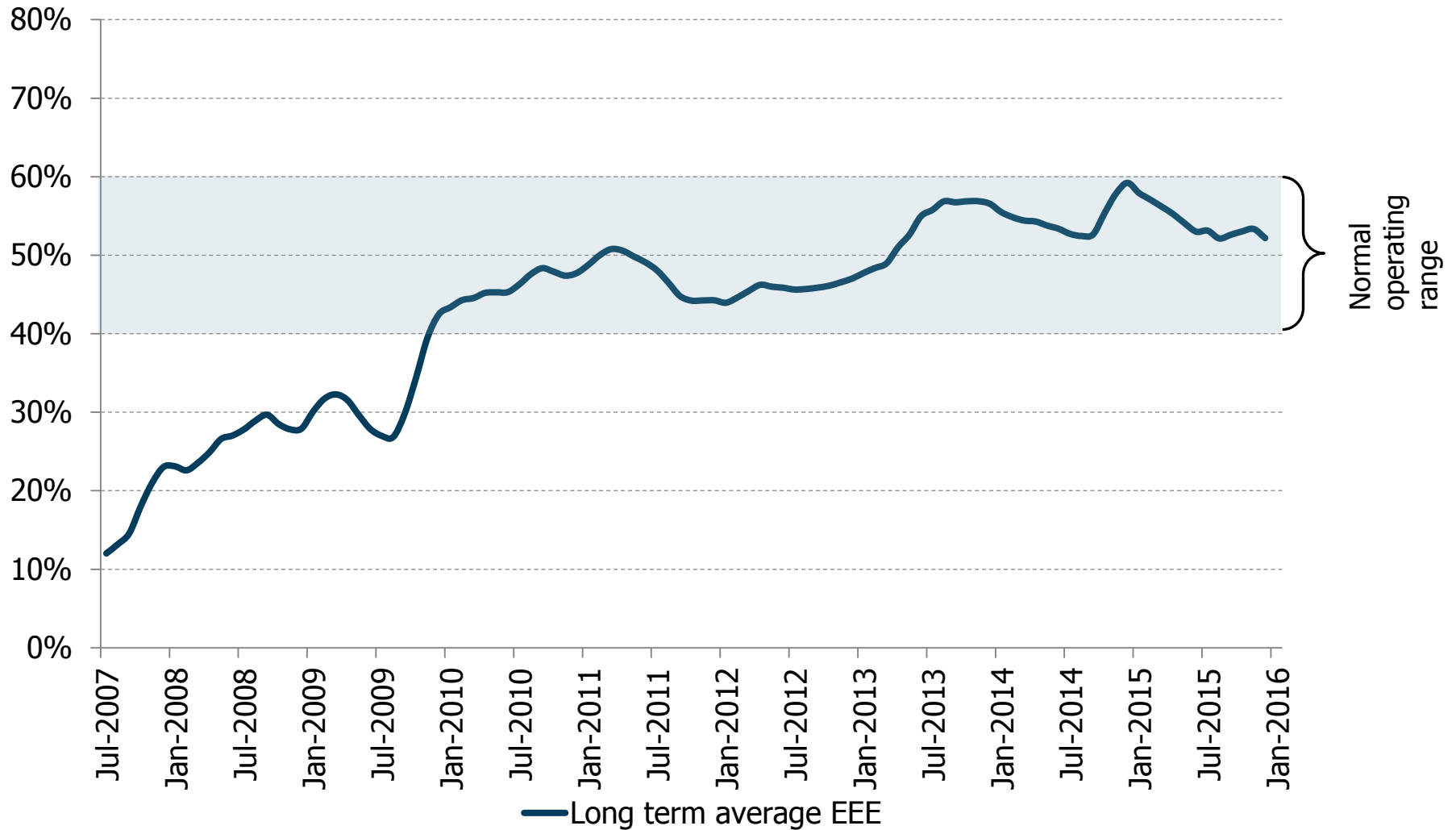
Overview

- Future Fund has grown to \$118.4 billion.
- Investment returns have added \$57.9 billion to the original contributions of \$60.5 billion.
- Investment environment is challenging and we see prospective returns as lower than in recent times.
- With the Medical Research Future Fund, DisabilityCare Australia Fund and Nation-building Funds, the Board of Guardians now manages over \$133 billion.

Future Fund performance at 31 December 2015

Returns		
Period to 31 December 2015	Future Fund return % per annum	CPI (+4.5%) % per annum
Since May 2006	7.7	7.0
Seven years	10.7	6.8
Five years	10.5	6.8
Three years	12.9	6.5
One year	8.4	6.1
Six months	1.0	3.1
Quarter	0.5	1.4

We dynamically manage the portfolio to reflect the investment environment



Asset allocation at 31 December 2015

- We have reduced overall risk levels during the year.
- While lowered, overall risk levels are within the range we would normally expect.
- We continued to actively work the portfolio to ensure that risk exposures are adequately rewarded.

Asset allocation				
	31 December 2014		31 December 2015	
Asset Class	A\$ million	% of Fund	A\$ million	% of Fund
Australian equities	9,608	8.8	7,713	6.5
Global equities				
Developed markets	22,841	20.9	20,335	17.2
Emerging markets	10,274	9.4	8,690	7.3
Private equity	10,403	9.5	12,316	10.4
Property	6,928	6.3	7,657	6.5
Infrastructure & Timberland	8,076	7.4	8,462	7.1
Debt securities	11,771	10.8	13,915	11.8
Alternative assets	15,320	14.0	14,881	12.6
Cash	13,993	12.8	24,445	20.6
TOTAL	109,214	100	118,416	100

Environment and outlook

- Flat markets in the second half of 2015 and increased volatility reflect the impact of increasingly divergent conditions across key economies, as well as concerns about Chinese growth and a continued decline in commodity prices.
- Diversification remains a key part of our work to balance the risk and return aspects of our mandate.
- We continue to develop our organisation's capabilities and our external partnerships so that we can be nimble in identifying and accessing investment opportunities in a challenging environment.
- While overall portfolio risk levels are lower, we continue to be materially invested in risk assets.

Medical Research Future Fund

- Investment mandate sets a target return of the Reserve Bank of Australia Cash Rate target + 1.5 to 2.0 percent per annum, 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 \$3.149 billion received.
- Current portfolio will be further diversified over time.

Asset allocation		
	31 December 2015	
Asset Class	A\$ million	% of Fund
Australian equities	192	6.1
Global equities		
Developed markets	468	14.9
Emerging markets	49	1.6
Debt securities	1,514	48.3
Cash	914	29.1
TOTAL	3,139	100

Q & A

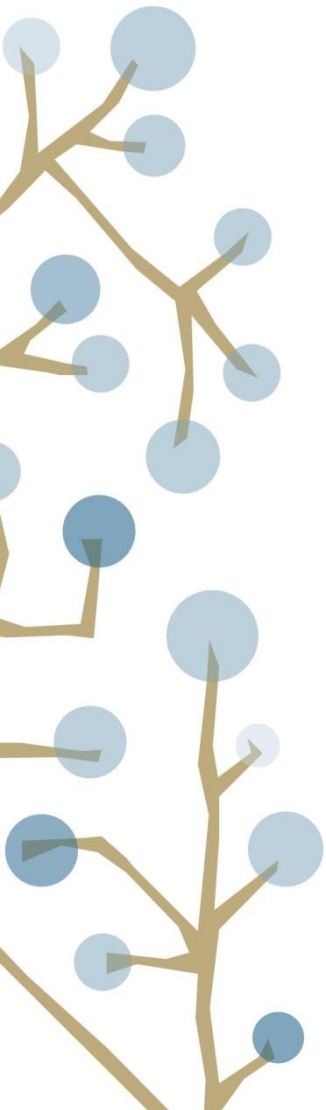
Proven investment strategy

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+4.5 – 5.5% 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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