futurefund
Australia's Sovereign Wealth Fund

Future Fund

Investing for the benefit of future generations of Australians

Media briefing

31 August 2017

Agenda

1. Overview
2. Future Fund performance and asset allocation
3. Future Fund and Medical Research Future Fund performance and asset allocation
4. Environment and outlook
5. Q & A
6. Appendix
    - Investment strategy principles

Overview

- The Board invests five public asset Funds for the benefit of future generations of Australians with a combined value of over $156bn.
- The Future Fund has grown to $133bn and has exceeded its benchmark return over short- and long-term periods.
- Investment returns to the Future Fund have added $73bn to the original contributions of $60.5bn.
- The organisation has developed into a robust and well respected institution over its first decade.
- The Government's move to defer withdrawals and reduce the return target set the framework for the next decade.
- The investment environment remains challenging with prospective returns lower than in recent years and with the potential for market shocks.

Future Fund performance at 30 June 2017

Returns		
Period to 30 June 2017	**Return pa (%)**	**Target return pa (%)** (CPI + 4.5% pa)
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

Note: Quarterly data is not annualised. Data is unaudited and subject to finalisation through the normal end of year processes.

Future Fund asset allocation at 30 June 2017

- We have continued to position the portfolio below a neutral risk setting.
- We are comfortable that our positioning is appropriate given the outlook for the investment environment and our belief that we should only take on risk where the potential rewards justify it.
- We continue to identify and pursue investment opportunities that offer strong risk-adjusted returns.

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

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 $4.4bn at 30 June 2017 with a further $2.2bn contributed after year end.
- Current portfolio will be further diversified over time.

Medical Research Future Fund asset allocation at 30 June 2017		
Asset class	**$m**	**Percentage of Fund (%)**
Australian equities	154	3.3
Global equities		
Developed markets	396	8.6
Emerging markets	179	3.9
Private equity	256	5.5
Debt securities	1,339	29.0
Alternatives	777	16.8
Cash	1,522	32.9
TOTAL	**4,624**	**100.0**

Note: Data is unaudited and subject to finalisation through the normal end of year processes.

Returns		
Period to 30 June 2017	**Return pa (%)**	**Target return pa (%)** RBA cash rate +1.5%
From inception (22 September 2015)	3.9	3.1
One year	4.8	3.0
Quarter	1.2	0.7

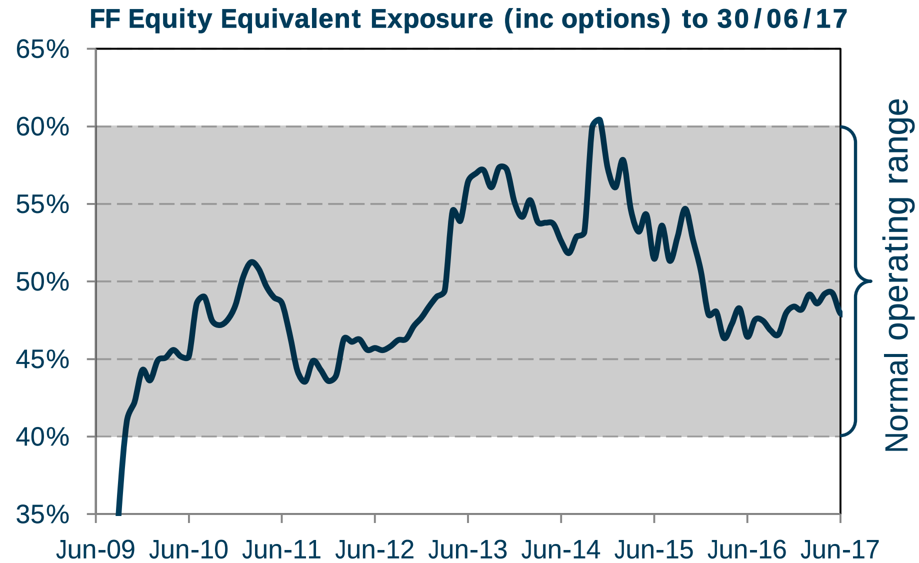
Environment and outlook

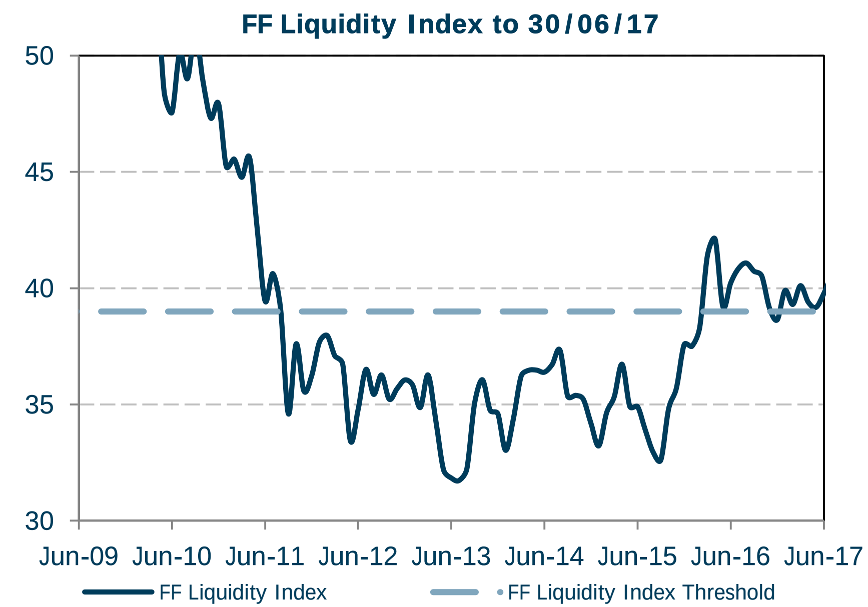
Our view over the year has consistently been that:

- The macroeconomic outlook remains highly uncertain.
- Debt levels across the globe remain high and economic growth going forward seems likely to be relatively modest, albeit the outlook looks slightly more positive than a year ago.
- Central bank stimulus has been successful in stabilising economies, however central banks' ability to provide further stimulus from here is diminished.
- Asset values remain full, with high valuations somewhat reliant on the continuation of historically low interest rates.
- The traditional defensive assets, bonds, remain expensive which reduces their defensive characteristics. As a result investors have been squeezed up the risk curve into assets such as property and infrastructure, making them highly priced.

As a result, the broad focus of our portfolio construction activity throughout FY17 has been to:

- **Maintain lower than average portfolio risk exposures** since we do not expect to be sufficiently rewarded for assuming higher levels of risk.
- **Retain high levels of portfolio flexibility** to both withstand – and potentially take advantage of – market dislocations as they arise.
- **Be opportunistic.** We strive to add additional returns, or reduce risk, by searching for idiosyncratic opportunities. Strategies that have low correlation with traditional risk assets are particularly attractive (such as our venture/growth portfolio).





futurefund
Australia's Sovereign Wealth Fund

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% 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

futurefund
Australia's Sovereign Wealth Fund

Future Fund

Investing for the benefit of future generations of Australians

Media briefing

31 AUGUST 2017