



28 August 2019

Portfolio update at 30 June 2019

- 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

The Future Fund Board of Guardians today released its portfolio update¹ as at 30 June 2019.

Hon Peter Costello AC, Chair of the Future Fund Board of Guardians, said:

'The Future Fund was created to strengthen the Commonwealth's long-term financial position. With contributed capital of \$60.5bn that capital has now earned over \$102bn, taking the Future Fund to a total of \$162.6bn.

'Over 10 years the Fund has achieved a return of 10.4% pa, exceeding its benchmark of 6.5% pa. This return is particularly impressive on a risk-adjusted basis given the level of risk taken by the Fund. (See slide 6 of briefing pack).

'The Fund also performed well in the financial year, delivering a return of 11.5% despite volatile market conditions.

'Since the Future Fund was established, the Board of Guardians has been highly disciplined in balancing its risk and return objectives as it invests on behalf of future generations of Australians. This prudent approach has delivered strong long-term returns and remains the cornerstone of all investment decisions the Board makes.

'US-China trade tensions and other geopolitical developments have continued to weigh on the global economy even as central banks have maintained accommodative monetary policy settings. The Board continues to see long-term returns as unlikely to replicate the strong returns of recent years and is cautious of the risks for investors. In this uncertain environment the Board is maintaining its patient long-term approach to investment.

'Including the \$7.8bn contribution to the Medical Research Future Fund made in July 2019, the Board of Guardians of the Future Fund is now investing over \$200bn for the benefit of future generations of Australians in six different funds.

'On 1 September 2019 we will take on management of the Future Drought Fund, which will be seeded with capital from the Building Australia Fund.'

¹ All data in this update is unaudited and may not sum due to rounding.

Mr David Neal, Chief Executive Officer, said:

'The Future Fund continues to deliver strong risk-adjusted returns.

'The investment environment remains challenging. We are prioritising diversification and flexibility as we dynamically manage the portfolios to respond to shifting global conditions.

'We recognise the responsibility and the challenge of managing over \$200bn on behalf of the Commonwealth, particularly in a complex investment environment. Accordingly, we are investing in a range of projects to enhance our technology capability and other business processes, which will help us to sustain our strong performance into the future.

'We will continue to build out and diversify the Medical Research Future Fund following the recent cashflow from government.'

Future Fund

Performance

As at 30 June 2019 the value of the Future Fund was \$162.6bn, delivering a return of 10.4% pa over the last 10 years.

Since 2006 when the Future Fund was established, investment returns have added \$102bn to the original contributions made by the government which were \$60.5bn at the time of transfer. No contributions have been made to the Fund since 2008.

The Future Fund's actual returns and target benchmark return to 30 June 2019 are below, together with measures of volatility:

| Table 1: Future Fund returns | | | |
|-------------------------------------|----------------------|---|-----------------------------------|
| Period to 30 June 2019 | Return (% pa) | Target return¹ (% pa) (CPI + target return) | Volatility² (%) |
| From May 2006 | 8.2 | 6.7 | 4.1 |
| 10 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 |

Notes:

1. From 1 July 2017 the Fund's Investment Mandate benchmark return was reduced from CPI + 4.5% to 5.5% pa to CPI + 4% to 5% pa over the long term, with an acceptable but not excessive level of risk.
2. Industry measure showing the level of realised volatility in the portfolio.
3. The Future Fund returned 5.3% over the quarter to 30 June 2019.

Asset allocation

The asset allocation of the Future Fund at 30 June 2019 is shown below:

| Table 2: Future Fund asset allocation at 30 June 2019 | | |
|--|----------------|------------------|
| Asset class | \$m | % 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 |

Medical Research Future Fund

Performance

The Medical Research Future Fund was valued at \$9.8bn at 30 June 2019. We continue to build out the portfolio and it will be further diversified over time.

The Fund received a contribution of \$7.8bn from the Australian Government in July 2019.

The Medical Research Future Fund is a long-term fund. The Investment Mandate for the Fund was applied by the Board from 1 December 2015 and sets a return of at least the Reserve Bank of Australia Cash Rate Target + 1.5% to 2.0% pa, net of investment fees, over a rolling 10-year term.

Prior to this, the Fund was invested in accordance with the Mandate for the Health and Hospitals Fund being the Australian three-month bank bill swap rate + 0.3% pa calculated on a rolling 12-month basis.

| Table 3: Medical Research Future Fund returns | | |
|--|----------------------|---|
| Period to 30 June 2019 | Return (% pa) | Target return (% pa) (RBA cash rate + 1.5% pa) |
| From inception (22 September 2015) | 4.5 | 3.0 |
| Three years | 4.9 | 3.0 |
| One year | 5.2 | 3.0 |

Asset allocation

The asset allocation of the Medical Research Future Fund continues to be developed as shown below:

| Asset class | \$m | % 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 |

Aboriginal and Torres Strait Islander Land and Sea Future Fund

The Aboriginal and Torres Strait Islander Land and Sea Future Fund (“**ATSILS Fund**”) was established in February 2019 to enhance the Commonwealth’s ability to make payments to the Indigenous Land and Sea Corporation.

The ATSILS Fund was established with a capital contribution of \$2bn transferred from the Aboriginal and Torres Strait Islander Land Account.

The Fund’s 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.

While the Board develops a long-term investment strategy for the ATSILS Fund, it remains invested in a combination of cash and short-term deposit instruments.

During the initial transition period, as the Board of Guardians develops a long-term strategic asset allocation, the Australian Government anticipates a return lower than the benchmark return.

At 30 June 2019 the ATSILS Fund generated a return of 0.9% since inception and is valued at \$2.026bn.

DisabilityCare Australia Fund

The Investment Mandate for the DisabilityCare Australia Fund sets a benchmark return of the Australian three-month bank bill swap rate + 0.3% pa calculated on a rolling 12-month basis. The mandates require that investments minimise the probability of capital loss over a 12-month horizon.

Consistent with the mandate, the assets of the DisabilityCare Australia Fund are invested in a combination of short-term and medium-term debt instruments.

At 30 June 2019 the DisabilityCare Australia Fund was valued at \$16.4bn, generating a return of 2.2% over the last 12 months against a benchmark target of 2.3%.

Nation-building Funds

The Investment Mandates for the Nation-building Funds (the Education Investment Fund and the Building Australia Fund) set a benchmark return of the Australian three-month bank bill swap rate + 0.3% pa calculated on a rolling 12-month basis. The mandates require that investments minimise the probability of capital loss over a 12-month horizon.

Consistent with their mandates, the assets of the Nation-building Funds are invested in combinations of short-term and medium-term debt instruments.

At 30 June 2019 the Education Investment Fund and the Building Australia Fund each stood at \$4.0bn.

Over the last 12 months the Education Investment Fund and Building Australia Fund each generated a return of 2.3% against their benchmark of 2.3%.

The assets of the Building Australia Fund will be transferred to the new Future Drought Fund which will commence on 1 September 2019.

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