



24 October 2017

Portfolio update at 30 September 2017

- Future Fund stands at \$134.5bn.
- Future Fund delivers return of 7.7% pa since inception.
- The Board of Guardians now invests \$159.5bn across five public asset funds

The Future Fund Board of Guardians today released its portfolio update¹ as at 30 September 2017.

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

"The Future Fund continues to meet its objective, which is to strengthen the Commonwealth's long-term financial position.

"Global markets have continued to strengthen, supported by improving economic conditions. Around the world there is still a degree of uncertainty over the timing of interest rate rises, although such are looking increasingly likely. In this environment, the Board maintains its discipline and prudent approach to investment, focussing on growing and avoiding excessive risk with the capital in our care for the benefit of future generations of Australians.

"In line with the Government's announcement in May 2017, from 1 July 2017 the Future Fund's benchmark return was changed from CPI + 4.5% to 5.5% to CPI + 4% to 5%. With the revised mandate in place, the Board's focus remains on maximising returns while balancing our risk objectives to position the Fund for the next decade."

Mr David Neal, Chief Executive Officer, said:

"The Future Fund's asset allocation remained steady through the quarter and consistent with the positioning we have had for some time.

"The portfolio continues to operate as intended, balancing positive returns with our focus on avoiding excessive risk. We continue to position the portfolio modestly below a neutral risk setting, maintaining our discipline to only take on risk where the potential rewards justify it.

"The Medical Research Future Fund continues to perform well. We are building out and diversifying the portfolio, while managing the liquidity requirements for disbursements from the Fund."

Future Fund performance

As at 30 September 2017 the value of the Future Fund was \$134.5bn, achieving a return of 7.8% pa over the last 10 years.

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% per annum over the long term, with an acceptable but not excessive level of risk.

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

Since 2006 when the Future Fund was established investment returns have added \$74bn to the original contributions received from 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 September 2017 are below:

Future Fund returns		
Period to 30 September 2017	Return pa (%)	Target return pa (%) (CPI + target return)
From May 2006	7.7	6.9
Ten years	7.8	6.8
Seven years	9.9	6.5
Five years	11.0	6.3
Three years	8.8	5.9
One year	7.9	6.0
Quarter	0.8	1.4

Notes:

1. Quarterly data is not annualised.
2. The Future Fund's target return is CPI + 4.5% to 4.5% pa to 30 June 2017 and CPI + 4% to 5% pa thereafter.

Future Fund asset allocation

The asset allocation of the Future Fund at 30 September 2017 is shown below:

Future Fund asset allocation at 30 September 2017		
Asset class	\$m	% of Fund
Australian equities	8,037	6.0
Global equities		
Developed markets	22,628	16.8
Emerging markets	9,649	7.2
Private equity	15,852	11.8
Property	8,345	6.2
Infrastructure & Timberland	10,579	7.9
Debt securities	13,348	9.9
Alternative assets	20,642	15.4
Cash	25,395	18.9
TOTAL	134,475	100.0

Medical Research Future Fund performance

Capital contributions from government to the Medical Research Future Fund totalled \$4.4bn at 30 June 2017. A further contribution of \$2.2bn was received on 3 July 2017.

The Investment Mandate for the Medical Research Future 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.

Medical Research Future Fund returns		
Period to 30 September 2017	Return pa (%)	Target return pa (%) (RBA cash rate + 1.5% pa)
From 22 September 2015	3.9	3.1
One year	4.3	3.0
Quarter	0.9	0.7

Notes: Quarterly data is not annualised.

Medical Research Future Fund asset allocation

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

Medical Research Future Fund asset allocation at 30 September 2017		
Asset class	\$m	% of Fund
Australian equities	272	3.9
Global equities		
Developed markets	726	10.5
Emerging markets	323	4.7
Private equity	252	3.6
Debt securities	2,016	29.1
Alternatives	1,159	16.7
Cash	2,181	31.5
TOTAL	6,929	100.0

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 Investment Mandates, the assets of the Nation-building Funds are invested in combinations of short and medium term debt instruments.

At 30 September 2017 the Education Investment Fund and the Building Australia Fund each stood at \$3.8bn.

Over the last 12 months the Building Australia Fund generated a return of 2.3% and the Education Investment Fund generated a return of 2.2%. The 12-month benchmark target return for both funds was 2.1%.

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- and medium-term debt instruments. A capital contribution of \$4.2bn was received from government on 27 June 2017.

At 30 September 2017 the value of the DisabilityCare Australia Fund was \$10.5bn having generated a return of 2.1% over the last 12 months, matching its benchmark target of 2.1%.

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For more information contact:

Will Hetheron
Head of Public Affairs & Strategic Relations
+61 (0)3 8656 6400
+61 (0)439 016 678

Jennifer Dearn
Adviser, Public Affairs & Strategic Relations
+61 (0)3 8656 6400
+61 (0)439 181 153