



22 October 2018

Portfolio update at 30 September 2018

- Future Fund grows to \$148.8bn
- 10-year return of 9.2% pa exceeds benchmark target of 6.5% pa
- Exceeds benchmark return across all time periods, while managing risk levels
- Across five public asset funds, the Board of Guardians now invests \$180.7bn

The Future Fund Board of Guardians today released its portfolio update¹ as at 30 September 2018.

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

'The Future Fund was established to strengthen the Commonwealth Government's long-term financial position. It continues to perform strongly against this objective, exceeding its target rate of return across all timeframes.

'Since the Future Fund was established in 2006 with capital contributions of \$60.5bn, it has earned \$88.3bn for the Government. The Fund now stands at \$148.8bn.

'Global economic growth remains steady across most major economies. Inflationary pressures are gradually building in the US and markets continue to respond to rising interest rates. While the short-term economic outlook remains reasonably positive, we remain cautious about the longer term outlook, the impact of geopolitical and trade tensions and the potential for shocks to markets.

'The Board of Guardians maintains its disciplined approach to balancing its return and risk objective as it invests for the benefit of future generations of Australians.'

Mr David Neal, Chief Executive Officer, said:

'The Future Fund portfolio continues to operate as intended, delivering good returns without excessive risk.

'As we have said for some time, we are operating in an uncertain investment environment and prospective long-term returns are lower relative to history.

'In this environment, we are dynamically managing the portfolio, so that it is, as far as possible, robust to a range of possible scenarios. Our portfolio construction continues to emphasise diversification and flexibility.'

Future Fund performance

As at 30 September 2018 the value of the Future Fund was \$148.8bn, delivering a return of 9.2% pa over the last 10 years.

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

Since 2006 when the Future Fund was established, investment returns have added \$88.3bn 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 September 2018 are below, together with measures of volatility:

Table 1: Future Fund returns			
Period to 30 September 2018	Return (% pa)	Target return¹ (% pa) (CPI + target return)	Volatility² (%)
From inception (May 2006)	7.9	6.8	4.1
Ten years	9.2	6.5	4.1
Seven years	10.7	6.3	3.4
Five years	10.2	6.2	3.5
Three years	8.1	6.0	3.2
One year	10.7	6.0	2.8

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 delivered a return of 2.1% over the quarter to 30 September 2018.

Future Fund asset allocation

The asset allocation of the Future Fund at 30 September 2018 is shown below:

Table 2: Future Fund asset allocation at 30 September 2018		
Asset class	\$m	% of Fund
Australian equities	9,702	6.5
Global equities		
Developed markets	26,784	18.0
Emerging markets	10,888	7.3
Private equity	21,996	14.8
Property	10,472	7.0
Infrastructure & Timberland	12,276	8.2
Debt securities	13,089	8.8
Alternative assets	22,253	15.0
Cash	21,383	14.4
TOTAL	148,844	100.0

Medical Research Future Fund performance

The Medical Research Future Fund grew to \$9.5bn at 30 September 2018. Since it was established, the Fund has received capital contributions from government of \$9.0bn, including \$2.3bn in July 2018.

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.

Table 3: Medical Research Future Fund returns

Period to 30 September 2018	Return (% pa)	Target return (% pa) (RBA cash rate + 1.5% pa)
From inception (22 September 2015)	4.1	3.1
One year	4.7	3.0

Medical Research Future Fund asset allocation

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

Table 4: Medical Research Future Fund asset allocation at 30 September 2018

Asset class	\$m	% of Fund
Australian equities	406	4.3
Global equities		
Developed markets	1,112	11.7
Emerging markets	488	5.1
Private equity	288	3.0
Property	50	0.5
Debt securities	2,389	25.1
Alternatives	1,434	15.1
Cash	3,354	35.2
TOTAL	9,522	100.0

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.

A capital contribution of \$4.2bn was received from government during the 2017-18 financial year.

At 30 September 2018 the DisabilityCare Australia Fund was valued at \$14.6bn, generating a return of 2.2% over the last 12 months, meeting its benchmark target of 2.2%.

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 September 2018 the Education Investment Fund and the Building Australia Fund each stood at \$3.9bn.

Over the last 12 months the Building Australia Fund and the Education Investment Fund each generated a return of 2.2%, meeting their benchmark of 2.2%.

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