



27 January 2021

Portfolio update at 31 December 2020

- Future Fund grows to \$171bn
- Negative returns from the impact of Covid-19 more than fully recovered
- 10-year return of 9.0% pa against a target of 6.2% pa
- Total funds managed across all six funds stands at \$218bn

The Board of Guardians today released its portfolio updateⁱ to 31 December 2020.

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

'The Future Fund is now at its highest value ever at \$171bn.

'This comes after an unprecedented year where markets fell by over a third during the early months as a result of the COVID pandemic. In the second half markets staged a strong comeback. The Future Fund navigated the early market falls well, mitigating their impact on the portfolio, and performed strongly in the second half of the calendar year.

'Our investment strategy uses diversification and our long-term investment horizon to navigate the kind of market volatility we have seen and to deliver strong long-term returns without taking excessive risk. This is reflected in the 9% pa returns over 10 years and the \$110bn that investment returns have added to the original contributions to the Fund of \$60.5bn.

'The Fund's growth comes solely from earnings as it has received no capital contributions since the original sums used to establish it.

"During the COVID caused weakness in markets, we were able to build out the investment portfolios of the Future Drought Fund and the Emergency Response Fund which have shown very strong returns as a result of the recovery that has now taken place.

'Markets have been supported by fiscal and monetary policy, optimism around economic recovery, and the development and deployment of vaccines. However, the extent to which the public health outlook improves, the duration of lockdowns across major economies, the recovery in the real economy, and the pathway to reducing fiscal and monetary support will impact the outlook for markets. Investors must also remain conscious of the potential for economic, market and geopolitical shocks, particularly given that the ability for policy makers to respond with further measures is limited.

'The Board remains focused on long-term performance and balancing the risk and return obligations of our mandate.'

Dr Raphael Arndt, Chief Executive Officer, said:

'The Future Fund entered the period of disruption at the start of the year in a strong position. We responded nimbly to the impacts of the COVID pandemic, weathering the tumult well and proving resilient through unprecedented levels of market turbulence. The negative returns of the first half have been more than reversed and the Fund continues to exceed its mandated benchmark return while controlling risk levels.

'While markets have performed strongly we remain conscious of the potential downside risks, including from public health and economic reversals and so the portfolio is positioned at around neutral levels of risk. This is designed to allow us to continue to generate returns when markets are strong, while reducing the impact of market falls.

'This neutral risk positioning and our dynamic approach to managing the portfolio also allows us to selectively deploy capital into new opportunities where we identify them.

'We have seen remarkable changes in policy, economies, and markets and this is changing the investment landscape. Understanding this environment and the challenges and opportunities it presents and then building a portfolio that is as robust as possible to a range of scenarios is a key priority for Sue Brake, our newly appointed Chief Investment Officer. Sue and her team are focused on prudently balancing our risk and return objectives in this changed climate to enable us to sustainably deliver strong returns over the medium-to-long-term.'

Future Fund

Performance

| | Return (% pa) | Target return¹ (% pa) | Volatility² (%) |
|------------------------------|--------------------------|---------------------------------------------|---------------------------------------|
| From inception (May 2006) | 7.6 | 6.6 | 4.2 |
| 10 years | 9.0 | 6.2 | 3.9 |
| 7 years | 8.5 | 5.8 | 4.1 |
| 5 years | 7.6 | 5.6 | 4.1 |
| 3 years | 7.1 | 5.4 | 4.6 |
| 1 year | 1.7 | 4.4 | 6.0 |

Note: The Future Fund returned 4.9% over the quarter.

- From 1 July 2017 the Fund's Investment Mandate target 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.
- Industry measure showing the level of realised volatility in the portfolio.

Asset allocation

| Asset class | \$m | % of Fund |
|----------------------------------------|------------|------------------|
| Australian equities | 11,882 | 7.0 |
| Global equities | | |
| Developed markets | 28,647 | 16.8 |
| Emerging markets | 14,190 | 8.3 |
| Private equity | 22,983 | 13.4 |
| Property | 10,360 | 6.1 |
| Infrastructure & Timberland | 12,651 | 7.4 |
| Debt securities | 12,080 | 7.1 |
| Alternatives | 24,249 | 14.2 |
| Cash | 33,836 | 19.8 |
| TOTAL | 170,877 | 100.0 |

Medical Research Future Fund

Performance

| Table 3: Medical Research Future Fund returns | | |
|------------------------------------------------------|--------------------------|-----------------------------------------|
| | Return (% pa) | Target return¹ (% pa) |
| From inception (22 September 2015) | 4.0 | 2.7 |
| 5 years | 4.3 | 2.7 |
| 3 years | 3.9 | 2.5 |
| 1 year | 2.4 | 1.7 |

Note: The Medical Research Future Fund returned 2.5% over the quarter.

1. RBA cash rate plus 1.5% to 2.0% pa over the long term, with an acceptable but not excessive level of risk.

Asset allocation

| Table 4: Medical Research Future Fund asset allocation | | |
|---------------------------------------------------------------|---------------|------------------|
| Asset class | \$m | % of Fund |
| Australian equities | 820 | 3.9 |
| Global equities | | |
| Developed markets | 1,904 | 9.0 |
| Emerging markets | 1,000 | 4.7 |
| Private equity | 731 | 3.5 |
| Property | 653 | 3.1 |
| Infrastructure | 742 | 3.5 |
| Debt securities | 2,249 | 10.7 |
| Alternatives | 2,952 | 14.0 |
| Cash | 10,040 | 47.6 |
| TOTAL | 21,090 | 100.0 |

ATSILS Fund

Performance

| | Return (%) | Target return¹ (%) |
|----------------------------------------------------------------|-------------------|--------------------------------------|
| Initial transition period (1 February to 30 September 2019) | 1.3 | 1.1 |
| From inception (1 October 2019) | 3.1 | 2.9 |
| One year | 2.7 | 2.4 |

Note: The ATSILS Fund returned 3.2% over the quarter.

1. CPI + 2.0% to 3% pa over the long term, with acceptable but not excessive level of risk.

Asset allocation

| Asset class | \$m | % of Fund |
|----------------------------|--------------|------------------|
| Australian equities | 101 | 5.0 |
| Global equities | | |
| Developed markets | 235 | 11.8 |
| Emerging markets | 124 | 6.2 |
| Private equity | 89 | 4.5 |
| Property | 80 | 4.0 |
| Infrastructure | 91 | 4.5 |
| Debt securities | 275 | 13.8 |
| Alternatives | 361 | 18.1 |
| Cash | 643 | 32.2 |
| TOTAL | 1,999 | 100.0 |

Future Drought Fund

Performance

Table 7: Future Drought Fund returns

| | Return¹ (%) |
|------------------------------------------------------------------|-----------------------------------|
| Initial transition period (1 September 2019 to 31 March 2020) | 0.7 |
| From inception ¹ (1 April 2020) | 8.9 |

Note: The Future Drought Fund returned 3.1% over the quarter.

1. The Investment Mandate for the Future Drought Fund is CPI + 2.0% to 3.0% pa over the long term, with an acceptable but not excessive level of risk. Given that measurement against the Fund's Investment Mandate commenced only on 1 April 2020, it is not appropriate to assess short-term performance against a long-term target.

Asset allocation

Table 8: Future Drought Fund asset allocation¹

| Asset class | \$m | % of Fund |
|----------------------------|--------------|------------------|
| Australian equities | 217 | 5.1 |
| Global equities | | |
| Developed markets | 503 | 11.7 |
| Emerging markets | 264 | 6.2 |
| Private equity | 192 | 4.5 |
| Property | 172 | 4.0 |
| Infrastructure | 195 | 4.5 |
| Debt securities | 591 | 13.8 |
| Alternatives | 776 | 18.1 |
| Cash | 1,381 | 32.2 |
| TOTAL | 4,290 | 100.0 |

Emergency Response Fund

Performance

| | Return¹ (%) |
|------------------------------------------------------------------|-----------------------------------|
| Initial transition period (12 December 2019 to 31 March 2020) | 0.4 |
| From inception ¹ (1 April 2020) | 8.9 |

Note: The Emergency Response Fund returned 3.1% over the quarter.

1. The Investment Mandate for the Emergency Response Fund is CPI + 2.0% to 3.0% pa over the long term, with an acceptable but not excessive level of risk. Given that measurement against the Fund's Investment Mandate commenced only on 1 April 2020, it is not appropriate to assess short-term performance against a long-term target.

Asset allocation

| Asset class | \$m | % of Fund |
|----------------------------|--------------|------------------|
| Australian equities | 220 | 5.1 |
| Global equities | | |
| Developed markets | 510 | 11.7 |
| Emerging markets | 268 | 6.2 |
| Private equity | 195 | 4.5 |
| Property | 174 | 4.0 |
| Infrastructure | 198 | 4.5 |
| Debt securities | 599 | 13.8 |
| Alternatives | 787 | 18.1 |
| Cash | 1,399 | 32.2 |
| TOTAL | 4,348 | 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 Mandate requires that investments minimise the probability of capital loss over a 12-month horizon.

In line with its Investment Mandate, the DisabilityCare Australia Fund is invested in long-term deposits and cash.

The Fund is valued at \$15.7bn, delivering a return of 0.9% over the last 12 months against a benchmark target of 0.7%.

Total funds under management

| | Value \$bn |
|----------------------------------------------------------------|-------------------|
| Future Fund | 170.9 |
| Medical Research Future Fund | 21.1 |
| Aboriginal and Torres Strait Islander Land and Sea Future Fund | 2.0 |
| Future Drought Fund | 4.3 |
| Emergency Response Fund | 4.3 |
| DisabilityCare Australia Fund | 15.7 |
| TOTAL | 218.3 |

For more information contact:

Will Hetheron
Head of Public Affairs & Strategic Relations
+61 (0)3 8656 6400
+61 (0)439 016 678
will.hetheron@futurefund.gov.au

Arriarne Kemp-Bishop
Manager, Public Affairs & Strategic Relations
+61 (0)3 8656 6400
+61 (0)414 311 331
arriarne.kemp-bishop@futurefund.gov.au

Notes:

1. All data in this update is unaudited and may not sum due to rounding.
2. The ATSIILS Fund, Future Drought Fund and Emergency Response Fund gain exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund and exposures are provided on a look through basis.
3. Performance reported over periods of less than one year is not annualised.