



Monday, 29 April 2019

Portfolio update at 31 March 2019

- Future Fund grows to \$154bn
- 10-year return of 10.4% pa exceeds benchmark target of 6.5% pa
- Returns exceed benchmark target across all timeframes
- Strong long-term results particularly after adjusting for risk

The Future Fund Board of Guardians today released its portfolio update¹ as at 31 March 2019.

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

'The Future Fund continues to make good progress on its objective to strengthen the Government's long-term financial position. Recent Budget papers show the contribution its earnings will make to the Budget bottom line from 1 July 2020. Its assets also reduce Government net debt and add to the Government's net financial worth.

'Since the Future Fund was established in 2006 with capital contributions of \$60.5bn, it has earned \$94bn. The Fund now stands at \$154bn. Whilst avoiding excessive risk the Fund has earned a return of 10.4% pa against a target of 6.5% pa over 10 years.

'The last quarter showed strong returns in public equity markets, no doubt influenced by the US Federal Reserve's decision to hold interest rates and easing US-China trade tensions.

'In the longer term the global economy will face structural challenges including demographic shifts and high levels of debt.

'Long-term real yields remain very low, indeed negative in a number of major economies, which implies that long-term prospective returns will be lower relative to history.'

Mr David Neal, Chief Executive Officer, said:

'The Future Fund continues to perform strongly against its investment mandate, delivering strong long-term returns without excessive risk.

'As we navigate a complex investment environment we are focused on constructing the most efficient portfolio possible for generating strong long-term returns. To that end, we continue to prioritise and balance diversification and flexibility while carefully managing risk.

'We have continued to diversify the Medical Research Future Fund portfolio and have begun planning the investment strategy for the new Aboriginal and Torres Strait Islander Land and Sea Future Fund.

'We were delighted to announce two senior appointments to the team this last quarter. Ms Sue Brake will join as the Deputy Chief Investment Officer, Portfolio Strategy, and Ms Alicia Gregory joins as the Head of Private Equity.'

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

Future Fund performance

As at 31 March 2019 the value of the Future Fund was \$154.4bn, delivering a return of 10.4% pa over the last 10 years.

Since 2006 when the Future Fund was established, investment returns have added \$94bn 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 31 March 2019 are below, together with measures of volatility:

Table 1: Future Fund returns			
Period to 31 March 2019	Return (% pa)	Target return¹ (% pa) (CPI + target return)	Volatility² (%)
From May 2006	7.9	6.7	4.1
10 years	10.4	6.5	3.6
Seven years	10.4	6.3	3.5
Five years	9.6	5.9	3.6
Three years	9.6	6.0	3.2
One year	9.7	5.3	3.5
Financial year to date	5.9	3.9	-

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 5.0% over the quarter to 31 March 2019.

Future Fund asset allocation

The asset allocation of the Future Fund at 31 March 2019 is shown below:

Table 2: Future Fund asset allocation at 31 March 2019		
Asset class	\$m	% of Fund
Australian equities	10,050	6.5
Global equities		
Developed markets	26,844	17.4
Emerging markets	13,881	9.0
Private equity	23,778	15.4
Property	10,767	7.0
Infrastructure & Timberland	12,701	8.2
Debt securities	14,367	9.3
Alternative assets	21,655	14.0
Cash	20,334	13.2
TOTAL	154,378	100.0

Medical Research Future Fund performance

The Medical Research Future Fund was valued at \$9.6bn at 31 March 2019. We continue to build out the portfolio and it will be further diversified over time, including as further capital contributions from government are received.

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 31 March 2019	Return (% pa)	Target return (% pa) (RBA cash rate + 1.5% pa)
From inception (22 September 2015)	4.0	3.0
Three years	4.9	3.0
One year	3.7	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 31 March 2019

Asset class	\$m	% of Fund
Australian equities	412	4.3
Global equities		
Developed markets	992	10.4
Emerging markets	576	6.0
Private equity	295	3.1
Property	167	1.7
Infrastructure	12	0.1
Debt securities	2,304	24.1
Alternatives	1,644	17.2
Cash	3,156	33.0
TOTAL	9,558	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.

At 31 March 2019 the DisabilityCare Australia Fund was valued at \$14.2bn, generating a return of 2.3% over the last 12 months, meeting its benchmark target of 2.3%.

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 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.

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

At 31 March 2019 the ATSILS Fund generated a return of 0.4% since inception and is valued at \$2.015bn.

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 31 March 2019 the Education Investment Fund and the Building Australia Fund each stood at \$3.9bn.

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%.

Total

Total value of Funds (across all six Funds) managed by the Future Fund Board of Guardians now stands at \$188bn as at 31 March 2019.

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