



2 September 2020

Portfolio update at 30 June 2020

- Future Fund stands at \$161bn.
- Over \$100bn in earnings on \$60.5bn of capital.
- FY20 return of -0.9%
- 10 year return of 9.2% pa exceeds benchmark target of 6.1% pa.
- Total funds under management stands at \$205.1bn.

The Board of Guardians today release its portfolio update¹ to 30 June 2020.

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

'The Future Fund was set up to strengthen the Commonwealth's long-term financial position. It has proved itself successful by delivering strong long-term risk adjusted returns that have grown the Fund and strengthened the Commonwealth's balance sheet.

'The second half of FY 2020 was dominated by the COVID-19 pandemic and the lockdown of much of the Australian economy by Governments in response. The Global economy went into reverse and the Australian economy moved into recession for the first time in 30 years. The downturn was fast and steep.

'In March, the broad Australian Stock market fell over one third. Future Fund has performed as intended through a highly volatile period reducing the impact of market falls while looking forward to benefit as markets recover. The Fund delivered a return of -0.9% over what was, in many respects, an unprecedented year.

'The Future Fund is a long-term fund and its portfolio is designed to ride out short term events and focus on long-term performance. Over 10 years the Fund has achieved a return of 9.2% pa, exceeding its benchmark of 6.1% pa. Since the Fund was established in 2006, it has added over \$100bn in earnings.

'The Board is focused on positioning for what will be a challenging and volatile environment in the future. The factors that have fuelled strong performance in the past may not be there any longer. We will need to be ever more strategic in how we pursue long-term returns in the future.

'We will continue to prioritise portfolio flexibility, ensuring the portfolio is robust to a range of possible scenarios and has ample liquidity. This will open up opportunities from the current market to position ourselves for long-term returns.'

Dr Raphael Arndt, Chief Executive Officer, said:

'We remain sharply focused on our long-term objective. Everything we do, every decision we make is focused on investing for the benefit of future generations of Australians.

'Now, more than ever, we are conscious of our obligation to avoid 'excessive risk'. The changes in the global economy and financial markets are momentous and we are positioned cautiously with risk levels just below neutral.

'For some time we have prioritised portfolio flexibility to ensure we can adjust the portfolio quickly to respond to emerging opportunities and risks. This year we undertook a material rebalance of the Private Equity portfolio, reducing some of our exposure to international growth and buyout managers following a period of very strong performance. We also completed the sale of other unlisted assets including Gatwick Airport.

'We deployed some of that capital into new infrastructure themes including fibre and data centres, in Australia and offshore.

'We were well positioned to navigate a path through the recent dislocations and are ready to manage through an investment environment which remains uncertain.'

Future Fund

Performance

Table 1: Future Fund investment returns and volatility			
	Return (% pa)	Target return¹ (% pa)	Volatility² (%)
From inception (May 2006)	7.5	6.5	4.3
10 years	9.2	6.1	3.9
7 years	8.9	5.8	4.1
5 years	6.6	5.5	4.3
3 years	6.5	5.1	4.6
1 year	-0.9	3.7	5.2

1. 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.
2. Industry measure showing the level of realised volatility in the portfolio.
3. The Future Fund returned -0.7% over the quarter.

Asset allocation

Table 2: Future Fund asset allocation		
Asset class	\$m	% of Fund
Australian equities	11,012	6.8
Global equities	30,810	19.1
Developed markets	13,074	8.1
Emerging markets		
Private equity	24,424	15.2
Property	9,285	5.8
Infrastructure & Timberland	11,420	7.1
Debt securities	12,852	8.0
Alternatives	20,832	12.9
Cash	27,404	17.0
TOTAL	161,112	100.0

Medical Research Future Fund

Performance

Table 3: Medical Research Future Fund returns		
	Return (% pa)	Target return ¹ (% pa)
From inception (22 September 2015)	3.6	2.9
3 years	3.4	2.7
1 year	0.2	2.1

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	674	3.9
Global equities		
Developed markets	1,603	9.3
Emerging markets	817	4.7
Private equity	659	3.8
Property	494	2.9
Infrastructure	557	3.2
Debt securities	2,072	12.0
Alternatives	1,702	9.9
Cash	8,654	50.2
TOTAL	17,232	100.0

Note: The Fund received a contribution of \$3.2bn from the Australian Government after year end on 21 July 2020.

ATSILS Fund

Following its establishment on 1 February 2019 the ATSILS Fund was in an initial transition phase while the Board developed a long-term investment strategy.

On 1 October 2019 the Fund gained exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund. The Fund's asset allocation is shown below.

Measurement of performance against the Investment Mandate commenced on 1 October 2019. The Fund's Investment Mandate requires the Board to target an average return of at least the Consumer Price Index plus 2.0% to 3.0% pa over the long term while taking an acceptable but not excessive level of risk.

Performance

	Return (%)	Target return¹ (%)
Initial transition period (1 February to 30 September 2019)	1.3	n/a
From inception (1 October 2019)	-1.3	0.6

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	98	5.0
Global equities		
Developed markets	234	12.0
Emerging markets	118	6.1
Private equity	95	4.9
Property	72	3.7
Infrastructure	81	4.1
Debt securities	300	15.4
Alternatives	246	12.6
Cash	709	36.3
TOTAL	1,953	100.0

1. Exposures on a look through basis.

Future Drought Fund

Following its establishment on 1 September 2019 the Future Drought Fund was in an initial transition phase while the Board developed a long-term investment strategy.

On 1 April 2020 the Fund gained exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund. The Fund's asset allocation is shown below.

Measurement of performance against the Investment Mandate commenced on 1 April 2020. The Fund's Investment Mandate requires the Board to target an average return of at least the Consumer Price Index plus 2.0% to 3.0% pa over the long term while taking an acceptable but not excessive level of risk.

Performance

Table 7: Future Drought Fund returns	
	Return (%)
Initial transition period (1 September 2019 to 30 March 2020)	0.7
From inception ¹ (1 April 2020)	3.4

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

Asset allocation

Table 8: Future Drought Fund asset allocation¹		
Asset class	\$m	% of Fund
Australian equities	207	5.0
Global equities		
Developed markets	493	11.9
Emerging markets	251	6.1
Private equity	203	4.9
Property	152	3.7
Infrastructure	172	4.2
Debt securities	638	15.4
Alternatives	524	12.7
Cash	1,492	36.1
TOTAL	4,133	100.0

1. Exposures on a look through basis.

Emergency Response Fund

Following its establishment on 12 December 2019 the Emergency Response Fund was in an initial transition phase while the Board developed a long-term investment strategy.

On 1 April 2020 the Fund gained exposure to a diversified portfolio through a co-mingled arrangement alongside the Medical Research Future Fund. The Fund's asset allocation is shown below.

Measurement of performance against the Investment Mandate commenced on 1 April 2020. The Fund's Investment Mandate requires the Board to target an average return of at least the

Consumer Price Index plus 2.0% to 3.0% pa over the long term while taking an acceptable but not excessive level of risk.

Performance

Table 9: Emergency Response Fund returns	
	Return (%)
Initial transition period (12 December 2019 to 30 March 2020)	0.4
From inception ¹ (1 April 2020)	3.4

1. CPI plus 2.0% to 3.0% pa over the long term, with an acceptable but not excessive level of risk.

Asset allocation

Table 10: Emergency Response Fund asset allocation¹		
Asset class	\$m	% of Fund
Australian equities	207	5.0
Global equities		
Developed markets	493	11.9
Emerging markets	251	6.1
Private equity	203	4.9
Property	152	3.7
Infrastructure	171	4.2
Debt securities	638	15.4
Alternatives	524	12.7
Cash	1,491	36.1
TOTAL	4,130	100.0

1. Exposures on a look through basis.

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.

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

The Fund is valued at \$16.5bn, delivering a return of 1.3% over the last 12 months against a benchmark target of 1.1%

Total funds under management

	Value \$bn
Future Fund	161.1
Medical Research Future Fund	17.2
Aboriginal and Torres Strait Islander Land and Sea Future Fund	2.0
Future Drought Fund	4.1
Emergency Response Fund	4.1
DisabilityCare Australia Fund	16.5
TOTAL	205.1

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ⁱ All data in this update is unaudited and subject to finalisation through the normal end of year process. Data may not sum due to rounding.