



31 August 2022

Portfolio update at 30 June 2022

- 10-year return of 9.7% pa against a target of 6.6% pa.
- Portfolio successfully navigates market falls. Returns -1.2% for the year
- Total funds under management stands at \$242bn

The Board of Guardians today released its portfolio update¹ to 30 June 2022.

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

"In a year where global equities and global bonds fell by more than 10% each and where the Australian stock market fell 6.5%, the return of -1.2% was a pleasing outcome and shows the portfolio successfully navigated substantial market falls.

"In FY21 the Future Fund delivered a record return of 22.2% spurred on by a period of exceptional stimulation through monetary and fiscal policy. Not unexpectedly we now have significant global and domestic inflation. Central banks are responding by tightening policy and it is likely that further interest rates rises will be needed to achieve their inflation objectives. We expect deglobalisation, geopolitical tensions, trade barriers and high inflation to be a feature of the investment climate going forward.

"The Board has been carefully assessing the changing investment environment and positioning the portfolio accordingly. This flexible approach has helped to protect the Fund from market losses.

"The Future Fund is a long-term fund. It was created to strengthen the Commonwealth's long-term financial position. The Fund continues to achieve this objective, with a 10-year return of 9.7% pa against a target of 6.6% pa.

"The Future Fund stands at \$194bn. Earnings have added \$134bn since the Fund was created.

"In this environment, it is more important than ever that the Board remains sharply focused on its long-term objective to maximise risk-adjusted returns while taking acceptable but not excessive levels of risk."

Dr Raphael Arndt, Chief Executive Officer, said:

"Last year we commenced a three-year program of repositioning the Future Fund portfolio. This will adjust for a climate of higher inflation, increased volatility and lower returns. This work has set us up well. The portfolio has done well in the context of market weakness and while investment returns face many headwinds we are well positioned to identify and access attractive new investment opportunities.

"The Fund has benefited from an increased allocation to Alternatives, where inflation aware strategies have performed strongly.

"We are continuing our work to reposition the portfolio. To be successful at delivering investment performance in a higher inflation world, we need to keep innovating and finding new ways of doing things.

“In a low-return environment, the value of skilled investment managers is only increasing. We are focused on identifying and taking advantage of our managers’ skill, and on finding new talent to work with, so that we can add additional return or reduce risk.

“The portfolio continues to be positioned moderately below a neutral risk setting.”

Future Fund

Performance

Table 1: Future Fund returns, target benchmarks and volatility			
	Return (% pa)	Target return¹ (% pa)	Volatility² (%)
From inception (May 2006)	7.8	6.8	4.5
10 years	9.7	6.6	4.5
Seven years	7.5	6.5	4.8
Five years	7.8	6.6	5.2
Three years	6.1	7.2	5.9
One year	-1.2	10.1	4.4

Note: The Future Fund returned -3.1% over the quarter to 30 June 2022.

- 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

Table 2: Future Fund asset allocation		
Asset class	\$m	% of Fund
Australian equities	15,821	8.1
Global equities		
Developed markets	29,194	15.0
Emerging markets	10,590	5.4
Private equity	33,439	17.2
Property	13,153	6.8
Infrastructure & Timberland	18,459	9.5
Debt securities	15,768	8.1
Alternatives	34,505	17.8
Cash	23,450	12.1
TOTAL	194,379	100.0

Medical Research Future Fund

Performance

Table 3: Medical Research Future Fund returns and target benchmarks			
	Return (% pa)	Target return¹ (% pa)	Volatility² (%)
From inception (22 September 2015)	4.1	2.5	2.9
Five years	4.2	2.3	3.2
Three years	3.6	1.8	3.7
One year	0.1	1.6	2.3

Note: The Medical Research Future Fund returned –1.4% over the quarter to 30 June 2022.

1. RBA cash rate plus 1.5% to 2.0% 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.

Asset allocation

Table 4: Medical Research Future Fund asset allocation		
Asset class	\$m	% of Fund
Australian equities	756	3.5
Global equities		
Developed markets	1,316	6.1
Emerging markets	509	2.4
Private equity	1,154	5.3
Property	1,053	4.9
Infrastructure & Timberland	1,261	5.8
Debt securities	2,592	12.0
Alternatives	4,167	19.3
Cash	8,782	40.7
TOTAL	21,590	100.0

Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILS Fund)

Performance

Table 5: ATSILS Fund returns and target benchmarks		
	Return (% pa)	Target return ¹ (% pa)
From inception (1 October 2019)	4.3	5.3
One year	-0.2	8.1

Note: The ATSILS Fund returned -2.0% over the quarter to 30 June 2022.

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

Asset allocation

Table 6: ATSILS Fund asset allocation ¹		
Asset class	\$m	% of Fund
Australian equities	95	4.5
Global equities		
Developed markets	168	8.0
Emerging markets	65	3.1
Private equity	145	6.9
Property	132	6.3
Infrastructure & Timberland	158	7.5
Debt securities	326	15.5
Alternatives	523	24.9
Cash	491	23.3
TOTAL	2,103	100.0

1. Exposures on a look-through basis.

Future Drought Fund

Performance

Table 7: Future Drought Fund returns and target benchmarks

	Return (% pa)	Target return¹ (% pa)
From inception (1 April 2020)	7.5	5.6
One year	-0.2	8.1

Note: The Future Drought Fund returned -2.0% over the quarter to 30 June 2022.

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.

Asset allocation

Table 8: Future Drought Fund asset allocation¹

Asset class	\$m	% of Fund
Australian equities	205	4.6
Global equities		
Developed markets	358	8.0
Emerging markets	139	3.1
Private equity	312	6.9
Property	285	6.3
Infrastructure & Timberland	341	7.6
Debt securities	701	15.6
Alternatives	1,126	25.1
Cash	1,026	22.8
TOTAL	4,492	100.0

1. Exposures on a look-through basis.

Emergency Response Fund

Performance

Table 9: Emergency Response Fund returns and target benchmarks

	Return (% pa)	Target return ¹ (% pa)
From inception (1 April 2020)	7.5	5.6
One year	-0.1	8.1

Note: The Emergency Response Fund returned -1.9% over the quarter to 30 June 2022.

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.

Asset allocation

Table 10: Emergency Response Fund asset allocation¹

Asset class	\$m	% of Fund
Australian equities	198	4.5
Global equities		
Developed markets	339	7.6
Emerging markets	132	3.0
Private equity	318	7.1
Property	290	6.5
Infrastructure & Timberland	347	7.8
Debt securities	713	16.0
Alternatives	1,146	25.8
Cash	967	21.7
TOTAL	4,450	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 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 \$15.3bn at 30 June 2022, delivering a return of -0.4% over the last 12 months against a benchmark target of 0.4%.

Total funds under management

	Value \$bn
Future Fund	194.4
Medical Research Future Fund	21.6
ATSILS Fund	2.1
Future Drought Fund	4.5
Emergency Response Fund	4.5
DisabilityCare Australia Fund	15.3
Total funds under management	242.4

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Notes:

1. The data may not sum due to rounding.
2. The ATSILS 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.