



1 February 2023

Portfolio update at 31 December 2022

- Future Fund delivers a positive +0.9% return for the first half of FY2023 and a negative -3.7% for calendar 2022.
- Fund delivers 10-year return of 9.1% p.a. against a target of 6.7%
- Portfolio adjusted for a world of higher inflation, higher interest rates and sharp falls in asset prices
- Total funds under management exceed \$243bn

The Board of Guardians today released its portfolio updateⁱ to 31 December 2022.

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

"During 2022, developed economies were hit with serious inflation of a scale not seen for 30 years.

"This brought to an end a long period of monetary and fiscal stimulus. Central banks' response of rapidly increasing official interest rates to control inflation had a significant impact, driving down asset prices and investment markets.

"For the calendar year 2022 the S&P ASX 200 fell 5.5% and the S&P 500 by 13.6%. Against this the Future Fund's defensive posture limited falls and delivered an outcome of -3.7%.

"Importantly, in the second half of the calendar year/first half of the financial year the Fund showed positive growth.

"Over the past decade the Future Fund has delivered an average annual return of 9.1% against a target of 6.7%. Since 2006, with an initial contribution of \$60.5bn, the Fund has grown to its present \$196.1bn at the end of December, without any injection of capital or any further contribution.

"The cycle of rising rates to control inflation is not yet complete and brings with it the possibility of recessions in much of the developed world. The extent of further tightening and the ways in which markets and economies respond to them will be the key issues for investors.

"The Board continues to focus on positioning the portfolio to be resilient to a range of possible developments while delivering attractive risk-adjusted returns. We expect that real returns to investors, with the context of significant inflation, will be substantially below the experience of recent years."

Dr Raphael Arndt, Chief Executive Officer, said:

"In December we released a new position paper, posing the question of whether the new market conditions mean '[The Death of Traditional Portfolio Construction?](#)' It notes that many of the tailwinds that have propelled investment over recent years have turned into headwinds that will make it tougher for investors to generate returns in years to come.

"The portfolio continues to be positioned towards the middle of the range of risk settings. Over the past year we have, however, made significant changes towards investments that rely more on investor skill than on market risk, in line with our thinking that such an approach will be better rewarded as rising rates and slowing growth will drag on market returns.

“Our focus remains on protecting the portfolio from a range of scenarios, including sticky inflation leading to prolonged higher rates and the risk of a global recession, while seeking opportunities to generate long-term returns.”

Future Fund

Performance

Table 1: Future Fund returns, target benchmarks and volatility			
	Return (% pa)	Target return¹ (% pa)	Volatility² (%)
From inception (May 2006)	7.6	6.9	4.6
10 years	9.1	6.7	4.7
Seven years	7.5	6.8	4.9
Five years	7.1	7.1	5.5
Three years	5.3	8.0	6.4
One year	-3.7	11.8	5.7

Note: The Future Fund returned 1.6% over the quarter to 31/12/2022 and 0.9 for the financial year to date.

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.

Asset allocation

Table 2: Future Fund asset allocation		
Asset class	\$m	% of Fund
Australian equities	16,900	8.6
Global equities		
Developed markets	31,128	15.9
Emerging markets	11,164	5.7
Private equity	33,151	16.9
Property	12,798	6.5
Infrastructure & Timberland	18,247	9.3
Debt securities	16,147	8.2
Alternatives	33,381	17.0
Cash	23,208	11.8
TOTAL	196,122	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)	3.9	2.6	2.9
Five years	3.7	2.3	3.3
Three years	3.2	2.0	3.9
One year	-1.2	2.7	2.9

Note: The Medical Research Future Fund returned 0.8% over the quarter to 31 December 2022 and 0.6% for the financial year to date.

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	759	3.5
Global equities		
Developed markets	1,293	6.0
Emerging markets	501	2.3
Private equity	1,133	5.3
Property	1,040	4.9
Infrastructure & Timberland	1,235	5.8
Debt securities	2,538	11.9
Alternatives	3,627	17.0
Cash	9,261	43.3
TOTAL	21,387	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)	3.7	5.9
One year	-2.3	9.8

Note: The ATSILS Fund returned 0.7% over the quarter to 31 December 2022 and 0.2% for the financial year to date.

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	88	4.3
Global equities		
Developed markets	149	7.3
Emerging markets	59	2.9
Private equity	145	7.1
Property	133	6.5
Infrastructure & Timberland	458	7.7
Debt securities	325	15.9
Alternatives	465	22.7
Cash	527	25.7
TOTAL	2,050	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 return ¹ (% pa)
From inception (1 April 2020)	6.2	6.3
One year	-2.2	9.8

Note: The Future Drought Fund returned 0.7% over the quarter to 31 December 2022 and 0.3% for the financial year to date.

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	186	4.2
Global equities		
Developed markets	324	7.3
Emerging markets	124	2.8
Private equity	317	7.1
Property	291	6.5
Infrastructure & Timberland	345	7.1
Debt securities	709	15.9
Alternatives	1,014	22.7
Cash	1,149	25.8
TOTAL	4,457	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)	6.2	6.3
One year	-2.1	9.8

Note: The Emergency Response Fund returned 0.8% over the quarter to 31 December 2022 and 0.3% for the financial year to date.

- 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	194	4.4
Global equities		
Developed markets	332	7.5
Emerging markets	129	2.9
Private equity	310	7.0
Property	285	6.4
Infrastructure & Timberland	338	7.7
Debt securities	695	15.7
Alternatives	993	22.5
Cash	1,140	25.8
TOTAL	4,415	100.0

- 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 \$15,043bn as at 31 December 2022, delivering a return of 1.2% over the last 12 months against a benchmark target of 1.6%.

Total funds under management

	Value \$bn
Future Fund	196.1
Medical Research Future Fund	21.4
ATSILS Fund	2.1
Future Drought Fund	4.5
Emergency Response Fund	4.4
DisabilityCare Australia Fund	15.0
TOTAL	243.5

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Notes:

1. All data in this update is unaudited and 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.