futurefund
Australia's Sovereign Wealth Fund

29 August 2018

Portfolio update at 30 June 2018

- Annual return of 9.3% lifts Future Fund to $146bn
- 10-year return of 8.7% pa exceeds benchmark target of 6.6% pa
- Exceeds benchmark return across all time periods, while managing risk levels
- Across five public asset funds, the Board of Guardians now invests $175bn

The Future Fund Board of Guardians today released its portfolio update[1] as at 30 June 2018.

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

'The Future Fund exists to strengthen the government's long-term financial position. It continues to achieve this with a 10 year return of 8.7% pa, exceeding its benchmark of 6.6% pa and adding 6.6% pa over and above inflation. From the original seed capital $60.5bn the Future Fund has earned $85bn. The Fund now stands at $146bn.

'The Board of Guardians invests for the benefit of future generations of Australians. This requires us to be prudent in investing the assets of the Future Fund, and we have generated good long-term returns while avoiding excessive risk.

'The Board remains disciplined in balancing its return and risk objectives.

'The short-term outlook is for a continuing period of sustained synchronised growth.

'But over the medium to longer term, a number of risks remain and continue to evolve. Inflationary pressures may soon emerge in the US, and as interest rates around the world begin rising towards more normal levels we expect to see downward pressure on asset prices. International political and trade tensions continue to impact markets and the potential for further shocks remains.

'During the year we slightly increased the level of risk in the Future Fund, balancing our perspective on the more positive near-term outlook with the longer-term risks that remain.'

Mr David Neal, 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.

'In the current environment we retain high levels of portfolio flexibility to both withstand – and potentially take advantage of – any market dislocations that might arise. We are particularly attracted to investment strategies that are uncorrelated to equity returns, and that are focused on genuine innovation and value creation.

'Looking at our organisation, during the year we made important changes to position ourselves for the decade ahead. We are continuing to strengthen our investment, technology and risk capabilities as the assets we manage continue to grow.

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

'These changes will help the organisation to be more nimble and collaborative, harness developments in technology and further strengthen risk management.'

Future Fund performance

As at 30 June 2018 the value of the Future Fund was $145.8bn. The annual return is 9.3%, delivering a return of 8.7% pa over the last 10 years against a target benchmark return of 6.6% pa. This represents a real return of 6.6% pa.

Since 2006 when the Future Fund was established, investment returns have added over $85bn 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.

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.

The Future Fund's actual returns and target benchmark return to 30 June 2018 are below, together with measures of volatility:

Table 1: Future Fund returns

Period to 30 June 2018	Return (% pa)	Target return (% pa) (CPI + target return)	Volatility (%)
From inception (May 2006)	7.9	6.8	4.1
Ten years	8.7	6.6	4.3
Seven years	9.9	6.3	3.6
Five years	10.4	6.3	3.6
Three years	7.6	6.0	3.6
One year	9.3	6.1	3.1

Notes:

1. The Investment Mandate sets a benchmark target return of at least CPI + 4.5% to 5.5% pa to 30 June 2017 and CPI + 4% to 5% pa thereafter.
2. The Future Fund delivered a return of 3.6% over the quarter to 30 June 2018.

Future Fund asset allocation

The asset allocation of the Future Fund 30 June 2018 is shown below:

Table 2: Future Fund asset allocation at 30 June 2018		
Asset class	**$m**	**% of Fund**
Australian equities	9,753	6.7
Global equities		
Developed markets	26,500	18.2
Emerging markets	10,609	7.3
Private equity	20,607	14.1
Property	9,366	6.4
Infrastructure & Timberland	11,728	8.0
Debt securities	12,934	8.9
Alternative assets	22,390	15.4
Cash	21,950	15.1
TOTAL	**145,837**	**100.0**

Medical Research Future Fund performance

Capital contributions from government to the Medical Research Future Fund totalled $6.7bn at 30 June 2018.

The Investment Mandate for the Medical Research Future 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 30 June 2018	**Return (% pa)**	**Target return (% pa)** (RBA cash rate + 1.5% pa)
From inception (22 September 2015)	4.2	3.1
One year	4.7	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 30 June 2018		
Asset class	**$m**	**% of Fund**
Australian equities	269	3.7
Global equities		
Developed markets	710	9.9
Emerging markets	294	4.1
Private equity	297	4.1
Property	106	1.5
Debt securities	2,345	32.6
Alternatives	1,468	20.4
Cash	1,698	23.6
TOTAL	**7,188**	**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.

A capital contribution of $4.2bn was received from government during the 2017-18 financial year.

At 30 June 2018 the DisabilityCare Australia Fund was valued at $14.7bn, generating a return of 2.1% over the last 12 months, meeting its benchmark target of 2.1%.

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 30 June 2018 the Education Investment Fund and the Building Australia Fund each stood at $3.9bn.

Over the last 12 months the Building Australia Fund and the Education Investment Fund each generated a return of 2.1%, meeting their benchmark of 2.1%.

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