futurefund

Australia's Sovereign Wealth Fund

INVESTING FOR THE BENEFIT OF FUTURE GENERATIONS OF AUSTRALIANS

FY20

YEAR IN REVIEW

FY20 YEAR IN REVIEW

Additional detail on the portfolios and the governance and operations of the Future Fund Board of Guardians and Future Fund Management Agency will be published in our 2019-20 annual report in October 2020. For more information visit futurefund.gov.au

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

YEAR AT A GLANCE

FUTURE FUND

$161.1 billion

Future Fund

10 year return: 9.2% pa
10 year benchmark target: 6.1% pa
FY20 return: -0.9%
FY20 benchmark target: 3.7%

Contributions since inception: $60.5 billion

Earnings since inception: $100.6 billion

Balance at 30 June 2020: $161.1 billion

$17.2 billion

Medical Research Future Fund

FY20 return: 0.2%
FY20 benchmark target: 2.1%

Balance at 30 June 2020: $17.2 billion

$2.0 billion

Aboriginal and Torres Strait Islander Land and Sea Future Fund

Return since 1 October 2019: -1.3%

Balance at 30 June 2020: $2.0 billion

$4.1 billion

Future Drought Fund

Return since 1 April 2020: 3.4%

Balance at 30 June 2020: $4.1 billion

$4.1 billion

Emergency Response Fund

Return since 1 April 2020: 3.4%

Balance at 30 June 2020: $4.1 billion

$16.5 billion

DisabilityCare Australia Fund

FY20 return: 1.3%
FY20 benchmark target: 1.1%

Balance at 30 June 2020: $16.5 billion

TOTAL FUNDS UNDER MANAGEMENT

$205 billion

REPORT FROM THE CHAIRMAN

The Future Fund was set up to strengthen the Commonwealth's long-term financial position.

As Australia's Sovereign Wealth Fund, the Future Fund has strengthened the Government's balance sheet by delivering strong long-term risk adjusted returns.

It is globally recognised as a respected investment institution.

PERFORMANCE

2019-20 was a challenging year for investors across the globe as the economic fallout of the COVID-19 pandemic rippled across investment markets. In Australia, the economy moved into recession for the first time in 30 years.

The Future Fund weathered the storm well and proved resilient through unprecedented levels of market turbulence.

In 2019-20 the Fund's diversified portfolio protected its assets from significant losses, with a return of -0.9% for the year to 30 June. It is well positioned for a recovery in markets.

The Future Fund is a long-term fund. Over 10 years the Fund has achieved a return of 9.2% per annum, exceeding its benchmark of 6.1% per annum. Since the Fund was established in 2006, it has added $100.6bn in earnings.

The Medical Research Future Fund generates earnings to support grants to support medical research. The Fund delivered a return of 0.2% in 2019-20 and was valued at $17.2bn as at 30 June 2020.

Since 2019 the Commonwealth has entrusted the Board with the management of three new funds - the Aboriginal and Torres Strait Islander Land and Sea Future Fund, the Future Drought Fund and the Emergency Response Fund. We have made good progress in diversifying and building out exposures for these new funds and they are performing as intended. The DisabilityCare Australia Fund continued to perform in line with its mandate.

At 30 June 2020 the Board of Guardians invested over $200 billion across the six public asset funds for the benefit of future generations of Australians.

OUTLOOK

For some time, we have warned about the risks to markets and the need to position the portfolio for a range of uncertainties. Over the past few years, the Board sold a number of illiquid exposures due to high pricing and to increase portfolio flexibility.

Our dynamic approach has been extremely valuable in helping us navigate the historic dislocation brought about by COVID-19.

The Board is focused on positioning for what remains a challenging and volatile environment.

Economies across the globe are embarking on a period of significant change. We have seen a very significant period of monetary policy easing with progressive cuts in interest rates helping bring forward economic activity through borrowing.

Governments around the world have responded to the economic impact of COVID-19 with significant fiscal stimulus programs. This response has helped in the short term but will need to be paid back in the future.

The factors that have fuelled strong investment performance in the past may not be as significant in the future. Investors, including the Future Fund, will need to be more strategic in how they go about delivering long-term returns in the future.

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

Future Fund FY20 Year in Review

ACKNOWLEDGEMENTS

In February, David Neal resigned as Chief Executive Officer. I thank David for his valuable contribution to the Fund's long-term success as Chief Executive Officer and Chief Investment Officer and wish him the best for his future.

Cameron Price served as acting Chief Executive Officer from March to June following David's departure. Cameron did an outstanding job, serving with poise and skill over four very trying months.

I congratulate Raphael Arndt who was appointed as the Agency's new Chief Executive Officer effective 1 July 2020. Raphael, previously our Chief Investment Officer, has a deep knowledge of the organisation. His global perspective and thoughtful leadership will stand him in good stead as he takes the organisation forward.

I thank the members of the Board of Guardians for their contributions throughout the year and for their diligence and expertise in overseeing the investment of the portfolios and the activities of the Agency.

Finally, on behalf of the Board I thank the staff of the Future Fund Management Agency for their efforts through a particularly challenging year. There will be both challenges and opportunities ahead and with commitment and hard work under Raphael's leadership I am confident we will navigate the future successfully.

P Costello

Hon Peter Costello AC
Chairman
Future Fund Board of Guardians

REPORT FROM THE CEO

Welcome to the Future Fund's first Year in Review. Through this publication, we hope to reflect on the year that was and to provide a succinct overview of our investment and organisational performance.

What a year 2019-20 has been. We are living through a 1-in-100 year event in markets and the real economy, compounded by a significant public health event that is changing how society operates and profoundly affecting how we live and work.

Our purpose has never been more important than it is today. The value we add to the funds we manage will strengthen the Australian Government's long-term financial position, support medical research, assist Indigenous Australians, support drought resilience and communities impacted by natural disaster and help fund Australia's National Disability Insurance Scheme.

I was honoured to be appointed as Chief Executive Officer earlier this year. I have been with the organisation for over 12 years, joining as Head of Infrastructure and Timberland in 2008 and going on to serve as Chief Investment Officer from 2014. I am thrilled to now serve as Chief Executive Officer and to bring both continuity and commitment to evolving the organisation for the new challenges ahead.

I would like to acknowledge my predecessor, colleague and friend David Neal, who has left a tremendous legacy at the Future Fund as its former Chief Executive Officer. David was instrumental in designing and implementing the Future Fund's investment strategy and in building a robust and effective organisation underpinned by a strong and positive culture.

We came into the current period of market disruption in a strong position. Our investment strategy and processes continue to work well and our organisation has proved its resilience.

As the economic impact of COVID-19 was felt in investment markets across the globe and flowed through to our own portfolios, the strength of our joined-up investment approach was on full display. Our team came together, singularly focused on making the best investment decisions for the funds we manage. The entire organisation was dedicated to supporting this outcome, a true testament to the 'one team, one purpose' philosophy that underpins our culture.

We are reaping the benefits of our strategic program of work over the last few years to upgrade our investment data and technology capabilities. This enabled our staff to transition seamlessly to working from home and gave our investment team real time insights into our portfolios as the investment impact of COVID-19 unfolded.

THE YEARS TO COME

Looking ahead, we have identified three strategic focus areas. We will focus on maximising the benefits of our multiyear Investment Data and Analytics Program and bedding in the adjustments to the structure of our investment team, while also moving into new offices that will help us strengthen collaboration. We will continue to respond to changing opportunities presented by technology and data. Alongside this we recognise the evolving nature of the workplace and expectations of employees and the way in which the pandemic has accelerated these changes and may transform existing business and investment frameworks and approaches.

This approach will maximise the long-term contribution we can make to Australia.

I thank the Board of Guardians for its strong support and guidance as I have stepped into the role of Chief Executive Officer.

I also acknowledge and thank the team at the Future Fund Management Agency. I am proud of how the team has worked together throughout the year. They have demonstrated great resilience and flexibility. I'm tremendously grateful for their efforts and proud of what we have achieved in a challenging investment environment.

Dr Raphael Arndt
Chief Executive Officer

HOW WE INVEST

We invest the assets of each fund in line with its individual investment mandate and strategy.

We seek out the best investment ideas for the targeted risk and return objectives in a given investment environment.

When constructing the portfolios, we bring together the top-down and bottom-up views – we call this being joined up. It is the cornerstone of our investment philosophy, and we consider it a key comparative advantage that significantly improves our prospects of meeting our investment mandates.

Our top-down people look at the global economy, financial markets and political risk, and think about how this will impact our portfolios. Our bottom-up people look across the world for great assets, thinking about whether they are rewarded for the risk they are taking.

By setting the big picture against local insights, we generate a rich and nuanced view of the opportunities and outlook.

This process, together with our whole of portfolio approach, challenges our people to think broadly, to test and challenge their views and the thoughts of their managers, and to compare the merits of any one investment versus another.

In line with our whole of portfolio approach, we don't set a fixed strategic asset allocation from the top and then require those allocations to be filled across each of the investment sectors. Prospective returns and risks change through time, so we manage the portfolios dynamically.

"We aim to build a highly diversified portfolio that is as robust to as many future outcomes as possible."

INTEGRATING ESG INTO THE PROCESS

We believe the effective management of environmental, social and governance (ESG) risks and opportunities supports our requirement to maximise returns. In undertaking our investment activities, we incorporate ESG factors into our investment decision-making processes, both at individual investment and portfolio levels. This integrated approach is, in our view, fundamental to being an effective long-term investor. For us, ESG issues do not sit separately from our investment function but are integrated into it.

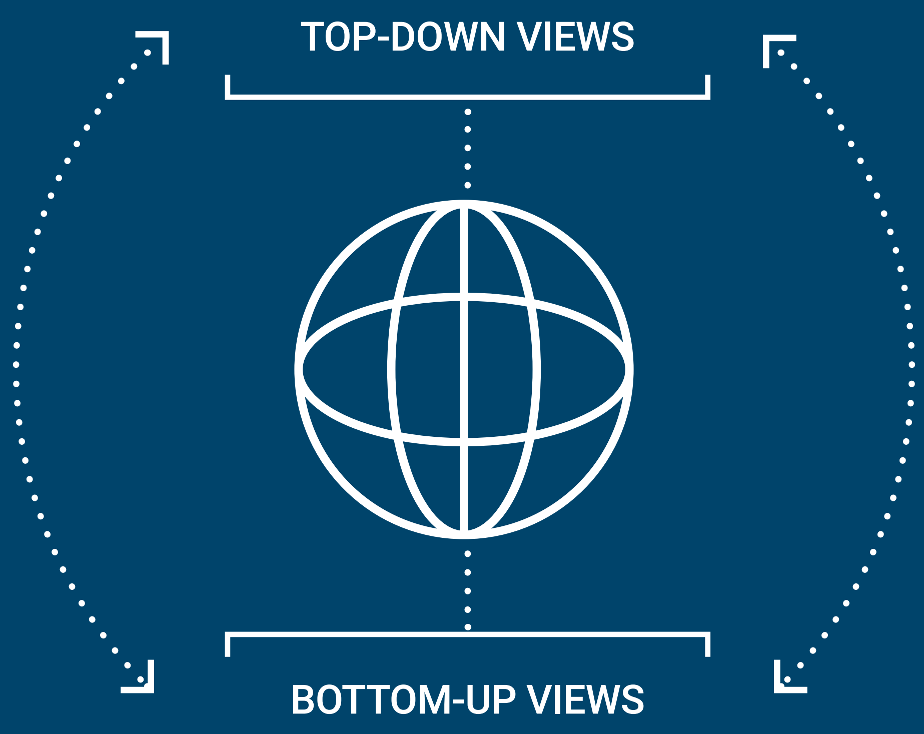
We focus on those ESG factors that have the potential to materially impact the performance of our investment portfolio and/or our reputation. Relevant ESG factors vary by industry, geography and across asset classes, but can include any of the following: environmental quality, climate change, human and labour rights including modern slavery, occupational health and safety, workplace culture, supply chain risks, corruption and corporate governance.

INVESTING DURING A PANDEMIC

Our organisation has proven its ability to maintain good investment governance while responding quickly and effectively to the COVID-19 pandemic.

Our ability to respond quickly to the evolving environment was underpinned by our enhanced data and analytics capability. Through the peak of the market fallout, we shifted to holding daily Investment Committee meetings. Each morning we were able to update market and verified portfolio data by 8am to support a discussion on liquidity management, and by 9am to develop and deliver recommendations ahead of our 10am Investment Committee meeting.

JOINED-UP INVESTING



CLIMATE RISK

As a large, long-term asset owner with a globally diversified portfolio, top-down views on the strategic trends that will influence outcomes for investors over the medium to long term are an important component in our capital allocation process. Many of those trends have a strong ESG component, both in terms of system inputs (such as demography and resource scarcity) and regulatory and consumer responses to those inputs (such as policies to limit global carbon emissions).

Climate change presents both risks and opportunities for financial markets. For investors, climate risks and opportunities are complex. They vary by industry, geography and across asset classes. We consider climate change from a risk-adjusted returns perspective.

We integrate the consideration of the following climate risks into our investment processes:

- **Carbon price risk**
  The risk that markets in which we invest will introduce a price on carbon emissions.
- **Transition risk**
  Relates to the risk of potential changes in regulatory standards, public policy, technology and customer preferences in response to climate change.
- **Physical risk**
  The risk of damage or disruption to assets, supply chains and economies more broadly from changes in both acute and chronic weather patterns.

INVESTMENT ENVIRONMENT

The COVID-19 pandemic and its economic and market impacts dominated the latter half of the 2019-20 financial year after positive economic and market conditions in the first half. The impacts of the pandemic are expected to be long lasting and a steady state solution unclear, which makes the medium to long-term investment outlook very uncertain and unusually risky.

Ongoing trade and geopolitical tensions between the US and China were the key drivers of the global economy and financial markets as 2019 progressed, weighing on the global economy and prompting a fresh round of monetary policy easing to support economic activity. As 2020 dawned, these moves, reinforced by a 'Phase 1' trade deal between the US and China, appeared to set a solid foundation for an ongoing expansion of the business cycle.

However, this foundation was shattered by the outbreak and rapid spread of the COVID-19 pandemic in 2020. The onset of the pandemic drove a record-breaking contraction in global economic activity as authorities imposed severe economic shut-downs and brought non-essential activity to a near-standstill across the globe in an ongoing effort to control the spread of the virus.

Facing these unprecedented circumstances, fiscal and monetary policymakers rapidly introduced a range of historic policy responses. These included accelerated and expanded central bank interventions in financial markets, widely expanded unemployment support and the direct fiscal funding of employee wages in a number of major economies. These emergency policy responses have mitigated the immediate impacts on the real economy, although further policy initiatives will be required until a steady state solution to the pandemic is reached. Challenges remain for policy makers in balancing the need for further income support during this period, potential fiscal cliffs as support is unwound, minimising distortions from extended policy intervention and long-term debt sustainability issues.

Financial markets responded to the unfolding pandemic with extreme and historic levels of volatility across almost every financial asset over the course of March 2020. Buoyed by the fiscal and monetary policy responses and optimism about an economic recovery, risk assets have rallied strongly to end the financial year. This stands in stark contrast to the economic reality, which remains severely challenged.

Indeed, the world continues to contend with the healthcare and human impacts of COVID-19, and while there is optimism that a vaccine may soon be widely available, until this or an alternative is found the long run economic costs and impacts from the pandemic will continue to mount. Extended periods of unemployment will harm job prospects and, combined with lost incomes, will cause substantial damage to household and business balance sheets that will take years to work through and also impair long-run economic growth prospects. Changes to household and corporate behaviour, combined with public health policy initiatives to either contain this pandemic or prevent future issues, will also have significant implications for certain sectors of economies and overall economic well-being.

Beyond its immediate effects, the COVID-19 shock and associated economic dislocations have likely accelerated and exacerbated existing vulnerabilities and trends within the global order. These include:

- the global political and geopolitical landscape
- how economies and societies function and interact with each other
- how and what global policy tools are used to manage economies going forward, and
- how financial markets function and how portfolios should be constructed.

The resolution of these various uncertainties may fundamentally alter the global economic and investment environment in the years to come.

Uncertainty on the near-term trajectory of the pandemic combined with medium to long term issues regarding economic policy, the costs of the pandemic, behavioural changes and possible paradigm shifts in the global economic and investment environment all combine to make for a particularly challenging investment environment, albeit one in which dislocations also create opportunities for investors. This backdrop suggests a moderate exposure to risk assets is warranted to balance mandate achievability and not taking excessive risk. Given these uncertainties, it is also important to maintain portfolio flexibility and approach new opportunities prudently.

PORTFOLIO ACTIVITY

Our objective is to invest for the long term, and the Future Fund was well positioned as we entered the dislocation associated with COVID-19.

In investing for the long term, we are very conscious of avoiding downside risk – and we regularly review our portfolio composition to ensure exposures in the portfolio are as attractive or more attractive than opportunities we are looking at that aren't in the portfolio.

When assets become mature and the expected look-forward return has decreased, we may choose to sell them to generate flexibility and re-deploy the capital into new opportunities.

We have continued to reduce the size of our Debt portfolio as both available credit spreads and credit standards deteriorated, particularly in more liquid sectors. Through March 2020, this created some capacity to re-enter such credit strategies, as well as for some opportunistic Alternatives allocations to strategies aimed at capitalising on dislocations in high quality fixed-income markets.

Over recent years, we have sold or reduced our exposure to more than 30 individual illiquid positions across Private Equity, Infrastructure and Property as asset valuations rose and look-forward returns contracted.

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 Gatwick Airport and deployed some of that capital into new infrastructure themes, including fibre and data centres both in Australia and offshore.

Although we have actively reduced the size of our Unlisted Property portfolio as we have neared the end of the property cycle, we continue to hold unlisted property exposures in Australia and offshore. This includes some retail properties that are being actively managed to address structural headwinds which have been exacerbated by COVID-19.

The defensive positions in the portfolio provided downside protection through the year consistent with our expectations, including in foreign currency, fixed-income, and some hedging strategies.

The period of relative strength for the Australian dollar toward the end of the year has offset some of the gains of the recovery in equity markets. We remain of the view that a meaningful level of foreign currency exposure, to each of developed and emerging markets countries, can provide valuable diversification.

Significant portfolio activity occurred for the Medical Research Future Fund, the Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILS Fund), the Future Drought Fund and the Emergency Response Fund.

The Medical Research Future Fund received additional inflows during the year and the ATSILS Fund, Future Drought Fund and Emergency Response Funds were all invested during the year. We made significant progress in diversifying these four funds, building our exposures to capacity constrained managers and taking advantage of opportunities that have arisen in this period of market dislocation.

INVESTMENT PERFORMANCE

FUTURE FUND

The Future Fund was established in 2006 to strengthen the Commonwealth's long-term financial position.

INVESTMENT MANDATE

CPI + 4%-5% per annum

To achieve an average annual return of at least the Consumer Price Index plus 4% to 5% per annum over the long term, with an acceptable but not excessive level of risk.

INVESTMENT PERFORMANCE

-0.9%

Return in FY20

$161.1bn

Value at 30 June 2020

ASSET ALLOCATION

at 30 June 2020

Asset class	Allocation
Australian equities	7%
Developed market equities	19%
Emerging market equities	8%
Private equity	15%
Property	6%
Infrastructure and Timberland	7%
Debt securities	8%
Alternatives	13%
Cash	17%

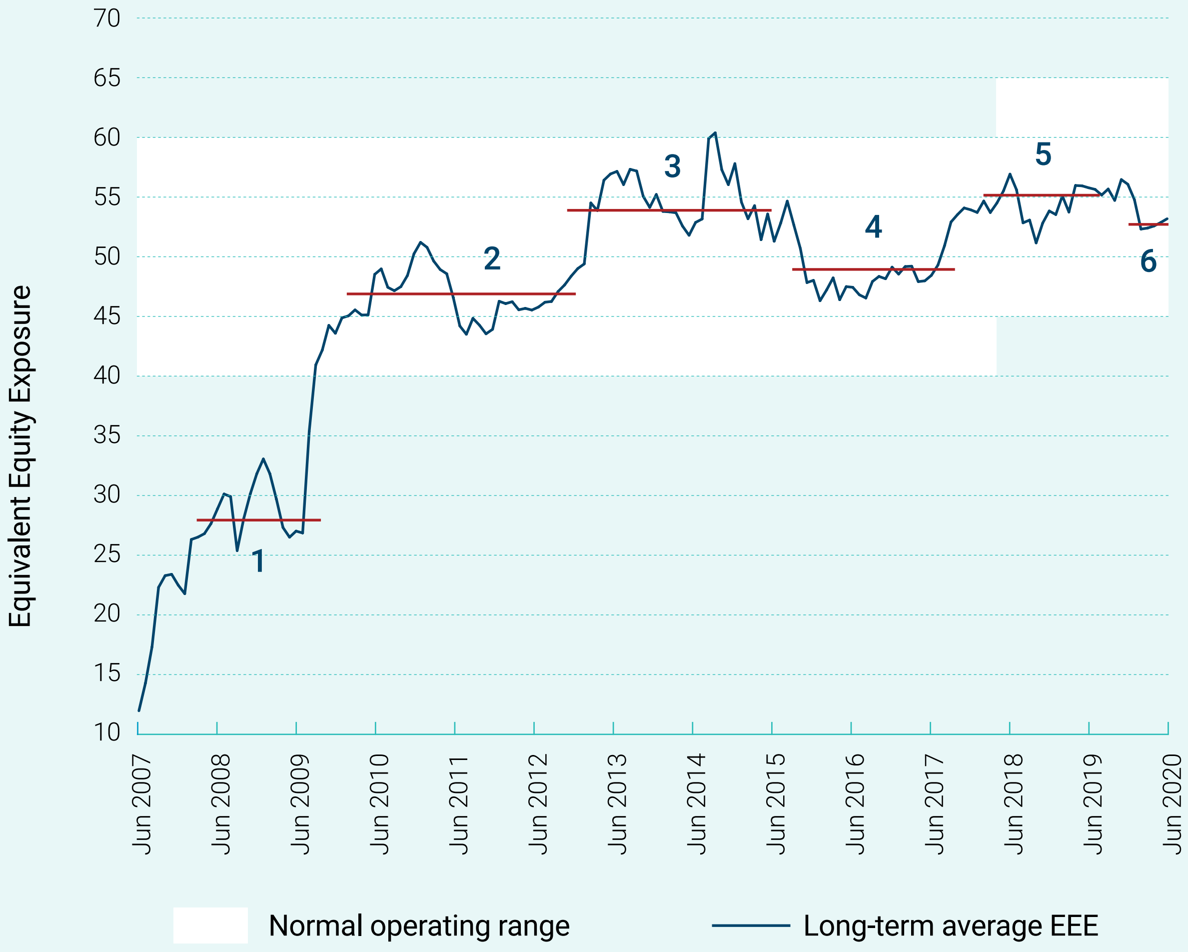
RISK POSITIONING

One of the primary metrics we use to understand and manage the broad market risk exposure of the Future Fund is Equivalent Equity Exposure (EEE).

EEE estimates the amount of market exposure we have when looking through the whole portfolio. Our EEE range for the Future Fund is 45-65. The average EEE in 2019-20 was 55 and at 30 June 2020 the EEE stood at 53.

Further to our discussion of the investment environment on pages 12-13, we remain cautious in terms of overall portfolio positioning and our risk levels are just below neutral. In these challenging times, portfolio diversification, flexibility and prudent management of risk remain as important as ever.

FUTURE FUND EQUIVALENT EQUITY EXPOSURE SINCE INCEPTION



The chart on the left demonstrates how the EEE of the Future Fund has changed through time.

In 2017-18 the Future Fund's structural risk was increased to reflect the reduction in expected returns due to the market environment and the Australian Government issuing a revised investment mandate. As a result, the normal operating risk range shifted from 40-60 to 45-65.

We are currently in the sixth distinct risk-taking regime for the portfolio since it was established.

1. Soon after inception in 2006, the build of the Future Fund portfolio was suspended in late 2007 due to concerns over financial stability and the sustainability of high asset prices, and a very low risk profile was maintained into the Global Financial Crisis.
2. Portfolio risk exposure was increased as extraordinary and globally coordinated economic policies were implemented to fight the crisis.
3. Risk levels were raised further as the European crisis subsided and the President of the European Central Bank, Mario Draghi, committed to 'do whatever it takes' to underwrite the integrity of the Euro.
4. As expected returns declined (given strong market performance supported by low interest rates), portfolio risk was gradually reduced to moderately below normal levels.
5. Risk levels were increased towards more normal levels, reflecting the emergence of strong economic growth and corporate earnings and central banks signalling an extension of accommodative monetary policies, together with the decision to increase the Fund's structural risk appetite.
6. Risk levels were reduced to moderately below neutral, reflecting the elevated risk environment resulting from the COVID-19 pandemic and policy response.

FUTURE FUND LONG-TERM RETURNS, TARGET RETURN AND LEVELS OF RISK OVER TIME

Period to 30 June 2020	Return (% pa)	Target return (% pa)	Volatility (% pa)	Sharpe ratio
From inception	7.5	6.5	4.3	1.0
10 years	9.2	6.1	3.9	1.7
Seven years	8.9	5.8	4.1	1.7
Five years	6.6	5.5	4.3	1.2
Three years	6.5	5.1	4.6	1.2

Note: volatility is an industry measure showing the level of realised volatility in the portfolio. We also report the Sharpe ratio, a measure of calculating the risk-adjusted return.

MEDICAL RESEARCH FUTURE FUND

The Medical Research Future Fund was established in 2015 and will improve the health and wellbeing of Australians by providing grants of financial assistance to support medical research and medical innovation.

INVESTMENT MANDATE

RBA + 1.5%-2% per annum

To achieve at least the Reserve Bank of Australia Cash Rate target plus 1.5% to 2.0% per annum, net of investment fees, over a rolling 10 year term.

RISK POSITIONING

Based on its interpretation of the Mandate, the Board has a moderate appetite for risk in the Medical Research Future Fund on average.

In accordance with our investment process, we also aim to build a portfolio with a relatively high degree of resilience to the investment environment. We seek genuine diversification that achieves greater balance in portfolio construction while allocating risk in a flexible and dynamic manner.

Our expected EEE range for the Medical Research Future Fund is 20-35. The average EEE in 2019-20 was 28 and at 30 June 2020 the EEE stood at 27, which is the middle of the range.

INVESTMENT PERFORMANCE

0.2%

Return in FY20

$17.2bn

Value at 30 June 2020

ASSET ALLOCATION

at 30 June 2020

Australian equities: 4%

Developed market equities: 9%

Emerging market equities: 5%

Private equity: 4%

Property: 3%

Infrastructure and Timberland: 3%

Debt securities: 12%

Alternatives: 10%

Cash: 50%

MEDICAL RESEARCH FUTURE FUND LONG-TERM RETURNS, TARGET RETURN AND LEVELS OF RISK OVER TIME

Period to 30 June 2020	Return (% pa)	Target return (% pa)	Volatility (% pa)	Sharpe ratio
From inception	3.6	2.9	2.9	0.7
Three years	3.4	2.7	3.5	0.6

Note: volatility is an industry measure showing the level of realised volatility in the portfolio. We also report the Sharpe ratio, a measure of calculating the risk-adjusted return.

ABORIGINAL AND TORRES STRAIT ISLANDER LAND AND SEA FUTURE FUND, FUTURE DROUGHT FUND AND EMERGENCY RESPONSE FUND

INVESTING OUR NEW FUNDS

Since 2019, the Australian Government has entrusted us with the management of three new return seeking funds: the Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILS Fund), the Future Drought Fund and the Emergency Response Fund.

The addition of new portfolios to our responsibilities is an important statement of the confidence and trust placed in our organisation and reflects the strength of the Future Fund as an investment institution.

At the same time, it adds to the complexity of our investment task – investing six funds of varying sizes, each with an individual investment mandate and inflow and outflow arrangements is challenging.

A co-mingled arrangement has been established between the Medical Research Future Fund and the ATSILS Fund, Future Drought Fund and Emergency Response Fund.

The arrangements have allowed these portfolios to gain rapid exposure to a more diversified, risk-managed investment program. Building exposures in a standalone portfolio would be slower and less efficient, while exposing the portfolios to additional risk during the build period. The scale of each portfolio would also limit the ability to access some diversifying strategies.

The ATSILS Fund gained access to the co-mingled arrangement on 1 October 2019 and the Future Drought Fund and Emergency Response Fund gained access on 1 April 2020. Measurement against their respective mandates commenced on those dates.

ATSILS FUND

The ATSILS Fund was established in February 2019 to enhance the Commonwealth's ability to make payments to the Indigenous Land and Sea Corporation.

INVESTMENT MANDATE

CPI + 2%-3% per annum

To achieve an average return of at least the Consumer Price Index plus 2.0% to 3.0% per annum over the long term while taking an acceptable but not excessive level of risk.

INVESTMENT PERFORMANCE

-1.3%
Return since 1 October 2019

$2.0bn
Value at 30 June 2020

ASSET ALLOCATION

at 30 June 2020

Asset class	Allocation
Australian equities	5%
Developed market equities	12%
Emerging market equities	6%
Private equity	5%
Property	4%
Infrastructure and Timberland	4%
Debt securities	15%
Alternatives	13%
Cash	36%

FUTURE DROUGHT FUND

The Future Drought Fund was established in September 2019 to support initiatives that enhance the drought resilience of Australian farms and communities.

INVESTMENT MANDATE

CPI + 2%-3% per annum

To achieve an average return of at least the Consumer Price Index plus 2.0% to 3.0% per annum over the long term while taking an acceptable but not excessive level of risk.

INVESTMENT PERFORMANCE

3.4%
Return since 1 April 2020

$4.1bn
Value at 30 June 2020

ASSET ALLOCATION
at 30 June 2020

Asset class	Allocation
Australian equities	5%
Developed market equities	12%
Emerging market equities	6%
Private equity	5%
Property	4%
Infrastructure and Timberland	4%
Debt securities	15%
Alternatives	13%
Cash	36%

EMERGENCY RESPONSE FUND

The Emergency Response Fund was established in December 2019 to support communities impacted by natural disasters.

INVESTMENT MANDATE

CPI + 2%-3% per annum

To achieve an average return of at least the Consumer Price Index plus 2.0% to 3.0% per annum over the long term while taking an acceptable but not excessive level of risk.

INVESTMENT PERFORMANCE

3.4%
Return since 1 April 2020

$4.1bn
Value at 30 June 2020

ASSET ALLOCATION
at 30 June 2020

Asset class	Allocation
Australian equities	5%
Developed market equities	12%
Emerging market equities	6%
Private equity	5%
Property	4%
Infrastructure and Timberland	4%
Debt securities	15%
Alternatives	13%
Cash	36%

DISABILITYCARE AUSTRALIA FUND

The DisabilityCare Australia Fund was established in 2014 to help fund the National Disability Insurance Scheme (NDIS), which will support a better life for Australians with a significant and permanent disability and their families and carers.

INVESTMENT MANDATE

BBSW + 0.3% per annum

To achieve a benchmark return of the Australian three-month bank bill swap rate plus 0.3% per annum calculated on a rolling 12 month basis. Investments must minimise the probability of capital loss over a 12 month horizon.

INVESTMENT PERFORMANCE

1.3%

Return in FY20

$16.5bn

Value at 30 June 2020

Our people come to work each day knowing they will have a direct impact on the well-being and prospects of Australians for generations to come.

ORGANISATION HIGHLIGHTS

As an investment institution, returns are an important measure of success. Equally important is the strength and quality of our organisation.

2019-20 was a demanding year for our people, as the economic effects of COVID-19 impacted investment markets and our workforce shifted to working from home.

It was also a year that demonstrated the success of a series of strategic initiatives we have been focused on executing in recent years. From technology to developing our leaders, 2019-20 was a year where we reaped the benefits of many years of hard work.

Enhancing our investment data and analytics capability has been our number one business priority over the past four years. The progress we have made over the years positioned us strongly as we responded to the economic and market fallout of COVID-19 and as our workforce shifted to working from home.

The strength of our enhanced data and analytics capability gave our investment team real time insights into our portfolio, allowing them to respond quickly to changing conditions. At the same time, the uplift of our workplace technology allowed our people to transition seamlessly to working from home.

The role of leaders has been brought into focus during a significant period of disruption that has impacted all areas of society on a global scale. In recent years, we have invested in and developed our leaders to ensure they are well equipped to both shape our organisation and support and enable our staff as we embark on a changing operating environment. Our leaders at all levels have readily accepted the challenge to respond to the opportunities and trials arising from COVID-19, with a core focus on supporting their teams.

LOOKING FORWARD

CONSOLIDATION

The organisation has been a hive of activity and change in recent years as we executed a range of strategic activities.

We have greatly enhanced our investment data, systems and analytics capability, which is giving us more insight into our portfolio exposures in real time.

We introduced a range of initiatives to drive greater efficiency and effectiveness across our business and investment processes, including a restructure of our investment team to support the efficient and flexible management of the investment portfolios as they continue to grow over the decade ahead.

Finally, we have invested in our people and leaders, fostering the continued development of a strong and positive culture across the organisation, with a motivated team that turns up every day ready to contribute their best and live our values in everything they do.

It is important to take a period of consolidation to harness the benefits of these initiatives.

TECHNOLOGY

We have made great progress with the uplift of our technology. Looking forward, our focus in on empowering and freeing up our peoples' time by reducing the time spent on routine, repeatable tasks, unlocking the potential of our data and delivering reliable platforms for a mobile workforce and future capability.

FUTURE OF WORK

While the move to working from home was out of necessity as social distancing measures were introduced as a result of COVID-19, it will influence how we work going forward.

Our people have learned new ways of working. More remote working and greater flexibility offer the potential to support diversity and inclusion and this is an opportunity we want to harness.

OUR PURPOSE IS **WHY** WE EXIST	**Investing for the Benefit of Future Generations of Australians**			
OUR **STRATEGIC IMPERATIVES** DEFINE **WHAT** WE MUST DO TO SUCCEED	The best portfolios to achieve our Investment Mandates	A well-managed Agency with a talented, motivated and engaged team	Efficient, effective and fit-for-purpose processes and technology	The trust and respect of Government, Parliament and the investment community
HOW WE WILL ACHIEVE OUR PURPOSE IS BY UPHOLDING OUR **VALUES**	**Focus on what matters**	**Do the right thing**	**Work together**	
OUR **STRATEGIC PILLARS** ARE THE **STRENGTH** BEHIND OUR PURPOSE	**One team, one purpose**	**Nimble and flexible**	**Leveraging the best in the world**	
OUR **STRATEGIC FOCUS** HAS BEEN...	Materially upgrade our investment data and analytics	Drive greater efficiency and productivity	Invest in our people and culture	
IN FY21 OUR **STRATEGIC FOCUS** IS EVOLVING TO...	**Consolidation** Embed and integrate our recent changes	**Technology** Unlock potential and realise opportunities	**Future of work** Adapt and enhance our capabilities	

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