futurefund

Australia's Sovereign Wealth Fund

YEAR IN REVIEW

FY21

INVESTING FOR THE BENEFIT OF FUTURE GENERATIONS OF AUSTRALIANS

“WHILE THE WORLD HAS CHANGED, OUR PURPOSE HAS NOT. WE CONTINUE TO INVEST FOR THE BENEFIT OF FUTURE GENERATIONS OF AUSTRALIANS.”

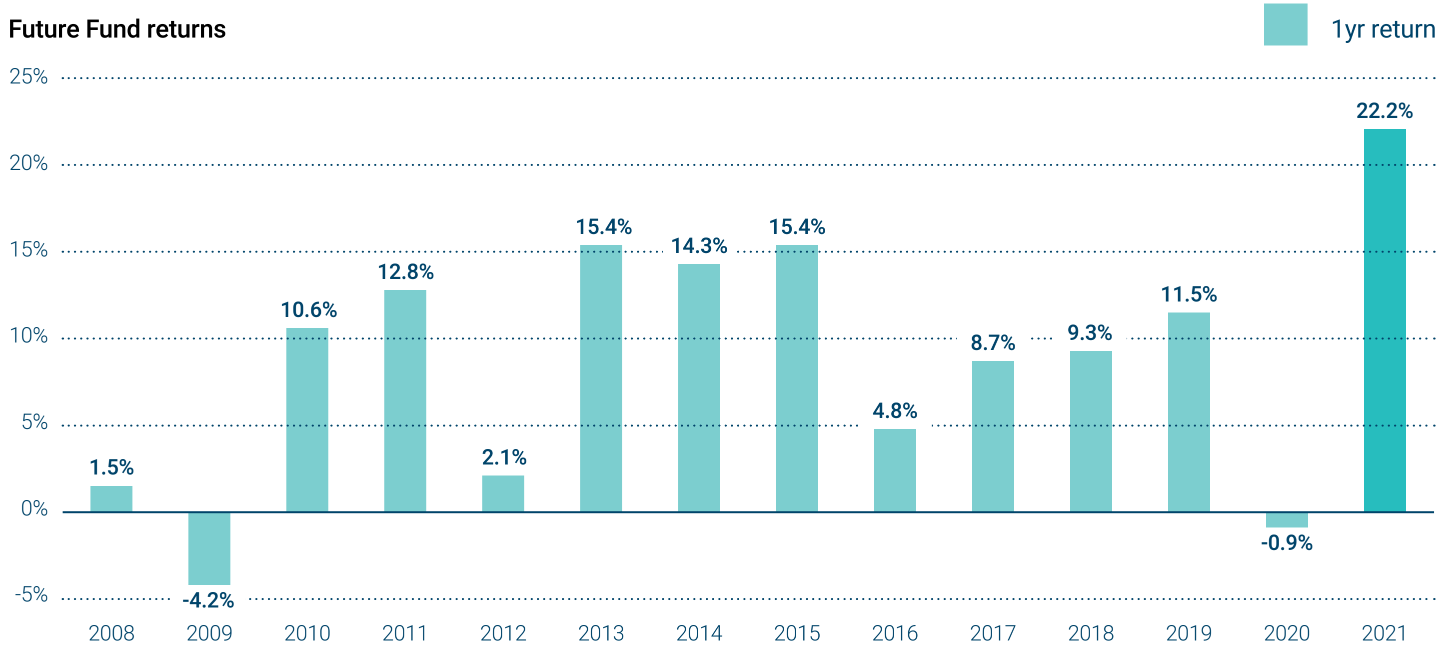
TABLE OF CONTENTS

Note: This publication reports the high-level performance figures of the funds we manage for FY21. Further data regarding our individual asset class exposures and information about costs will be available in our 2020–21 Annual Report, published in October 2021. 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

The Future Fund has delivered its strongest ever annual return earning 22.2% during the year.

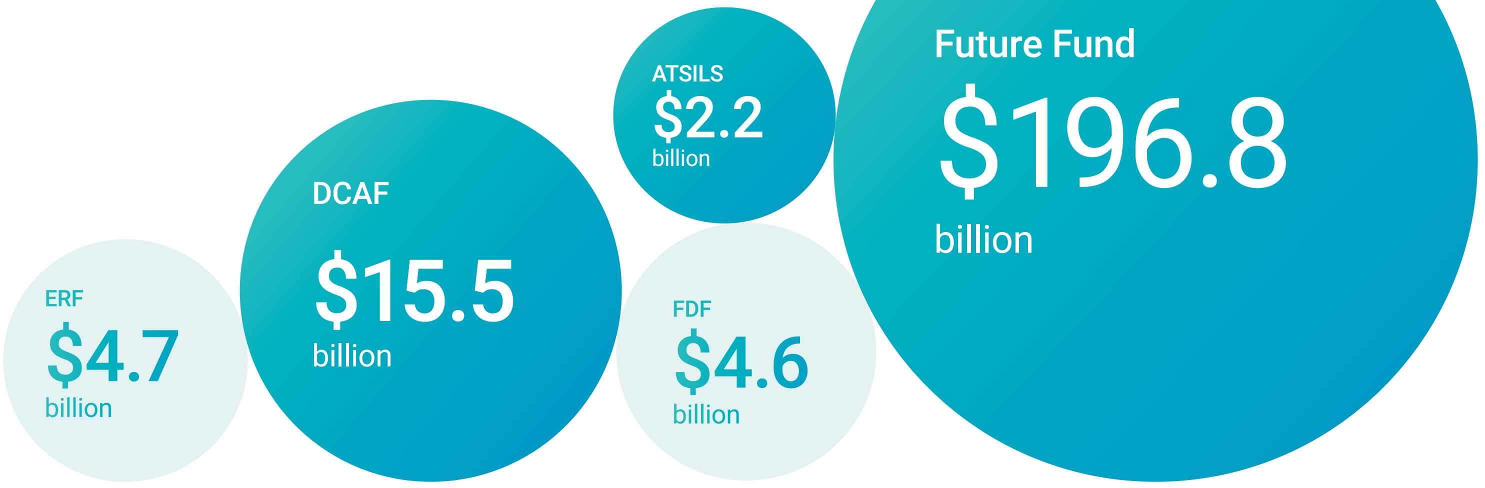
Future Fund returns



Total funds under management

$245.8 billion

At 30 June 2021



Future Fund

FY21 return: 22.2%
FY21 benchmark target: 7.8%
10-year return: 10.1% pa
10-year benchmark target: 6.1% pa

Contributions since inception: $60.5 billion
Earnings since inception: $136.3 billion
Balance at 30 June 2021: $196.8 billion

Medical Research Future Fund

FY21 return: 10.9%
FY21 benchmark target: 1.6%

Balance at 30 June 2021: $22.0 billion

Aboriginal and Torres Strait Islander Land and Sea Future Fund

FY21 return: 13.9%
FY21 benchmark target: 5.8%

Balance at 30 June 2021: $2.2 billion

Future Drought Fund

FY21 return: 14.0%
FY21 benchmark target: 5.8%

Balance at 30 June 2021: $4.6 billion

Emergency Response Fund

FY21 return: 13.9%
FY21 benchmark target: 5.8%

Balance at 30 June 2021: $4.7 billion

DisabilityCare Australia Fund

FY21 return: 0.4%
FY21 benchmark target: 0.4%

Balance at 30 June 2021: $15.5 billion

REPORT FROM THE CHAIRMAN

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

As Australia's sovereign wealth fund, the Future Fund has strengthened the Commonwealth Government's balance sheet by delivering strong, long-term risk-adjusted returns. It is the Commonwealth Government's largest financial asset and has grown over the last 15 years into a highly respected global investment institution.

PERFORMANCE

2020-21 encompassed both the health and economic disruption of the COVID-19 pandemic, followed by a financial recovery driven by the deployment of vaccines, recovering confidence, and supportive monetary and fiscal policy.

Our investment strategy saw the Future Fund this year deliver its strongest ever performance, returning 22.2% for the year, growing to $196.8 billion and delivering $35.7 billion to the people of Australia. This follows the 2019–20 year when the portfolio was successfully protected from the historic market falls in the second half.

As a result of the Board's careful long-term positioning, the Future Fund has generated a 10-year return of 10.1% per annum against a target of 6.1% per annum. Since inception investment returns have added $136.3 billion to the original contributions from the Government.

At 30 June 2021 the Board of Guardians invested over $245 billion across the six public asset funds for which it is responsible for the Commonwealth Government. Each fund has exceeded its target return over every time period.

The Medical Research Future Fund (MRFF) generates earnings to provide grants to support medical research and medical innovation. The MRFF delivered a return of 10.9% in 2020–21 and was valued at $22.0 billion as at 30 June 2021.

The Aboriginal and Torres Strait Islander Land and Sea Future Fund returned 13.9% for the year, taking its value to $2.2 billion. The Future Drought Fund and Emergency Response Fund have also performed well, delivering a return of 14.0% and 13.9% per annum respectively.

The DisabilityCare Australia Fund also continued to perform in line with its mandate, delivering a return of 0.4%.

OUTLOOK

COVID-19 has accelerated many significant changes in the nature of work and in household use of technology. It has heightened pre-existing tensions between global powers. It has also led to more extreme forms of monetary policy and more expansive fiscal policy, and has accelerated the rise of bigger government.

Over coming years these forces are likely to have fundamental implications for the economic and investment environment and accentuate regional and sectoral divergences. Many of these long-run changes will also impact the cost base of economies, adding to concerns that higher inflation may take hold and that this may also lead to higher real interest rates.

While the near-term economic outlook is brighter than it was a year ago, much of Australia continued enduring state-based lockdowns and longer-term there remains uncertainty on the unwinding of stimulus, changes to the global order and how policy makers will respond to these themes.

This creates a challenging environment for investors, while also producing opportunities for thoughtful investors.

The Board remains focused on its mandate and obligation to maximise risk-adjusted returns over the long term, while taking acceptable but not excessive levels of risk. Accordingly, the Board and the Future Fund Management Agency reviewed the investment model that has helped us meet this objective and has evolved its framework to respond to the new environment. This will position our organisation to be able to build on our success in the years ahead.

ACKNOWLEDGEMENTS

This year Ms Erin Flaherty and Dr Jane Wilson concluded their terms on the Future Fund Board of Guardians. I thank them both for their contribution and wish them well for the future.

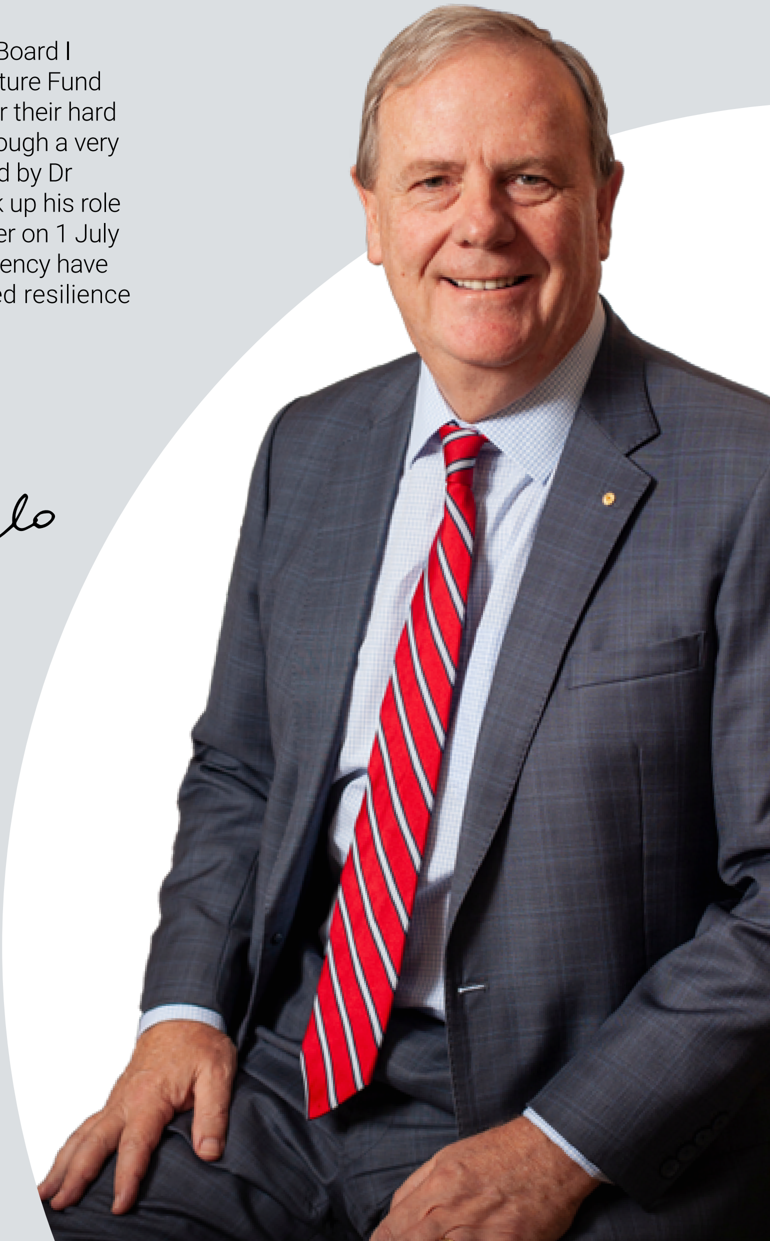
Mrs Patricia Cross was appointed for a five-year term, and existing Board member Mr Michael Wachtel, who also serves as Chair on the Audit and Risk Committee, was reappointed for an additional four years. I congratulate Michael and welcome Patricia to the Board.

I also thank all 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.

On behalf of the Board I thank the responsible Ministers, the Treasurer and the Minister for Finance, for their continued support during the year. Senator the Hon Mathias Cormann served as Minister for Finance from September 2013 until October 2020, and during that period was a staunch supporter of the Future Fund and its purpose.

Finally, on behalf of the Board I thank the staff of the Future Fund Management Agency for their hard work and dedication through a very challenging year. Ably led by Dr Raphael Arndt, who took up his role as Chief Executive Officer on 1 July 2020, the staff of the Agency have demonstrated continued resilience and professionalism.

Hon Peter Costello AC
Chairman
Future Fund Board of Guardians



REPORT FROM THE CHIEF EXECUTIVE OFFICER

The 2020–21 year was one of change, challenges and ongoing growth as we continued to respond to the significant turmoil brought on by the COVID-19 pandemic.

The Future Fund has performed exceptionally well under turbulent conditions. Our joined-up investment approach and 'One team, One purpose' philosophy held us in good stead over the past year, providing strong alignment on why and how we do what we do.

The COVID-19 pandemic has continued to cause uncertainty and disruptions to markets around the world, with significant second waves wreaking havoc in both developed and emerging markets.

Australia entered this financial year in the midst of its first recession in nearly three decades. Not just a typical recession, but the sharpest and deepest decline in Australian economic history, along with much of the rest of the world.

The unprecedented monetary and fiscal policy response, public health policy initiatives, and development and deployment of vaccines provided the base for the beginnings of the global economic recovery in the second half of 2020 and the foundations for 2021 to be one of the strongest years of economic growth in modern history.

Against this backdrop we took the opportunity to conduct the most comprehensive review of our investment strategy since the Future Fund was established.

In doing so, we conducted a detailed assessment of the changing investment environment, and also reviewed our portfolios and our investment beliefs. The outcome is an informed and thoughtful investment strategy that enhances our ability to meet our long-term mandates in the context of the new world in which we are operating.

As part of the new strategy the Board endorsed our recommendation to increase structural risk levels across the portfolio. This adjustment in positioning will help ensure we are best-placed to achieve our long-term investment mandates.

We also took the opportunity to develop a new business strategy and implement a refreshed operational structure during the year.

In the context of our new investment strategy and the fundamentally changed market environment we find ourselves in, as well as the additional funds we now manage and their continued growth, we are committed to sustaining a strong and mature organisation that is able to deliver success over the long term.

Our multi-year business strategy has four specific focus areas: Refresh the investment model; Mature the organisation; Preserve our legacy; and Expand our voice.

We introduced a new organisational structure to ensure that the business strategy was supported with clear ownership of key initiatives. As a result, there were a number of changes to some key departments, with a focus on enabling our daily investment activity, and the evolution of our Management Committee to a revised Senior Leadership Team.

Chief Financial Officer, Paul Mann, Chief Culture Officer, Liz McPherson and Chief Technology Officer, Richard Large left the Agency in March. I want to thank Paul, Liz and Richard for their significant contributions to the Agency and the substantial legacy they have helped create.

I was pleased that Gordon McKellar as Chief Operating Officer took on additional responsibility across the critical Investment and Business Operations Group.

Through much of the year our people were required to work from home and then move back into the office environment gradually as COVID-19 restrictions permitted. Through all of this I saw our team work tirelessly to deliver on our purpose and invest Australia's capital with care, diligence and wisdom.

We moved into our new offices in Melbourne and Sydney this year. These offices have been designed and built to suit the ways in which we work. Key features across both offices are collaboration spaces, customised meeting rooms and consistent and reliable technology, ensuring our people are provided with all they need to perform at their best. Dedicated collaboration space has proven even more valuable than expected in the COVID-19 world where hybrid working has become a way of life.

As part of our business strategy we expect to materially increase our headcount, increasing core investment staff and rotating contract roles to permanent ones. This is an important part of the way in which we will deliver on our business strategy focus areas of refreshing the investment model and maturing the organisation.

Looking ahead, we will work collectively to realise our new multi-year business strategy, mobilising resources, activities and plans to achieve each of our four new focus areas.

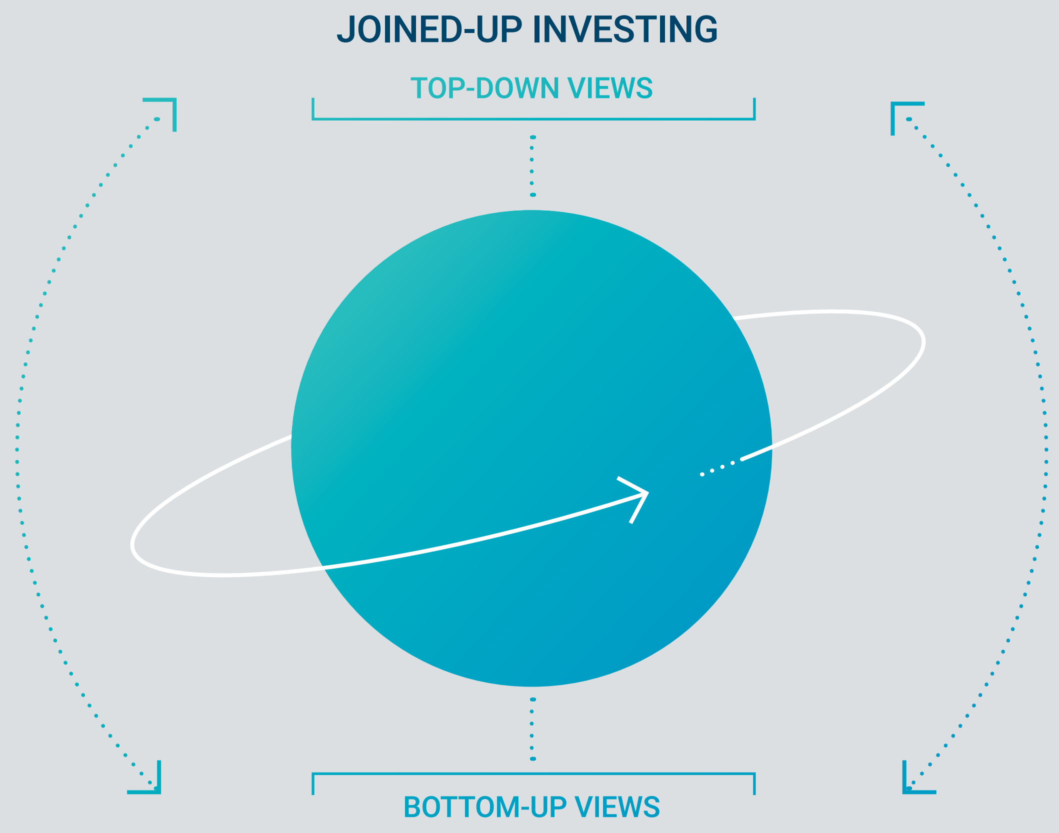
I sincerely thank the Board of Guardians for their ongoing support and guidance as I have completed my first year as Chief Executive Officer.

My thanks and congratulations also go to Sue Brake, who was officially announced in December as our Chief Investment Officer (CIO), having served as acting CIO since July last year.

I also acknowledge and thank the team at the Agency. I am very grateful and proud of how everyone has worked together throughout the year. Under prolonged challenging conditions, staff have remained firmly focused on protecting and growing the portfolios and driving change and embracing opportunity along the way. I have been humbled to lead such a high-quality team.

Dr Raphael Arndt
Chief Executive Officer
Future Fund Management Agency

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 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 the external investment environment and our portfolios. Our bottom-up people look across the world for great assets, seeking out opportunities where we will be adequately rewarded for the risk we are accepting.

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 and to test their views as well as the insights and perspectives of our managers, and to compare the merits of any one investment versus another.

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

We invest across public and private markets in the broad categories of alternative assets, cash, debt, overlays, listed equities, private equities, and tangible assets.

Across each category we develop an investment strategy for each fund that is consistent with its investment mandate and our approach to total portfolio construction.

Category	Sectors covered
Alternative assets	Skill-based absolute return strategies and other risk premia providing diversity of return streams
Cash	Treasury bills, bank bills and deposits
Debt	Primarily through non-government fixed-interest securities extending to mortgages, high-yield credit and corporate loans
Overlays	Exposures to listed equities, developed and emerging market currency, domestic and global interest rates, portfolio protection strategies, and other return-enhancing and/or risk mitigation strategies
Listed equities	Australian equities, global developed market equities and global emerging market equities
Private equities	Venture capital, growth capital and buyout
Tangible assets	Real estate, infrastructure, and timber assets gained through public or private markets

DYNAMIC INVESTMENT PROCESS

Given that prospective returns and risks for all the different types of investment opportunities are always changing, we manage the portfolios dynamically.

By doing so, we seek to extract the best possible return, adjusted for the level of risk in markets and individual investments. We expect to increase risk levels when the expected reward for taking risk is high, and to reduce risk levels when the expected reward for taking risk is low.

The key elements of our investment process are:

1

ESTABLISHING FOUNDATIONS

Our core investment beliefs inform our interpretation of each fund's investment mandate and its objectives, and help us determine our appetite for the types and levels of risk we are prepared to take in each of the funds.

Given the competitive investment landscape, we also identify our comparative advantages, and these further inform our approach to investing.

2

ANALYSIS OF THE INVESTMENT ENVIRONMENT

We develop a deep understanding of the investment environment we are operating in at any one time, with a focus on long-term economic, social, financial, political, geopolitical, and monetary and fiscal policy trends.

We regularly analyse a range of plausible future scenarios over multiple time horizons to better understand how our portfolios might behave if conditions change, and identify ways to improve the resilience of our portfolios.

3

RISK MANAGEMENT AND BUDGETING

Our investment policy framework helps us clearly and effectively manage the risk of our funds at what we consider to be acceptable, rather than excessive, levels.

Given our assessment of the environment, and consistent with our investment policy framework, we choose appropriate risk settings for each of our portfolios.

Risk budgets are considered and set across multiple dimensions, including market risk, short-term liquidity risk, and how readily we can change a portfolio if needed — its flexibility. These risk budgets are dynamically managed.

4

PORTFOLIO PLANNING AND INVESTMENT SELECTION

Once we have decided on appropriate risk budgets for a given fund, we plan how we expect to allocate those budgets and then, through underlying investment activity, implement our plan.

Our approach to both portfolio planning and identifying opportunities is necessarily dynamic, as our assessment of the investment environment, market pricing, and the expected relationships between different investments all vary through time.

OUR INVESTMENT BELIEFS

Our investment beliefs are at the core of how we invest. They shape the way we interpret each fund's investment mandate and its objectives, and how we reach investment decisions.

As part of the investment strategy review during 2020–21, we refreshed our investment beliefs. We also formally adopted a set of comparative advantages. These describe the aspects of who we are and how we operate, and we expect they will give us a competitive edge and help us achieve our mandates.

Our principal comparative advantages are:

- **We are a long-term investor**
  Our long investment horizon allows us to look through short-term volatility and be patient, taking positions we expect will pay off over the long term. We can also buy and hold private or otherwise illiquid investments that offer additional returns.
- **Our reputation**
  Our reputation is one of our most valuable assets, resting on our sovereign status and enhanced through time by our conduct and results. It facilitates access to other sovereign institutions and the most highly regarded peers and investment organisations around the world, as well as attracting highly qualified staff.
- **Our access to high-calibre external partners**
  Our scale, sovereign status and reputation help us access and leverage the skill and experience of best-in-class external partners and fund managers.
- **We focus on total portfolio outcomes**
  We embrace a total portfolio approach that allows us to remain focused on what matters at the whole-of-portfolio level, while collaborating to effectively integrate top-down and bottom-up investment ideas.
- **We have a single client and a single purpose**
  Our single purpose is to invest for the benefit of future generations of Australians, who are represented by our single client, the Australian Government. This clarity of mission enhances our focus on our investment objectives and unites us in our quest to achieve them.

We believe that:

Strong governance is essential to our success

Risk is multifaceted and robust risk management enhances our ability to achieve our mandates

Our 'One team, One purpose' culture leads to better decisions and investment outcomes

Our primary focus should be on the value we add net of all costs, but we seek to utilise our scale and market standing to reduce costs

A total portfolio approach will improve our long-term performance

We have a number of comparative advantages that, if properly utilised, will help us to achieve our mandates

Inefficiencies in markets create opportunities for us to add value through active management

MANAGEMENT OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES

We believe the effective management of environmental, social and governance (ESG) risks and opportunities supports our requirement to maximise long-term returns.

The integration of ESG factors enables investors and companies to better understand the full spectrum of future risks and opportunities to which assets are exposed. Sound management of ESG factors also contributes more broadly to the development of more efficient and sustainable capital markets.

We integrate ESG factors into our investment decision-making processes, at both individual investment and portfolio levels.

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: corporate governance; environmental quality; climate change; human and labour rights, including modern slavery; occupational health and safety; workplace culture; supply chain risks; and corruption.

Given our long-term investment approach, we steer our focus towards the impact of ESG factors on long-term investment value and quality.

We integrate ESG factors into our investment decision-making processes, including the process for selecting the external investment managers responsible for individual investment decisions; due diligence for direct investments; investment stewardship activities; and the macroeconomic scenarios that inform our strategic asset allocation.

Our policy framework for managing ESG issues is articulated in the Statement of Investment Policies and described in more detail in our Annual Report.

Our ESG Policy is consistent with our obligations under the *Future Fund Act 2006*, and our investment mandates, beliefs and strategy.

The Future Fund Board of Guardians is responsible for the oversight of our ESG Policy. Our investment teams are tasked with implementing the policy in our investment activities. They are assisted by a dedicated internal ESG Team, which reports directly to the Chief Investment Officer.

THE CURRENT INVESTMENT ENVIRONMENT

Australia entered the 2020–21 financial year in the midst of its first recession in nearly three decades. Not just a typical recession, but the sharpest and deepest decline in Australian economic history.

Globally, the nature of the recession and its uncertainties led to an unprecedented monetary and fiscal policy response that stabilised financial markets after steep declines in early 2020 and saw risk assets enter the new financial year on a solid footing.

Policy stimulus, public health policy initiatives, and the development of vaccines provided the base for the beginnings of the global economic recovery in the second half of 2020 and the foundations for the 2020–21 financial year to be one of the strongest years of economic growth in modern history. A significant element in this strong rebound has been the various policy initiatives by governments and central banks around the world to ensure that economic scarring was limited to the smallest extent possible.

Risk assets, and listed equities in particular, responded strongly to the solid economic rebound. Monetary stimulus delivered negative real interest rates and compressed risk premia via quantitative easing programs, and strong fiscal support assuaged investors' concerns about the risk of further pandemic-induced economic weakness.

In the United States, the 2020 elections resulted in a narrow governing majority for the Democratic party which has continued and amplified fiscal stimulus measures.

The combination of pent-up demand and excess savings for many households, supply chain constraints and disruptions, and base effects resulted in upward pressure on price levels and a sharp acceleration in inflation outcomes, especially in the United States, towards the end of the financial year.

While these near-term inflation pressures appear transitory, they may influence wage and consumer expectations so that some degree of inflation uplift proves more enduring.

This risk plus the possibility of markets pricing a significant tightening of monetary policy could weigh significantly on asset prices. With this backdrop, concerns about rising inflation was an increasing thematic in financial markets as 2021 progressed.

In recent years some profound structural changes were already impacting the investment environment, such as demographic trends and responses to climate change.

In recent years, some profound structural changes were already impacting the investment environment, such as demographic trends and responses to climate change. The pandemic has likely accelerated existing trends in the political and geopolitical order, the way economies and societies work and interact, the way global policymakers make decisions and manage economies, and how financial markets behave.

The evolution of these secular forces over coming years will have fundamental implications for the global economic and investment environment and may accentuate regional and sectoral divergences.

Also, many of these long-run changes impact the cost base of economies, adding to concerns that higher inflation may take hold.

While the near-term economic outlook appears robust, uncertainty on the evolution and policy response to inflationary pressures, divergent regional and sectoral recoveries, and possible fundamental shifts in the global economic and investment environment combine to create a challenging environment for investors. Nevertheless, opportunities may emerge from these uncertainties.

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.

The investment environment going forward is unlikely to be the same as the past, with secular trends triggered or accelerated by the COVID-19 shock.

We have undertaken a review of our investment strategy, including a fundamental reconsideration of the best way to achieve the Board's risk-taking mandates over the next decade and beyond. The review concluded that to improve the chances of achieving our mandates in a low forward-looking return environment, we expect our portfolios to take more market risk on average compared to the past.

With additional resources available to enable the change, we also expect to deploy more capital to higher return-generating assets, while adding diversifying exposures to manage downside risk and retaining a degree of flexibility to respond to the changing environment.

Recognising the challenge of generating strong long-term returns, we have increased the structural risk level of the Future Fund portfolio. This long-term view of the risk levels needed to achieve the mandated returns will provide a guide for the levels of risk we expect to have in the portfolio over the long term.

At the same time, we maintain the ability to adjust the portfolio's short and medium-term risk levels to reflect our view of the investment environment. As a result, we have seen increasing investment activities across the portfolio with a reduction in cash holdings.

We increased the allocation to listed equities in regions that are offering more attractive long-term return prospects, including Australia and emerging markets.

The overall size of our private equity allocation increased over the year, driven by higher valuations and new investments, and despite large cash inflows supported by a strong IPO market.

We remain of the view that a meaningful level of foreign currency exposure to both developed and emerging markets countries can provide valuable diversification.

We increased investments to both property and infrastructure, via listed avenues, to respond to compelling valuations following market dislocations, and via unlisted avenues — carefully selecting the most attractive assets and opportunities for the total portfolio. With a strong portfolio return over the year, their allocations as a proportion of the total portfolio remained relatively stable.

Debt exposures have continued to fall as credit spreads remain tight and forward-looking returns remain low, particularly in more liquid markets.

Following our total portfolio approach in searching for the best use of capital across asset classes and along the capital stack, we invested into credit opportunities in property and alternatives. We also continued to add to alternative exposures that are most accretive to the portfolio, including high-return relative value strategies and inflation-related tail hedging strategies.

We have retained a basket of defensive positions in the portfolio, including foreign currency, fixed income, and some hedging strategies.

The defensiveness of nominal bonds is increasingly questionable with inflation risk rising. We remain of the view that a meaningful level of foreign currency exposure to both developed and emerging markets countries can provide valuable diversification.

Similar portfolio activity occurred for the Medical Research Future Fund (MRFF), the Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILS), the Future Drought Fund (FDF) and the Emergency Response Fund (ERF), and we continue diversifying these four funds and building exposures into high-conviction and capacity-constrained managers.

INVESTMENT PERFORMANCE

When the Future Fund commenced in 2006 it was seeded with $60.5 billion. It has grown over the past 15 years to its highest value ever at $196.8 billion, as at 30 June 2021.

Today the Board has responsibility for investing five additional public asset funds, collectively valued at $48.9 billion. This is a positive sign of the trust and confidence the Australian Government places in the Board and the Agency. Total funds under management now sits at $245.8 billion.

As our portfolio continues to grow in size and complexity, we will be looking to prudently build out our resources and enhance our capabilities to ensure we are well positioned to successfully deliver on our long-term mandate.

Cashflow history for all funds under management as at 30 June 2021

Cashflow History	Contributions $		Earnings $		Withdrawals $		$
Future Fund Established 2006 Cash ($51.3bn) and Telstra shares ($9.2bn)	60.5bn	+	136.3bn	-	0.0bn	=	196.8bn
Medical Research Future Fund Established 2015 Cash ($19.0bn) and Health and Hospitals Fund ($1.0bn)	20.0bn	+	3.2bn	-	1.2bn	=	22.0bn
Aboriginal and Torres Strait Islander Land and Sea Future Fund Established 2019 Aboriginal and Torres Strait Islander Land Account	2.0bn	+	0.3bn	-	0.1bn	=	2.2bn
Future Drought Fund Established 2019 Building Australia Fund	4.0bn	+	0.7bn	-	0.1bn	=	4.6bn
Emergency Response Fund Established 2019 Education Investment Fund	4.0bn	+	0.8bn	-	0.1bn	=	4.7bn
DisabilityCare Australia Fund Established 2014 Cash (from 0.5% increase in Medicare levy from 2014–15 to 2023–24)	27.8bn	+	1.2bn	-	13.5bn	=	15.5bn
TOTAL							**$245.8bn**

FUTURE FUND

The Future Fund was established in April 2006 to strengthen the long-term financial position of the Commonwealth of Australia.

INVESTMENT MANDATE

CPI + 4.0–5.0% per annum

To achieve an average annual return of at least the Consumer Price Index plus 4.0% to 5.0% per annum over the long term, with an acceptable but not excessive level of risk.

INVESTMENT PERFORMANCE

22.2%

Return in FY21

$196.8billion

Value at 30 June 2021

ASSET ALLOCATION

Future Fund asset allocation at 30 June 2021

Australian equities	Global equities: Developed markets	Global equities: Emerging markets	Private equity	Property	Infrastructure & Timberland	Debt securities	Alternatives	Cash
8.5%	18.2%	9.1%	17.5%	5.9%	7.4%	6.6%	13.5%	13.2%
$16,805m	$35,806m	$18,002m	$34,485m	$11,707m	$14,548m	$12,982m	$26,547m	$25,942m

Total

$196,825m

*A breakdown of asset class exposures will be available in the 2020–21 Annual Report, published in October 2021

Future Fund long-term returns, target return and levels of risk over time

Period to 30 June 2021	Return (% pa)	Target return (% pa)	Volatility (%)	Sharpe Ratio
From inception	8.4%	6.6%	4.5%	1.2
10 years	10.1%	6.1%	4.3%	1.9
Seven years	9.9%	5.9%	4.6%	1.8
Five years	9.9%	5.9%	4.8%	1.8
Three years	10.5%	5.7%	5.7%	1.7
One year	22.2%	7.8%	5.6%	3.9

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.

RISK POSITIONING

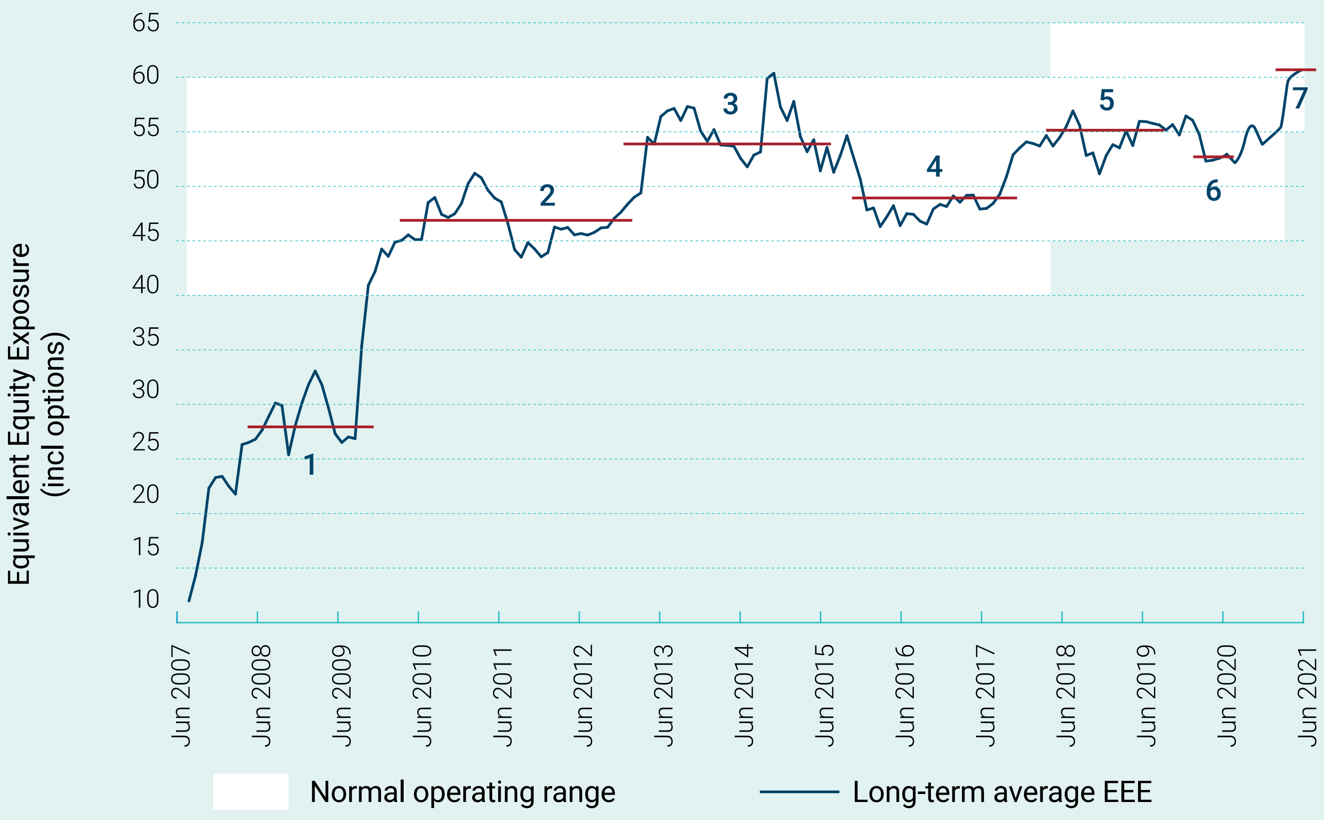
One of the primary metrics we use to understand and manage the broad market risk exposure of the Future Fund is Equivalent Equity Exposure (EEE).

EEE estimates the amount of market exposure we have when looking through the whole portfolio.

The EEE range within which we are expected to operate most of the time has been reviewed and uplifted to 55–65 for Future Fund as part of the deep review of our investment strategy.

Throughout 2020–21, the portfolio risk setting has averaged close to the middle of the range through the year, but at 30 June 2021 the EEE stood at 61.

Future Fund Equivalent Equity Exposure since inception



We are currently in the seventh distinct risk-taking regime for the portfolio since establishment.

1. 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 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.
7. The structural risk level was adjusted during the 2020/21 FY and we also narrowed the range around which we expect to manage the portfolio.

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.

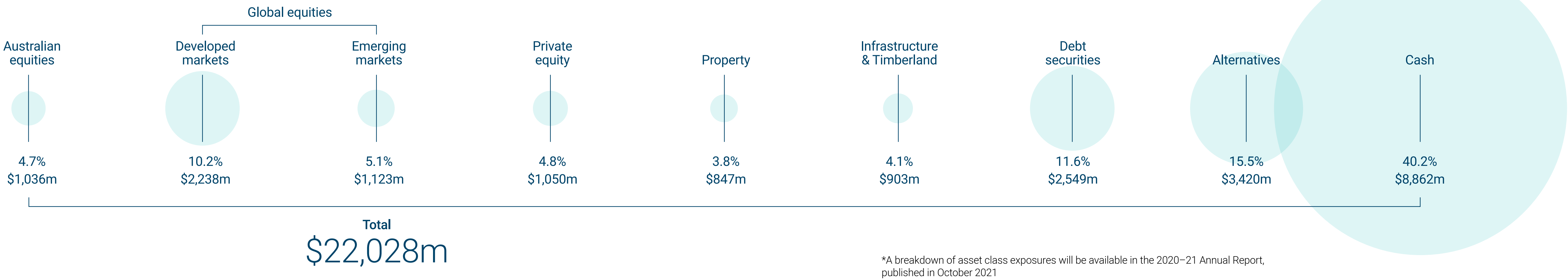
INVESTMENT MANDATE

RBA + 1.5–2.0% 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.

ASSET ALLOCATION

Medical Research Future Fund asset allocation at 30 June 2021



RISK POSITIONING

Our expected EEE range for the Medical Research Future Fund is 27 to 35. Similar to the Future Fund, this range was adjusted following a deep review of our investment strategy in 2020–21.

The average EEE in 2020–21 was 28 and at 30 June 2021 the EEE stood at 32, which is close to the middle of the range.

INVESTMENT PERFORMANCE

10.9%

Return in FY21

$22.0billion

Value at 30 June 2021

*A breakdown of asset class exposures will be available in the 2020–21 Annual Report, published in October 2021

Medical Research Future Fund long-term returns, target return and levels of risk over time

Period to 30 June 2021	Return (% pa)	Target return (% pa)	Volatility (%)	Sharpe Ratio
From inception (22 September 2015)	4.8%	2.6%	2.9%	1.2
Three years	5.4%	2.2%	3.7%	1.2
One year	10.9%	1.6%	2.1%	5.1

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

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

The addition of these 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.

In order to provide the Aboriginal and Torres Strait Islander Land and Sea Future Fund, Future Drought Fund and Emergency Response Fund with prompt access to a diversified and prudently risk-managed portfolio of investments, the Agency has supported the Board by establishing a commingled arrangement for these funds with the Medical Research Future Fund.

This approach avoids the risk that gradually building a portfolio over time would expose the funds to less diversification over a longer period while also addressing the challenges presented by the relatively small size of the funds individually, which limits their ability to access many attractive investment strategies.

ABORIGINAL AND TORRES STRAIT ISLANDER LAND AND SEA FUTURE FUND

The Aboriginal and Torres Strait Islander Land and Sea Future Fund was established in February 2019 to enhance the Commonwealth's ability to make payments to the Indigenous Land Corporation.

INVESTMENT MANDATE

CPI + 2.0–3.0% 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

13.9%

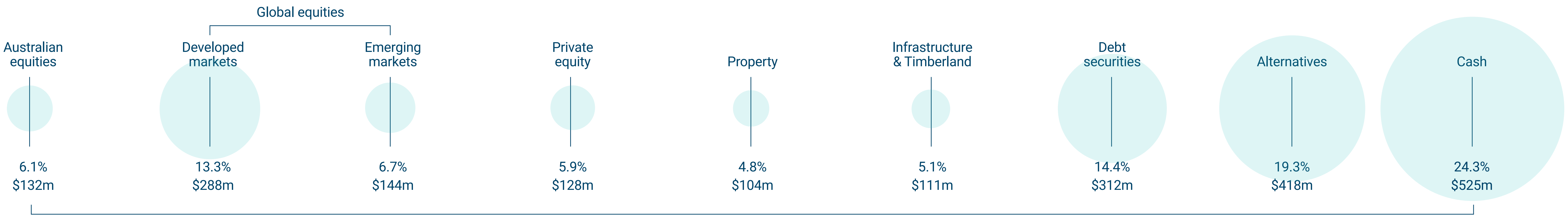
Return in FY21

$2.2billion

Value at 30 June 2021

ASSET ALLOCATION

Aboriginal and Torres Strait Islander Land and Sea Future Fund asset allocation at 30 June 2021



Total

$2,163m

*A breakdown of asset class exposures will be available in the 2020–21 Annual Report, published in October 2021

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 + 2.0–3.0% 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.

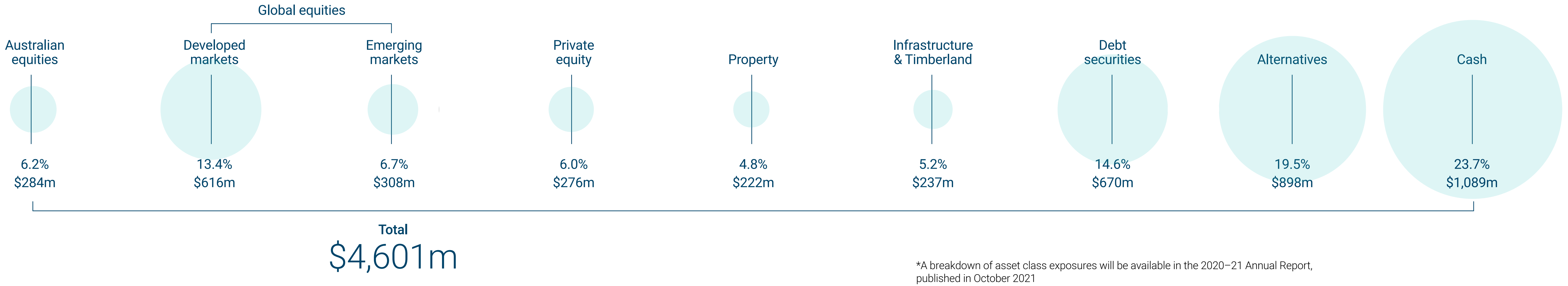
INVESTMENT PERFORMANCE

14.0%
Return in FY21

$4.6billion
Value at 30 June 2021

ASSET ALLOCATION

Future Drought Fund asset allocation at 30 June 2021



*A breakdown of asset class exposures will be available in the 2020–21 Annual Report, published in October 2021

EMERGENCY RESPONSE FUND

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

INVESTMENT MANDATE

CPI + 2.0–3.0% 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

13.9%

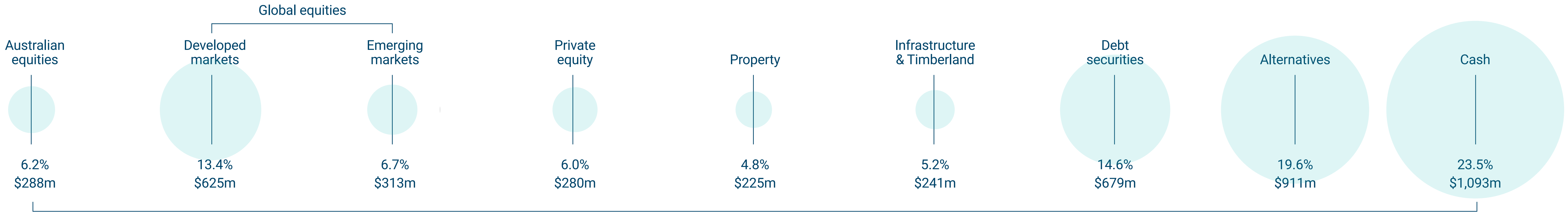
Return in FY21

$4.7 billion

Value at 30 June 2021

ASSET ALLOCATION

Emergency Response Fund asset allocation at 30 June 2021



Total

$4,654m

*A breakdown of asset class exposures will be available in the 2020–21 Annual Report, published in October 2021

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

0.4%

Return in FY21

$15.5billion

Value at 30 June 2021

HIGHLIGHTS FROM THE YEAR

The 2020—21 financial year was eventful, and challenging on many fronts, with uncertainty and ongoing disruptions caused by the COVID-19 pandemic continuing to ripple throughout our lives.

It was a year that saw fundamental change in the investment landscape and global economy, and the Agency responded strongly, refreshing our investment model and evolving our business strategy and organisational structure in the process. Additionally, we rolled out an advanced Investment Data Management solution and moved into new offices in both Melbourne and Sydney.

It was also the year that saw the strongest return ever delivered since the Future Fund's inception with a result of 22.2%, delivering $35.7 billion to the people of Australia and growing the Fund to $196.8 billion.

A NEW BUSINESS STRATEGY

"Our view is the world is fundamentally changing and financial markets are changing with them, and to continue to be successful and achieve our long-term investment mandate in the context of this new regime we knew we needed to refresh our investment model and evolve our business strategy."

Dr Raphael Arndt
CEO

During the year we developed a new business strategy that sets our direction for the next three years and beyond. The business strategy reflects the context in which we operate as well as input gained from our staff through surveys, a CEO Listening Tour, and perspectives gathered from across the business.

The strategy is centred around four key areas of focus and is designed to build on the organisation's success since establishment and provide strong foundations for future growth.

Four key areas of focus will direct our activities and guide the allocation of our resources.

1. **Refresh the investment model**
2. **Mature the organisation**
3. **Preserve our legacy**
4. **Expand our voice**

PURPOSE

Investing for the benefit of future generations of Australians

VALUES

Focus on what matters

Do the right thing

Work together

FOCUS AREAS

Refresh the investment model

Mature the organisation

Preserve our legacy

Expand our voice

1. Refresh the investment model

The ultimate priority for the Agency is strong long-term investment performance.

For some time, the Agency had been tracking several external factors that have been making the investment environment increasingly challenging, including elevated levels of debt globally; the impact of extremely low interest rates; declining population growth; and issues associated with changing demographics.

The onset of the COVID-19 pandemic further accelerated some of these factors and introduced a number of unprecedented new challenges, leaving economies and markets around the world grappling with the impacts of the pandemic and fundamentally changing the investment environment.

Our existing investment model was established over a decade ago when the Board was responsible for the investment of one fund, within a very different investment landscape.

Recognising the challenge of the pandemic as an opportunity, we undertook an in-depth review of our investment foundations and strategy to better understand the paradigm shifts around the world and their impacts on our unique investment mandate.

2. Mature the organisation

The Agency has entered a new period of growth and development and this requires a deliberate focus on prudently maturing the organisation to ensure we are best positioned to achieve our strategy and purpose going forward.

Over the past 15 years, the Agency has grown from one fund with capital of $60.5 billion in 2006 to six funds under management, and a total portfolio of over $245 billion.

With this growth comes the need to consolidate and improve processes, systems and ways of working together to ensure the business continues to be strong and resilient.

3. Preserve our legacy

We have been very deliberate about building and fostering a high-performing and unique team culture over the years. Retaining and building on this strong culture is pivotal to our success as we evolve and enter a new period of growth and maturity.

We will institutionalise our approach to onboarding new starters and consolidate our culture and approach to skills acquisition and leadership training.

This work will include the development of a formal learning program designed to support our people throughout their careers, as well as a robust induction and compliance program to assist in consistently and efficiently onboarding new starters to best advantage.

4. Expand our voice

This area of focus prioritises expanding and deepening our business and stakeholder connections and networks. We will achieve this by contributing to insightful and valuable discussions about relevant investment matters with our stakeholders, and amplifying the conversations we have with the market and our audiences.

We believe there is value in our team contributing to and learning from investment industry insights, perspectives and expertise.

A NEW INVESTMENT STRATEGY

The COVID-19 pandemic catalysed or accelerated a number global paradigm shifts that the Future Fund had been keeping a close watch on, and has carved out a new global regime characterised by a number of key secular trends.

Against this backdrop the Agency embarked upon a probing 12-month investment review across five workstreams that scrutinised our investment beliefs, model and strategy, re-evaluating everything from long-held investment learnings and assumptions to the way we allocate capital, and our risk profile and appetite.

"Themes like lower-for-longer, low interest rates, inflation risk, greater geopolitical risk, market fragility, changing asset class correlations, and increased regulation are key factors we've been watching closely for some time.

"The investment environment, and markets globally, were shaken up by the COVID-19 pandemic to an extent not seen in many, many years."

Sue Brake
Chief Investment Officer

The five workstreams process of our investment review

Portfolio trade-offs

Holistic team engagement

- Set and implemented interim strategy
- Revised investment diligence document
- Identified immediately compelling investment opportunities
- Common language ideas and Building Blocks initiative
- Engaged intensively with sector teams

New investment order

Secular scenarios and investment themes

- Gathered ideas and external research
- Identified likely and potential paradigm shifts
- Designed new secular scenarios
- Identified investment implications:
  - Defensiveness
  - Diversification
  - Domicile
  - Inflation protection
  - Granularity
  - New return sources

Board's risk appetite

What we believe and how to achieve the mandate

- Engaged externally to test other approaches
- Refreshed investment beliefs
- Developed comparative advantages
- Defined new risk appetite and value-add ambition

How we invest

Streamlined frameworks and enhanced investment model

- Review of Dynamic Asset Allocation approach and governance kicked off
- Enhancements:
  - Risk and drawdown metrics
  - Liquidity and flexibility
  - Board Tactical Asset Allocation horizon

New investment strategy

A new strategy and an integrated outcome

- Integrate top-down and bottom-up investment implications
- Define new portfolio plans to guide medium-term investing
- Reorient the strategy review towards key Board strategic decisions
- Redesign our Statements of Investment Strategy

Speaking about the momentous initiative, the Future Fund's CIO, Sue Brake, said that casting aside conventional investment thinking, the review saw our investment experts engage with peers and partners around the world to gather intelligence, insights and perspectives that fed into an unprecedented scenario-based modelling exercise.

> "The success of this project and its ability to set us up to achieve our mandates is a testament to the calibre of the people we have at the Future Fund."
>
> **Sue Brake**
> Chief Investment Officer

"Being able to — and knowing how to — leverage the brilliance of our partners and ensure we ask the right questions was a critical element of the review, with the process itself being a rich source of ideas and initiatives that will help us deliver on the strategy over the coming years," she added.

We believe that we need to keep moving forward with the same curiosity and intention we have exhibited since the Future Fund was first founded.

Through the process, four distinct 'orders' were contemplated:

The World Order — the political and geopolitical landscape within which global commerce operates;

The Economic Order — the structural macroeconomic and microeconomic landscape;

The Policy Order — the global policy tools that are used to manage the economy from a cyclical perspective; and

The Market Order — the financial system and how it drives asset pricing.

"We identified and examined 20 distinct potential paradigm shifts under these orders and generated assessments of each, covering: the drivers of the change, possible paths forward, top-down macroeconomic implications, and bottom-up asset class or sectoral implications.

"We believe secular scenarios that describe how the world might evolve over a long (10-year) horizon are a practical way to explore how different orders and paradigms might change and what the investment implications may be. This informs long-term whole-of-portfolio construction," Sue went on to say.

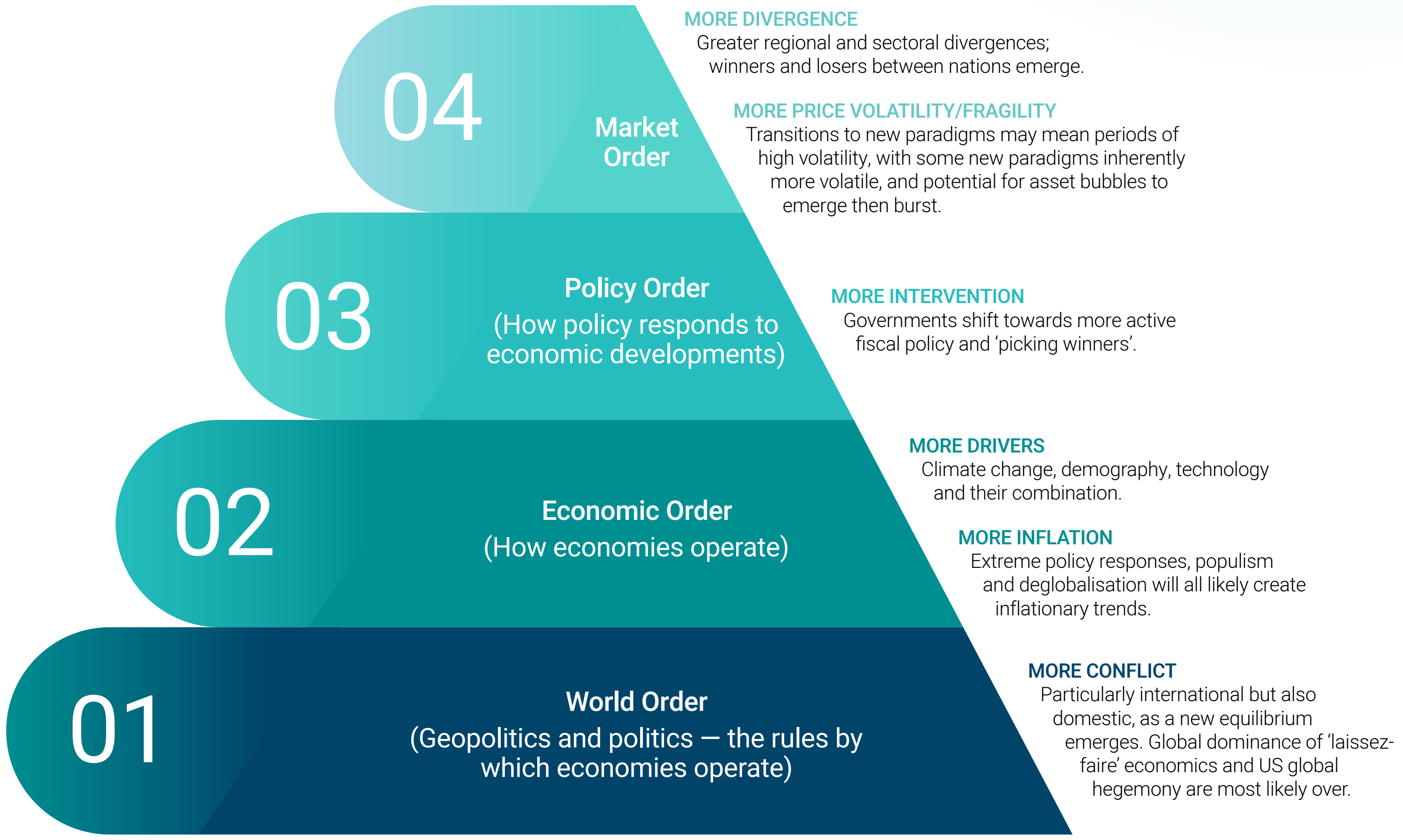
Using this approach, the Agency has enhanced its investment strategy to achieve its long-term mandate by protecting and growing the portfolio through a range of different scenarios.

The strategy is underpinned by a refreshed set of clearly articulated investment beliefs and updated comparative advantages. New strategy elements and initiatives have now begun to be implemented with the Investment Team planning a focus on our private markets' exposures, major public markets value-add initiatives, and a renewed approach to dynamic asset allocation.

There will be a focus on portfolio opportunities that add defensiveness, diversification and inflation protection. Domestic exposures will also receive more attention as we add both new and granular levers for robustness and value add opportunities.

"We will continue to assess and evaluate our portfolios against ongoing shifts in the market over the next year. Efforts are already underway for new programs of work that put us in a strong position to support the delivery of our business plan and the planned future growth of the Agency in the years ahead," said Sue.

The New Investment Order Framework



A NEW ORGANISATIONAL STRUCTURE

A new organisational structure to support our strategy was introduced in March 2021 with key changes bringing technology, finance and parts of the organisational development functions together in an Investment And Business Operations Group under the leadership of our Chief Operating Officer. This strengthens the way in which these functions support the all-important investment effort.

Work also commenced on institutionalising the organisation's culture with a concentrated program underway assessing the culture of the past 15 years and ensuring we continue to develop and refine what makes the Future Fund unique and effective.

The increase in our Average Staffing Level (ASL) as announced in the 2021–22 Federal Budget was an important step. It will support us in successfully pursuing our challenging investment objectives, delivering on our business strategy's four focus areas, and enabling us to build a mature, resilient and sustainable organisation for the future.

The ASL cap increase will also allow us to transition away from the use of contract resources and strengthen our internal capabilities. Scaling up of resources is likely to occur over a multi-year period and we will prudently manage this process in a way that best meets the business strategy.

Organisational structure

Future Fund Board of Guardians
Hon Peter Costello AC (Chairman)*
Ms Carolyn Kay
Mr John Poynton AO
Mr Michael Wachtel
Mr John Fraser
Mrs Patricia Cross

Future Fund Management Agency

Chief Executive Officer
Dr Raphael Arndt

Chief Operating Officer
Gordon McKellar

Chief Investment Officer (CIO)
Sue Brake

General Counsel and Chief Risk Officer
Cameron Price

Interim Chief People and Culture Officer
Kimberley Reid

Head of Corporate Affairs
Will Hetherton

Deputy CIO, Private Markets
Wendy Norris

Deputy CIO, Public Markets
David George

Deputy CIO, Portfolio Strategy
Ben Samild

*The Chair of the Board is also the Accountable Authority of the Future Fund Management Agency

A NEW INVESTMENT DATA MANAGEMENT SOLUTION

Another major accomplishment this year was the delivery of the multi-year Investment Data Management (IDM) project.

As the portfolios have grown, so too has the need for deeper data insights. The project began in 2017 with the end outcome being significant improvements in the way we source, manage and use data to better inform our investment-making decisions.

Daniel Doyle, Head of Investment Data Management in the Future Fund's Investment and Business Operations Team, joined the Agency three years ago with a specific mandate to review the organisation's data capabilities and future needs and establish and deliver a transformational investment data management program that would ultimately deliver significant long-term efficiencies as well as a superior competitive advantage.

"After articulating what we needed, we found the right external partners and went on to co-build a suite of technology and data services that now sees us operating with a bespoke data management solution featuring modern and advanced capabilities," he said.

NEW IDM TEAM

In transitioning away from a project to an ongoing elevated function of the organisation, the newly formed IDM business unit of investment data specialists and analysts have developed an operating model that manages the end-to-end life cycle of the data and provides our people with a combination of managed services and technology.

"As an organisation, we are now able to ensure the data is sourced, collected, stored, enriched and customised to provide the best possible insights to our team, to give them the best ability to maximise investment performance," said Daniel.

"As an investment-led organisation we needed to ensure we were building something that was not only sophisticated and effective but also governed with excellence so our people had confidence in the information provided to them."

Daniel Doyle
Head of Investment Data Management

THE CORE COMPONENTS OF OUR ONGOING OPERATING MODEL

When building our operating model we did it in a way that ensured value for the long term and considered:

Data experience

Ensuring the user is getting the exact data they need for the query they have as efficiently as possible.

Data management

Ensuring the holistic approach of data collection, storage, standardisation and enrichment, and deployment is as effective as possible.

Data governance

Ensuring the controls and policies we have applied are of the highest quality possible and that our data is managed as a strategic asset for the Agency.

The key benefits of our new IDM capabilities include:

Greater efficiencies — we can now provide more data and analysis for the Agency than ever before with a smaller team. Through our new capabilities we are able to streamline our data analysis and ultimately take away the data management activities that over 60 people are performing across the Agency.

Greater insights — with the Agency now receiving more data than ever before, we can provide more granular insight into to our exposures and ensure this data is managed as efficiently and effectively as possible.

Greater timeliness — we receive multiple data deliveries daily that we collect and process, and then make those insights available to our Investment Team.

Greater customisation — the customisation now available means the Agency can consume and use information that is meaningful and tailored to match how the Agency understands our exposures and data.

“The Agency’s ability to respond quickly to the evolving environment was supported by our new data management and analytics capability where we were able to provide the necessary data and data management to support our new analytics platform.

“Through the peak of the market fallout, the Agency shifted from fortnightly meetings to daily Investment Committee meetings. Each day at 7am the Investment Team received market data, by 8am it had been verified so that they had a clear view of liquidity, and at 9am recommendations went to the Investment Committee for decision.”

Daniel Doyle

Head of Investment Data Management

PROVING ITS WORTH DURING AN UNPRECEDENTED GLOBAL PANDEMIC

The phased rollout of the project proved particularly fortuitous last year when a major release was introduced and embedded just before the COVID-19 pandemic forced nation-wide lockdowns in Australia.

The ongoing benefits continue being felt as our people realise the full capabilities of our enhanced offering and we further refine and enhance what is needed to continue setting the Future Fund up for success over the next period of growth and far beyond.

TWO OF OUR LATEST INVESTMENTS

Strategic partnership with Telstra InfraCo Towers

On the last day of the 2020–21 financial year, the Future Fund announced an agreement for an Australian consortium to acquire 49% of InfraCo Towers from Telstra Ltd, which represents the largest network of mobile tower sites in Australia. The transaction is expected to complete in September 2021.

The consortium comprises the Future Fund, Sunsuper and the Commonwealth Superannuation Corporation, and is managed by Morrison & Co. The transaction values the business at A$5.9 billion, recognising the significant strategic value of the high-quality, well-located assets.

Our investment in this asset further increases our exposure to digital infrastructure and the long-term thematic of data growth, and sees us playing an important role in strengthening Australia's 5G infrastructure. The long-term growth potential and defensive cash flow profile of the investment is a valuable fit with our focus on diversification across the portfolio.

Investing in the future of Australian renewable energy

On 15 March 2021, Powering Australian Renewables (PowAR) — a partnership between the Future Fund, QIC and AGL Energy Ltd — entered into an agreement to acquire 100% of Tilt Renewables' Australian portfolio.

The transaction reinforces PowAR's position as Australia's largest owner and operator of wind and solar assets, with installed capacity of 1,313MW across nine operating projects, and a further two wind farms in the final stages of development.

The transaction will add to the Future Fund's existing Australian renewable energy assets and increase our exposure to around $1 billion.

NEW OFFICES

With the Agency's expanding mandate and the team growing in both cities, the need for new offices was essential. The new spaces in both Melbourne and Sydney are larger and built to provide contemporary, vibrant workplaces with modern, consistent technology and multiple areas for our teams to collaborate, and capacity for growth into the future.

Image courtesy of Telstra

futurefund.gov.au