

Future Fund shifts to 20pc cash weighting as global risks grow

RFR A 28 JAN 2016 Aus Future Fund \$118 Billion including \$24.4 Billion in Cash



holds \$24.4 billion

Jonathan Shapiro

The managing director of the Future Fund has warned that investors are not being adequately compensated for an increasing number of risks in global markets, including energy prices, volatility in China, Europe's refugee crisis and the US Federal Reserve's actions.

The \$118 billion sovereign wealth fund, which reported an 8.4 per cent return for 2015, has increased its weighting to cash above 20 per cent of its portfolio as it remains concerned about valuations in global markets, even as sharemarkets have been battered in a tumultuous start to 2016.

"What is a little different, and what makes us cautious, is the fact that

along with those risks is relatively low returns," managing director David Neal said in a briefing on Wednesday. "Yields are low and risk premia are modest. Markets are fully priced, so there is not a lot of reward."

Mr Neal said the lack of "policy firepower" left investors more exposed than usual to adverse conditions.

"The ability to deal with a downturn is lower and prospective returns are lower, so we think our portfolio should be more conservatively positioned," he said.

The Future Fund's 2015 return of 8.4 per cent lagged its impressive 13.2 per cent return in 2014. But the result still exceeded the average balanced superannuation fund return of 5.8 per cent by a substantial margin, as measured by Chant West.

Fund chairman Peter Costello said the fund's 1 per cent return in the second half of 2015 was in line with expectations that "investment returns would be harder in the immediate future than they have in the immediate past" as the positive impact of cheap central bank money on financial assets is exhausted.

The most notable aspect of the fund's asset allocation was a 20 per cent allocation to cash that Mr Neal said reflected its "overall cautious stance" and the fact the investments the fund is making tend to be riskier, therefore compelling it to balance the risk by holding more cash.

"In property and infrastructure, it's harder to find an attractively priced 'core' investment, but it's easier to find an attractively priced opportun-

istic investment," Mr Neal said. "There is less flow of capital into those areas. So if the investments are at the higher-risk end of the spectrum, we balance those with a little bit of cash."

The Future Fund now holds \$24.4 billion of cash in its portfolio - the highest dollar amount since July 2008 and the largest portfolio weighting since July 2009.

The fund has also weighted its foreign currency holdings towards US dollars and yen on account of their defensive qualities, which added to the fund's overall returns.

During the year, the fund reduced its exposure to listed equities from 39 per cent to 31 per cent.

Mr Neal said the Future Fund was eyeing plunging energy prices and

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