



31 August 2022

Portfolio update at 30 June 2022

- 10-year return of 9.7% pa against a target of 6.6% pa.
- Portfolio successfully navigates market falls. Returns -1.2% for the year
- Total funds under management stands at \$242bn

The Board of Guardians today released its portfolio update¹ to 30 June 2022.

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

"In a year where global equities and global bonds fell by more than 10% each and where the Australian stock market fell 6.5%, the return of -1.2% was a pleasing outcome and shows the portfolio successfully navigated substantial market falls.

"In FY21 the Future Fund delivered a record return of 22.2% spurred on by a period of exceptional stimulation through monetary and fiscal policy. Not unexpectedly we now have significant global and domestic inflation. Central banks are responding by tightening policy and it is likely that further interest rates rises will be needed to achieve their inflation objectives. We expect deglobalisation, geopolitical tensions, trade barriers and high inflation to be a feature of the investment climate going forward.

"The Board has been carefully assessing the changing investment environment and positioning the portfolio accordingly. This flexible approach has helped to protect the Fund from market losses.

"The Future Fund is a long-term fund. It was created to strengthen the Commonwealth's long-term financial position. The Fund continues to achieve this objective, with a 10-year return of 9.7% pa against a target of 6.6% pa.

"The Future Fund stands at \$194bn. Earnings have added \$134bn since the Fund was created.

"In this environment, it is more important than ever that the Board remains sharply focused on its long-term objective to maximise risk-adjusted returns while taking acceptable but not excessive levels of risk."

Dr Raphael Arndt, Chief Executive Officer, said:

"Last year we commenced a three-year program of repositioning the Future Fund portfolio. This will adjust for a climate of higher inflation, increased volatility and lower returns. This work has set us up well. The portfolio has done well in the context of market weakness and while investment returns face many headwinds we are well positioned to identify and access attractive new investment opportunities.

"The Fund has benefited from an increased allocation to Alternatives, where inflation aware strategies have performed strongly.

"We are continuing our work to reposition the portfolio. To be successful at delivering investment performance in a higher inflation world, we need to keep innovating and finding new ways of doing things.

“In a low-return environment, the value of skilled investment managers is only increasing. We are focused on identifying and taking advantage of our managers’ skill, and on finding new talent to work with, so that we can add additional return or reduce risk.

“The portfolio continues to be positioned moderately below a neutral risk setting.”

Future Fund

Performance

Table 1: Future Fund returns, target benchmarks and volatility			
	Return (% pa)	Target return¹ (% pa)	Volatility² (%)
From inception (May 2006)	7.8	6.8	4.5
10 years	9.7	6.6	4.5
Seven years	7.5	6.5	4.8
Five years	7.8	6.6	5.2
Three years	6.1	7.2	5.9
One year	-1.2	10.1	4.4

Note: The Future Fund returned -3.1% over the quarter to 30 June 2022.

- From 1 July 2017 the Fund’s Investment Mandate target return was reduced from CPI + 4.5% to 5.5% pa to CPI + 4% to 5% pa over the long term, with an acceptable but not excessive level of risk.
- Industry measure showing the level of realised volatility in the portfolio.

Asset allocation

Table 2: Future Fund asset allocation		
Asset class	\$m	% of Fund
Australian equities	15,821	8.1
Global equities		
Developed markets	29,194	15.0
Emerging markets	10,590	5.4
Private equity	33,439	17.2
Property	13,153	6.8
Infrastructure & Timberland	18,459	9.5
Debt securities	15,768	8.1
Alternatives	34,505	17.8
Cash	23,450	12.1
TOTAL	194,379	100.0

Investment managers

We use external investment managers to execute investment strategies on our behalf.

We employ a relatively small number of external managers. These managers have a detailed understanding of our investment strategy and seek the best investment opportunities around the globe to achieve the mandate for each of our funds.

Our investment manager selection process is designed to deliver a high quality initial selection decision, and to ensure that the portfolio construction does not lead to excessive concentration of manager risk in any one investment manager. We also undertake regular reviews of our managers.

A list of our investment managers as at 31 March 2022 below.

ASSET CLASS	MANAGER
Equities	
Australian equities	<ul style="list-style-type: none">• Macquarie Investment Management• UBS Securities Australia
Developed market equities	<ul style="list-style-type: none">• Insight Investment Management• State Street Global Advisors• UBS Securities Australia
Emerging market equities	<ul style="list-style-type: none">• Insight Investment Management• State Street Global Advisors• UBS Securities Australia• Robeco Institutional Asset Management
Private equity	
Buy out	<ul style="list-style-type: none">• Advent International Corporation• American Industrial Partners• Apax Partners• Archer Capital• Bain Capital• Charterhouse Capital Partners• Citic Capital• GI Partners• Hellman & Friedman• Motive Partners• Quadrant Private Equity• RCP Advisors• Seidler Equity Partners• Siris Capital• Southern Cross Management

	<ul style="list-style-type: none"> • The Growth Fund • Vitruvian Investment Partners
Venture and growth	<ul style="list-style-type: none"> • Adams Street Partners • Bessemer Venture Partners • Blackbird Ventures • CDH Investments • Clocktower Technology Ventures • Columbia Capital • FountainVest Partners • Hillhouse Capital • Horsley Bridge Partners • Lightspeed Venture Partners • New Enterprise Associates • Playground Global • Quilvest • Sequoia Capital • Stepstone Group (previously Greenspring Associates) • Xiang He Capital
Special opportunities	<ul style="list-style-type: none"> • Adams Street Partners • Oaktree Capital Management • TowerBrook Capital Partners
Property	
Unlisted	<ul style="list-style-type: none"> • Alteaarea Cogedim • Berkshire Property Advisors • Brookfield Asset Management • Columbia Pacific Advisors • Garrison Investment Group LP • Greystar Equity Partners • Harbert Management Corporation • Hillwood Investment Properties • ICAMAP Advisory • Lendlease Investment Management • Logistics Property Company • Macquarie Asset Management Real Estate • Morgan Stanley Real Estate Investing • PEET Limited • Starlight Investments • The Townsend Group • Vicinity Centres
Listed	<ul style="list-style-type: none"> • State Street Global Advisors
Infrastructure & Timberland	
Unlisted	<ul style="list-style-type: none"> • AMP Capital Investors • Campbell Global • Corsair Infrastructure Management • Global Infrastructure Partners • HRL Morrison & Co • Morgan Stanley Infrastructure • Oaktree Capital Management

	<ul style="list-style-type: none"> • Starwood Energy • QIC Global Infrastructure
Listed	<ul style="list-style-type: none"> • DWS • State Street Global Advisors
Debt	
High grade debt	<ul style="list-style-type: none"> • First Sentier Investors • Goldman Sachs Asset Management • M&G Investment Management Limited • Macquarie Investment Management • PIMCO Australia
High yield debt	<ul style="list-style-type: none"> • Ares Management • Bain Capital Credit • BlackRock Alternative Advisors • Oak Hill Advisors • Oaktree Capital Management
Private debt	<ul style="list-style-type: none"> • Ares Management • Bain Capital Credit • BlackRock Alternative Advisors • Hayfin Asset Management • PAG Holdings Limited • Westbourne Credit Management Limited
Emerging markets debt	<ul style="list-style-type: none"> • BlackRock Investment Management • Lazard Asset Management • Oaktree Capital Management
Distressed and event driven	<ul style="list-style-type: none"> • Bain Capital Credit • BlackRock Alternative Advisors • Centerbridge Partners L.P • Oak Hill Advisors • Oaktree Capital Management
Alternatives	
Multi-strategy/relative value	<ul style="list-style-type: none"> • Citadel Advisors • Dymon Asia Capital • Schonfeld Strategic Advisors • Squarepoint Capital • Wellington Investment Management
Macro-directional	<ul style="list-style-type: none"> • BlackRock Alternative Advisors • Bridgewater Associates, Inc • Citadel Advisors • Clocktower Group L.P. • Ionic Capital Management • MAN AHL Partners LLP • Wellington Investment Management

Alternative risk premia	<ul style="list-style-type: none"> • Atom Investors L.P. • Elementum Advisors • Hiscox Re Insurance Linked Strategies Ltd • MAN FRM • Wellington Investment Management
Global alpha	<ul style="list-style-type: none"> • Blackstone Alternative Asset Management • BlackRock Alternative Advisors
Equitised	<ul style="list-style-type: none"> • GMO Australia • Pental Group
Overlays	
Overlay strategies	<ul style="list-style-type: none"> • Ashmore Investment Management Limited • Insight Investment Management (Global) • Legal & General Investment Management Limited • Macquarie Investment Management • PIMCO Australia • State Street Global Advisors Limited • UBS Securities Australia Limited
Cash	
Cash	<ul style="list-style-type: none"> • First Sentier Investors • Macquarie Investment Management • PIMCO Australia