



30 August 2023

## Portfolio update at 30 June 2023

The Board of Guardians today released its portfolio update for 30 June 2023.

- Future Fund delivers 6.0% annual return.
- 10-year returns for the Future Fund are 8.8% pa against target return of 6.9% pa.
- Total funds invested by the board grow to a record \$256.2bn.

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

"The Future Fund delivered a positive return of 6.0% for the financial year, after a difficult 2021-22. This reflected the portfolio's wider diversification across international markets and private assets.

"Over the past decade the Future Fund has delivered an average annual return of 8.8% p.a. against a target of 6.9%. Since 2006, with an initial contribution of \$60.5bn, the Fund has earned more than \$145bn and grown to its present \$206.1bn at the end of June, without any further contributions.

"As interest rate hikes took effect the global and Australian economies slowed and new challenges emerged for long term drivers of growth.

"Inflation persisted through the financial year and while there are signs it may have passed the peak, it remains elevated and well above the 2-3% range targeted by the Reserve Bank of Australia.

"Data shows wage and price pressures that contribute to inflation remain strong, leaving open the possibility that inflation will continue and the path to lower interest rates remains a way off.

"We are yet to see the full impact of higher rates work their way through developed economies and continue to see the risk of a recessions in developed economies as central banks remain vigilant in bringing inflation down.

"Share markets were surprisingly strong through the second half of the financial year as they appeared to be pricing in a "Goldilocks" scenario. Whilst this would be a welcome outcome we see risks on the downside.

"The Board is focused on maintaining a portfolio that is resilient to a range of scenarios while delivering attractive risk-adjusted returns. With persistent higher inflation we expect real returns to investors, will remain below those of the past decade."

### **Dr Raphael Arndt, Chief Executive Officer, said:**

"Favourable investment conditions that drove markets in recent decades have been undergoing profound changes.

"Markets have been under-pricing the significant economic and geopolitical risk that we have anticipated.

“The Future Fund portfolio is positioned moderately below neutral risk settings at a time when the economic outlook and the direction of inflation and interest rates make investment returns less certain.

“We have made significant changes to the portfolio over the past two years and this means that our holdings and returns will look increasingly different from those of other asset owners”.

“Although risk assets are under-pricing some of the threats we see, higher interest rates are making it easier to generate meaningful returns from a diversified range of assets such as that owned by the Future Fund.”

## Future Fund

### Performance

**Table 1: Future Fund returns, target benchmarks and volatility**

Period to 30 June 2023	Return (% pa)	Target return <sup>1</sup> (% pa)	Volatility <sup>2</sup> (%)
From Inception (May 2006)	7.7	7.0	4.6
Ten years	8.8	6.9	4.7
Seven years	7.7	7.1	5.0
Five years	7.2	7.4	5.5
Three years	8.6	9.3	5.8
One year	6.0	10.0	5.5

Notes: For the June quarter the fund returned 1.6%

- 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
<b>Australian equities</b>	17,626	8.6
<b>Global equities</b>		
Developed markets	32,827	15.9
Emerging markets	12,119	5.9
<b>Private equity</b>	34,033	16.5
<b>Property</b>	13,069	6.3
<b>Infrastructure &amp; Timberland</b>	20,557	10.0
<b>Debt securities</b>	17,701	8.6
<b>Alternatives</b>	35,106	17.0
<b>Cash</b>	23,098	11.2
<b>TOTAL</b>	<b>206,136</b>	<b>100.0</b>