futurefund
Australia's Sovereign Wealth Fund

Opening statement

Statement by Dr Raphael Arndt, Chief Executive Officer of the Future Fund Management Agency, to the Senate Finance and Public Administration Committee

Budget Estimates, 7 November, Parliament House, Canberra

Thank you for the opportunity to make some brief opening comments.

Since we last appeared before the Committee we have reported on our performance for the year ended 30 June 2022.

In FY22, global equities and global bonds each fell by more than 10% and the Australian stock market fell 6.5%. The Future Fund's annual return in FY22 was -1.2%. This was a pleasing outcome in the context of such significant market falls and shows the portfolio successfully navigated this environment. The flat return should also be considered in the context of the 22.2% return for the prior year.

Last month we released our portfolio update to the end of September.

The environment continues to be difficult for investors.

Developed equity markets fell 5.2% in the first quarter. Bonds also continued to fall. The Board's investment strategy has continued to defend against these falls and to position the program for the challenging future investment environment. Over the quarter, the Future Fund returned -0.6%, proving resilient and well positioned for these market shocks.

The Future Fund is a long-term fund. It was created to strengthen the Commonwealth's long-term financial position. The Fund has delivered a 10-year return of 9.2% pa against a target of 6.6% pa and stands at $193bn, having added well over $130 billion since its inception.

The other funds we invest on behalf of the Commonwealth have performed as expected in the volatile environment. At 30 September the total value of the assets managed by the Future Fund Board of Guardians stood at $242 billion.

One year ago we released a position paper, "A New Investment Order", explaining our perspective on how the world was changing. The paradigm shifts we identified then have taken hold and accelerated over the past 12 months.

The exceptional levels of monetary and fiscal stimulus of the last few years are being reversed, reducing asset prices and introducing much more volatility.

We have been actively repositioning the portfolio to respond to this environment.

We are focused on enhancing portfolio resilience while increasing our allocation to strategies designed to protect the portfolio against inflationary scenarios. The risk of a global recession has increased and will further test investment strategies.

Looking ahead, we believe the key issues will be the extent of monetary policy tightening required to achieve inflation targets, how markets will respond to tightening measures, and the impact of fiscal policy measures on global financial systems. Ongoing geopolitical tensions also continue to pose risks to investors.

As illustrated by the returns I described earlier we continue to take a prudent approach to positioning the portfolio. We are focused on sustaining a portfolio that is as robust as possible to a range of scenarios, and that balances our risk and return objectives. The portfolio continues to be positioned moderately below a neutral risk setting.

While the near-term investment environment is challenging, we are confident that we are well positioned to meet our investment mandate over the long term, pursuing long-term returns while avoiding excessive levels of risk.

I welcome your questions.