



Opening statement

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

Supplementary Budget Estimates, 14 February 2023, Parliament House, Canberra

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

Earlier this month we reported on the performance and positioning of our funds to 31 December 2022.

We continue to navigate a difficult and fast changing investment environment.

During 2022, developed economies experienced inflation of a scale not seen for 30 years. This brought to an end a long period of extraordinary policy stimulus. Central banks have responded by rapidly increasing official interest rates to control inflation. This has had a significant impact, driving down asset prices and investment markets.

For the 2022 calendar year the ASX 200 fell 5.5% and the S&P 500 by 13.6%. A simple 60% equities, 40% bonds portfolio fell around 15% over this period - the worst return since the 1930s. In this context, the Future Fund's return for the year of -3.7% was resilient, positioning the Fund to benefit from a recovery.

In the second half of the calendar year the Fund showed positive growth and markets have rallied strongly in 2023. Looking forward, we expect inflation to continue to challenge policy settings, pressuring asset prices.

The Future Fund is a long-term fund, established to strengthen the Commonwealth's long-term financial position. Over the past decade the Fund has delivered an average annual return of 9.1% against a target of 6.7%. As at 31 December 2022, the Fund stood at \$196.1bn, having earned \$136bn since inception.

In December we released a position paper pointing out challenges for the traditional way of investing. We noted that many of the tailwinds that have propelled investments over recent years have turned into headwinds which will make it tougher for investors to generate returns in years to come. The paper also explains what we are doing to ensure that we can continue to deliver into the future the strong investment performance taxpayers have come to expect from us.

The portfolio continues to be positioned towards the middle of the range of risk settings. Over the past year we have made significant changes towards investments that rely more on investor skill than on market risk for returns. We believe this approach will be better rewarded as rising rates and slowing growth drag on market returns.

Our focus remains on protecting the portfolio from a range of scenarios, including the potential for sticky inflation leading to prolonged higher rates and the risk of a global recession, while seeking opportunities to generate long-term returns.

The other funds we invest on behalf of the Commonwealth have performed as expected in the volatile environment. At 31 December the total value of the assets managed by the Future Fund Board of Guardians stood at \$243.5bn.

I welcome your questions.