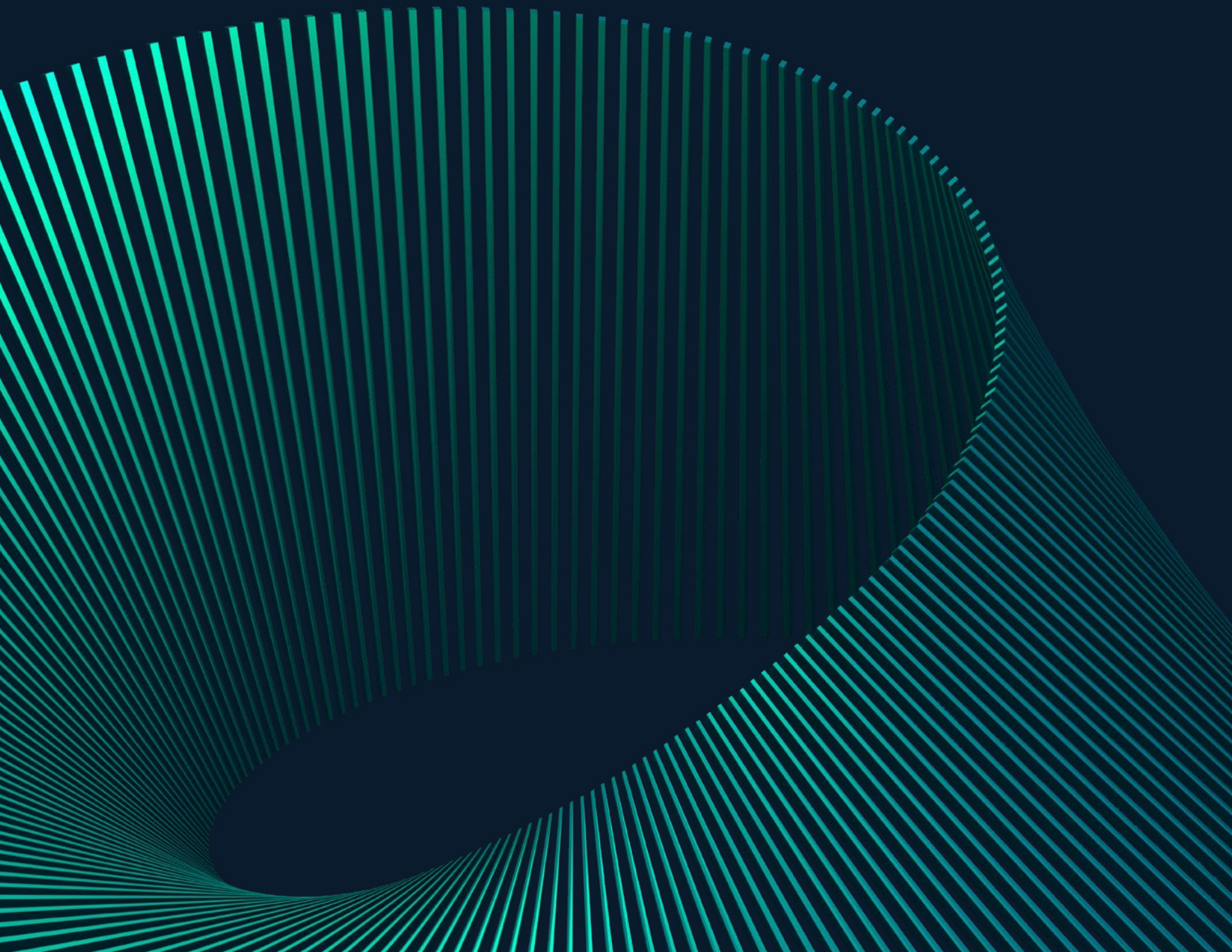


**futurefund**  
*Australia's Sovereign Wealth Fund*

2022-23  
**Year in Review**



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This publication reports the high-level performance figures of the funds we manage for FY23.

Further data regarding our individual asset class exposures and information about costs will be available in the 2022–23 Annual Report, published in October 2023.

Data in this publication is unaudited and subject to finalisation through normal end-of-year processes.

Data may not sum due to rounding.

# The world is changing. The changes are not just impacting the investment world, but all parts of society.

Generations with changing views are driving shifts in political and policy environments globally, which carries implications for investors, as well as for our organisation and our workforce.

We are responding and adapting to this. We are changing how and where we invest; how we lead and inspire, not just within the business but within the investment environment more broadly; how we grow and support our workforce; and how we continue to evolve our culture.

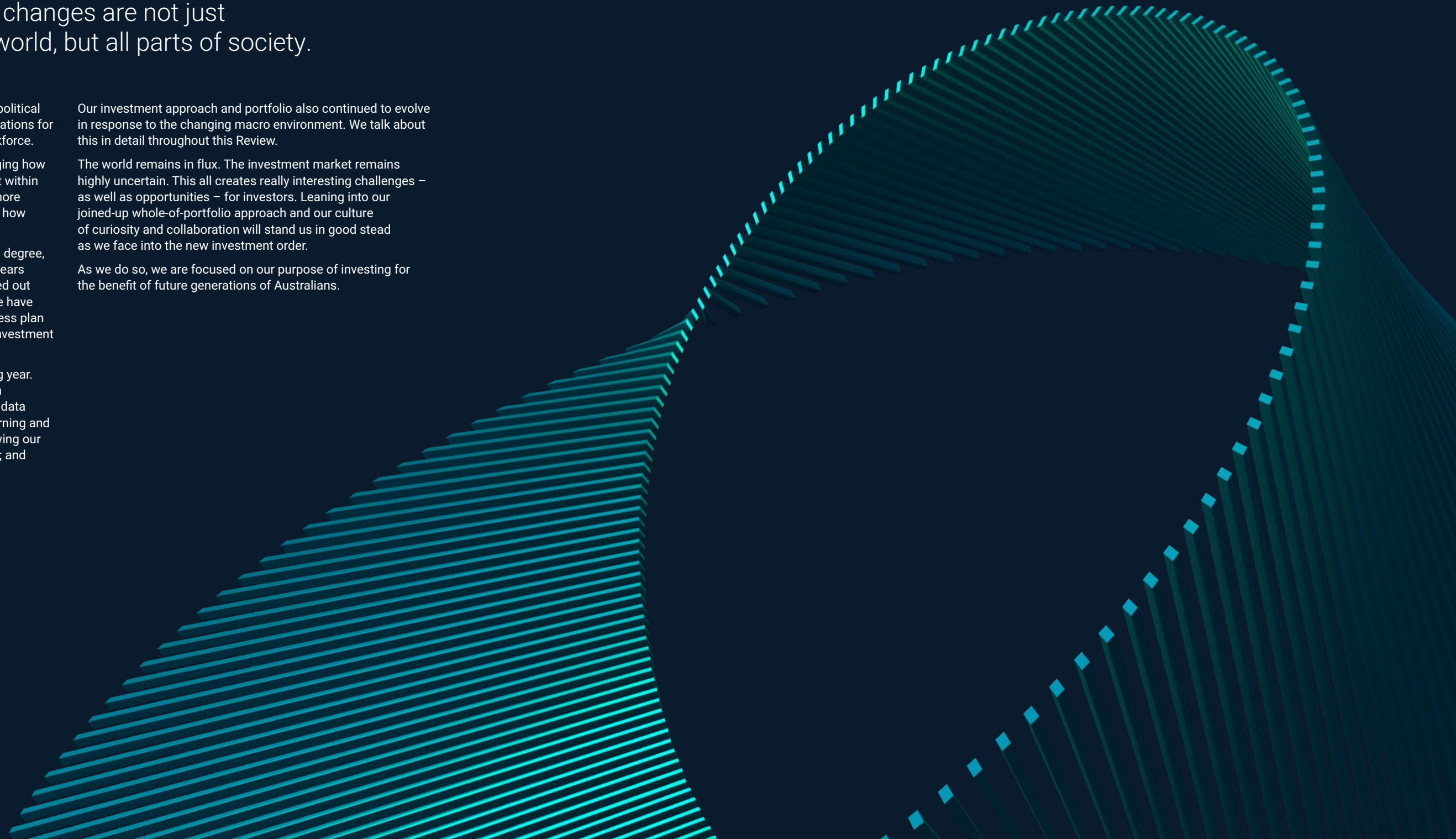
FY23 was both tumultuous and uncertain and yet, to a degree, predictable. The structural forces we identified three years ago and wrote about in our position papers have played out concurrently and more rapidly than we anticipated. We have been preparing for this, with a robust three-year business plan in place, and having conducted a deep review of our investment strategy and portfolio construction.

For the organisation it was a productive and rewarding year. We made great strides against our business plan, with a significant focus on designing and delivering on our data and technology strategy; standing up our bespoke learning and development centre – the Future Fund Academy; growing our workforce; advancing our thought leadership program; and progressing our diversity and inclusion objectives.

Our investment approach and portfolio also continued to evolve in response to the changing macro environment. We talk about this in detail throughout this Review.

The world remains in flux. The investment market remains highly uncertain. This all creates really interesting challenges – as well as opportunities – for investors. Leaning into our joined-up whole-of-portfolio approach and our culture of curiosity and collaboration will stand us in good stead as we face into the new investment order.

As we do so, we are focused on our purpose of investing for the benefit of future generations of Australians.



# Report from the Chairman

The vision for the Future Fund when it was established in 2006 was to strengthen the Commonwealth Government's balance sheet and prepare for the ageing of the population.

Over 17 years, without any new government contributions, the Future Fund has grown into a sophisticated, internationally respected investment institution. With a balance of \$206 billion, it is the Australian Government's largest financial asset – strengthening the Government's balance sheet and underpinning its credit rating.



The Future Fund's journey so far has been book-ended by two significant global events that rocked financial markets – the financial crisis of 2008 and the COVID-19 pandemic of 2020. Each of these events caused major falls in the value of investments. The Future Fund navigated through both these events and has grown into a sophisticated, globally respected investment institution with a balance of \$206 billion, and managing another \$50 billion in Federal Government funds.

The Future Fund is investing for the benefit of future generations of Australians. Other Funds are invested to support medical research, drought resilience, natural disaster resilience, Indigenous land and sea acquisitions, and the National Disability Insurance Scheme.

The solid long-term performance across all six of the mandates managed by the Future Fund Board of Guardians, and the professional and disciplined approach of the Agency has earned bipartisan trust and respect.

The Future Fund is an intergenerational fund, designed to make a contribution to an ageing society where there will be more call on government spending, lower economic growth and lower productivity growth. It was set up with a long-term target. It was important when it was set up, but as decades have gone by the need has become even greater. The Commonwealth now has very significant sovereign debt and unfunded superannuation and disablement liabilities. The only significant asset it has to set off against these liabilities is the Future Fund.

The Future Fund is a once-in-a-century asset. It strengthens Australia's balance sheet and bolsters the country's credit rating.

## 2022–23

The 2022–23 year was a difficult investment environment, with heightened geopolitical risks, and interest rates rising sharply in response to decades-high inflation. As rate increases started to take effect, global and Australian economies started to slow and new challenges emerged for long-term drivers of growth.

Inflation persisted throughout the financial year, and it remains elevated and well above the 2–3% range targeted by the Reserve Bank of Australia.

Wage and price pressures that contribute to inflation remain strong, leaving open the possibility that higher inflation will persist and the path to lower interest rates remains a way off.

We are yet to see the full impact of higher interest rates work their way through developed economies, and we continue to see the risk of recessions in those 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.

More recently, we have seen signs of weakness emerge in China, Australia's largest trading partner. Geopolitical tensions are also producing impediments to the free flow of capital markets. The globalised world which is so important to allowing free-flowing investment has narrowed and become more restrictive. We continue to see this as an ongoing risk.

## Performance

We have made significant changes to the portfolio over the past two years and as a result our holdings and returns will look increasingly different from those of other asset owners.

These portfolio changes were in response to the paradigm shifts we see occurring in the world. The changes are designed to make the portfolio more resilient and better prepared for the changing investment landscape as we seek wider diversification including across international markets and private assets.

We closed the year with a solid performance, returning 6.0% per annum for the Future Fund and adding nearly \$12 billion to its value. Over the longer term, the Future Fund has achieved a 10-year return of 8.8% per annum against a target of 6.9% per annum and over \$145 billion has been added to the Fund since its inception. It now stands at a record \$206.1 billion.

The five other public asset funds invested by the Board now collectively total over \$50 billion. These other funds have different liquidity requirements and therefore lower return mandates.

The Medical Research Future Fund delivered a return of 4.4% per annum in 2022–23 and was valued at \$21.9 billion as at 30 June 2023. The Aboriginal and Torres Strait Islander Land and Sea Future Fund returned 4.5% for the year, taking its value to \$2.1 billion.

The Future Drought Fund and Disaster Ready Fund delivered returns of 4.7% per annum and 4.6% per annum respectively and are now valued at \$4.6 billion and \$4.4 billion. The DisabilityCare Australia Fund delivered an annual return of 3.6% and is now valued at \$16.9 billion.

At 30 June 2023, the Board of Guardians invested over \$256.2 billion across the six public asset funds for which it is responsible on behalf of the Commonwealth Government.

## Acknowledgements

Many people have contributed to the long-term growth and success of the Future Fund. Their contributions have helped create a highly respected international investment institution that is very important to Australia's economic health and long-term prosperity.

This year Carolyn Kay completed her eight-year term as a Guardian, and I thank her for her contribution. I thank all the other serving Guardians for their continued dedication and commitment to overseeing the protection and growth of the assets for which the Board is responsible.

On behalf of the Board, I thank the Treasurer, the Hon Jim Chalmers, and the Minister for Finance, the Hon Katy Gallagher, for their support throughout the year.

Also, on behalf of the Board, I thank the staff of the Future Fund Management Agency for their unwavering commitment and efforts through the year. The staff can take pride in working for such an important purpose.

## Moving forward

As I complete my second term as Chairman, I am proud of the Future Fund and all it has achieved for our country. It contributes enormously to the strength of Australia's public finances. It is a successful vehicle for intergenerational transfer.

I know that the Board of Guardians remains committed to maintaining the organisation as a high performing, respected and independent investment institution, a vital part of Australia's public finances, and a globally respected Sovereign Wealth Fund.



**Hon Peter Costello AC**

Chairman  
*Future Fund Board of Guardians*

Many people have contributed to the long-term growth and success of the Future Fund. Their contributions have helped create a highly respected international investment institution that is very important to Australia's economic health and long-term prosperity.

# Report from the Chief Executive Officer

A lot can happen in a year.

Our view that the world is changing solidified this year as we continued to see many of the global paradigm shifts we forecast in 2021 play out concurrently and faster than expected.

Amidst this landscape, we challenged our long-held views and remained disciplined in the pursuit of our long-term investment mandate as we faced into the new investment order.



Over the course of 2022–23 there were a number of significant challenges in the world.

Inflation was a prominent concern and is likely to remain so for some time. In response, in the first part of the year central banks raised interest rates rapidly and this weighed on asset prices. In the second half of the year there was much debate about the inflationary outlook and speculation about the end of the rate-rising cycle.

The war in Ukraine continued, with ongoing supply chain impacts hitting energy and food prices, and inflation pressures later transitioning to wages and labour markets. Inflation rose to the highest levels in decades, and we're now seeing a focus on 'cost of living' pressures in many nations around the world.

Equity markets started pricing in rate cuts early on, but real economies have remained largely resilient to higher interest rates, with unemployment at decades lows and consumers still spending.

Mid-way through 2022 China emerged from long-running Covid lockdowns, while the rest of the world learned to live with the virus. The US began deglobalising strategically important supply chains, and geopolitical tensions continued to rise.

These unstable conditions were reflected in the volatility of market returns over the past three years.

The Future Fund's 2022–23 performance was solid, returning 6.0% and adding nearly \$12 billion to the Fund for the year, and over \$145 billion since its inception.

The world is changing. This is a very different landscape to the one the Future Fund was born into in 2006. Given the intensity of change that's occurring we recognised some time ago that we needed an evolved investment approach and organisation in response.

For over two years we have been repositioning our portfolio to build in greater resilience to a range of scenarios. This year alone we made over \$60 billion of changes to the portfolio to position it for a higher-inflation, lower-returns world.

We have also made strong progress against our business plan.

We grew the team with 78 new staff members – the greatest number of people we have ever hired in one year.

We made great progress developing and delivering on our technology and data strategy, which is tailor-made to support our investment performance into the future.

We continued to build out our customised learning and development function – the Future Fund Academy. The Academy is designed to help embed our unique culture and will see our people develop personally and professionally throughout their careers with us.

We published a position paper at the end of 2022 – *The Death of Traditional Portfolio Construction?* – which explained how and where we are investing in this more complex world, including adding new levers such as investing into gold in the portfolio and pivoting towards more active strategies in the search for more alpha.

We also advanced our commitment to improve cognitive diversity across our team, including by ensuring we have a more diverse workforce and that we are focusing on inclusion initiatives so those with ideas and opinions feel comfortable to speak up.

Pleasingly, these efforts were reflected in recent high engagement scores in the 2023 Australian Public Service Employee Census, showing an engaged and committed workforce.

## Acknowledgements

This coming year will see our Chairman, the Hon Peter Costello AC, conclude his 14-year Board tenure. I thank him for his dedication, leadership and foresight over the years. Future generations of Australians will see the benefit of his commitment and dedication to our purpose for many years to come.

I extend my thanks to all Members of the Board of Guardians for their ongoing support and guidance throughout the year.

I also want to thank former Deputy CIO, Change and Innovation, Wendy Norris who departed the organisation in 2023, for her admirable contribution and leadership during her time with us.

Shortly after the conclusion of the financial year, we appointed Ben Samild as our Chief Investment Officer. Ben has been with the Future Fund for over 10 years and has a deep understanding and passion for our culture, our purpose and our people. I look forward to working with him to continue to drive the organisation's ongoing evolution and success over the coming years.

We know the world is uncertain, but this creates really interesting challenges for all investors. We are well positioned, with a diversified portfolio that is more resilient to high inflation and other factors, and we've started work on the next evolution of our business strategy which will see us lean in even harder to the changes we see occurring in the world. Our joined-up, whole-of-portfolio approach remains central to our strategy and our culture, and is the focus of my mission as CEO.

In an era of disruption, we remain focused on our purpose of investing for the benefit of future generations of Australians.

As Australia's sovereign wealth fund, we have a large responsibility to invest wisely and well. I am confident in our ability to do this, and I thank every one of our team members who show up every day to achieve this mission with integrity and dedication.

A handwritten signature in blue ink, appearing to read 'R. Arndt', written over a horizontal line.

**Dr Raphael Arndt**

Chief Executive Officer  
Future Fund Management Agency

## 01 FY23 Performance

### Investment environment in 2022–23

In 2021 we issued a call to attention, publishing *A New Investment Order* which predicted a return of inflation and rising interest rates, more conflict and deglobalisation. We then explained how we are investing in this more challenging world with a second paper – *The Death of Traditional Portfolio Construction?* The investing environment continues to be shaped by the themes in the papers, with the Future Fund well positioned to navigate this complex new environment.

Much of the 2022–23 financial year was about adjusting to life after the COVID-19 pandemic and to the ongoing war in Ukraine, with these shocks having long-lasting impacts on economies, geopolitics and the way we invest. Firms, households, governments and investors have all had to adjust to changed conditions and more complex circumstances.

Forward-looking returns for traditional portfolios are challenged and we are adapting how we invest.

After central banks increased interest rates sharply, there is still some concern that inflation may not permanently return to a comfortable level without significant cost. Services inflation, for example, is proving hard to beat in some countries as labour markets remain resilient. Financial markets are still confident that central banks can anchor inflation expectations, and the chances of a worst-case wage price spiral appear low – but not zero.

Higher inflation on a more permanent basis would have implications for investors, like the Future Fund, who target real returns. We have spent significant time planning for a range of inflation scenarios and preparing the portfolio for a more complex, challenging and volatile investment environment in the future.

Over the last year there were significant impediments introduced that restricted the free flow of investment and trade. Economies are diverging. Tariffs and trade barriers have been re-emerging; critical supply chains are pivoting to geopolitical allies or were brought onshore. A more assertive China; an emphasis on national security by the Biden Administration; increased tensions around Taiwan; investment bans; and export restrictions on critical minerals added to the challenging backdrop.

Adjusting to a rapid increase in interest rates in 2022–23 was not easy. Some of the investment and economic assumptions made through the years following the global financial crisis of 2008 failed to hold, prompting financial instability. There were flare-ups in market volatility as the UK pension system

grappled with a sudden sell-off in UK bonds. In the US, tightened credit conditions led to a small number of regional banks failing. Despite the tighter credit conditions, the US economy in particular, remained resilient.

Looking ahead, how responsive underlying inflation proves to be to interest rate increases so far will determine whether a ‘soft landing’ can be achieved, or whether a deeper economic slowdown will be required to get inflation back within target bands.

In some countries, extraordinary fiscal support at a time of record low levels of unemployment is complicating central banks’ ability to bring down underlying inflation.

In the US, the *Inflation Reduction Act of 2022* and the *CHIPS and Science Act of 2022* (CHIPS Act) highlight an increasing role of government in economies and markets. The Inflation Reduction Act will lead to significant spending on climate change initiatives. The CHIPS Act highlights the inflationary impacts of building resiliency into economies, of insuring against potential conflicts, and of pursuing a more interventionist approach to industrial policy.

Developments in generative artificial intelligence (AI) sparked the promise of a potential boost to productivity. This could enable economies to grow at higher rates in the longer term and help counterbalance higher inflationary trends elsewhere. Nevertheless, the shorter-term implications of AI on inflation and labour markets are less clear.

Despite the more challenging global environment, equity markets had a strong year, particularly in the second half. Sentiment was buoyed by hopes for a ‘soft landing’, an end to the interest rate hiking cycle, growth prospects around AI and spending on climate change initiatives.

The near-term outlook will depend on how these factors unfold. The investment environment that lies ahead, however, is likely to remain challenging.

## Year at a glance

The Future Fund is a long-term fund created to strengthen the Commonwealth's long-term financial position. The Fund's 10-year return of 8.8% per annum remains above its benchmark target of 6.9% per annum.

The annual return of 6.0% is a solid result and reflects the significant activity undertaken to reposition the portfolio for difficult conditions. High and sticky inflation, strong labour markets, geopolitical tensions and rising interest rates are making for challenging investment conditions, even as some of the effects of the pandemic dissipate.

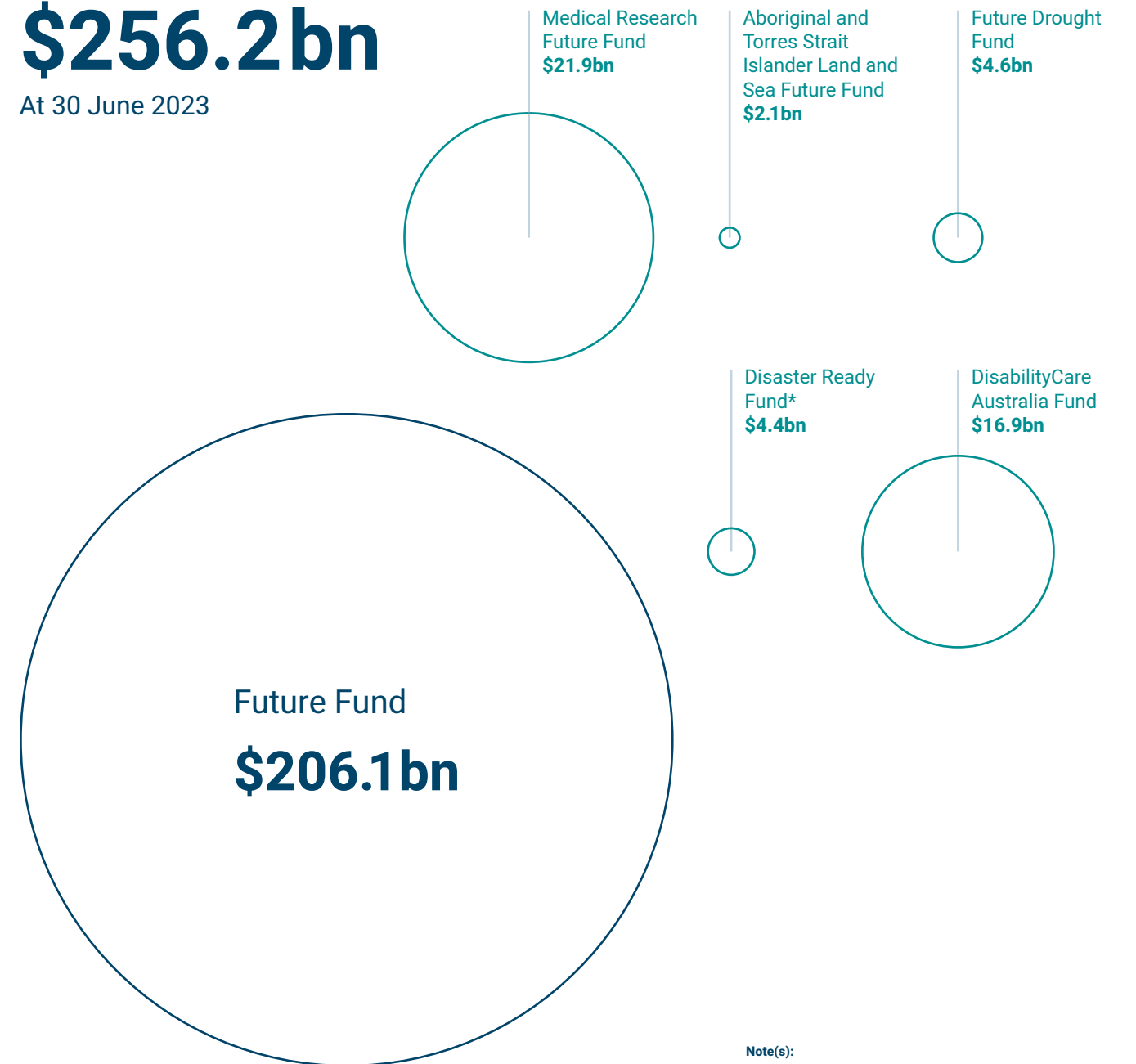
The Future Fund is positioned cautiously rather than defensively, and we will remain vigilant and continue adjusting where needed to keep the portfolio resilient in the years ahead with a focus on the long term and risk as per the mandate.



## Total funds under management

# \$256.2bn

At 30 June 2023



Note(s):

\*The Disaster Ready Fund was previously named the Emergency Response Fund until 1 March 2023.

## Investment performance

### The Future Fund

The Future Fund was established in April 2006 to strengthen the long-term financial position of the Commonwealth of Australia.

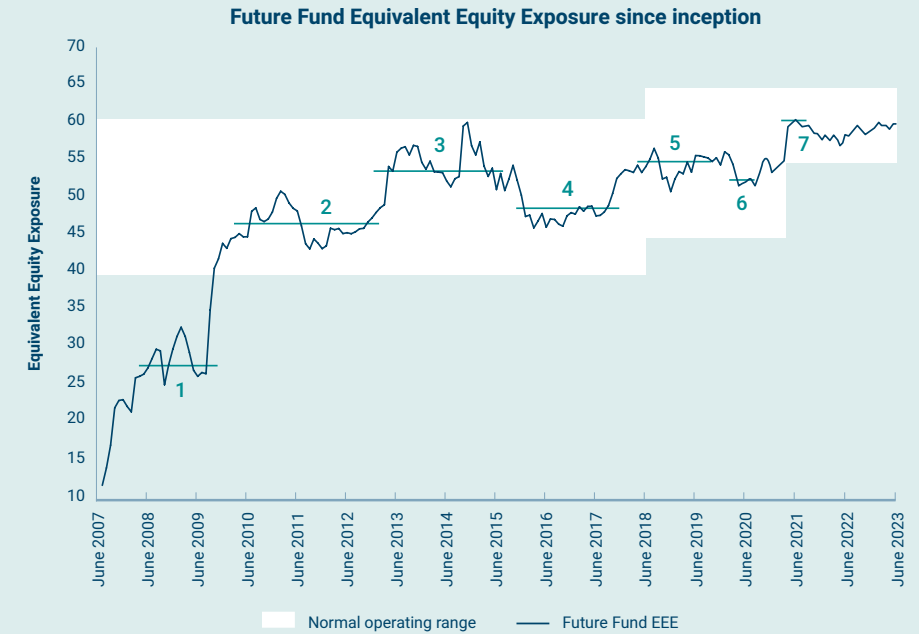
Investment mandate	Investment performance	
CPI + 4.0%–5.0% per annum	6.0% pa return in FY23	\$206.1bn value at 30 June 2023
To achieve an average annual return of at least the Consumer Price Index (CPI) + 4.0% to 5.0% per annum over the long term, with an acceptable but not excessive level of risk.	8.8% pa 10-year return	6.9% pa target 10-year return

#### Future Fund returns, target benchmarks and volatility over time

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
10 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
2022–23 financial year	6.0	10.0	5.5

#### Note(s):

- From 1 July 2017 the Fund's Investment Mandate target return was reduced from the CPI + 4.5% to 5.5% pa to the CPI + 4.0% to 5.0% 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.



#### Measuring risk

One of the primary metrics we use to understand and manage the broad market risk exposure of the Future Fund is Equivalent Equity Exposure (EEE). EEE estimates the amount of market exposure we have when looking through the whole portfolio.

The chart above demonstrates how the EEE of the Future Fund has changed over time. We are currently in the seventh distinct risk-taking regime for the portfolio since establishment.

- The build of the Future Fund portfolio was suspended in late 2007 due to concerns over financial markets stability and the sustainability of high asset prices, and a very low risk profile was maintained into the global financial crisis.
- Portfolio risk exposure was increased as extraordinary and globally coordinated economic policies were implemented to fight the crisis.
- Risk levels were raised further as the European crisis subsided and the President of the European Central Bank committed to 'do whatever it takes' to underwrite the integrity of the euro.
- As expected returns declined (given strong market performance supported by low interest rates), portfolio risk was gradually reduced to moderately below normal levels.

- Risk levels were increased towards more normal levels, reflecting the emergence of strong economic growth and corporate earnings, and central banks signalling an extension of accommodative monetary policies, together with the decision to increase the Fund's structural risk appetite.
- Risk levels were reduced to moderately below neutral, reflecting the elevated risk environment resulting from the COVID-19 pandemic and policy response.
- The structural risk level was adjusted during the 2020–21 financial year and we narrowed the range around which we expect to manage the portfolio. Subsequently, EEE was managed reasonably close to neutral structural levels.

#### Risk positioning

The EEE range within which we are expected to operate most of the time was reviewed and uplifted to 55–65 as part of the recent deep review of our investment strategy.

Throughout 2022–23, the portfolio risk setting has averaged close to the middle of the range and at 30 June 2023 the EEE stood at 60.

## Medical Research Future Fund

The Medical Research Future Fund was established in 2015 and will improve the health and wellbeing of Australians by providing grants of financial assistance to support medical research and medical innovation.

Investment mandate	Investment performance	
RBA + 1.5%–2.0% per annum	4.4%	\$21.9bn
To achieve at least the Reserve Bank of Australia cash rate target + 1.5% to 2.0% per annum, net of investment fees, over a rolling 10-year term.	pa return in FY23	value at 30 June 2023

### Medical Research Future Fund returns, target benchmarks and volatility over time

Period to 30 June 2023	Return (% pa)	Target return (% pa)	Volatility <sup>1</sup> (%)
From inception (22 September 2015)	4.1	2.7	2.9
Seven years	4.3	2.7	3.0
Five years	4.1	2.5	3.4
Three years	5.0	2.5	2.8
2022–23 financial year	4.4	4.4	3.2

#### Note(s):

1. Industry measure showing the level of realised volatility in the portfolio.

### Risk positioning

Our expected EEE range for the Medical Research Future Fund is 27–34.

At 30 June 2023, the EEE stood at 30, which is below the middle of the range.

## Aboriginal and Torres Strait Islander Land and Sea Future Fund

The Aboriginal and Torres Strait Islander Land and Sea Future Fund (ATSILS Fund) was established in February 2019 to enhance the Commonwealth's ability to make payments to the Indigenous Land and Sea Corporation.

Investment mandate	Investment performance	
CPI + 2.0%–3.0% per annum	4.5%	\$2.1bn
To achieve an average annual return of at least the CPI + 2.0% to 3.0% per annum over the long term, with an acceptable but not excessive level of risk.	pa return in FY23	value at 30 June 2023

### ATSILS Fund returns, target benchmarks and volatility over time

Period to 30 June 2023	Return (% pa)	Target return (% pa)	Volatility <sup>1</sup> (%)
From inception (1 October 2019)	4.3	6.0	4.7
Three years	5.9	7.3	3.6
2022–23 financial year	4.5	8.0	4.0

#### Note(s):

1. Industry measure showing the level of realised volatility in the portfolio.

## Future Drought Fund

The Future Drought Fund was established in September 2019 to support initiatives that enhance the drought resilience of Australian farms and communities.

Investment mandate	Investment performance	
CPI + 2.0%–3.0% per annum	4.7%	\$4.6bn
To achieve an average annual return of at least the CPI + 2.0% to 3.0% per annum over the long term, with an acceptable but not excessive level of risk.	pa return in FY23	value at 30 June 2023

### Future Drought Fund returns, target benchmarks and volatility over time

Period to 30 June 2023	Return (% pa)	Target return (% pa)	Volatility <sup>1</sup> (%)
From inception (1 April 2020)	6.6	6.3	3.5
Three years	6.0	7.3	3.6
2022–23 financial year	4.7	8.0	3.9

**Note(s):**

1. Industry measure showing the level of realised volatility in the portfolio.

## Disaster Ready Fund

The Disaster Ready Fund was initially established as the Emergency Response Fund then renamed on 1 March 2023. It is used to fund natural disaster resilience and risk reduction.

Investment mandate	Investment performance	
CPI + 2.0%–3.0% per annum	4.6%	\$4.4bn
To achieve an average annual return of at least the CPI + 2.0% to 3.0% per annum over the long term, with an acceptable but not excessive level of risk.	pa return in FY23	value at 30 June 2023

### Disaster Ready Fund<sup>1</sup> returns, target benchmarks and volatility over time

Period to 30 June 2023	Return (% pa)	Target return (% pa)	Volatility <sup>2</sup> (%)
From inception (1 April 2020)	6.6	6.3	3.5
Three years	6.0	7.3	3.6
2022–23 financial year	4.6	8.0	4.0

**Note(s):**

1. The Disaster Ready Fund was previously named the Emergency Response Fund until 1 March 2023.

2. Industry measure showing the level of realised volatility in the portfolio.

## DisabilityCare Australia Fund

The DisabilityCare Australia Fund was established in 2014 to help fund the National Disability Insurance Scheme (NDIS), which will support a better life for Australians with a significant or permanent disability and their families and carers.

### Investment mandate

**BBSW + 0.3%**  
per annum

To achieve a benchmark return of the Australian three-month bank bill swap rate (BBSW) + 0.3% per annum, calculated on a rolling 12-month basis. Investments must minimise the probability of capital loss over a 12-month horizon.

### Investment performance

**3.6%**      **\$16.9bn**  
pa return in FY23      value at 30 June 2023



## 02 Annual highlights

### In FY23

Our people spoke at over  
**65**  
industry events

**26**  
of our people were promoted  
across the organisation

**78**  
new permanent staff joined  
the Future Fund

We ran  
**63**  
courses through the  
Future Fund Academy

We onboarded  
**2**  
new investment managers

We made over  
**\$60bn**  
in changes to the portfolio

We conducted  
**33**  
assessments of  
potential investments

We funded over  
**\$500m**  
in new venture capital and  
growth investments

We invested  
**\$11bn**  
in Australian assets

We invested in over  
**70**  
countries around the world

We exceeded the Future Fund's  
10-year return mandate by  
**1.9%**  
per annum

We added  
**\$14bn**  
to the total portfolio

## Portfolio activity in 2022–23

Our 2021 position paper, *A New Investment Order*, referred to a range of paradigm shifts that are impacting global financial markets and investment portfolios.

These shifts include inflation regimes, deglobalisation, populism, climate and decarbonisation, and changing correlations, meaning the longer-term investment environment – the new investment order – is expected to be more complex, more volatile, and ultimately more challenging for investors.

We believe that forward-looking returns will be more difficult to earn, and we need to refresh how we invest to continue to achieve our investment purpose.

We followed up this first paper with a second in late 2022 titled *The Death of Traditional Portfolio Construction?* setting out how we are responding to this investment challenge.

Consistent with these two papers, we have evolved our portfolio to make it more resilient to multiple possible scenarios. This has involved making over \$60 billion of changes across the portfolio over the last year, with repositioning occurring across all asset classes.

The following diagram outlines our investment process and portfolio evolution since 2020.

Over the 2022–23 financial year the bulk of portfolio activity centred on continuing to build resilience to the risks and the range of possible scenarios presented by the new investment order, including sticky inflation leading to prolonged higher rates, higher geopolitical risks, and the risk of a global recession. However, we also pursued and executed on investment opportunities to generate long-term returns.

Focusing on some of the highlighted ‘zones’ in Diagram 1:

- We continued to position the portfolio at around the middle of the range and made changes towards investments that rely on investor skill rather than market risk – **more alpha** – reflecting our belief that this approach will be better rewarded in an environment where higher inflation and interest rates make market/beta returns less certain. An example of this change was a shift back to active management in listed equities, with a focus in FY23 on Australian small cap equities.

We also continued our investment in early-stage venture opportunities through our high-quality private equity managers, noting that private equity activity slowed across the year. A re-rating of property valuations also occurred throughout FY23, although we did add some new property managers across the year to position us for interesting opportunities ahead.

Finally, we continued to combine our rich portfolio data sets with new technology-based tools to enhance our understanding of the drivers of returns delivered by investment managers, to better identify skill.

- We maintained our preference for domestic assets – **more regional differentiation** – with their ability to hold value in a higher-inflation environment and those that are well positioned to assist in the energy transition thematic – **more energy transition opportunities**. Examples of portfolio activity here include the Future Fund’s investment in Sydney Airport and an additional investment in Tilt Renewables which went to funding the construction of the Rye Park Wind Farm in NSW.

Under **regional differentiation** we also reduced our exposure to China, reflecting increased intervention in market sectors and the accumulation of challenges to their existing economic growth model. Finally, under **regional differentiation** we continued to grow our exposure to private lending opportunities in Australia, participating in the growth of non-bank lending in this market.

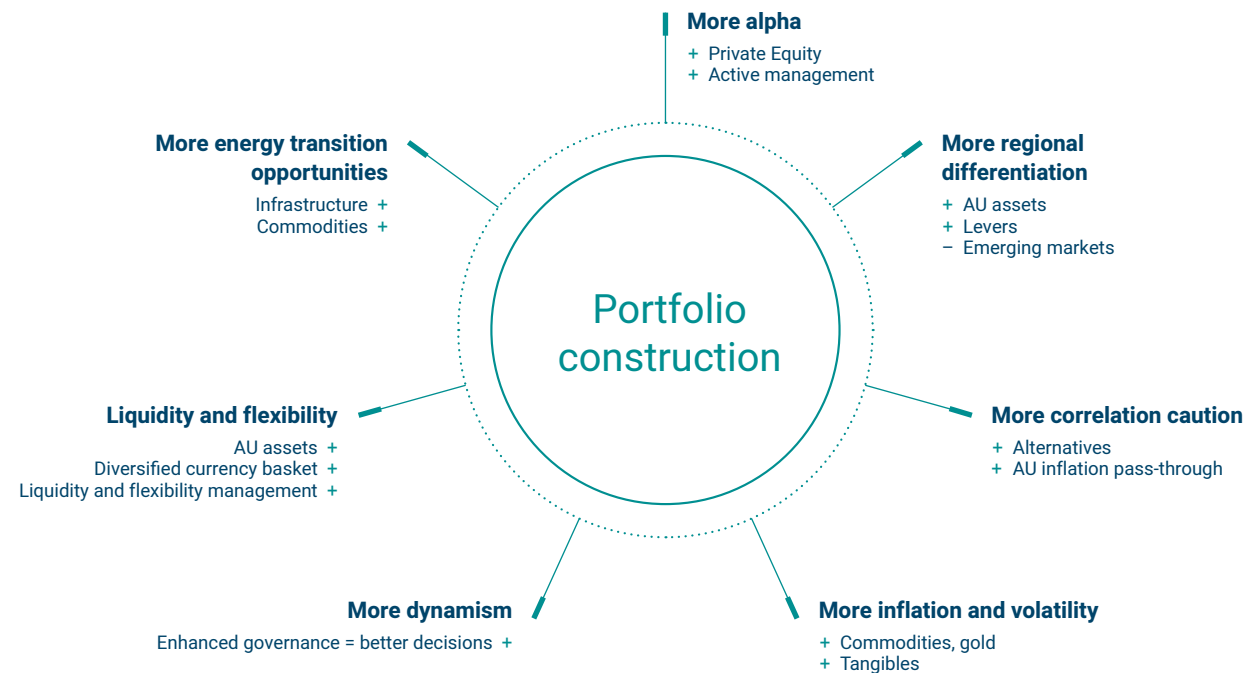
- We have had significant focus on creating **liquidity and flexibility** across the portfolio to ensure we are able to direct capital to opportunities that appear likely to develop in the context of a quickly changing macro environment. This has included increasing the amount of developed market currency we hold, reducing our foreign exchange hedging requirement that can be a drain on our liquidity, as well as increasing the amount of domestic assets in the portfolio.

We have also expanded the remit of our new treasury management function beyond liquidity provision to include flexibility management to allow us to harvest more investment opportunities when they arise.

- Under **more dynamism**, we have refined our investment delegations and governance arrangements to ensure our investment decision-making is fit-for-purpose in a more volatile investment environment. We have also further uplifted and refined our dynamic asset allocation process and governance across the year to better utilise flexibility and capture mispricing opportunities across liquid markets.
- Consistent with the structurally higher and more volatile inflationary scenario – **more inflation** – we made a number of changes to our investment portfolio in rates and currency markets and built a meaningful exposure to commodities. These changes totalled more than A\$40 billion across the year.
- Finally, our investment activity in the alternatives portfolio focused on reducing hedge fund exposures that were challenged by the new investment order and replacing them with new ones that are truly diversifying in this longer-term investment environment – **more correlation caution** – and generating liquidity for the total portfolio.

Similar portfolio activity occurred for the Medical Research Future Fund, the ATSILS Fund, the Future Drought Fund and the Disaster Ready Fund. We continue to diversify those four funds and build exposures to high-conviction and capacity-constrained managers.

Diagram 1: The Future Fund’s evolved portfolio construction process



## Tilt Renewables signs major energy deal

The Future Fund is one of the largest investors in renewable energy in Australia.

In June 2023 AGL Energy signed a 15-year power purchase agreement (PPA) to take 45% of the output produced by the Rye Park Wind Farm in regional New South Wales, owned and operated by Tilt Renewables.

Jointly owned by the Future Fund, Queensland Investment Corporation and AGL Energy, Tilt Renewables is the largest operator and developer of utility-scale wind and solar projects in Australia.

The agreement is the first PPA to be signed since the three organisations acquired Tilt Renewables' Australian operations in 2021.

The new agreement will provide AGL Energy with 513 GWh of renewable energy. This is electricity that could otherwise be sourced from the grid at a higher emissions intensity – 513 GWh of energy per year corresponds to approximately 400,000 tonnes of greenhouse gas emissions annually – the equivalent of removing approximately 110,000 average Australian internal combustion engine cars each year.



## Investing insights

### Our joined-up approach to investing

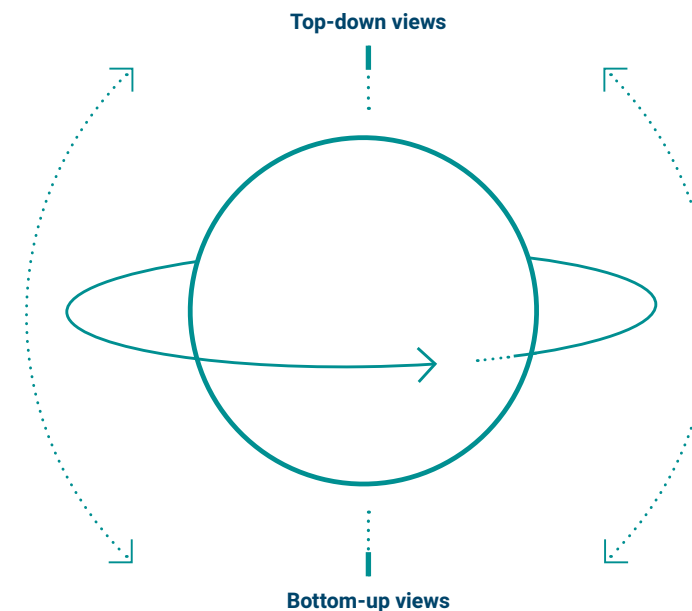
The Future Fund has always had a joined-up, total portfolio approach to investing.

When constructing the portfolio, we bring together top-down and bottom-up views. Our top-down experts look at the global economy, financial markets and geopolitical developments, and think about how these will impact the total portfolio. Their thinking is also influenced by the level and nature of the insights coming from our bottom-up specialists, who look across the world for the best assets and investment opportunities, thinking about whether these opportunities offer sufficient reward for the risk involved and having regard to the big-picture context evaluated by our top-down experts.

This joined-up, integrated approach means we don't set a fixed strategic asset allocation from the top and then require those allocations to be filled across each of the investment sectors. Instead, our investment professionals share insights and perspectives and take a whole-of-portfolio approach to making investment decisions.

This is the cornerstone of our investment philosophy, and we consider it a key comparative advantage that significantly improves the prospect of meeting our long-term investment objectives. It challenges our people to think broadly, test and question their views and the thoughts of our external partners, and compare the merits of any one investment opportunity over another.

Diagram 2: Joined-up investing





### Building the 'best portfolio'

Working together to harness curiosity, diversity of perspective and innovation, we aim to build our 'best portfolio' for each mandate, at each point in time.

Three broad activities underpin this best portfolio: (i) setting broad market (or 'beta') exposures, (ii) identifying our best specific manager or asset exposure ideas across all sectors, and (iii) integrating and sizing our highest-to lowest-conviction ideas for the total portfolio. All this activity is inherently dynamic because the outlook, pricing and opportunities are always changing – and this necessarily involves the whole Investment Team.

We believe a truly joined-up Investment Team is critical to building our best portfolio.

### DAA the Future Fund way

Our dedicated Dynamic Asset Allocation (DAA) Team, which was established in mid-2021, leads our beta exposure and our Strategic Opportunities and Integration Team leads integration.

The DAA Team collaborates across the whole Investment Team to review strategy and provide top-down perspectives, as well as source bottom-up ideas and insights. The internal Economics and Capital Markets Team and key external partners provide a diversity of macroeconomic views and market insights.

The DAA Team blends these inputs into frameworks and provides the Investment Committee and Board with recommendations across three horizons:

- **Structural risk appetite (10+ years):** the average risk level the Board has decided our portfolios should take to meet their mandates, measured in EEE terms.
- **Long-term strategy (3–10 years):** our best long-term strategy for our mandates, integrating broad market exposures and sector opportunities.
- **Medium-term strategy (less than 3 years):** our best current positioning around our long-term strategy given (i) market prices compared to long-term fundamental value, and (ii) the cyclical outlook compared to what is priced.

"We are different from a traditional asset allocation team in that we take an inherently dynamic and integrated approach," said Sam Killmier, Head of DAA. "If our view on the secular outlook changes due to a major development, we can change our long-term strategy, rather than being tethered to a long-term SAA or reference portfolio."

"We integrate the beta ideas with the bottom-up opportunity sets, which means our team works directly with our talented sector teams to find the best opportunities for the total portfolio at any point in time. It initially takes more effort to be joined-up, but the benefits far outweigh this over time."

DAA-driven decisions numbered more than 30 in FY23, representing more than \$60 billion in exposure. This reflects continuous and concerted effort across the organisation to help improve our chances of achieving our long-term mandates.

## The Future Fund Academy goes live

The Future Fund Academy was established in FY23 to preserve and grow our culture and develop our people. The Academy centralises the Future Fund's learning and development activities.

The Academy has three main objectives:

- To codify and teach the Future Fund culture
- To be the custodian of our evolving culture toolkit
- To teach personal, leadership and technical skills.

The culture that was established at the inception of the Future Fund encouraged behaviours and mindsets that have allowed it to succeed over the past 17 years. Codifying this unique and purposeful culture and ensuring it is understood and embedded with every new Future Fund employee is vital to the organisation's ongoing success.

The Academy is also a focal point for leadership and technical skills training and ensuring a deliberate approach to and focus on our people's development journeys – personal and professional – throughout their Future Fund careers.

These programs include courses on our unique joined-up investment framework, how we select our investment partners, emerging leader content and supporting our leaders as they continue to grow and advance.

Throughout FY23, the Academy focused on defining its bespoke infrastructure and governance framework and designing and delivering the first components of its base program.

The Academy rolled out 63 programs including 23 new starter orientation days as well as skills training focused on negotiation, verbal skills and presentation skills. The Academy Team also transitioned some technical learning courses from outsourced offerings to in-house while maturing the facilities, technology, training staff and culture toolkit.

"This year was, in many ways, the 'setting-up' year for the Academy," said Niels Maartens, Head of the Future Fund Academy. "We focused on getting the infrastructure and plans in place to deliver ongoing content for the years ahead, while delivering on the established leadership programs, skills courses and orientation for new starters."

"I'm proud of how we have worked together with so many people at the Agency and am beyond excited to show our people all the new content launching over the coming months."

One highlight this year was the organisation's inaugural investment competition, run under the auspices of the Academy. This six-week program saw seven diverse teams with a total of 36 participants from across the organisation develop and present pitches for an investment opportunity looking ahead to 2050.

Cross-functional teams from different levels and roles learned how to develop an investment idea in line with the Future Fund framework and process. They were also taught how to present to and engage an audience in a pitch scenario and then given the opportunity to pitch their concept live to a panel of judges in front of the entire organisation.

Members of the Investment Team offered mentoring and coaching throughout the program. Teams were assessed on innovation, potential returns, team diversity and presentation skills.

The winning team was awarded the inaugural Paul Costello Cup for Best New Investment Idea. The Cup was named after the Agency's founding leader, Paul Costello, whose legacy of creating our unique way of investing – working as one team across one portfolio – remains a key foundation of our culture today.

Looking ahead to FY24, the Academy will scale up to full operations. This includes running dedicated leadership courses for all levels and technical investment training courses that teach our unique way of investing. Around-the-clock online courses will also be available to develop skills for future success so that staff can engage with learning to suit their needs.

Over time, the vision for the Future Fund Academy is to be the heart of learning and development across the organisation.

## Building knowledge and sharing insights



At the Future Fund we are fortunate to have access to a high-calibre global network of external investment managers, industry experts, think tanks and thought leaders who provide our people with information, perspectives and insights into the world around us.

To make the most of this network and provide our people with exposure to these world-leading perspectives, we run a comprehensive internal events program in which guest speakers present a wide range of topics to our people.

During FY23 we had the opportunity to hear from the CEOs of the Milken Institute, Tilt Renewables, Wellington Management and Melbourne Airport, as well as a number of strategists, demographers, economists and technology experts.

Topics this year spanned geopolitics, macroeconomics, multiculturalism in the workplace, cloud computing, infrastructure investing, renewable energy, asset management industry dynamics and the aviation sector.

As part of this program, some of our internal leaders also regularly present live to our people on a range of topics, including a 'Quarterly State of the Market' series delivered by senior members of our Investment Team in a panel session format.

We use the vast depth of knowledge and insights we glean through this program to develop our own perspectives, views and concepts that enable more informed investment decision-making and help underpin parts of our thought leadership program, including position papers and public speeches.

Senior members of the Future Fund also regularly attend and speak at various conferences and events around the world. In FY23 we spoke at over 65 conferences and events around Australia, as well as in Tokyo, California, Singapore, Toronto, London and beyond. This is an important component of our thought leadership program, providing the opportunity for our leaders to contribute to and learn from important conversations on relevant investment industry issues.

Image: CEO of Australia Pacific Airports Corporation (APAC) Lorie Argus with APAC Board Members, Future Fund Director of Unlisted Infrastructure and Timberland, James Fraser-Smith (L) and Future Fund CEO, Raphael Arndt (R).

## The search for alpha



Alpha and skill-based strategies have always been integral to the Future Fund's approach. With the reversal of several factors that have fuelled strong economic performance for decades, the role of beta is increasingly challenged and the role of alpha is more important than ever.

The divergence of economies means companies can better distinguish themselves in a more difficult environment. As a result, active alpha-seeking strategies in our \$65 billion listed equities program are increasingly attractive, provided we can be confident that excess returns will be sustained.

Throughout the year our research and analysis have concluded that a persistent alpha opportunity exists in the Australian small cap space, underpinned by a significant information inefficiency. Relative to other segments of the domestic equity market, Australian small company stocks have a lower level of analyst coverage, higher dispersion in analyst forecasts and greater forecasting error.

In addition, the broad, diversified nature of the small company benchmark permits active managers to capitalise on proprietary insights by taking meaningful positions relative to the index and generate stock-specific alpha.

In FY23 the Future Fund began a new partnership with Maple-Brown Abbott, a domestic, privately owned boutique fund manager.

By adopting an active strategy in Australian small companies, we are backing the investment management industry in Australia and enhancing our support for the country's emerging corporate leaders through considered capital allocation and constructive engagement.

## Investing in our people

As the Future Fund continues to grow and evolve, identifying and developing our internal talent pipeline and building bench strength have continued to be key focuses.

Throughout the year, 26 Future Fund professionals were promoted within the organisation.

Many of these promotions were in the Investment Team, including two new sector heads. Tammi Fisher was appointed Head of Alternatives, having previously served as Director, Private Equity, and James Waldron was appointed to the newly created Head of Credit role, having started at the organisation as an investment analyst in 2009. The decision to create the Head of Credit resulted from moving 'cash' from the debt portfolio into our new Treasury Management function.

"A lot of work has been done to realign the Investment Team to ensure we have the right structure, people and processes in place to respond to the new investment order," CEO Raphael Arndt said.

"It is testament to the talent and capability we have that we were able to fill these two senior roles with internal appointments.

"Our joined-up, whole-of-portfolio approach also allows our people to gain broader investment experience across a range of asset classes, opening up even more possibilities for their career paths."

### Congratulations to:

- Tammi Fisher
- James Waldron
- Matt Blair
- Caroline Gorman
- Catherine Board
- Michelle Zhou
- Priyanka Garg
- Fiona Goring
- Sapna Shivkumar
- Alex Amory
- Kam Ching Chan
- Tamuka Mushangi
- Arvind Ananthan
- Ilana Wald
- Somi Sukhaseume
- Camilla Arnost
- Chris Burton
- Marcus Nelson
- Jackie Chin
- Chantal Frie
- Kudrat Puri
- Karen-May Lam
- Wai-Kwan Chislett
- Pradheesh Selvarajah
- Stewart Hardie
- Victoria Galatis



## Investing in disruptive technology

It was a significant year for disruptive technology with generative AI in particular exploding onto the mainstream technology landscape.

FY23 saw remarkable growth in the interest in and adoption of AI programs such as ChatGPT and Bard.

For the Future Fund, AI is not new as a concept or a technology: we have been investing in the AI space, alongside some of our external managers, for many years.

"We already have significant exposure to AI companies, with one of our biggest single investments being in Databricks," said Kelvin Mak-Lui, Director, Private Equity.

Databricks is a cloud-based unified data platform that helps organisations process and analyse big data. It also provides and enables organisations to build, train and deploy AI models to derive data insights that can be used to drive efficiencies and new opportunities in their businesses.

The Future Fund co-invested in Databricks in 2017 alongside NEA, who identified an early mega-trend many years before it became mainstream.

When disruptive technologies are suddenly adopted, markets struggle to price their future. Given that is part of what we do at the Future Fund, we have a dedicated team of experts focused on building our knowledge in this rapidly evolving area.

Through the year we developed a dedicated program to help our people not only understand the power of AI but also consider how to safely leverage its capabilities across the organisation.

Run by members of the Disruption, Technology and Investment Teams, the program features both internal and external experts sharing insights, developments and opportunities with the wider Agency to uplift our digital literacy and empower our people in their work.



## Completion of our data migration program



In FY23 the organisation completed the two-year transition of our data to new strategic platforms.

The transition program saw the successful migration of years of historical data, data models and processes from legacy data platforms to new dedicated, strategic platforms.

This included the reduction of around 900 processes and reports down to 100 strategic solutions, and the migration of around 47 million rows of historical data into one model.

As a result, the Agency is now more data-efficient and able to consume a greater breadth of data that is easy to access and work with, using a range of tailored self-service tools.

The new platform was designed to be a single source of truth and will create greater data analytics and business intelligence more efficiently, supporting enhancements in portfolio insights and investment decision-making.

**Diagram 3: Business benefits of the new Investment Data Management (IDM) platforms**



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