

futurefund

Australia's Sovereign Wealth Fund

YEAR IN REVIEW 2023–24

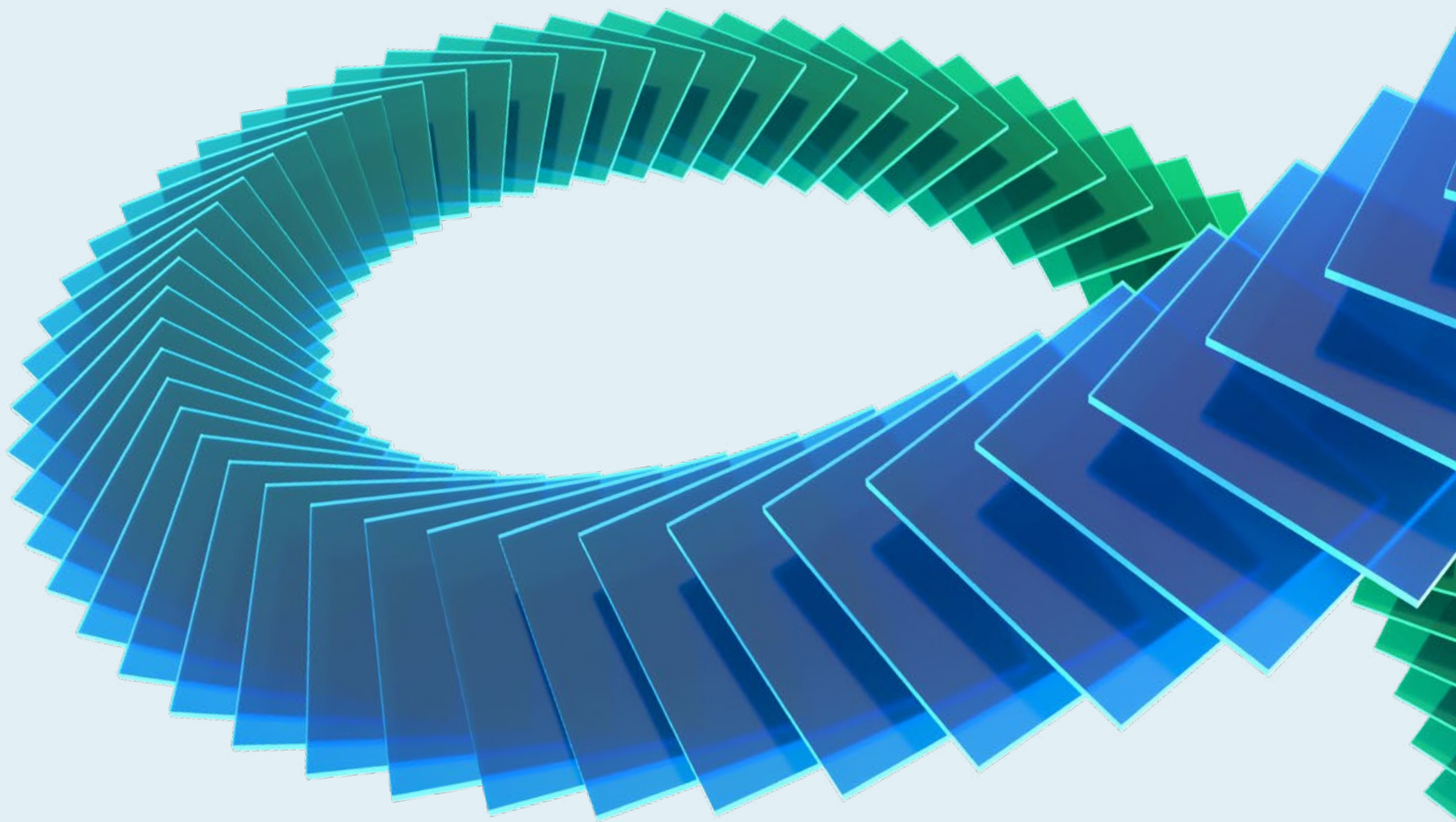


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Acknowledgement of Country

The Future Fund acknowledges the Traditional Custodians of the lands and waters on which we live and work. We pay respect to Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples as we work to create meaningful change for reconciliation.

This publication reports the high-level performance figures of the funds we manage for FY24.

Further data regarding our individual asset class exposures and information about costs will be available in the 2023–24 Annual Report, published in October 2024.

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

The 2023–24 year has again been one of rapid and substantial change occurring both domestically and globally, creating very challenging macroeconomic and market conditions.

The geopolitical backdrop continues to tend towards greater volatility and fractiousness of the kind outlined in our 2021 position paper *A New Investment Order*.

Our portfolio strategy remains consistent with the implications of recent developments and throughout the year we made over \$50 billion of changes across the portfolio, with repositioning occurring across almost all asset classes.

While unpredictability and turmoil continue, we remain optimistic about the opportunities that are available to us as a long-term investor.

This year we welcomed four new Board Members including a new Chair – the Hon Greg Combet AO. Mr Combet has extensive expertise across the Australian economy, Parliament and government, superannuation, investment, the defence industry, climate and emissions reduction policy, and industrial relations.

We also welcomed 42 new staff members, promoted a further 32 into new roles across the Agency and welcomed 12 interns for a four-week period in June.

We added to our infrastructure portfolio with a 19.8% interest in the Victorian EastLink toll road, published a new position paper, spoke at over 60 industry events, and completed 22 strategic business initiatives as we closed out our three-year business strategy.

It was a very busy and rewarding year.

REPORT FROM THE CHAIR

The Future Fund is an important national asset with a clear purpose – to invest for the benefit of future generations of Australians.



The Hon Greg Combet AO

As Australia's sovereign wealth fund, the Future Fund is held in high standing within local and international financial markets.

It has a proven track record of success. Following a return of 9.1% this financial year, the Fund has delivered a 10-year return of 8.3% per annum, exceeding its benchmark over the decade of 6.9% per annum.

I was honoured this year to be appointed Chair. In the brief time I have been in the role I have been impressed by the culture of the organisation, the capability of the team, and the unwavering focus on delivering the Investment Mandate of CPI plus 4–5% per annum on behalf of Australian people. As Chair I am committed to continuing this focus.

For an eighteen-year-old institution the Future Fund has already had a significant bearing on Australia's economic landscape, growing from \$60.5 billion at inception to \$225 billion at 30 June, without additional contributions from government.

Investment returns added almost \$19 billion to the Fund in the past financial year alone.

The growth of the Future Fund has given different governments over the years the confidence to allocate six additional funds to the Board to manage, including most recently the Housing Australia Future Fund. These six funds have different liquidity requirements and therefore lower return mandates, and now total \$64 billion.

Each fund is designed to provide funding for specific policy objectives – helping to fund medical research, drought and disaster resilience, social and affordable housing, Australia's National Disability Insurance Scheme, and the work of the Indigenous Land and Sea Corporation.

Together, these six funds have generated earnings of \$12 billion to be distributed or re-invested. The Medical Research Future Fund for example, has provided nearly \$3 billion in funding for medical research grants since 2015.

The Future Fund's investment program also contributes to a more robust, efficient and globally-connected Australia. This is particularly so in infrastructure. Around \$12 billion is currently invested in Australian infrastructure assets, including one of the country's biggest renewable energy players, Tilt Renewables. This year we acquired our first direct toll road investment via Melbourne's ConnectEast. Funds are also invested in the Perth, Sydney and Melbourne Airports, the Port of Melbourne, OneFortyOne Plantations, a national network of telecommunications towers in Amplitel, and CDC, which is the largest data centre operator across Australia and New Zealand.

These are important investments in Australia's future, and building on these investments is one of my objectives as Chair. The Australian economy faces an important challenge to reduce greenhouse gas emissions, and sourcing opportunities for investment in the energy transition will be a feature of our strategy.

More broadly, the organisation has long recognised the importance of environmental, social and governance (ESG) issues. Further developing our ESG capabilities, in particular in relation to climate risks and opportunities, is also a focus for the Board.

The Future Fund is a well-respected investment institution which places a priority on fostering a collaborative culture, diversity of thought, and a depth of analysis. This is evidenced in the external position papers recently published.

The joined-up, whole portfolio approach to investment is distinctive and successful. It has been developed with strong engagement with peers, partners and networks around the world – each of which provide broad market insights and information.

These strengths have been valuable in the challenging economic and market conditions experienced in recent years. Paradigm shifts such as climate change, geopolitical risk, demographic change, technology, the end of a long period of low interest rates, and a breakdown in long-established correlations between assets have presented risks and opportunities.

Amidst this backdrop the organisation has delivered strong long-term risk-adjusted returns and is well-placed to navigate the economic and market conditions facing it and all investors around the world.

At 30 June 2024, the Board of Guardians had invested over \$289 billion across the seven public asset funds for which it is responsible on behalf of the Australian Government.

I would like to acknowledge the work of the previous Chair, the Hon Peter Costello AC, who was a Guardian for 14 years and ably led as Chair for 10 years. I also acknowledge his leadership in establishing the organisation in 2006.

I also thank Mary Reemst for her contribution as Acting Chair this year from February until I joined in June. During her time in the role, Mary's leadership provided continuity and enabled ongoing organisational momentum. This year Rosemary Vilgan and Nicola Wakefield Evans AM were also appointed to the Board.

I look forward to working with my fellow Guardians both new and ongoing who have steered the organisation through a period of significant change.

I acknowledge the contributions of John Poynton AO and John Fraser, who completed their terms on the Board this year.

I thank Raphael Arndt and the Senior Leadership Team who have assisted with my transition into the role.

Those I have met at the Future Fund have impressed me with their knowledge, expertise and commitment. Each has cited the purpose of the Fund as their motivation to work with the organisation. I look forward to working alongside them with as much conviction.



The Hon Greg Combet AO

Chair
Future Fund Board of Guardians

REPORT FROM THE CHIEF EXECUTIVE OFFICER

We have been saying for some time now that the world has fundamentally changed, and the global landscape we have been living, working and investing in for past decades is no longer.



Dr Raphael Arndt

This past year we saw geopolitical tensions heighten and superpowers jostle, populist polices gain traction, elections cause turmoil, societal norms and expectations continue to shift, and economic activity accelerate across the globe.

There were very few weeks throughout the year where there wasn't a major event occurring somewhere in the world and while the ongoing change could have been fatiguing, we remained optimistic about the opportunities available for long-term investors.

One of the unique privileges of working at the Future Fund is being able to think long term.

We observe the world, financial markets, major events, leaders and information and then work to collectively process and understand them and develop our own perspectives. We then take those perspectives and make decisions around what we believe to be the most effective measures to protect and grow our funds, develop our organisation, and meet our mandates.

This year we made over \$50 billion of changes across the portfolio with repositioning occurring in almost every asset class to ensure that the portfolio is resilient to the types of disruptions we expect as part of the 'New Investment Order'.

In order to build resilience, the exposure to equities in the Future Fund is much less than most typical portfolios, and we take investment risk in many different ways.

Given this, and the strong outperformance of equities this year compared with almost every other asset class, it was pleasing to produce a strong annual result of 9.1% and to add almost \$19 billion to the Fund for the year. The 10-year return was 8.3% per annum, and we have added almost \$165 billion in value to the Fund since its inception in 2006.

The other six funds under management also performed well and are now standing at \$64 billion collectively.

The Government entrusted us with a new fund in November – the Housing Australia Future Fund. It was fully invested at the close of the financial year and has begun generating strong returns that will be used to enhance the Commonwealth's ability to make grants in relation to acute housing needs and social and affordable housing.

This year we closed out our three-year strategy with over 20 initiatives implemented across the organisation for FY24. This program of work began during a period of great turmoil marked by Covid pandemic conditions, city lockdowns and border closures. The strategy has been very successful, and I am grateful to our staff for delivering it during a time of difficulty and great change.

The strategy was focused on preparing the organisation for a phase of growth and maturation and to be best-positioned to invest in the new world we saw coming four years ago.

We began pivoting the organisation to support our investment mission in a variety of ways, including refreshing our investment model and repositioning our portfolio. We also matured our organisation and the systems that enable our investment function. Our technology and data capabilities were enhanced and provide our people with what they need for efficient and effective decision-making.

This year we also expanded our voice through greater industry engagement and our thought leadership work. We published a position paper: *Geopolitics – the Bedrock of the New Investment Order*, and our people spoke at over 60 industry events both locally and abroad.

Throughout the year we built out the Future Fund Academy, our inhouse training and staff development function, to incorporate leadership and investment management programs. The Academy also plays a critical role in cultivating and driving the collaborative culture that we have been so intentional about building and fostering.

In June we added to our infrastructure portfolio with the acquisition of an interest in the EastLink toll road network, and welcomed 12 interns into the dynamic environment of our Investment Team for four weeks.

We also had 42 new staff members join us and promoted another 32 of our people internally – my congratulations to each of them.

This year saw our organisation experience significant change as we farewelled three Guardians including the outgoing Chair, the Hon Peter Costello AC, in February following a 14-year tenure on the Board. I thank him for his leadership – first in establishing the Future Fund, then as a Guardian and then Chair.

Peter's passion for this organisation, its purpose and its important role as Australia's sovereign wealth fund is unsurpassable. He was instrumental in the evolution of the Future Fund over 18 years as it has grown to become a successful and highly respected global investment institution.

I would also like to thank outgoing Board Members, John Poynton AO and John Fraser for their contribution to the Board during their tenures.

We welcomed four highly credentialled and experienced new Board Members this year, including our new Chair – the Hon Greg Combet AO – who was appointed on 1 June. He brings a depth of expertise and thoughtful leadership that will benefit our organisation, culture and long-term plans.

Mary Reemst joined the Board in October 2023 and was appointed as Acting Chair in February. During her time in the role, Mary's leadership provided continuity and enabled ongoing organisational momentum, for which I thank her.

We also welcomed Rosemary Vilgan and Nicola Wakefield Evans AM to the Board. The Board supported the Agency to continue to evolve and we completed the design and launch of a new 2025–27 three-year strategy. The new strategy has four focus areas and builds on the foundations and work we have achieved over the past three years.

Finally, my thanks to each one of our staff for their efforts this year. They are a dedicated and impressive team who are greatly valued for their efforts, ideas and commitment to the organisation.

Going into the new financial year I am grateful to lead this organisation and confident in our people and the work we have done to put us in good stead to achieve our long-term mandates and generate funds that create positive and lasting impacts for all Australians.



Dr Raphael Arndt

Chief Executive Officer
Future Fund Management Agency

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FY24 PERFORMANCE

INVESTMENT ENVIRONMENT IN 2023–24

Over the past year the world has witnessed a further meaningful shift in geopolitical dynamics. Escalating tensions, particularly war in the Middle East as well as the ongoing Russia-Ukraine war, have underscored the fragility of global peace. US-China relations continue to evolve and are a testament to the growing emphasis on national security and protectionist policies.

Meanwhile, what we describe as the ‘New Investment Order’ thematics demonstrated further momentum, with disruptions to global trade and commerce, increased friendshoring or reshoring of capital, and increased defence spending. Elections across the globe further catalysed these dynamics, with populist leaders gaining ground.

All that said, there were some positive developments, such as improved dialogues between China, Australia and the US, and the lifting of some restrictions on the export of Australian primary products.

Nonetheless, the geopolitical landscape remains fraught with uncertainties. In our recently published position paper titled *Geopolitics – the Bedrock of the New Investment Order*, we set out how we define and conceptualise geopolitics, why we think it is so important, and how we incorporate such uncertainties into our investment process.

The cyclical investment backdrop was generally positive over the course of the year.

The global economy, particularly in the US and Australia, was broadly resilient as swift disinflation and tight labour markets provided a tailwind to real incomes which supported consumption along with excess savings.

Inflation continues to moderate towards target across the developed markets complex although the pace of disinflation has slowed meaningfully during this calendar year to date. Goods deflation from supply side normalisation is no longer providing a tailwind and services inflation is proving to be sticky, driven by tight labour markets.

Regional divergences persisted into 2024, with the US economy at or above-trend growth for most of the year and Australia proving resilient overall but somewhat weak on a per capita basis.

Most other developed economies languished, with low growth in the UK, Europe and Canada. While the domestic policy mix and structural economic challenges led to a relatively weak Chinese economy.

More recently, economic conditions in the US have shown signs of easing, although remaining broadly around trend, with inflation also printing more softly. Economic data in the rest of the world may have reached a local minimum, with conditions in China, Europe and the UK improving.

INVESTMENT ENVIRONMENT IN 2023–24 | CONTINUED

Since July 2023 developed market central banks largely held monetary policy steady at decade-high levels as they assessed the lagged impacts of a rapid policy-tightening cycle.

The steadiness in policy rates masks significant market volatility over the period as expectations for future policy easing swung meaningfully, reverberating through asset prices. Swift US disinflation into December saw significant policy easing priced for 2024, only to see most of that easing priced out by the end of April as inflation re-accelerated over the first quarter.

The People's Bank of China refrained from stimulating the economy despite weak activity, due to fear of further currency debasement. Fiscal measures have been piecemeal and somewhat underwhelming in aggregate.

The Bank of Japan hiked its policy rate for the first time in 16 years in April, with officials satisfied that cost-push inflation from higher input prices and a weak yen would catalyse a 'virtuous cycle' between wages and prices, lifting the Japanese economy out of the 'lost decades' of stagnation.

As inflation continued to drift lower into the end of the financial year, several central banks have slowly shifted to easing monetary policy, with the Canadian, European, Swedish and Swiss central banks all lowering interest rates.

In the US, disinflation resumed in April and May as activity data moderated from the very strong levels seen over the prior six months. Services inflation remains uncomfortably high, however, and has only modestly reduced which is likely to limit monetary policy easing in the absence of any meaningful softening in the labour market.

Equity markets, and risk assets more broadly, rallied strongly over the year with the S&P 500 marking several new highs as rapid disinflation and robust US growth buoyed margin estimates and risk sentiment. The expected future productivity benefits of AI provided an additional tailwind to returns as did fiscally supported CapEx initiatives in the US as the re-industrialisation agenda continues.

Commodity markets also reflected the robust growth environment with oil and metals moving meaningfully higher, although relative softness in iron ore prices is likely owing to lacklustre demand from China.

With US elections on the horizon, shifting geopolitical dynamics, monetary policy in flux and an ever-expanding fiscal policy agenda, the economic environment remains uncertain and volatile. The investment environment, however, continues to present ample opportunity for investors.

The steadiness in policy rates masks significant market volatility over the period as expectations for future policy easing swung meaningfully, reverberating through asset prices.



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 8.3% per annum remains above its benchmark target of 6.9% per annum.



The annual return of 9.1% is a strong result and reflects the significant activity to position the portfolio to deliver long-term risk-adjusted returns in alignment with our mandate.

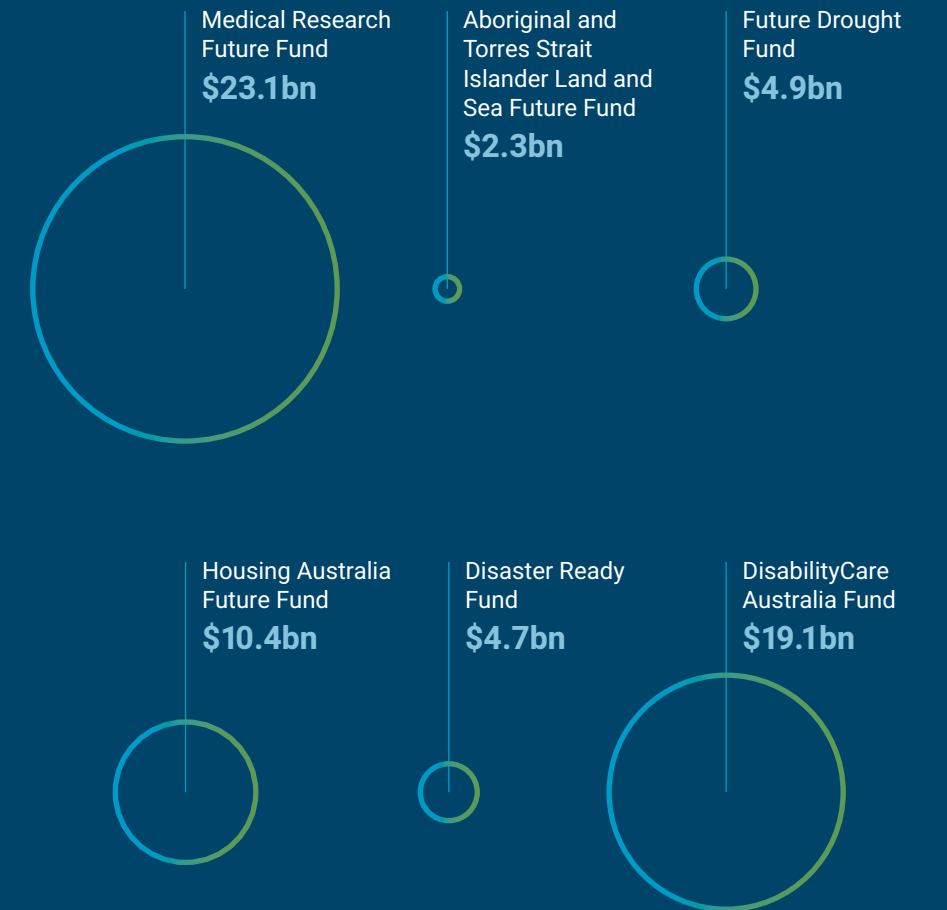
At \$224.9 billion the Future Fund is the Commonwealth Government's largest financial asset, bolstering the Federal Government's balance sheet and Australia's credit rating.

The risk positioning for the Future Fund is slightly above neutral, and we will remain vigilant and continue adjusting the portfolio to enhance resilience and ensure it is as robust as possible to a number of plausible scenarios.

Total funds under management

\$289.4bn

At 30 June 2024



INVESTMENT PERFORMANCE

Future Fund

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

Investment mandate

**CPI + 4.0%–5.0%
per annum**

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.

Investment performance

9.1%
pa return in FY24

\$224.9bn
value at 30 June 2024

8.3%
pa 10-year return

6.9%
pa target 10-year return

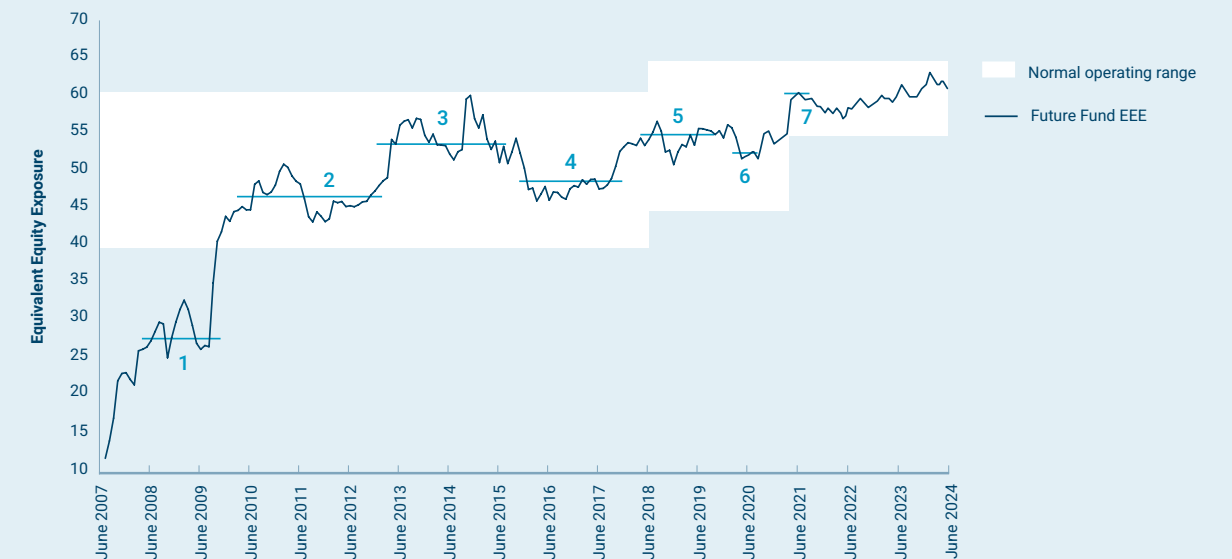
Future Fund returns, target benchmarks and volatility over time

Period to 30 June 2024	Return (% pa)	Target return ¹ (% pa)	Volatility ² (%)
From inception (May 2006)	7.7	7.0	4.7
10 years	8.3	6.9	4.8
Seven years	7.8	7.3	5.1
Five years	6.7	7.9	5.5
Three years	4.5	9.3	4.9
2023–24 financial year	9.1	7.8	4.3

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.

Future Fund Equivalent Equity Exposure since inception



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 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 is 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 2023–24, the portfolio risk setting has averaged close to the middle of the range and at 30 June 2024 the EEE stood at 61.

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	
<p>RBA + 1.5%–2.0% per annum</p> <p>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.</p>	<p>8.4% pa return in FY24</p>	<p>\$23.1bn value at 30 June 2024</p>

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

Period to 30 June 2024	Return (% pa)	Target return (% pa)	Volatility ¹ (%)
From inception (22 September 2015)	4.7	3.1	2.9
Seven years	4.8	3.1	3.2
Five years	4.7	3.1	3.5
Three years	4.2	4.0	3.0
2023–24 financial year	8.4	5.8	3.0

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 to 34. At 30 June 2024, the EEE stood at 32, which is close to 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	
<p>CPI + 2.0%–3.0% per annum</p> <p>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.</p>	<p>9.4% pa return in FY24</p>	<p>\$2.3bn value at 30 June 2024</p>

ATSILS Fund returns, target benchmarks and volatility over time

Period to 30 June 2024	Return (% pa)	Target return (% pa)	Volatility ¹ (%)
From inception (1 October 2019)	5.4	5.9	4.6
Three years	4.5	7.3	3.8
2023–24 financial year	9.4	5.8	3.8

Note(s):

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

Risk positioning

Our expected EEE range for the ATSILS Fund is 36 to 45. At 30 June 2024, the EEE stood at 41, which is towards the middle of the range.

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

**CPI + 2.0%–3.0%
per annum**

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.

Investment performance

9.4% **\$4.9bn**
pa return in FY24 value at 30 June 2024

Future Drought Fund returns, target benchmarks and volatility over time

Period to 30 June 2024	Return (% pa)	Target return (% pa)	Volatility ¹ (%)
From inception (1 April 2020)	7.3	6.2	3.6
Three years	4.5	7.3	3.8
2023–24 financial year	9.4	5.8	3.8

Note(s):

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

Risk positioning

Our expected EEE range for the Future Drought Fund is 36 to 45. At 30 June 2024, the EEE stood at 41, which is towards the middle of the range.

Disaster Ready Fund

The Disaster Ready Fund was initially established as the Emergency Response Fund in 2019, then renamed on 1 March 2023. It is used to fund natural disaster resilience and risk reduction.

Investment mandate

**CPI + 2.0%–3.0%
per annum**

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.

Investment performance

9.4% **\$4.7bn**
pa return in FY24 value at 30 June 2024

Disaster Ready Fund returns, target benchmarks and volatility over time

Period to 30 June 2024	Return (% pa)	Target return (% pa)	Volatility ¹ (%)
From inception (1 April 2020)	7.3	6.2	3.6
Three years	4.6	7.3	3.8
2023–24 financial year	9.4	5.8	3.8

Note(s):

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

Risk positioning

Our expected EEE range for the Disaster Ready Fund is 36 to 45. At 30 June 2024, the EEE stood at 41, which is towards the middle of the range.

Housing Australia Future Fund

The Housing Australia Future Fund (HAFF) was established in November 2023 with the purpose of enhancing the Commonwealth’s ability to make grants in relation to acute housing needs, social housing or affordable housing.

The HAFF was seeded with an initial capital contribution of \$10 billion and was in a transition phase between 1 November 2023 and 30 June 2024 as the Board worked towards full investment of the funds.

From the conclusion of the transition phase the Investment Mandate requires the Board to target an average return, net of costs of at least the CPI plus 2.0% to 3.0% per annum over the long term while taking acceptable but not an excessive amount of risk.

Reporting against its mandated target return benchmark commences from 1 July 2024.

Investment performance	
4.0% return as of 30 June 2024	\$10.4bn value at 30 June 2024

Risk positioning

Our expected EEE range for the HAFF is 36 to 45. At 30 June 2024, the EEE stood at 28. The final increase in risk exposure to an EEE of 41 occurred on 1 July 2024 after the financial year closed.

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 + 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	
5.2% pa return in FY24	\$19.1bn value at 30 June 2024

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ANNUAL HIGHLIGHTS

IN FY24

We made over
\$50bn
in changes to the portfolio

We invested
\$12bn
in Australian assets

The Future Fund EEE stood
at an average of
61

We participated in
232
Australian shareholder meetings

We promoted
32
of our people into roles across
the organisation

Our people spoke at over
60
industry events

We added
\$18.8bn
to the Future Fund

42
new permanent staff joined the
Future Fund

The Future Fund Academy conducted
39
development programs

We funded over
\$1bn
in new venture capital
and growth investments

We exceeded the Future Fund's
10-year return mandate by
1.4%
per annum

We completed
22
strategic business initiatives across
the organisation

THE FUTURE FUND BOARD OF GUARDIANS

We were pleased to welcome four new Guardians to the Board this year, including our new Chair:



The Hon Greg Combet AO
Chair



Ms Mary Reemst



Ms Rosemary Vilgan



Ms Nicola Wakefield Evans AM

These new Guardians joined our current three Members:



Mrs Patricia Cross AM



Dr Deborah Ralston



Mr Michael Wachtel

We also internally promoted 32 people into new roles this year. Congratulations to:

- | | | | |
|--------------------|---------------------|----------------------|----------------------|
| 1. Rhiannon Parker | 9. Jennifer Gao | 17. Louise Pride | 25. Jessica Chiu |
| 2. Calvin Chan | 10. Hugh Murray | 18. Ross Thompson | 26. Sandy Smith |
| 3. James McKenzie | 11. Paul Banks | 19. Sonia Barr | 27. Robin Lim |
| 4. Minh Do | 12. James Waldron | 20. Chris Leverkuehn | 28. Georgia Hamilton |
| 5. Richard Cooney | 13. Michael Vardi | 21. Lara Babic | 29. Tara Lagan |
| 6. Ben Samild | 14. Jenny Truong | 22. Justin Reys | 30. Harry Hadiyanto |
| 7. Andrew Pearse | 15. Claire Harrison | 23. Sofian Cendana | 31. Will O'Sullivan |
| 8. Darina Cheong | 16. Thao Truong | 24. Stephen Siu | 32. Jordonne Colley |



14 of our people who were promoted throughout the year.

PORTFOLIO ACTIVITY IN 2023–24

As we have been saying over recent years, the world is changing.



A New Investment Order has been evolving. Underpinning this is a range of paradigm shifts impacting the world order, macroeconomic drivers, policy decisions and financial markets.

These shifts – including inflation regimes, climate and decarbonisation, deglobalisation, technology disruption and changing asset correlations – are coalescing to have a profound impact on the longer-term investment environment. This is, in our view, significantly increasing economic and market complexity and volatility, and making forward-looking returns more difficult to earn.

This view is giving us cause to reappraise how we invest in order to continue to achieve our investment purpose, with a significant focus on making the portfolio more resilient to multiple possible scenarios presented under the New Investment Order.

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

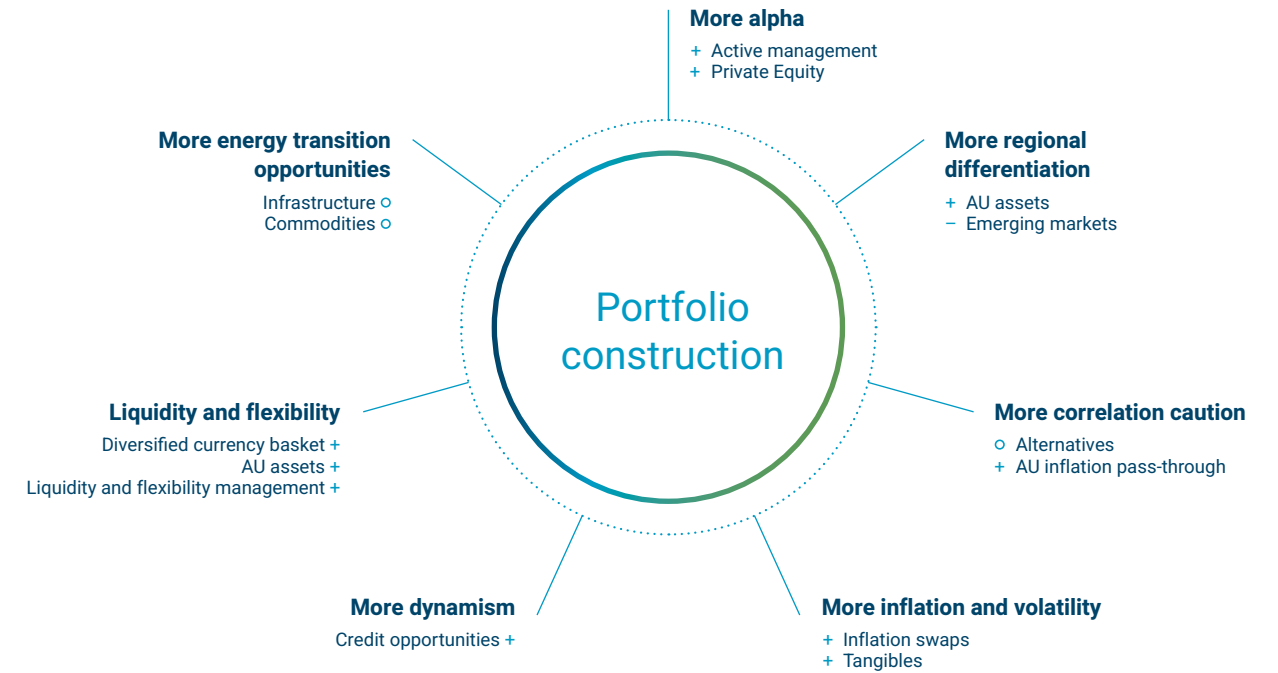
In continuing to evolve our portfolio we have made over \$50 billion of changes for the 2023–24 financial year alone, with repositioning occurring across almost all asset classes.

Portfolio activity has been balanced across two focal points:

- i) The pursuit and execution of investment opportunities that will generate long-term risk-adjusted returns; and
- ii) Building resilience to the risks and possible scenarios presented by the New Investment Order.

We have discussed the New Investment Order and a number of changes we’ve made to our investment portfolio in response – totalling some \$190 billion over a three-year period to date – through our thought leadership papers, including in our third and most recent paper, released in June 2024 – *Geopolitics: The Bedrock of the New Investment Order*.

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



Focusing on some of the highlighted zones in Diagram 1:

— We positioned the portfolio at the middle of our structural risk range across the financial year, and continued to make 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, interest rates and geopolitical risk make market/beta returns less certain.

An example of this change was our further shift back to active management in listed equities, with a focus in 2023–24 on Japanese equities due to healthy corporate balance sheets, positive changes to corporate practices and reasonable valuations.

While private equity activity was again slow across the year, we sustained our private equity co-investment strategy and continued our investment in early-stage venture opportunities through our high-quality private equity managers.

We also provided capital to high-quality property managers during the year to position ourselves for opportunities ahead given the recent re-rating of property valuations.

- We also continued our preference for domestic infrastructure assets – **more regional differentiation** – given their ability to hold value in a higher-inflation environment and to provide predictable cash flows. An example is the Future Fund’s investment in Connect East – the Eastlink toll road, in June 2024. Under regional differentiation we also further reduced our exposure to China, reflecting ongoing challenges to the country’s existing economic growth model, and rising geopolitical risk.
- With the focus from our Treasury Management function, we were able to create **liquidity and flexibility** across the portfolio to allow us to harvest investment opportunities when they arose throughout FY24. This allowed us to respond nimbly and at scale – **more dynamism** – to attractive pricing available in investment-grade credit, utilising existing managers to help us capture strong nominal returns from simple capital provision to low-risk, high-quality opportunities.

Beyond investment-grade credit we also leaned into credit opportunities presented in other strategies such as special situations, direct lending and private credit.

Our total level of activity across the Credit asset class exceeded A\$7 billion for the year, funded through cash, and reducing complexity elsewhere in the portfolio.

Previous work under more dynamism in uplifting our portfolio governance arrangements and investment process was also instrumental in this capital shift.

Under **liquidity and flexibility** we also further increased the amount of developed market currency we hold, reducing our foreign exchange hedging requirement that can be a drain on our liquidity.

- Consistent with the structurally higher and more volatile inflationary scenario – **more inflation** – we made a number of changes in rates and currency markets throughout the year and built a meaningful exposure to inflation. These changes totalled more than A\$30 billion and there was a reduction in our global interest rates exposure across the year, reflecting our view that government interest rate exposure is less diversifying and less well rewarded than over previous decades. We instead hold our duration through assets like infrastructure that also help us capture **more inflation**, while obtaining additional diversification through currency, commodities and alternatives.
- With this in mind we continued to refine our alternatives portfolio, reducing hedge fund exposures that we believe are being challenged by the New Investment Order and replacing them with new ones that are truly diversifying in this longer-term investment environment – therein generating liquidity for the total portfolio.

As outlined in our recent position paper on geopolitics, given our view on the need for more **correlation caution**, and in our quest for portfolio resilience, we view our alternatives exposure as a key source of diversification.

- Finally, we are continuing to work on an exciting pipeline of **energy transition opportunities**. Transition goals and the need to finance them are creating significant strategic competition for capital that hasn’t been seen for years, and in an environment where sources of capital are being more heavily scrutinised, there is a potential comparative advantage for the Future Fund.

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

SNAPSHOT

THE LAUNCH OF THE HOUSING AUSTRALIA FUTURE FUND

On 1 November 2023, the Housing Australia Future Fund (HAFF) commenced – a new \$10 billion fund to support social and affordable housing across the country.

The returns from the HAFF will bolster the Australian Government’s ability to make grants in relation to acute housing needs and create a pipeline of funding for social and affordable housing through annual distributions from the Fund. The creation of the HAFF means we now manage seven funds for the Australian Government.

The Future Fund Board of Guardians agreed upon an investment strategy for the HAFF in line with the long-term benchmark target return of CPI + 2.0% to 3.0% per annum. The HAFF completed its transition to its long-term investment strategy at the end of the 2023–24 year.

We are proud the Government has given us the responsibility for delivering investment returns for the HAFF.



SNAPSHOT

THE ROLE OF ALPHA IN JAPAN

Our search for persistent alpha opportunities in the equity market continued over the past year, leading us to Japan.

The Japanese equity market had been largely abandoned by foreign investors following decades of subdued equity market returns. Passive government investment and sustained investor outflows have resulted in a material consolidation of the investment manager landscape and lower sell-side coverage. This environment created a highly asymmetric landscape for a small number of skilled investment managers.

The market has been attractively valued, with structural tailwinds created by corporate reform strengthening our thesis for active engagement.

NEW BLACKSTONE PRIVATE CREDIT MANDATE

In 2023–24, we committed an additional US\$1 billion to the world’s largest alternative asset manager Blackstone, to invest in multi-asset private credit.

This new mandate will pursue investments across a range of credit sectors globally and allows us to capitalise on attractive opportunities emerging in private credit markets.

FUTURE FOCUS: ESTABLISHING THE LONG-TERM FORUM

Over the past year we continued to take significant steps to adapt to the New Investment Order and refresh our investment model. To help us in this we established the Long-Term Forum (the Forum).

The Forum is a people and data-centric collaboration platform informing the continuous review and enhancement of our long-term investment strategy, including:

- Assessing the secular investment environment: informed by both internal and external research and insights given an ever-evolving investment landscape.
- Developing a deep understanding of the total portfolio: the Forum considers the interplay of risk and return by applying different lenses across the overall portfolio.
- Exploring potential portfolio responses: discussions centre around how to improve the portfolio by increasing return potential and resilience via different levers.

Driving long-term performance

As a key driver of our investment performance over time, our long-term portfolio decisions are some of the most impactful that the Investment Committee (IC) and Board make. The establishment of this new Forum recognises the importance of these long-term portfolio decisions and the value we can generate from our joined-up investment process.

The Forum was established to generate and deliberate on long-term portfolio ideas across asset classes to support recommendations to the IC, to ultimately drive better long-term investment performance.

“The Forum rebalances our time from what is urgent to what is most important for driving long-term investment performance,” explained Andrew Pearse, Head of Economics and Capital Markets.

A collaborative and agile approach

Initial Forum meetings have focused on examining and evolving our *Foundation View*.

This sets out the high-level picture of the long-term, top-down, macro and market landscape that the Investment Team is expected to navigate.

It is our way of describing a set of investment scenarios for the decade ahead and is called our *Foundation View* because it's the starting point for the Investment Team to form their views.

As factors such as heightened geopolitical risks, artificial intelligence, climate change and demographics provide additional uncertainties and new investment opportunities, having a platform to work through the implications of these themes on our long-term investment strategy is increasingly important.

The Forum helps us bring together our best thinking, whether sourced internally, from external research or our partners, to enhance the most important investment recommendations and decisions we make.

THE INAUGURAL FUTURE INVESTORS PROGRAM

The Future Fund's Future Investors Program is a four-week internship curated for curious and astute penultimate and final year undergraduate students with a keen interest in finance and investing.

The immersive Program was aimed at helping to bridge the gap between academic learning and real-world practice and experience. We welcomed 12 Future Investors in June to our Melbourne office, who were immersed in the dynamic environment of the Future Fund and the world of global investment funds management.

Under the guidance of our Investment Team and other team members, our Future Investors contributed to real investment projects and initiatives, bringing their diverse skills and fresh perspectives into our strategic decision-making processes.

One of the highlights included a visit to the Port of Melbourne to experience the scale of our investments, and to see part of the infrastructure portfolio.

Our interns also participated in our annual Investment Competition. This involved working in cross-functional teams to devise a solution to the question: 'What is EEE and what would we do differently?'

EEE is the Future Fund's unique tool which helps to measure how much investment risk exposure is taken at the Fund level, which then corresponds to how much risk the Board of Guardians thinks the Fund should take on average.



In the final week of the Program, each Future Investor presented an individual project that they were working on throughout their time at the Future Fund. The intelligence, innovation of thought and professionalism in all our Future Investors' presentations perfectly encapsulated their time and experience with us.

THE FUTURE FUND ACADEMY: EMPOWERING PROFESSIONAL GROWTH AND LEADERSHIP DEVELOPMENT

At the Future Fund, the professional, personal and leadership advancement of all our people is a key priority, and the Future Fund Academy plays a crucial role in enabling this.

In 2023–24, the Academy ran 39 development programs, including 21 new-starter orientation days, 11 essential skills programs, four leadership programs, and three investment management programs.

The Academy also plays a critical role in cultivating and driving the joined-up collaborative culture that the Future Fund is known for. This is facilitated through the Academy by embedding our culture into all of its key programs, such as in-person orientation programs for our new starters and leadership development programs which reinforce the role leaders play in maintaining the health of our culture.

This year, the Academy also developed a bespoke investment management program, incorporating insights and learnings about the Agency's unique joined-up, whole-of-portfolio investment approach, which is crucial to our culture.

To support our objective of continuing to deliver strong investment returns, throughout the training special focus is centred around our investment framework, fund manager selection, and driving decision quality.



ENHANCING THE AGENCY'S SYSTEMS AND PROCESSES

We achieved a significant milestone this year by completing the first of two phases of our Enterprise Resource Planning (ERP) project.

This accomplishment marks a transformative shift in how we manage and integrate information across the Agency.

The introduction of our new ERP solution has streamlined multiple processes across the Agency's corporate teams onto one single platform, replacing the disparate systems previously in use.

The integration of this technology solution underscores our commitment to the continuous evolution of our systems and processes, as part of our strategy to mature our organisation and to innovate and evolve.

The implementation involved over 35 integrations between the new ERP solution and 15 supporting systems.

Looking ahead, we are on track to finalise the second phase of the project in FY25. This involves enhancing the solution, as we continue to look at ways to work more flexibly and collaboratively.



INVESTING IN AUSTRALIAN INFRASTRUCTURE

The Future Fund is one of the largest investors in infrastructure assets in Australia with around \$11.8 billion, or 57%, of our global infrastructure portfolio represented domestically.

In partnership with our external investment managers we proudly own stakes in iconic Australian infrastructure assets such as the Port of Melbourne, Sydney, Perth and Melbourne airports, and Tilt Renewables, amongst others.

This year we added to our infrastructure portfolio with the acquisition of a 19.8% interest in the EastLink toll road network. EastLink is a 39km tollway located 25 km east of the Melbourne CBD and is the largest tollway network in Victoria. Running predominantly north-south, EastLink connects Melbourne's eastern and south-eastern suburbs which have limited connectivity via public transport. EastLink is also a major feeder route for the Eastern Freeway and Monash Freeway. An average 250,000 vehicles, including 50,000 commercial vehicles, use the toll road daily.

Kudrat Puri, Manager, Unlisted Infrastructure and Timberland, said: "Our investment in EastLink will provide attractive characteristics to our portfolio, including direct linkage to Australian inflation, AUD-denominated cash flows, and exposure to favourable macroeconomic drivers in Victoria, with Melbourne projected to overtake Sydney as Australia's largest city by 2030.

We expect the investment to deliver an attractive return over the long term, particularly in a 'sticky inflation' environment," added Kudrat.

We partnered with QIC in this acquisition, who have a long-established relationship with the Future Fund and will manage this investment on our behalf, leveraging their long-held experience in the transport sector.

CDC Data Centres

Another of the Future Fund's high-quality infrastructure assets is CDC Data Centres (CDC). CDC is a leading owner, operator and developer of highly secure, sovereign and connected large-scale data centres across Australia and New Zealand.

Data centres store and manage the critical data and digital infrastructure systems that communities and organisations rely on for their operations. The data centre sector is seeing a surge in demand due to significant growth in generative AI and cloud-based solutions and is expected to grow exponentially over the next several years.

CDC currently owns 14 operational data centres. In response to the transformative shift in customer demand, CDC also has a significant investment pipeline with seven additional facilities currently under construction across Sydney, Canberra, Melbourne and Auckland. Once fully constructed, these new facilities will increase CDC's operating capacity from 302 MW today to 690 MW, positioning CDC to capture the significant sector growth opportunities into the future.

The Future Fund is a 24% shareholder in CDC alongside Infratil, Commonwealth Superannuation Corporation and CDC management.

Tilt Renewables

Tilt Renewables (Tilt) is another quality asset in the Future Fund's Australian infrastructure portfolio. As an Australian-owned and operated business that is helping to drive the energy transition in Australia, Tilt is the largest owner of wind generation in the country.

The Future Fund owns 40% of Tilt, alongside QIC and AGL, making us one of the largest investors in renewable energy in Australia.

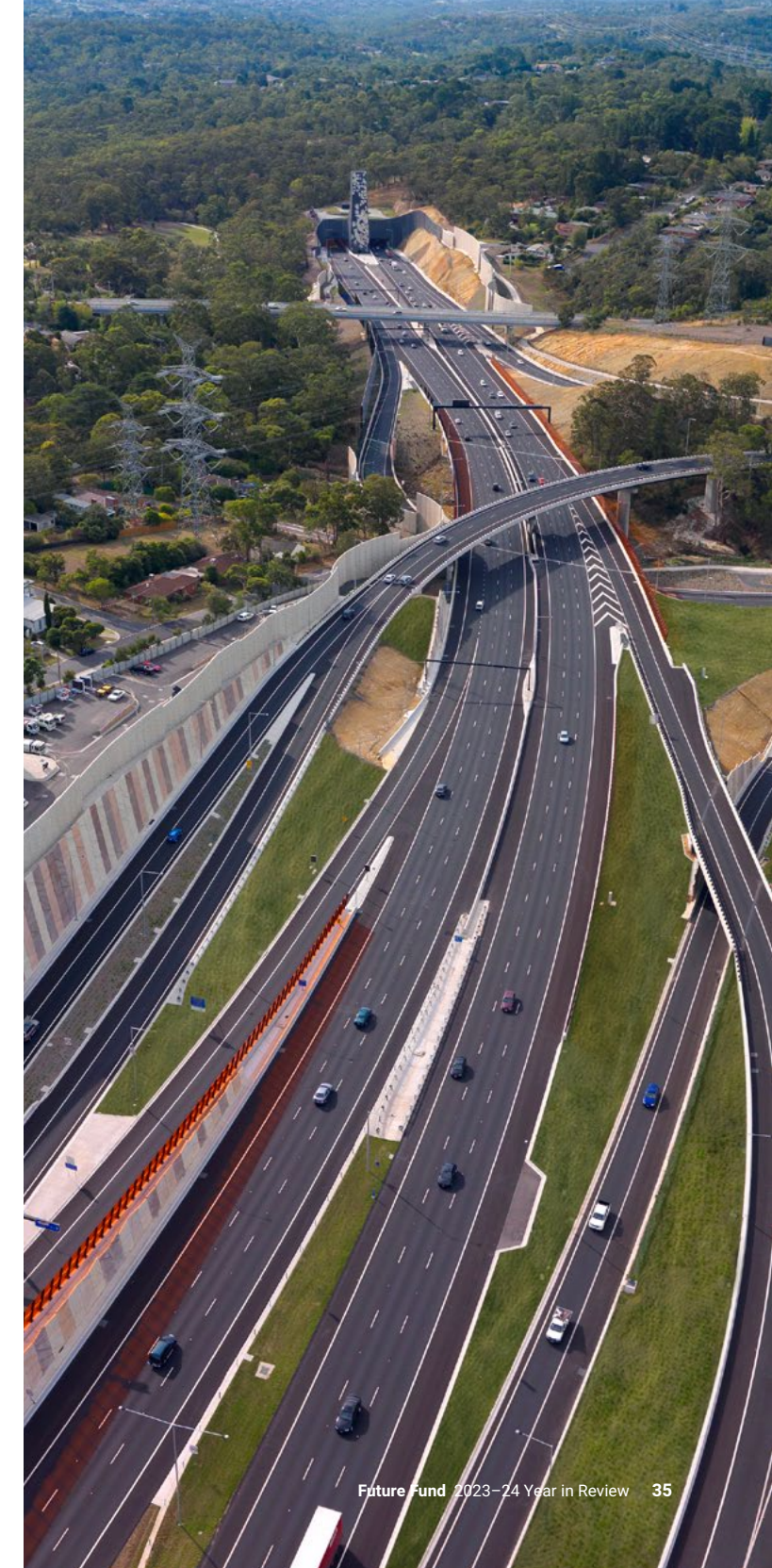
Tilt currently has seven operating wind farms with six more under construction or in development, as well as two operating solar farms. Tilt is also building a battery energy storage system in the Latrobe Valley in Victoria.

Tilt engages in the development and operation of electricity generation and storage assets across the National Electricity Market (NEM) and has 1.8 GW in operational and under-construction assets and 1.8 GW of late-stage development projects, in addition to other early-stage development opportunities across wind, solar and battery storage.

Variable renewable energy and storage is critical for reaching Australia's target of 82% of electricity from renewable sources by 2030. The Australian Energy Market Operation estimates that over 100 GW of grid-scale wind and solar and 45 GW of storage capacity need to be added to transition the NEM to net zero emissions by 2050. With a dedicated development team and pipeline of projects, Tilt expects to play a key role in delivering this transition.



Above: Tilt's Dundonnell Wind Farm in Victoria
Right: EastLink in Victoria



SHARING OUR INSIGHTS

We've had a busy year sharing our insights and perspectives across the industry.



In FY24 our people spoke at over 60 events in Australia and internationally, delivering keynotes at large public conferences, participating on panels at various industry forums, and engaging in more informal fireside chats.

“As Australia’s sovereign wealth fund and given our position as a successful long-term global investor, we believe we have a role in contributing our insights with a view to enriching debate and discussion on topics that are relevant and important to investors,” said Will Hetherington, Head of Corporate Affairs.

The Future Fund has worked with a joined-up whole-of-portfolio approach since inception, so it was fitting for CIO, Ben Samild, to contribute a chapter to a report published by the CAIA Association this year: *The Rise of Total Portfolio Approach*. The report provided a deep analysis of the total portfolio approach with regard to governance factors, culture, and competition for capital, amongst other things.



Raphael Arndt, Chief Executive Officer, and Genevieve Murray, Head of Listed Equities, speaking at events throughout the year.



Diagram 2: Geopolitical trends



This year we also published a new position paper – *Geopolitics: the Bedrock of the New Investment Order*. This is the third paper in a series, with the first – *A New Investment Order* – published in 2021 and the second – *The Death of Traditional Portfolio Construction?* – in December 2022.

Our geopolitics paper talks about geopolitics as a force that has direct and consequential impacts on macroeconomic and microeconomic drivers, policy choices, and financial markets. Considering recent conflicts between Russia-Ukraine and hostilities in the Middle East, as well as the evolving relationship between China and the US, geopolitics is a topic front-of-mind with today’s investors world-wide.

It also outlines four trends that we believe make geopolitics a more relevant frictional influence: changing trade dynamics, rising strategic competition, growing populism, and an increased risk of conflict.

All of our papers are designed to drive debate and discussion in the industry in order to enrich deliberations and decision-making in a more volatile and challenging world, and we have been pleased to see this happening at various industry events this year.

OUR INDIGENOUS STRATEGY

The Future Fund believes that by understanding, engaging and reconciling with First Nations peoples and their culture, we will be better able to contribute to building a more inclusive community.

The Agency's Indigenous Strategy directs our efforts to raise awareness and facilitate engagement. Work is conducted under three core pillars – promoting and celebrating culture, creating meaningful action, and holding critical conversations.

Reflecting our commitment in this area, activity undertaken as part of the strategy is broad and varied.

As a leading Australian institution, it is imperative that we continue to build strong partnerships with First Nations businesses, as this not only provides access to new capabilities, but also contributes directly to our organisational focus on diversity and inclusion and the benefits this brings to our organisation and investment program.

The Procurement Team has been instrumental in this strategy, promoting the use of First Nations suppliers across the Agency and facilitating these new relationships.



To build understanding and awareness amongst our people, we have hosted a range of events and experiences, including celebrating NAIDOC Week with a Mini Corroboree, hosting an Indigenous guest speaker during Reconciliation Week, holding a morning tea to showcase First Nations suppliers, and coordinating local Heritage Walks for staff.

Our Indigenous Strategy will continue to be shaped by the insights and guidance of the Agency's Indigenous Working Group, which is working closely with an external Indigenous Advisor on this journey.

ASSET CLASS SNAPSHOT – ALTERNATIVES

Alternatives is an asset class that helps the Future Fund achieve its overall portfolio objectives by delivering returns which are independent of how the broader market performs.



FY24 was a positive year for demonstrating the benefits of an active management approach, with the Alternatives portfolio generating strong "alpha" with minimal correlation to broader risk assets.

Our hedge fund managers were able to take advantage of increased dispersion between the monetary and fiscal policy decisions of different economies. The impact of divergent inflation and macroeconomic conditions between different companies and countries created opportunities across equities, rates, credit, currency and commodity markets.

The Alternatives portfolio represented 15.2% of the total portfolio in FY24, and remains positioned to benefit from increased volatility, or scenarios of market stress, which we believe is important in a world with a more uncertain outlook.

PORTFOLIO HOLDINGS DISCLOSURE WENT LIVE IN FY24

We now publicly disclose our investment holdings biannually for each of the seven funds we manage.

These periodic investment reports are available on our website under 'Investment – How we invest' and will be updated twice per year with information as at 31 December and 30 June.

This reporting furthers our transparency practices, which also includes our regular appearances at Senate Estimates, various public reports such as our Annual Report and Corporate Plan, and our quarterly performance updates.

The periodic investment reporting rules are broadly consistent with what is required of Australian superannuation funds in the *Corporations Amendment (Portfolio Holdings Disclosure) Regulations 2021*.



WE ARE FUTUREMINDED

The Future Fund operates in a very competitive and fast-paced environment with strong competition for quality talent.



Ensuring we have a well-understood point of difference has become more important as we continue to build out our organisation, recruit and retain quality talent, and strive to be an employer of choice.

This year we undertook work to develop and define our organisational employee value proposition (EVP). An EVP is the unique set of offerings and benefits that an organisation provides to its employees showcasing why it is a great place to work.

Captured as: *We are Futureminded* our EVP sums up who we are, how we work and how we think, and represents our values and the experience of working at Future Fund.

It consists of:

- The **material offerings** of working with us including financial remuneration, workplace flexibility, physical office space and technological support.
- The **development opportunities** we provide and encourage through speaking engagements, external courses, internal promotions, Board and committee opportunities and training via our internal Future Fund Academy.

- The **connection and community** we provide at the organisation which include various internal groups and external partner organisations to join and encourage a deeper sense of industry engagement and belonging.

- The **meaning and purpose** of our organisation which was established in 2006 and has remained unchanged ever since – investing for the benefit of future generations of Australians. This purpose is often why our people join us and why they choose to stay.

“We were delighted to be recognised in the 2024 Best Places to Work by the *Australian Financial Review* in June. This, combined with the feedback from our latest recruits and a pleasing retention figure of 91% for the year, all show we are on the right track with our EVP,” said Leila White, Head of Talent, Diversity and Employment Brand.

“We are now looking ahead to continue our recruitment drive, particularly in the Investment Team, and ensuring we remain an employer of choice for our industry.”

While the world continues to rapidly change, at the Future Fund we are optimistic about the opportunities that are available to us as a long-term investor.

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