



Opening statement

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

Additional Budget Estimates, 15 February 2022, Parliament House, Canberra

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

Earlier this month we reported on the performance and positioning of our funds to 31 December 2021.

The Future Fund performed strongly through the December quarter, delivering an annual return of 19.1% for the calendar year. Over 10 years the Fund has delivered a 10-year return of 10.8% pa against a target of 6.2% pa.

The Fund surpassed \$200bn for the first time and now stands at \$204bn. Investment returns have added over \$143bn to the \$60.5bn originally contributed by Government when the Fund was established in 2006.

The Future Fund's mandate is to target long-term returns while also focusing on taking acceptable, but not excessive risk.

The biggest challenge for long term investors at present is rising inflation, rising interest rates and the effect these will have on asset prices. We have come through a period of exceptional stimulation through monetary policy and the process to unwind these measures will have a significant impact on global markets.

In this environment, the portfolio continues to be positioned with a neutral risk setting and around the middle of the range we would normally expect. However, late last year we took some risk off, particularly in the listed equities program, given the run-up in prices and our view that risk is likely to be less well-rewarded in future.

Our work last year to analyse how the pandemic was accelerating changes in the investment landscape is proving valuable. We anticipate lower returns in the future. In response we are seeking out opportunities to access value from less liquid and more skill-based investments and working our relationships with partners to identify more focused opportunities both to secure returns and to manage risk.

I am also mindful of interest we receive on environmental, social and governance matters and how we think about excluding entities from the investment portfolio. ESG is an important issue for long-term investors like us. We have a solid framework in place that reflects our legislation, investment mandate and investment strategy.

Our approach is to build a broadly diversified portfolio but to exclude entities where Australia has ratified a treaty or convention that limits an activity. The Board also excludes

manufacturers of complete tobacco products. The Board and its investment managers also observe applicable sanctions.

More broadly, ESG is built into our manager selection and investment decision-making processes, as well as the exercise of our voting rights in companies we invest in.

In this way and through our broader investment strategy we remain focused on sustaining a portfolio that is as robust as possible to a range of scenarios, and one that balances our risk and return objectives.

The Medical Research Future Fund, the Aboriginal and Torres Strait Islander Land and Sea Future Fund, the DisabilityCare Australia Fund, the Future Drought Fund and the Emergency Response Fund continue to perform as intended.

In total across the six funds, the Future Fund Board of Guardians now invests over \$252bn for the benefit of future generations of Australians.

I welcome your questions.