




Insights from the Future Fund: The Case for Private Markets for Private Investors

In last week's Australian Financial Review, John Kehoe interviewed Peter Costello who shared some interesting insights into the Future Fund's perspectives in the article 'Private Equity is bad for 'mum and dads': Costello'. The Founder and Chairman of the Future Fund, Peter Costello, made some salient points on portfolio construction for the next decade. As a global private markets specialist, the team at Spire Capital wanted to share a response and perspectives on the article. Key points below (the full article is available [here](#)):



Private Equity is bad for 'mum and dads': Costello

Monday 6 September 2021
The Australian Financial Review | www.afr.com 

Chairman Peter Costello says the Future Fund is allocating more money to private equity and institutional investors are taking more share market companies private to avoid costly disclosure regulations and to deliver higher returns. The former federal treasurer says this trend will hurt the share portfolios of "mum and dad" retail investors.

"We think we'll have to allocate more into private than public markets because there will be more productivity and innovation there," he said. "A lot of the reason why private equity takes a public company private is that it doesn't have all the disclosure obligations."

"It (private markets) can restructure and wear short-term downturns easier because it's not having to continuously report and mark-to-market." Mr Costello, treasurer for 11 years in the Howard government and the founder of the Future Fund in 2006, said the institutional investor shift to private markets was a problem for "shareholder democracy" and a public policy question for government.

"How does your mum or dad get access to a private market? They can't," he said. "It's going to make things harder for mum and dad shareholders."

The Future Fund has increased its private equity exposure to \$34.5 billion or 17.5 per cent of its portfolio, more than the \$16.8 billion or 8.5 per cent allocated to listed Australian equities. The Future Fund has delivered an average annual return of 10.1 per cent over the past decade, including 22.2 per cent in the 2020-21 financial year when markets rallied after the COVID-19-slump. The Future Fund's return target is inflation plus 4-5 per cent a year over the long term.

The Future Fund's [Investment Philosophy](#)





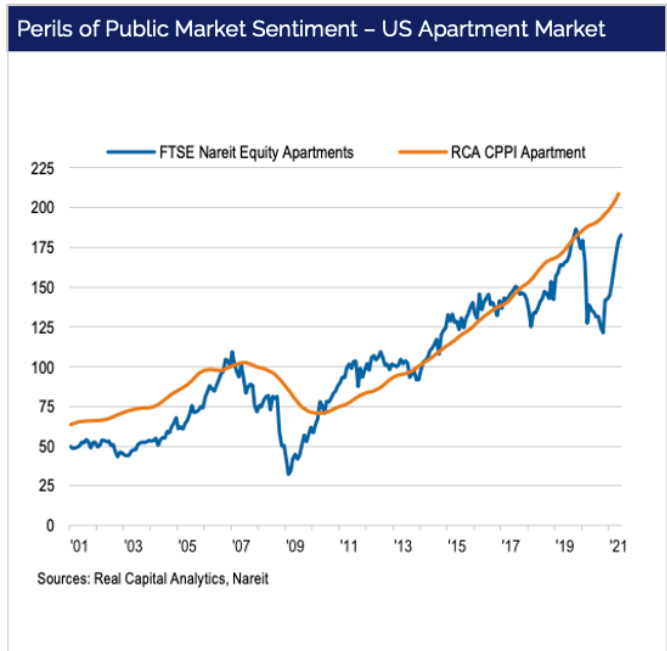
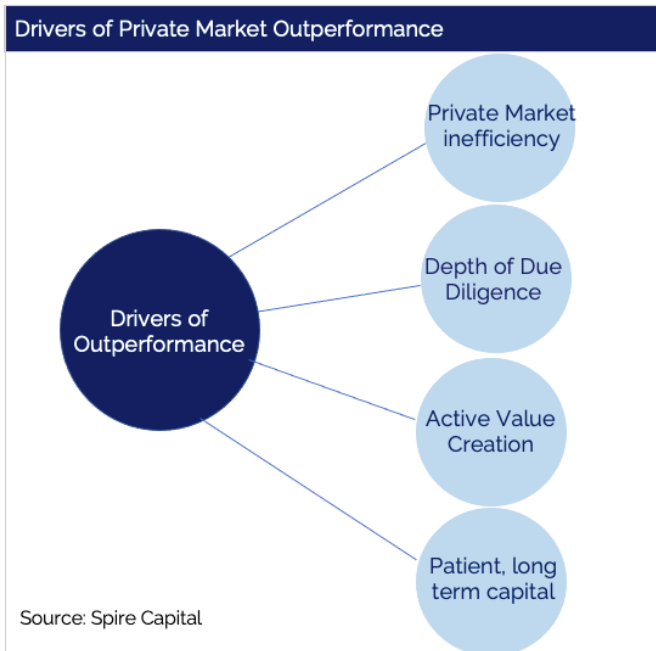
Spire Capital – Response and perspective

The article makes some excellent points in relation to private markets relative public markets, i.e.

- the additional productivity and innovation on offer in private markets
- the challenges associated with continuous disclosure requirements for public companies
- the heightened volatility in public markets owing to continuous mark-to-market
- the inability for retail investors to access quality private market opportunities

Whilst we concur with the sentiments above around the virtue of private markets as a diversifier from listed market sentiment and volatility, we believe the fundamental drivers of returns in private markets is a function of the following:

- **Market inefficiency can be exploited** - private markets are highly fragmented relative to public markets leading to opportunities for outsized returns for the best investment managers
- **Depth of due diligence** – access to company-specific information is far more comprehensive in the private markets providing a significant informational advantage for firms with the resources and access to utilise it
- **Active value creation at the asset level** - returns are created by accelerating earnings growth through an injection of capital and resources by the private equity sponsor
- **A patient approach** - private assets and companies can work toward 5 year business plans without being impacted by market sentiment and rigorous disclosure requirements associated with public markets (see Hamilton Lane's commentary on [why companies are staying private for longer](#))



The uncorrelated nature of private market returns, relative to listed markets, dissipates once private market investments become public and are impacted by market sentiment, as evidenced by the large drawdown in the listed US apartment market in 2020 (COVID-19) and 2008 (GFC). See chart above. From top to bottom, the drawdowns in listed market equivalents were typically 45% greater than the private market equivalent.





What about 'mum and dad' investors?

Spire Capital selectively searches global private markets in line with key investment themes. We conduct due diligence, create customised access vehicles and invest in the "sweetspot" of the chosen theme. As a firm, we have proudly been 'democratising' private markets for Australian private investors for over a decade. This means offering our clients and their advisors the opportunity to invest alongside us in customised feeder funds that have been optimised (tax structuring, cost, administration and reporting) for Australian investors. With as little as AUD 20,000 (underlying investments are normally USD10m minimum), local investors can complement traditional asset class exposures like listed equities/property and bonds with allocations to global private markets across real estate, private equity, venture capital, infrastructure, debt and agriculture. Opportunities are offered via funds, co-investments, secondaries and are integrated into portfolio administration and reporting systems including full tax reporting.

Looking Ahead

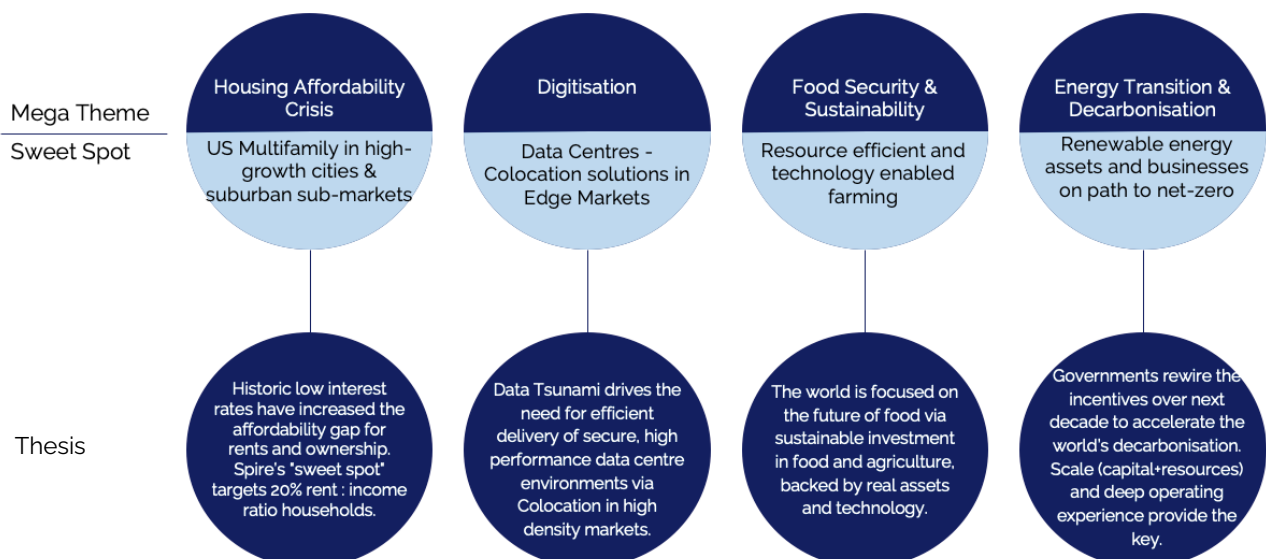
...Looking forward, Mr Costello said: "You can't expect to do anything like 10 per cent per annum over the next 10 years. Returns are just going to be much lower, and you're going to have to think carefully how to eke them out."

*The Future Fund has listed 10 "paradigm shifts" that are shaping the investment order: **deglobalisation; populism; technological breakthrough and disruption; demography; climate change; challenges to corporate earnings; a changed inflationary regime; fiscal-monetary co-ordination; change in fair values; and decline of sovereign bond duration in portfolio construction.***

Position Paper - [A New Investment Order](#) - Future Fund

As a private markets firm, we are excited for the future as we believe private markets have a structural advantage (relative to public markets) in accessing investments at the forefront of prevailing mega-trends. Looking forward, we are backing the mega themes and associated investment 'sweet-spots' outlined below. We are doing this in partnership with our world-class global investment managers and alongside clients.

If you are interested in gaining access to future deal flow, white papers and fund updates please [register here](#).



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About Spire Capital

Spire Capital is an independent, privately owned boutique investment firm founded in 2009. With in excess of AUD 1.35bn deployed on behalf of Australian mid-market investors, Spire is a global private markets specialist. We are focussed on highly differentiated private market strategies to optimise risk-adjusted returns for clients through the cycle. We've developed a broad private markets platform to enable Australian investors tax/cost efficient and simplified access to investments otherwise only accessible to large institutional investors.

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