

Future Generation
Investor Conference Call
September 2020

L Hello, I am Louise Walsh the CEO of the Future Generation Companies, Future Generation Australia, otherwise known as (ASX: FGX), and Future Generation Global, (ASX: FGG). Thank you for joining us today for the Future Generation Investor Conference Call and Webinar which is designed to update you on primarily our half year results. I am joined by Founder and Director Geoff Wilson AO who also chairs the Investment Committee of FGX and sits on the Investment Committee of FGG. We're also joined by L1 Capital Joint Managing Director and Chief Investment Officer Mark Landau. And L1 is one of our FGX fund managers. As well as joining us this afternoon is Munro Partners Founding Partner and Chief Investment Officer Nick Griffin. And Munro is one of our FGG fund managers. During this call we will provide you with an update on both FGX and FGG's half year results and the investment portfolio performance. Our pro bono fund managers will discuss their current views on the market and provide one of their stock picks or investment ideas as well. Throughout today's presentation which will be recorded all participants will be in a listen only mode. After the presentation there will be an opportunity to ask questions. Now I will start with a high level update on the results and also an update on shareholder engagement. So firstly just to remind people that the aim of these companies is to outperform both benchmarks with less volatility than the market and it's very pleasing that we have been doing that in all time periods since inception, and that was September 14 for FGX and September 15 for FGG. And obviously what we're doing here is we're providing our shareholders or our investments with that dual purpose, investment returns and social charitable returns. So what we're talking about here is a leading example of impact investing in Australia. So firstly just to cover off on the high level investment portfolio performance. For the six months FGX firstly had an outperformance of 3.3%. And during a volatile period for equity markets the All Ords index fell 10.4% while the FGX investment portfolio only

declined 7.1%. Interestingly enough in the twelve months to 30 June we had a very strong twelve months where FGX outperformed by 6.0%. And if we take a look at FGG the outperformance there for the six months was 4.7%. While the MSCI World Index fell 4.4% the FGG investment portfolio rose 0.3%. So we were in short very pleased with those performance results. We really believe that they speak for themselves. Having outperformed as I said in all time periods over the last six years for FGX and five years for FGG we're very happy with those numbers. If we take a look at the dividends as well from the half year results it was very pleasing indeed. We've had a dividend policy since inception that we always like to keep at least one to two years in reserve at the current level that we're paying dividends in case of a severe downturn like we have at present. And it's been pleasing that, been very pleasing in fact, that we have actually been able to increase both dividends. So taking firstly FGX, we announced a few weeks ago a 2.6 cents per share fully franked interim dividend, which is an increase of 8.3% on the prior corresponding period. The fully franked interim dividend represents an annualised fully franked full year dividend of 5.2 cents per share. And that dividend will be paid on 30 October 2020. The profit reserve as at 30 June was 8.6 cents per share. And obviously we have to take off that the dividend that we've paid and also the donation to charity which will also be paid in October as well. Now if we take a look at the dividends in relation to FGG a few weeks ago we announced it was pleasing, a two cents per share fully franked dividend. And that was in fact a 33.3% increase on the prior year. Future Generation Global held an estimated profit reserve of 6.8 cents per share as at 30 June, which represents in fact 3.4 years of dividend coverage. The increased dividend has been achieved through the profit reserve available and the sound risk adjusted returns of the investment portfolio during this unprecedented period of volatility for equity markets. And I'll just remind people that in relation to dividends of course FGG is more a capital growth stock than a dividend stock and that's because some of the fund managers involved in FGG of course are domiciled offshore so they're subject to different tax and legal structures to some of the fund managers like say a Magellan or a Munro that are headquartered here in Australia. We did actually have in fact a

50% increase in the distribution income from fund managers compared to the same period last year for FGG. Now if we take a look at the charitable side of the business I just want to touch on that very briefly. It's also been pleasing that we will be donating 10.5 million dollars this year to charity. So that's the one percent that's donated to charity due to the incredible generosity of our fund managers who are managing the money pro bono for us. And that 10.5 million is an increase on 9.5 million which was the donation we made the same period last year for 2019. So if you're a shareholder you may well have just completed the donation voting to have a say in where that donation of 10.5 million will go. I think it's particularly pleasing that you know the donation to charity since inception is a grand total of 41.2 million dollars. And what's also pleasing is that the fees foregone since inception by the fund managers and our service providers etcetera is 63.1 million dollars so there's a significant saving there to shareholders because those fees foregone greatly exceed the donation amount. I think in the past sometimes we may have spent a little bit too much time on the charitable side of the business and maybe historically we haven't actually stressed enough the downside protection and the defensive nature of the portfolio and we're certainly going to be doing more of that from here on in. So now I'd like to just conclude my update to talk a little bit about shareholder engagement and why this is particularly important to us. So this is our shareholder engagement strategy, our communication with shareholders, because it's particularly important at the moment because we're working hard to close those discounts to NTA that we currently have. We've certainly traded at premiums consistently in the past and we're very confident that we can get them back to NTA again. And what we've done is both Boards actually met together for a combined strategy session in January this year and we decided at that Board strategy session to significantly boost the resources, the team that's supporting me with Future Generation. Up until that time I was really the only paid employee of both companies and there was an incredible amount of support from our service providers to keep the costs of the companies down, particularly Wilson Asset Management who provided our finance support, our communications support and our operations support. But what we've done is we've boosted the team and we've added a

brand manager, a communications advisor, and a social impact manager to manage the charitable side of the business. And that's to help us tell the story better, to promote more buying, because very simply what you want to do in closing a discount is actually stop any selling that might be happening but importantly promote more buying, and that buying can happen from existing shareholders but also from potential shareholders. And just to give you a taste of the shareholder engagement strategy and what we're up to, there's a number of particular initiatives that we've introduced in the last month or two and there's more that we've got coming up. What we're doing is we're increasing our number of shareholder calls to update shareholders but also to seek feedback, we're increasing our number of investor calls like this one you're on now. We did an extra one for instance in April which John Coombe who's now on the Investment Committee of both companies. He's been on the Investment Committee of FGX and we've recently added him to the Investment Committee of FGG from the point of view of an asset allocator with his role at JANA Asset Management. We have converted our investment forums that we've held every six months where we handpicked top performing fund managers and asked each of them to present a stock pick or an investment idea we converted that into a virtual event in May. We actually had 40,000 views which is an incredible increase. We normally would get a 1,000 people listening to that event in a hotel in Sydney or Melbourne. But by converting that into a virtual event you know the audience has really gone through the ceiling which is great. We're now planning our next investment forum with some extra special additions to that line up which will be held in October so stay tuned for more details. We've also started a Podcast series that I'm doing with prominent Australians. And I've interviewed people like David Gonski, Joe Hockey, Anna Bligh, Christine Morgan who heads up the National Mental Health Commission. And tomorrow I am interviewing Peter Morgan the prominent ex-fund manager who's a private investor these days and I'm sure that'll be an interesting conversation with him. Now that Podcast series is very much about lifting the profile and the brand because what we're trying to do here again is create more awareness of the Future Generation Company and the fantastic model that it is. We've also introduced a new quarterly update for advisors out

there. We're doing more talks, more presentations, more media. Geoff Wilson and I recently did a talk on impact investing for the Australian Shareholders Association. I've just recently been profiled in Money Magazine. We're about to engage a PR agency for the first time to again help us lift that profile so that we attract more buyers which will help us in our quest to close the discounts even further. We're in the middle of a virtual roadshow at the moment of presentations for financial advisors and their clients. We've done over fifty meetings and we've still got more work to do on that. And we're about to embark on a new roadshow for family officers and philanthropic foundations in our quest to attract more of those to become shareholders. Now what's interesting on the discount front is that the discounts are closing. The discounts were 17% and 22% respectively for FGX and FGG at the end of June and I think we're around about 9% at the moment for FGX and 6% for FGG so they are coming down. I think we have a lot of experience with Geoff and the team at Wilson Asset Management and the Boards on closing those discounts. We're particularly focused on attracting new long term shareholders who are drawn to that dual purpose and see us as a leading example of impact investing. And just reminding us that you know this is a great deal for investors who are involved here. As I said the performance numbers are good. The investor is not paying any performance fees, and typically they might in the order of 15 to 16%, and instead of paying what typically is a management fee of just over 1% what we're doing here is donating 1% of the assets to charity. So look I think I will leave it there and what I'll do is hand it over now to Geoff Wilson to update you in more detail on the investment performance of both companies. Thanks Geoff.

G Look thanks very much Louise and thank you everyone all shareholders for dialling in because this is impossible without you. And also Mark and Nick from L1 and Munro respectively yourself and all the other funds managers as a Board member on both entities I can't thank you enough because your incredible generosity has made this a success. And Louise talked about the performance numbers and for both groups, this is the boutique Australian fund managers and the boutique global fund managers, and we've got eighteen

or nineteen managers in FGX in the Australian product and in FGG the global product twelve fund managers, and they've all performed incredibly well. The headline performance figures which you'll see, and their outperformance over every time period, and I know we're talking the period to June, even though we've announced the July figures so we you can see them on the website or on the ASX, but both funds outperformed the last six to twelve months by whether it's 3 to 6%. Now those performance figures are very good. And the reason why they are is because both Investment Committees, who sort of live or die by the selections in terms of the managers to manage this money, both of them have put together a group of managers that not only will perform better than the market but with less volatility. And you'll see there we talk about long only managers and market neutral managers or absolute bias managers and it's those other managers that could go to cash or may have some short positions in their portfolio that in volatile times give you protection. So what both Investment Committees are attempting to do is give the shareholder a portfolio that outperforms the market but with less risk or less volatility than the actual market. And it's very pleasing to see that both our companies are delivering that. Louise mentioned in terms of the few changes on Investment Committee. John Coombe who's talked about probably as the godfather of selecting fund managers in Australia and has very good overseas contacts, he was on the FGX Investment Committee and has also joined on the FGG. And Kirra Grant she was on the Board of FGG she's come on as Chairman of the FGG Investment Committee. So both Investment Committees are high class investment committees. And in terms of adding or subtracting managers there has been I think about eleven or twelve managers who have been taken out of these portfolios and another ten managers that have been added. And one of the flags we look at is change in style, a performance either underperformance or outperformance and trying to understand why that is the case, because all these managers are selected for a particular reason, and of course any personnel changes. And the Investment Committees they live or die by the selection of the managers and then therefore the performance of the managers. So even though the managers are doing it pro bono they understand that the Investment Committee is putting

together the best combination of managers. So that's pretty much what I'd like to add Louise and I'll pass it back to you thanks.

L Thank you very much Geoff. I'd now like to invite Mike Landau and Nick Griffin onto the call now and I might start first, I'll do this in a bit of in conversation type style, so I might begin with Mike first just for his view on the market at the moment. Thanks Mark.

M Thanks Louise and thanks very much for the opportunity to present and to be part of Future Generation. We're incredibly proud to be part of it and you and Geoff deserve a lot of congratulations from the shareholders and from the investment community generally for the work you guys are doing so thank you. In terms of the market I guess we called the market totally wrong back in January. We obviously weren't expecting a global pandemic and we suffered during that February March period. But I guess the one thing we did well was that we became very positive on markets and we increased our net long to around a hundred percent back in the middle of March when the market was right near its lows. For context we typically have around a sixty percent net long in our fund and we're now tracking just slightly above a hundred which is the highest level we've ever had in the six years since the fund's inception. The reason we became positive on the market, and I think most of these reasons continue to hold and it's why we've continued to retain a positive outlook on markets, is when the market had its huge sell off for the first time that I can remember since the depth of the GFC the valuations were incredible. There were stocks left right and centre that we thought had a hundred percent upside and that's obviously a very unusual backdrop. Investor positioning was as defensive and negative as we've ever seen it. You had really high short interest levels. You had record cash levels. You had investor panic. So a lot of the selling that you saw in the market was not fundamental it was based on redemptions or margin calls or ETF outflows, a lot of systematic selling which is huge quant funds that increase or decrease their market exposure based on market volatility. And obviously at the time when the market was crashing back in March volatility in the market was five times

higher than its normal levels and these quantitative strategies want to reduce market exposure during that time to maintain a static level of risk. And then you obviously had the biggest and most extreme in terms of size and timing of central bank stimulus that we've ever seen. Even bigger and faster than the GFC. Central banks did things that they've never before. Effectively they went in an indirect form into corporate bond markets to underpin what was an extreme period of disfunction in credit markets. And then subsequently in the last few months we've done an incredibly large amount of work on the prospects of a vaccine and we've been consistently saying that we think the likelihood of a safe and effective vaccine is much better than I guess the consensus opinion. I think incremental data points have been positive over the last few months. And surprisingly we think a lot of the COVID hit stocks are still not reflecting any improvement in likelihood of a vaccine and we think that represents by far the best risk reward that we can see in the market at the moment. So even though the market's had a good rally from its month lows we continue to be pretty constructive on the market. We expect volatility to remain elevated particularly in this interim period until we get some certainty on a vaccine. But we're incredibly excited by what we can see in terms of valuation upside at a stock and industry level.

L Great. Thanks so much for that Mark. And Nick how about you your view on the markets?

N Yeah thanks Louise. Yeah I'd agree with most of what Mark said. I think he's summed up pretty well the market backdrop. And I would doubly add that all those things that Mark talked about made it a very good period for active management. There was a lot as Mark talked about index selling which allowed us active managers I suppose to sort of pick our way through it. From my point of view the one thing that we would flag is that, a lot of people do struggle with this is they struggle with why the equity market doesn't perform like the economy, and I think in the COVID pandemic this is more so true than ever and I

thought I'd share that with your listeners, is ultimately you've got the situation where you have a health crisis and you have this unprecedented level of stimulus to deal with the health crisis that Mark just nicely detailed. But that stimulus is really to help everybody including the man on the street. Whereas in the equity market you're really not dealing with the whole economy you're dealing with the top 200 companies in Australia or you're dealing say the top 500 companies in the US. And when we look just at those top 500 companies in the US you have to go all the way through the top 100 to find just a handful that are probably net worse off because of COVID. They all have lower funding because of what the Fed's done. They have all this opportunity to take a lot of market share because they have the ability to use their balance sheet. And so ultimately this inequality in the world between big businesses and small businesses has been accelerated by COVID. The last thing we'd add there is that particularly technology businesses are seeing this huge pull forward of demand, whether that's e-commerce, whereby it took nearly twenty years for e-commerce to become 20% of retail sales in the US and its only taken five months for it to get to 27%. And so it is hard when people see a share price like Amazon at its all time highs, but it is actually quite logical because the reality is is that even though the retail sales pie has got smaller e-commerce's share has got bigger and Amazon is the biggest e-commerce player so their earnings go up so their share price goes up. And you see this all the way through the S&P500 and so even at the stock level you are seeing some good opportunities. The last thing I'd just say is this pull forward, and I do agree with Mark that a vaccine's a lot closer than you think, but this pull forward is probably permanent. And you know things like Zoom or things like e-commerce or things like healthcare advances are going to become a more permanent part of our life and so what you're seeing at the moment is you do see a little bit of exuberance in the market, but you also see the market trying to price in that pull forward of demand and I think it's doing a reasonably good job of it at the moment. And so from our point of view yeah we still remain constructive, the opportunities aren't as good as they were at the depths of March, but they are still there today, and yeah we still remain constructive on markets in the months and years ahead.

L Great. Thanks so much for that Nick. And Mark back to you. I mean just a little bit on your portfolio positioning in light of coronavirus. Is there anything you'd like to comment on there or tell us about?

M I think that there's probably four key themes that are probably the best summary of how we've positioned the portfolio. We obviously don't come it from a top down point of view we're bottom up stock pickers but if you had to sort of summarise how we're positioned there's definitely a view that the situation with COVID is going to be better in a year's time than it is today and that a lot of these COVID hit stocks, so whether it's travel stocks or casinos or shopping centres or oil stocks, they all are clear COVID losers I guess and to the extent that you get a vaccine or you get some improved treatment or outlook for COVID those stocks will be clear beneficiaries and many of them are trading fifty percent lower than where they were trading back in January. So the nice thing about maths is that means a one hundred percent upside if we're right. The second area would be what we call monopoly real assets. So these are typically monopoly infrastructure companies or broadband or rail lines, things that are incredibly defensive they're almost like a bond, but the difference from bonds which are basically giving you a zero return at the moment is that these stocks are giving you a six or seven or eight percent yield, and in many cases they're under geared as well. So stocks like Chorus, Atlas Arteria, Horizon, and I guess not as much anymore the yield's come down to around six or six and a half but a stock like HPI which is the pubs group in Queensland. The third area would be resource stocks that are trading at a cyclical low point. So as I said at the outset we're value and contrarian so iron ore is a sector that we're pretty wary of at the moment. We think it looks very topy and at risk of a bit of a retracement of iron ore prices as supply comes back. But on the other hand we're quite positive on the energy sector whether that's oil stocks or things like coking coal which is used for steel production. We think that coking coal prices are not sustainable because so much of the industry is loss making at current prices. So examples of stocks we like there

would be things like Oil Search, Teck Resources which is listed in the US and Canada, and Warrior Met Coal which is a really high quality US coking coal producer. And then I guess the last area just quickly would be restructures or conglomerates with catalysts which are companies where they've typically got a very undervalued share price based on an aggregation of assets. But there needs to be a catalyst to trigger a rerating of the valuation and we've seen that with Iluka which is one that we were heavily involved in agitating to get a demerger occur and that's been positive but we think we'll see similar stories with News Corporation and CK Hutchison and Vivendi over the next twelve months. So it's probably a long answer to a short question but hopefully that gives you a sense of how we're positioned.

L That was great. Thanks so much Mark. And really appreciate that. So with Nick how about you and any portfolio repositioning in light of COVID?

N Yes so look from our point of view, we are probably a bit different to Mark in the fact that we're global and we're growth investors, and so most of the repositioning we did back in March and it's done well for us and we think it's going to keep doing well. So basically our goal there as growth investors was to focus on areas that would be net better off because of COVID ie. you know COVID has accelerated their business model. And so from that point of view we really doubled down on things like e-commerce. So that would be Amazon and Alibaba are our two biggest positions in the fund and we just think what was happening already before the crisis goes faster because of the crisis and that's e-commerce penetration and Cloud computing penetration. And I think that's reasonably obvious for most people to see. Other areas we focussed on are things like Cloud computing, so software. And again we had these investments before the crisis and we really just doubled down on them. And so here you're looking at how important software's going to become in our lives and we can all see that with Zoom. But you can also see that with just Microsoft and Microsoft Teams or Salesforce.com or some smaller companies like ServiceNow or Atlassian here in Australia.

So those are some of the software companies we like. The one area that has got much bigger for us that I'll probably talk a bit more about in a second is healthcare. This is a health crisis it's not a financial crisis. It's going to be solved with vast amounts of money being put into testing, diagnostics and a vast amount of money being put into vaccine development. And so from our point of view as global investors we can find the beneficiaries of that and invest in those companies. And here there's companies like Thermo Fisher and Danaher again in the US I'm afraid. But really to take advantage of the money that's going to pile in ie they will be net better off in a post-COVID world. And look the last one is one I discussed at your forum last year, and again somewhat counter intuitively has been accelerated in a COVID world, and that is the acceleration towards green energy or the decarbonisation of the planet. I think I talked about it when I was there last year and we talked about the fact that decarbonisation's no longer an opinion anymore it's a corporate responsibility and that the companies are going to drive this change. And if anything quite strangely or I think surprisingly the COVID crisis normally when you have a recession you know you slow down expenditure on so-called social projects but if anything they look like they're going to get accelerated. And I think that people are now thinking about what's the next crisis that could befall planet and so from that point of view you've seen the European Green Deal come through where they want to be zero carbon by 2050. We think that's going to cost nearly seven trillion dollars. If Biden wins the US elections then you could see probably green moving to the top of the Democratic agenda. And from that point of view lastly the corporates are going to make sure this happens anyway. And so from our point of view that's investments in renewable energy, wind OEMs, and even building materials companies that specialise in insulation or packaging companies and recycling companies. Those are sort of the four big areas that we've been focussed on since the lows and still are today.

L Great. Well thank you. Now I might come back to Mark now and this is really the final segment for the two of you, which is a bit of favourite of mine and I know a lot of our

listeners and investors will be keen on this too. We're interested in a stock pick or an investment idea from both of you. So maybe we'll start with Mark. Thank you.

M Well typically across our fund most of our positions are in large cap stocks but I thought to make it a bit more exciting I might pick a small cap one for today. And the stock is IMDEX. The ticker in Australia is IMD. And they're the global leader in exploration drilling technology for the mining sector. The vast majority of their exposure is to gold. So obviously with an elevated gold price you'd expect to see a delayed reaction but you'd see an acceleration in gold drilling and we think that the market is not appreciating just how much activity you're going to see particularly over the next twelve months but more so over the next three to five years. Eighty percent of their business is exposed to gold, copper and iron ore and all of those we think have a very attractive outlook in terms of both exploration and production drilling. The company is a genuine global leader. It's made an absolutely enormous investment in R&D over the last five years to the point where it spent roughly thirty to forty percent of its annual profit reinvested in R&D and unlike most technology companies it fully expends its R&D so there's none of it that's capitalised and effectively hidden from the P&L. The company's averaged about twenty-seven percent EBITR growth per annum over the last three years and that's despite a very weak backdrop for exploration drilling which is the main exposure in the business. You've got a fantastic management team. Really conservative balance sheet with no debt and net cash. And you've got the best product line-up that we've seen in the history of the company. So they're launching four major new products over the next two years. We've spoken with more than twenty mining companies globally, a lot of drilling companies, competitors to understand exactly what the outlook for IMDEX products and the prospects for the business more generally and the feedback is consistently extremely positive. We've never had such consistently strong feedback about the outlook for a new set of product launches and customers biggest frustration is that they want the products now and IMDEX is struggling to keep up with demand. So I think what you're going to see is both a cyclical and structural tailwind. The shares are trading about ten

percent lower than where they were trading back in January just because of the market sell off but if anything the outlook for gold drilling is even more attractive than it was back in January so that would be our top small cap stock pick.

L Thanks very much Mark and you did take me by surprise there because it's true you normally give us a large cap. So thank you, that was good, good for a change to have a small cap so thank you. And Nick a stock pick idea from you? Thank you.

N Yeah thanks Louise. So look I will give a large cap. But I normally I would do a small cap so we'll just reverse roles for a second. But look from our point of view we're global investors and so the company I'm going to talk about is Thermo Fisher in the US. So I mentioned earlier around healthcare. It is readily obvious that vast dollars will be pushed into the healthcare market, be it on drug discovery, be it on testing, be it on vaccine capacity, etcetera. And so from that point of view Thermo Fisher really is sort of your ultimate weapons manufacturer in this war or the ultimate shovel in the boom. It is a conglomerate life sciences company listed in the United States and has a market cap of around a one hundred and forty billion dollars. And from our point of view if you look across there have been instances whether it's in life sciences equipment or diagnostics or in production of the vaccine they really do benefit in every possible level and so to give you a simple idea of how they benefit if you do get a COVID test done here in Victoria for instance it costs roughly twenty-five dollars. Thermo Fisher has nearly fifty percent of that capacity. And you know we've done more than two million tests in Victoria alone and so. So we expect their revenues to grow an extra seven billion dollars this year from COVID testing alone, which will be an extra thirty percent. And then on top of that they still have the vaccine growth to come as the testing comes off. And then on top of that they'll have the spending that will come as we prepare for the next crisis. And so they really are the partner of choice for most countries in the world when they look at this. And so from that point of view you get all of that for roughly twenty-five times forward earnings today and we'd expect EPS growth in the

double digit high double digits for at least the next five years. And so from that point of view it's a fairly safe and stable place to put your money and the tailwind I think is fairly clear. And so that's why we like it and we think it's a good one for your listeners.

L Thank you Nick for that. And again thank you to both of you. As Geoff said earlier I mean we can't thank you enough and your teams for your generosity for being involved in Future Generation and giving up your time and doing calls like this one and being part of our roadshow. I know you've done presentations to advisers with Geoff and myself and our head of operations and we truly are indebted to you because we wouldn't be here and this model would not be possible without your generosity so thank you again. Now if you or someone you know would like to sign up to our monthly Future Generation newsletter slide seventeen in the deck has the details or alternatively please jump on our website where you can subscribe from there. Now I'd like to pass to Alex Hopper Irwin the Future Generation Brand Manager now to open up the call to questions. It's always the most interesting part of the call I always think. We've got myself, Geoff, Mark and Nick of course here to answer any questions you may have, and we'll endeavour to answer as many as we can in the time provided, and we certainly won't be going beyond three o'clock, but if we do run out of time we'll contact you after the call. So thank you Alex.

A Thanks Louise. So what we'll do is we'll answer a few of the Webinar questions first and then we'll open up to those of you who have dialled in. So Geoff the first question is for you from Andrew Peters. He'd like if you could give us an indication of the overall cash exposure across FGX and FGG as he assumes many of the underlying fund managers are holding a higher than normal cash allocation.

G Look thanks Andrew for the question. The interesting thing is I wouldn't necessarily assume the fund managers are holding higher cash allocations. And just with FGG you see on the slide nine and ten you'll see that there's a fraction, at the corporate level, a fraction

over eleven percent cash. On the June 30 numbers for FGG it looks like the see through cash adds nearly another eight percent. So we're just a little below that twenty percent in total. With FGX at the corporate level there's less cash, the seven and a bit percent. And the see through looking at the various managers our best guesstimate would be a little over fifteen percent cash. You've got to remember with FGX as well we've actually got market neutral managers. You know the Firetrail, the Bennelong Long Short and Watermark. So that makes up about another ten percent. So in theory their performance shouldn't be correlated to the market. They're the guys that start with a hundred dollars, buy a hundred dollars' worth of stock, shorts a hundred dollars' worth of stock and keeps a hundred dollars in cash. So if the stocks they buy go up and the stocks they sell go down then they give you performance with no correlation to the market. Obviously the negative is you're taking double risk because if the stocks they buy go down and the stocks they sell go up then there's more leverage there. But that's where they are. I mean at Wilson Asset Management, just to give you an idea, when in March our largest fund WAM Capital which is about 1.3 bill mainly mids and smalls, when it was clear that the coronavirus was spreading globally, was it the third weekend in March, then obviously it was clear that there was going to be a major impact on global economies. And so we had to work out how we repositioned the portfolio because we had it positioned for a certain growth outlook and that was going to change significantly. And we actually in the process of doing that and that obviously always take a little bit of time we moved to forty-three percent cash at the peak. And then we've run that down. And that's around about fourteen percent cash at the moment. So that just gives you a bit of an idea.

A Thank you Geoff. And the second question is for Mark from John Boardman and he would like to know if the L1 fund will be paying dividends anytime soon.

M It's hard for me to speak on behalf of the Board but I've heard Andrew Larker the Chair of LSF previously communicate that he's very keen and the rest of the Board is very

keen to see dividends commence. Obviously they want to do that in a tax effective way so they're looking to build up franking credits and retain the profit reserve in order to distribute that in a tax effective way to shareholders. You should expect that over time we will be a dividend paying stock but as of the August result that wasn't possible.

A Thank you Mark. And Geoff we've got another question for you from Sam Brindell. So he's asked if we've ever considered introducing a wind-up mechanism along the same lines as the one WAM has proposed for Blue Sky to close the current discount. And then Nigel Grainger has asked or if we've considered a share buyback.

G Okay look both good questions. Just in terms of the situation with Blue Sky. They had a listed investment company Blue Sky Alternates which is going out for a vote on the 8th of September, which Wilson Asset Management, the plan is assuming shareholders vote for it which we think they will, it'll become WAM Alternate Asset Fund. And we hadn't managed Alternate Asset before. We've built a team to do that. So when we put our proposal in a couple of years ago to take over the management of that we were competing with another person that had a performance fee. We didn't think that was fair. So we put in a proposal, a lower management fee than them and no performance fee. And we also said look we believe we can do a great job and get it back to NTA if not at premium etcetera etcetera, but if we don't you know the first five year period at the end of the five years we'll let shareholders decide if we've done a good job or not. So that's sort of a one off. And then the other question is about share buybacks. My observation is share buybacks tend not work. I know logically if the company's buying a dollar of assets for eighty cents then if it buys ten percent of the company then the asset value increases by two percent effectively at no cost but psychologically investors don't like it. And investors think the fund manager can't find good opportunities. And all the studies we've done is your discount disappears a little bit in the first little period of the buyback and then the actual discount increases. People tend to want to be associated with companies growing, performing, etcetera. So I'm not a

big believer in buybacks. Even though back with WAX, which is now trading at like a thirty odd percent premium to NTA one of our listed investment companies, it took us seven years to get that to NTA, and in the early days it was trading at a thirty-five to forty percent discount back in the early 2000s. We did buyback thirty-five percent of the capital in the early days. So I'm not sure if that was the right decision or wrong decision. But that's sort of my view on buybacks. And you've got to remember these are listed investment companies and to me one of the holy grails of listed investment companies, besides a lot of other factors, is the fact that you can buy a dollar of assets for eighty cents or ninety cents, and at various points in time that dollar of assets can be worth a dollar ten dollar twenty. So sort of everyone knows that when they come in there and to me to actually take that opportunity away from someone is to me it's sort of illogical from a Board's perspective. Aren't you better off allowing people to get that opportunity. And you find that the market is reasonably efficient over time. And the good managers continue to grow and survive. And the ones that can't deliver the results they end up changing the structure. And if you think of 2003-04 I think there was in a short period of time there was twenty-plus LICs raised money I think in a eight month period. And now there'd be, I think a number of them have used various mechanisms turned into trusts or something like that, but there's probably only half of them still around and so yeah there is a bit of natural selection. To me FGX and FGG, so you could have this conversation we could have had this two months ago when Louise was saying they were trading at significantly bigger discounts, but for the people that do their research and do some analysis and understand that things trade at premiums and discounts and FGC and FGG have traded at seven and ten percent premiums. So from my perspective you've got exposure to the best boutique fund managers in Australia. You're not paying performance fees because they're donating everything back their management fees and performance fees. To me there should be a better premium on these two vehicles. Now because the markets impacted by supply and demand at various points in time there's more supply, less demand, it goes to a discount, other points in time there's more demand and less supply it goes to a premium. And even with their short lives with FGX and FGG we've seen both

premiums and discounts. So to me to take that opportunity away from someone to me is sort of a little bit illogical. So sorry I think I got on my high horse there a little bit but that's my view. Thanks Alex.

A Thank you Geoff. And the next question is for Nick from Geoffrey Barker. Have US tech stocks distorted the underlying status of the US market which points to potentially serious volatility in the future?

N So the answer is well yes tech stocks make up a lot of the US market and this comes back to my point that the equity market is not necessarily the economy particularly in the US. These US tech stocks it's important to recognise they win across borders so they win for the world. Google is a search engine for the world. Microsoft is the software player for the world. Salesforce is the CRM for the world. Facebook is the social network for the world. So they are taking meaningful share outside of their county and that meaningful share is likely to continue in fact if anything accelerate in the post-COVID world. So they have performed well. I would argue there's nothing there today that actually doesn't make intuitive sense to me. And I recognise there has been some stocks that have done very well, but if you think about it a lot of these trends were in place pre-crisis ie. all of these companies were winning and taking share pre-crisis. The crisis has happened and all it's done is accelerated their ability to take share and so the performance of these stocks has accelerated. I understand that that can look a bit scary and that can lead to volatility in the future, and I suspect that's probably going to be true, there will be some volatility. But I don't think these trends will change. The trends have been there for a while. They're now accelerated. I think if Mark's right and a vaccine comes along it may go back a little bit in the short term but over the medium term these trends are here to stay and ultimately I think these companies make up good parts of anyone's portfolio. The last thing I'd say particularly the big ones the really big ones are just really not that expensive. They don't trade at excessive multiples anything like what they would have traded in 1999. And they all have

fortress balance sheets. So their real risk is regulation and I'm sure that question is going to come. But at least the trends as we see intuitively make sense to us today and we suspect they'll continue.

A Thank you Nick. And a question for Mark from Steven Langford. What evidence do you have that a vaccine which actually provides immunity will be widely available or that travel and the close association of people will occur. He also said with markets having run so hard and huge PEs is there still room for growth.

M I guess in terms of the likelihood of a vaccine working I think what's interesting to us is that, and we've done probably more work on the vaccine than any other topic in the history of L1, so we've done more than a hundred meetings specially on COVID, and we've done more than thirty with the people who matter globally in terms of a vaccine. So that could be the CEO or the Chief Scientific Officer or the Head of R&D or the Head of Operations for all of the major Western and Chinese groups. So Pfizer and Moderna and AstraZeneca as well as companies like Sinovac and CanSino. So I feel like we've done as much work as we can possibly do and we also have a medical doctor who was born in China who covers the space. So we're very lucky that we're in a position where we think we've got a genuine sort of information advantage to help us understand the science. And the reason we're more positive is because you've got so many shots on goal. Now we don't know which of these vaccines is ultimately going to prove successful, but the fact that you've got well over a hundred different companies working on it, you've got nine different companies that are all very close to the end of their trials so they're all in phase three trials. And you're like to get what we think will be an emergency use authorisation which is effectively a lower hurdle than a full authorisation to distribute to the mass market. We think that emergency use authorisation is likely to come through in October. The reason we're confident on that is because if you look at the safety data across all of the various vaccines in phase three trials they've all had excellent safety data. Not one of them has had serious safety issues that

would cause a likelihood of not getting what they call EUA an emergency use authorisation. Secondly the efficacy data has been outstanding. So in all cases you've had neutralising antibodies which are at the same level or higher than a recovered COVID patient so the immune response of someone who's actually recovered from getting COVID you're getting exactly the same neutralising antibodies. So importantly this is not just a generic type of antibody it is exactly the type of antibody that kills the virus and helps you get better if you happen to get infected. The other thing I'd say is that you've never had a time in history where you've had so many global resources all united and determined to get a cure as fast as possible. So it's not just big pharma and biotechs it's regulators like the FDA, it's government like the US government that's allocated more than eight billion US to Operation Warp Speed which has basically fund advanced manufacturing of these vaccines. So if we do get an approval from a company like AstraZeneca they're going to have four hundred million doses available by the end of the year. If it's Pfizer they've committed to around a hundred million doses. And then you've got massive amounts of capacity coming online in 2021. So AstraZeneca has at least two billion doses already confirmed, Pfizer has 1.3 billion doses, Moderna will have at least five hundred million, and the list goes on, whether it's Novavax, Inovio and there's a bunch of other companies as well. So I think obviously it's not a certainty but we feel like if you look at the share prices of travel stocks or energy stocks or casinos they're all trading thirty to fifty percent below where they were in January and they haven't really rallied that much. So we think that the odds you're getting I guess from a probability point of view are incredibly attractive at the moment. I'm happy to chat offline if anyone wants more details on the research we've done or our thoughts on the vaccine but in the interests of time I might pause it there.

A Thank you Mark. Now I'm going to pass over to Nash the conference call organiser to explain how to ask your question if you've dialled in. Thank you Nash.

N Thank you. If you would like to ask a question please signal by pressing star one on your telephone keypad. If you are using a speaker phone please make sure your mute function is turned off to allow your signal to reach our equipment. Again press star one to ask a question. We'll pause for just a moment to allow everyone an opportunity to signal for questions.

G Alex are there any other questions from the online guys? Or we're just waiting for the star one?

A This is only the star one.

N There is no question from the audio line. I will pass it over to you Louise. If you want to take a question from the web?

A Thank you Nash. We actually have another question from Simon McKean and he would like to know with Australia today entering its worse recession in history how much does the RBA and Fed underpin the strength of long equity index positions. And he hasn't assigned that to anyone so maybe Mark or Nick if you'd like to take that.

N I can go first if you like. The answer is a fair bit. So yes I mean there are two things at play here. One is the ability for the companies to grow their earnings. And the second thing is the discount rate that you discount that at. And the RBA and the Fed have indicated that they're going to keep interest rates low for a very long time. In Australia I think they've made the statement of three years. And in the US they've said that they will not increase until inflation's running above target. And both of those things are designed to create confidence for people to invest, which will hopefully drive growth and drive earnings growth but secondly it will also mean that it's reducing the alternatives that you as a retail investor has to invest in. And so the other simple way to think about this is the earnings yield. So

say the US market was trading at a PE of roughly twenty, which it is it's actually slightly above that, then one divided by twenty is the earnings yield of the market, which is five percent, assuming the earnings estimates are right. And the US ten year sovereign bond rate is sixty-six bases points. And so even though equities have gone up a lot if we take that five percent and we subtract sixty-six bases points you're getting a carry of over four percent for owning US equities and that would actually make them nearly as cheap as they've ever been over the last twenty years versus bonds. And so there's two ways that equation finishes. One either we've got the earnings wrong, which we don't think we do now because COVID's fairly well understood. And if anything I agree with Mark it probably gets better from here this time next year. Or the second thing is the bonds go up a lot and the thing that's holding the bonds down is the Fed and the RBA. So that is creating a supportive environment for equities full stop. And our job is take advantage of that supportive environment and find some companies that are going to grow earnings within that and provide good investments and that's what we're doing. I'll stop there and see if Mark's got any comments.

M I think Nick touched on the key points. The only thing I'd add is essentially the central bank activity has forced people into equities. That you now essentially can't get an adequate return in cash or bonds. And for most people whether it's a six or eight percent type return for a typical retail investor and even fee endowment funds and pension funds they're essentially getting forced into equities. And we think that rather than get consumer price inflation you're getting asset inflation from the actions of central banks. And I think it is an intended consequence, they do want asset prices to rise to provide some ammunition for people to spend and to have more confidence in the economy. And then at a government level obviously if you think about a government the top priority is getting re-elected and the most important thing at the moment is jobs and making sure that we're not in a depression. No-one's really talking about deficits or how much a government is spending on Jobkeeper. People are more concerned about downside risk to employment and small business. So I

think sort of standing back and thinking about the incentives and alignment of governments and central banks will give you a good sense of why it's a safer place to invest at the moment in the stock market than people might realise at face value.

L Okay. Well thanks again for everyone for dialling in and a special thank you to our pro bono fund managers Mark and Nick for joining us and so many valuable insights from you both so we're indebted. The recording of the call will be available on our website shortly and just also if any of you would like a presentation to your investor group or your club or equivalent via Zoom on Future Generation, on the world of impact investing and/or anything to do with charitable giving or philanthropy please email us at info@futuregeninvest.com.au. No matter how small or large the group is we'd be very happy to talk to them over the coming months. Please stay tuned as I said earlier for our next virtual investment forum next month and details will be available shortly and also look out for that next Podcast I'm about to do with Peter Morgan. So in concluding please stay safe and well. And don't hesitate to email us on info@futuregeninvest.com.au if you have any further questions, comments or feedback. Good afternoon and thank you.