

## Future Generation: Insights from the Investment Committee

Caroline Gurney and John Coombe

Navigating market cycles | 25 March 2022

**CAROLINE GURNEY:** Welcome to another instalment of insights from the Investment Committee. This is where we're trying to make sure that you as our shareholders get to know more about the companies that you invest in. Today I'm speaking to John Coombe, who's the Executive Director of JANA Investment Advisers, and he advises some of Australia's biggest super funds and is an expert in this field. He's on the Investment Committee for both Future Generation Australia (ASX: FGX) and Future Generation Global (ASX: FGG). And so we thought he is the best person this time around, although you may have seen him on a video before, to talk to about what's happening in the portfolio at the moment. John, you are a shareholder in both Future Generation Global and Future Generation Australia. The question is, why did you choose to invest in these companies?

**JOHN COOMBE:** I run my own self-managed superannuation account. And I had been a sophisticated investor as you can imagine, and filling in all the paperwork associated with getting set up with fund managers that I knew and wanted to have in my portfolio was really super annoying, to be blunt. It was so easy just to get my financial adviser to buy me FGG and FGX. And so they sit as proud parts of my portfolio and I reinvest all my dividends and love it. It's a fantastic investment for me.

**CAROLINE GURNEY:** Tell us very briefly the social impact story as you see it. Why is that such an added differentiator for us?

**JOHN COOMBE:** For me personally I give a lot of money away to youth initiatives, and so that was one of the real draw cards for me. When I was asked by Geoff to come on the Investment Committee I was rapt because personally mental health, youth mental health, the crisis that we're seeing in the country at the moment, it's fundamental. I was talking to a friend on the weekend about this, and it's just touching everyone's lives. Kids we know personally who are going through really difficult times because of COVID and the lockdowns and lockouts of school etcetera. It's a passion. And I love it. And I applaud everyone who thought of the idea and have made it happen over the last decade. It's fantastic.

**CAROLINE GURNEY:** Tell me about the investment styles and how do you see the actual diversification of the companies?

**JOHN COOMBE:** We have a real mix in the portfolio. And that was a deliberate thing and I'll give Geoff Wilson his due here. So when Geoff set it up he didn't want just long only managers, he wanted to have a mix of managers so we have absolute, long shorts, and maybe you need me to explain those a bit later.

**CAROLINE GURNEY:** We'll definitely be coming to that.

**JOHN COOMBE:** Basically we have this mix. Why do we have the mix? Because we want to dampen particularly in down markets, the return to our investors. And that's another thing as an investor in the fund I love. I know when we have bad months like January and probably February, then you can see that we protect on the downside which is really good.

**CAROLINE GURNEY:** So because you're actually on the Investment Committee for Future Generation Australia and Future Generation Global, how do you actually decide as a committee what percentage of the money that we have in the companies to invest with these different styles that navigate these different sort of cycles of the market?

**JOHN COOMBE:** So we sat down and we've established broad guidelines. So much in market neutral, so much in absolute returns, so much in long short, so much in long only. And that is our guiderails around which we can put the managers. And then we look for a suite of managers in each of those buckets, because we don't want to have all in our long only, we don't want to have all value managers, we don't want to have all growth managers, we want to have a mix. In our absolute manager styles we might want an active manager, we might want someone who's a little bit more quantitative. So it's all about just making certain that we've got a very robust portfolio in every market condition. But the overriding concern is that we protect in down markets. We really want to protect investors in down markets.

**CAROLINE GURNEY:** We have a number of fund managers in FGX. Why do we have so many?

**JOHN COOMBE:** Sometimes it's just because we can only get a certain amount of money with some of the managers we really like. We've got some managers who are fantastic, and if we could we'd load up on them, but through their generosity, they've given us certain amounts of money that they're happy to take from us. Now a lot of those managers have closed investments. They have very small amounts of funds under management, like \$200 to \$300 million, and to give us a little of that into our portfolio is fantastic of them. But we can't take more is the answer. But we do try and get as much exposure to the ones we really like as we possibly can.

**CAROLINE GURNEY:** Future Generation Australia's performance has been really solid. I mean I think it's performing, personally.

**JOHN COOMBE:** Absolutely beautifully.

**CAROLINE GURNEY:** Explain to us the underlying performance comparing to its share price? How does a LIC trade at a discount?

**JOHN COOMBE:** This is where it comes down to market forces and in terms of number of buyers, number of sellers. So with listed investment companies what you often see is if there's not a buying pressure the company share price will just lag out of lack of interest, right. It's not because the underlying investment's not going well, it's just a lack of market interest. And so that's part of the reason why you guys and Marty go around and talk to the underlying financial planners, is to try and keep the volume of trading going into the stock because that's how you narrow the discount. More buyers narrow that discount, because they're willing to pay up on the share price. It's a shame that people don't look at the underlying valuation and go, gee it's trading at a discount, I should buy some more because it's trading at a discount.

**CAROLINE GURNEY:** Tell us, FGG. What is happening there? I mean we have a number of managers in there that are in the news on a regular basis. Some positive, some not so positive.

**JOHN COOMBE:** Yes.

**CAROLINE GURNEY:** What are you seeing there as a member of the Investment Committee for Future Generation Global? What's your view in terms of what should shareholders be thinking about in the long term?

**JOHN COOMBE:** Caroline I want to assure our shareholders we've been meeting lots and lots of times over the issues with the underlying managers and we've had lots of meetings in the last two months concerning the performance of some of our underlying managers. We are actively looking at the weights. We actively adjust those weights if we think there's a reason why we should. And we are constantly re-assessing each of the managers within the line-up. We've had problems at the absolute manager level, but we've also had some underperformance at the long only as well. So it's not just one particular style of manager that's impacted the relative performance. But let me just say, when I look at the longer term because we shouldn't get hung up on short term numbers, and we as an Investment Committee try not to do that. We try to look through, try to look at the managers' styles etcetera and understand the market conditions to look through. We've just got to be patient. We've got to hold our nerve. But that doesn't mean we don't re-assess and look at it. The other great thing is what I talked about before Caroline, we're still going to pump out a dividend, two dividends in the year. I think that's really novel.

**CAROLINE GURNEY:** And 200.0% up.

**JOHN COOMBE:** I really think that's novel for a LIC to be basically ensuring that we're paying out to the underlying investors.

**CAROLINE GURNEY:** I think also what many shareholders know and what we love, the fund managers work for us pro bono. There's no management fees. There's no performance fees. And we give 1.0% to create a really important social impact.

**JOHN COOMBE:** Yeah but they still are delivering and if they weren't delivering it wouldn't matter. They've still got to deliver to us, the shareholder, and a return above the Index. Because that's what we're here for. We're here to grow people's wealth over the medium longer term. So I think they're doing a great job. We just every now and again, you know, you hit a speed bump and you've just got to re-assess.

CAROLINE GURNEY: Thank you John. Thanks for your time.

JOHN COOMBE: Pleasure. Thank you.

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