Future Generation
INVESTMENT & SOCIAL RETURNS

Future Generation Q&A Webinar
Tuesday 26 April 2022

CAROLINE GURNEY: My name is Caroline Gurney. I am the CEO of Future Generation and I'm delighted to welcome you and our Guest Speakers. We have Bill, Mark and Eamonn talking to you today. I just wanted to start with a short update on Future Generation and then going through to our guest speakers and then finishing with a Q&A. What is really exciting to tell you about today is that we're actually going to be going across the country to nine cities and hopefully we're going to be meeting all of our Shareholders or as many as possible in May and we're calling it Future Generation LIVE, and there you're going to hear more from some of our pro bono fund managers and our charity partners, so please visit our website to register your attendance. Excitingly, we also launched our new podcast series and it's called *Twofold: Investing for Impact,* and I'm going to be speaking to leaders each month about their two driving purposes in life, so subscribe and listen to the podcasts on your favourite podcast platform. My first episode was with Natasha Stott Despoja AO and I found it really interesting to talk to her on gender parity and the pace of change for women at the moment in Australia in politics which is pretty apt with what we're going through at the moment. Our Expressions of Interest (EOI), the process for Future Generation Global (ASX: FGG) received overwhelming two hundred applications to partner with us to actually position those charities for the future, even more than they are already doing with the work. As you all know, we really believe that young Australians have a very brilliant future in which they actually drive their own wellbeing and in future, mental health is going to increasingly focus on optimising wellbeing rather than treating only the illness. We are seeing this as a chance for considerable change to happen in the wellbeing and prevention space where initiatives that we fund alongside you will aim to build young people's resilience and stop mental health issues developing in the very first instance. As an investment manager, we identify undervalued companies and invest to realise growth, so we're bringing this approach again to our social investment where we will be backing high potential not-for-profits and investing in their organisations to realise that impact growth, and we're going to be announcing the partners in coming months as we're seeing them over the weeks go by and really excited to bring that to you. I'm delighted to welcome our first guest speaker who is Bill Pridham. He's a Portfolio Manager at Ellerston Capital which is a pro bono fund manager of Future Generation Global. We're very grateful to Bill and the Ellerston Capital team for managing the funds pro bono through their Ellerston Global mixed small cap fund and it carries 6.8%

allocation of our SGT investment portfolio as at 31st March 2022. Bill has 22 years financial markets experience and prior to Ellerston Capital he was Investment Manager at JGL Investments, an Investment Analyst at Kira Capital and a Senior Research Analyst at QIC and CIO at MNC Asset Management. He started his career at UBS Australia as a Senior Research Analyst. Bill, may I hand over to you now and if you could give us your current outlook on the global equity market please.

BILL PRIDHAM: Thanks Caroline and thanks for the introduction, it's a long one, I've been around for a while when I hear that. In terms of the outlook, we are in a quite unprecedented time when you think of all the things that are in the mix right now, I don't know what more I can add. We've got inflation at generational highs, hopefully peaking and starting to get under control from here on in. If you think of the last decade even quite benign in terms of the interest rate policy and clearly actually listening to monetary conditions now, they're flipping around being quite aggressive and signalling they're going to be quite aggressive as well, not just from rate rises. Supply chains are still under pressure. Still we're hearing some green shoots of improvement, but I think it's taken longer for them to be replenished, inventories are still at quite record lows and I think going forward if you listen to Prologis which is one of the world's largest industrial rates, they're saying inventories are 10% below pre-pandemic levels and the idea is the likelihood is that they're actually going to go 10% above as customers build in safety stocks, so we're going to see that come through as well. We've got the largest European war since World War II, the events over in Russia and Ukraine are heartbreaking to watch and we still have the pandemic and it's been two years. China is still in lockdowns in different regions and all this is happening at the same time which I think is quite unprecedented in terms of the investment climate today, but that said Caroline I haven't said anything new that you don't already know. I haven't added anything insightful that you don't already know as well. That tells you if the market is absorbing this, all this news. Clearly it's going through a period of price discovery in terms of what does this all mean over the longer term and visibility is quite low right now as well. As I said we do live in a high inflationary world than we have in the past and I don't think that reverses. I think we normalise but not to where we were over the last several years. There were a number of inflationary forces in terms of deglobalisation energy and our world is inflationary, so we've got a number of inflationary backdrops, wages are increasing as well, so I think from an inflation perspective you need to button your hat but that's not going to go away anytime soon and with that and all these events coming together, volatility will remain high and I think conditions will be

tested at the end of the day, but from my perspective I don't try to call where the markets are going to go tomorrow or next month, I really focus on the businesses, how they're performing, making sure our positions right in this type of environment. From my perspective when I think of positioning, I think it's quite important to have pricing power clearly in an inflationary environment. Tangible assets are getting more valuable by the day, just to build them, replacement costs are going up and you have great balance sheets and strong cash flows clearly with strong valuation supports as well. There's a lot of negative influences in the market today clearly, so the question is how much are we priced in firstly and secondly I think the view on recession is that it's a matter of when not if. I think the market is pricing, that it's going to happen. The thought around that is how severe could it be. I can't call that, but what I can say is that consumer balance sheets are fantastic. Home equity in the US is at $6.5 to $7 trillion dollars of home equity value in their homes. Their balance sheets are incredibly strong. They still have unspent stimulus payments in their bank accounts. The financial system is in great shape. Banks are overcapitalised. I've got a regional bank that has $26 billion dollars at the Fed earning 10 bps. The Fed's going to do the quantitative of tightening, but then all the banks are going to start releasing capital as well, so it will be interesting to see how that comes out over time. I think bottom line is like I mentioned with the balance sheets, cash flows and valuation, the market has clearly moved away from pricing concepts. Businesses which are promising cash flows in earnings way out into the future, I think that's an area where the market really moved away from and more focus on year term fundamentals at the end of the day, so I guess there's a lot in there and I really haven't added anything new, but what I can say is that there's already a lot being factored in now in terms of the markets.

CAROLINE GURNEY: Bill one of the exciting things our shareholders really love is to talk stock picks of yours. I wonder if I could avail upon you to give us your two stock picks at the moment?

BILL PRIDHAM: You bet. It was quite hard to figure out which ones to do, but I wanted to do two quite different ones. The first one's called GXO Logistics (NYSE: GXO). It was a spinoff on August last year and it's at $62 a share the stock is today it's $7.2 billion market cap company, got very little debt, so what are they? They're the largest sure play contract logistics player globally and with that it really benefits from three really strong themes and thematic. The first one is warehouse automation. We talk about wages going up, labour is an issue, every company is talking about labour prices going up, so what do we need to do, we need to automate. We

need to make the global warehouse fleets more efficient and more capable of handling the goods that are going through right now, so they're a big player in that space. Secondly, you have eCommerce. eCommerce is a big part of their business in terms of not just sending the product out, but reverse logistics as well, so that's a big part of the business and that's a long term thematic driving the business and thirdly is outsourcing. I think a lot of companies are realising that to handle logistics is bloody hard and it's better to outsource that to a competent player like a GXO and let them handle it, they do that globally. Those are the main thematic that are driving the business and clearly has supply chain disruption. I mentioned that they are starting to heal, but there's a lot of reparation come through over the next 12, 18, 24 months to come through yet, so that's going to continue to drive the demand for GXO and their services at the end of the day because they are logistics specialists and they have global operations… they have major customers, like Nestle is a customer, Apple is a major customer, so there's some big customers that they're managing their logistics for them at the end of the day. It's predominantly exposed to eCommerce and food and beverage. We think about those two and markets are pretty solid secular grow. Food and beverage is a nice stable one. eCommerce is your growth angle around that, so you can argue that they're quite stable in growth angles in terms of the end markets and what I like about they have very long term relationship, decade long relationships and they have 90-95% customer retention rates. Once you use them, you realise the savings that you get and you stay with them and you actually expand your business over time as well, so at the end of last year at $2.5 billion sales pipeline, just remember it's a $7.2 billion stocks, it's got a $2.5 billion sales pipeline in place today. They've already announced new wins last year worth $800 million dollars or just over $800 million dollars and that represents 10% sales growth for this year coming up FY22, so they've guided this year 8-12% revenue growth. They've already got 10% done with these new deals in place and that doesn't include new deals on top of that as well, so I feel pretty comfortable that the guidance and the sales expectations are pretty solid. They should generate over $700 million dollars of EBITDA (earnings before interest, taxes, depreciation and amortization) this year. It generates a great free cash flow as well and it generates a 30% return on capital in term… so it's a very high return capital business, high retention rates and strong growing end markets as well, so right now we have it trading on a little under 9 times EBITDA for next year. There were rumours of bids from Blackstone (NYSE: BX) before spin of 13 to 14 times. At nine times it's just way undervalued, so it's come down from $103 dollars down to $62. I think a lot of that has to do with the European exposure while market concerns around that, but like I mentioned they've

got some strong secular drivers to offset any economic issue from that perspective. So that's the first one in terms of if you look over the next year to two years it's going to be a very strong performer. The second one is… it's a little bit different. It's called TKH Group (AMS: TWEKA). So TKH is just over $48 dollars a share. It's down double digit from its high. It's one of those few stocks that are really exposed to a number of megatrends in the market today. It's a $2 billion market capsule. Keep that in mind when I talk through what it is $2 billion Euro market cap. It is the leader in 3D vision. You think about industry 4.0 the need for cameras, processing at the edge, you need to inspect, watch and enable robotics and they are the leader in 3D vision in that sense. They are a player in 2D as well, so they're one of the global leaders in 3D, 2D vision, got some very strong drivers behind them from industry 4.0, security vision, you name it, there's a number of different angles for the business, that's one part of it and I want to just touch on that or expand on that a little bit more. What they've done is kind of put a highlight or a spotlight on the divisions in terms of what they make, so the vision business they've separated it out and if you use COGNEX (ASX: CGNX), which is a US player, a similar type of business and use the multiple that COGNEX is trading on today you're getting the rest of what I'm going to talk about for less than Zoo okay, so let's move onto what's left in terms of business. It's the key player in connectivity in terms of energy, renewable energy, so what they do they connect a lot of their wind…offshore and onshore wind farms in terms of the cabling. One of the few players in the world that can do that at scale and they're going to double and triple their capacity over the next couple years just from the pipeline they've seen. When you think of what's going from an energy demand point of few, Germany, France they're spending dramatically on renewable energy and TKH is one of the key beneficiaries from that spend over time. Finally it's got a business, believe it or not, this is actually quite an interesting business, AI are one of the largest, the largest tyre manufacturing system producers globally. So when you think of tyre manufacturing, the world's fleet is 12, 15 years old, it's moving to a number of skews which they didn't have been especially with electric vehicles coming through. The electric vehicle tyre needs more torque. It's a much more complex tyre than your traditional tyre, so they have 70% market share of tyre manufacturing systems, that's sort of the big five players like Pirelli and Michelins, but those Pirelli and Michelins have been trying to develop their own capabilities but they can't, so they're starting to employ TKH now in terms of their tyre manufacturing system. They've got a refurbishing cycle coming through, plus they're rolling out the next generation platform which enables all of this next generation manufacturing which is a lot cheaper, lot more efficient and enables the electric vehicle tyre manufacture as well. It's got the 3D and 2D vision business and

you're getting everything else we talked about for zero at the end of the day. It trades at 15 times P this year, 12.5 times next year. Management team is fantastic. I've been to Amsterdam to an Investor Day in Europe, well two years ago now just before we got shut down and met the whole management team over there as well, so they are performing incredibly well. They actually results last night for the first quarter, organic growth is 28% for the first quarter. Earnings drop 30% as well. For a business turning a €2 billion Euro, it generates great cash, for me it's a great long term play. That's the two picks I'll talk through today.

CAROLINE GURNEY: Excellent. Thank you so much Bill. That's really interesting and quite different stock picks. Now I'd like to introduce Mark Landau from L1 Capital. Our pro bono fund manager for Future Generation Australia (ASX: FGX) and we are very grateful to Mark as well and L1 Capital. They have a 7.6% allocation in the FGX investment portfolio as at the end of March and through L1 Capital Long Short Fund and the L1 Capital Australia Equities Fund, so Mark who is going to speak in a few moments co-founded L1 Capital and he has since jointly managed the L1 Capital Australian Equities Strategy and the L1 Capital Long Short strategy. Before that he worked at Invesco Australia as an Investment Analyst in the large cap Australian Equities Fund and is an Investment Manager in the Invesco's smaller companies fund and before that he was a Senior Strategy Consultant at Accenture. Mark thanks very much for joining us today. Would you mind talking to us a little bit more about what you're seeing in the Australian equity market at the moment?

MARK LANDAU: It's a really interesting time that we're doing this webinar just given all the things happening in the world. What's instructive is to look at I guess where we've come from over the last couple of years. From our perspective, the last two years has been a relatively straightforward bull market. It's been basically a no brainer to have as much money as possible in the market. The starting point for valuations was incredibly attractive because of the crash we had when COVID hit. Share prices looked great. Earnings multiples were very low and at the same time you had this massive injection of liquidity from central banks, zero interest rates, governments doing everything possible to boost consumers and corporates and then on top of that you had this huge EPS upgrade cycle, so obviously earnings per share is EPS that's been driving share prices higher because you have companies slashing costs aggressively and at the same time revenues bounced back much quicker than people expected. On top of that you had extreme investor pessimism which is usually the best time to invest, as Buffer always says

be greedy when others are fearful… I think that was a classic case a couple of years ago and on top of that you had people unsure for COVID whether vaccines would work, whether life would get back to normal, so you had this very unusual almost once in a decade type event that was the time to be all in and that's how we positioned the portfolio over the last two years was to be more than 100% invested. Very unusual for us, we normally about 65% invested for context and you also had this relative calm period geopolitically which has obviously changed in the last few months. If you fast forward to today, we think that the free money, the easy money if you like is over. The stock markets enjoyed a huge rally over the past two years. If you look at the ASX 200, it bottomed out at around 4500. As at a couple of days ago we were about 7500. If you look at the US market the SMP 500 bottomed out around I think it was about 2300, we're now at around 4300, so that's about an 85% rally over two years for the US, it's about 65% rally for Australia, that's way higher than normal returns and as a result we think the outlook for the market is much more subdued. For the first time in the last two years we're actually not so excited by the market. We think that returns are going to be lower. You've got central banks starting to withdraw liquidity, raise interest rates. We think the corporate profits if anything at downside risk, rather than an upside risk for the first time in a couple of years and then lastly as Bill touched on high inflation is a negative for most companies, so you've either got pressure because you've got higher wages you have to pay your staff, higher stock or higher commodity prices, higher transport costs, that tends to lead to lower margins and therefore a risk of profit downgrades. Then the last one obviously with this Russia situation and obviously with China and the US being a much tenser environment, the tale risk from geopolitical events is much higher. It's obviously very difficult to predict with any certainty how it plays out, but we just know that it's a riskier time than it has been, so the summary of all of that is I guess the passive investing approach or just plonking your money in the market and expecting a 10% return, I think those days are going to be much more difficult and essentially going forward you'll have to find ways to add value beyond the index to get those sort of 10% type returns. So that's I guess sorry to be the mood killer, but I think the world is a tougher place today than it has been for the last couple of years.

CAROLINE GURNEY: That's why we have such managers as you and Bill managing our money so that we get the best possible return for our shareholders. In terms of your stock picks at the moment, what are you looking at for the long term? What are your two stock picks for our shareholders today?

MARK LANDAU: I tend to give very contrary and very unpopular stock picks, so please bear with me because I'm going to mention stocks that you're probably going to groan at or you're going to hate, but that's how we've made our money historically and hopefully we'll continue to do it. Essentially we have a very independent approach when we find stocks. We don't care what the market thinks. We don't care what stockbrokers think. We don't care what the newspaper says, we'll go and work it out for ourselves and we do very, very detail bottom up research and the stock that you're going to groan at that I'm going to recommend first is QBE (ASX: QBE) which has been an absolute basket case for the last fifteen years and I think every fund manager understandably hates it because they've disappointed people so many times over that period. When I started my career in funds management, it was actually the biggest position in Invesco large cap funds. The shares went from $4 to $35 over a period of about five or six years post September 11 and the reason that happened was you had this massive reduction in capital that went into the Insurance industry and therefore premiums would go up really quickly and you have this huge increase in profitability for insurers. And then over the next fifteen years, the QBE share price has gone from $35 down to around $12, where it is today, so effectively it's gone down roughly 70% over fifteen years and for that reason people hate the stock and they've given up on it, but what they're missing is that the Industry is at a massive inflection point similar, not as dramatic, but similar to what we had in 2001. So if you look at QBE today, there's a company that was struggling to grow premiums at all for the last decade. At the moment they're growing their premiums by 10 to 20%, so their rate increases are 10% and their GWP which is the total amount of premiums that they're issuing is up 20% year on year, so that's a dramatic change. At the same time your claims growth which is effectively the negative, so if your revenue is up 20% how much are your costs going up by? Your costs are going up at four. So the difference between those two is essentially your underwriting profit margin and what we're seeing is the underlying profits of QBE have increased dramatically. You've got a new CEO that's come in and the job of every good new CEO is to tell you how bad things are. They want to get their shares issued at a low share price. They want to get their options price at a low share price. They want to tell how tough things are so that over the next few years they can tell you what a great job they've done. So if you look in detail at the last result of QBE, their profits if you take away all the actuarial assumptions that effectively lowered their profit, their profit was actually 40% better than what they told the market and if you go through the numbers in a lot of detail, you can work that out. It takes a lot of work to work it out because QBE results are

probably the most complicated of any company I look at in Australia, but once you do that process, the profit is actually 40% better. On top of that, they've done a huge amount of what they call reserving and reserving is effectively saying what you expect claims to be going forward. So what you want to do as a good insurer is to have lots of reserves so no matter what claims come up you'll be covered. What they've been doing is boosting and boosting and boosting these reserves to the point where they've got such conservatism in their assumptions that they'll be able to hit their profit numbers almost no matter what and that's the point we're at today. So the underlying business has dramatically improved over the last few years. The share price is exactly the same as it was a decade ago, so none of this is priced and we think you've got a fantastic CEO, so the new CEO who has come in used to be the CEO of Beasley, a European Insurance Group, he presided over a period where Beasley increased its share price 400% over the period he was there and then COVID hit and it withdrew all of that good news because they were unfortunately in a lot of lines of business that were hard hit by COVID, no fault of his obviously and at the same time you've got one other really good dynamic. They've obviously got a lot of good stuff happening in the underwriting business which is essentially where you're writing the insurance. The other part of all insurance businesses is the investment book. So QBE has $28 billion dollars of essentially short term bonds. Those bonds have been yielding nothing because of COVID. Every interest rate around the world went to zero, they got no return on that $28 billion. Now the two year yield which they're most exposed to is around 2%. So you say okay well it's only 2% big deal. Well every 1% increase in bond yields is roughly a 20% increase in their profits. So if you say bond yields are going to stay at 2%, you've got roughly a 40% increase in profits. If you say okay I think bond yields are going to reverse, half of that money is going to come back, okay well that's still a 20% increase in profits which for QBE is massive. There's a company on a P of 10, on a 5% dividend yield, no one's expecting any impressive profits let alone 20% on top of underlying insurance business. So for us, QBE we think we could easily make a 50% return over a couple of years. Expectations are very low. No fund manager is telling you to buy QBE, everyone's telling you about exciting tech stocks and other things, so hopefully we'll be able to give you some good news over the next year or two on that one. The other one is also a Q stock; Qantas (ASX: QAN) and I've recommended Qantas once before at Future Generation. For the record the last stock I recommended at Future Generation was index about eighteen months ago, that's done about 100% over the last eighteen months. I don't think Qantas will give you 100% over eighteen months, but I think it will give it to you over about two to three years and the reason is we think that Qantas is at a massive

inflection point right now. This month as the Easter holidays start to go crazy, Qantas had previously told us that about 60% of their fleet domestically was operational, so effectively they had 60% capacity. We think that when the data comes out to April, you'll see that they're at 100% of pre-COVID levels if not higher and then on top of that fares have been going up dramatically, so I don't know if anyone's been booking holidays recently with fares have gone through the roof. If you want to go to the US, they've put through five price increases just over the last few months and there's been no negative impact on demand. If you look at domestically, airfares are up a lot and the reason is their two major competitors Virgin and Rex have very limited fuel hedging, so the impact you've seen from higher fuel prices means that they've had to put their prices up almost straightaway. But Qantas is fully hedged until the middle of this year, so even though they're getting no negative impact from higher fuel costs, they're getting the benefit of higher airfares. So essentially you're getting really strong demand. You've got really good pricing. You've also got a billion dollar cost out that they did because of the crisis. They would never have been able to cut this much cost if it wasn't for the COVID crisis. They've already achieved $900 million of that. We think they're easily going to exceed the billion and then the last one is the valuation. On our numbers, by FY24 which will be a full year of the normal or a relatively normal world hopefully, we think you'll get close to a dollar of EPS and the share price to May means that you're trading on about 5.5 times earnings. It's about $5.50 the share price. In a normal world, if you were seeing Qantas trade at the same discount to market that it's always traded on over the last ten years which is about a 40% discount to the ASX 200 Industrials that gets you a P of 12. If you put that dollar of EPS on 12 times, you get a $12 dollar share price, that's almost 120% upside from today's share price. So we think from a demand point of view, from a sentiment point of view, from a cash flows point of view, we think we're at a massive inflection point and people haven't heard the good news yet, so they haven't priced it, but as Qantas starts to tell you how busy they are, how good the airfares are, how good their fuel hedging is, we think you're going to see a big increase in the share price. That's my second of the Q stocks for today.

CAROLINE GURNEY: Thank you. Thank you both. I just want to remind shareholders if you want to ask questions for Bill, Mark or Eamonn please put them in the Q&A box. If you want to ask them about GXO, TDH, QBE and Qantas and anything else please do. And now it's my pleasure to introduce our third speaker. As you all know, Future Generation is a dual purpose model, so we deliver shareholder investment and social returns and we're really proud that we

actually support and work with leading charities in Australia and so I'm delighted that Dr Eamonn McCarthy who is the CEO of Lighthouse Foundation which is one of the partners of Future Generation Australia is joining us. He is one of Victoria's most respected forensic physiologist in the field of childhood trauma, attachment and high rescues and was formerly the principle practitioner of Child Protection in Victoria and a member of the Centre Against Sexual Assault at the Royal Children's Hospital. Eamonn has provided support to the state's most vulnerable young people and what he's doing now is particularly impressive and we've had some great conversations about the young people that Lighthouse are actually supporting at the moment. Since the beginning of our partnership in 2014, FGX has invested $2.4 million in the Lighthouse Foundation and that's really provided crucial support to Victorian youth at risk through risk of homelessness throughout the pandemic lockdowns and Eamonn thank you very much for joining us.

DR EAMONN McCARTHY: Thanks Caroline.

CAROLINE GURNEY: We really want to hear more about Lighthouse Foundation and the work that you do with young people, but also something that we spoke about briefly last week was just that sort of that increasingly homeless number of students that might be happening as we said over the next few years and I'd really love to hear more about that.

DR EAMONN McCARTHY: Absolutely. Thank you. Lighthouse Foundation has for approximately thirty years now in various shapes and forms been seeking to address the issue of youth homelessness and certainly the historical vision and the current one and certainly the projected future one is very much that that's something that occurs through a process of empowering the community to work the problem together as opposed to any one service or individual trying to achieve such a loft outcome and so to date we've been able to achieve fairly incredible outcomes, substantially thanks to support such as that from FGX and that's been through providing I guess a well-rounded and holistic approach to young people residing in Lighthouse homes who are currently at risk of homelessness, and that means ensuring that they have the basics if we can put it that way in terms of appropriate accommodation, accommodation that you or I would be happy with. Appropriate levels of intervention from a therapeutic perspective but also addressing those functions that don't just I suppose ensure individual's current happiness, but really cement the future to ensure that long after Lighthouse has finished

direct engagement with someone, they've been left with all of the necessary skills, supports and empowerment that enables them to go on and not only escape the cycle of homelessness, but ultimately go onto lead careers that may very well contribute to the solutions needed to end future youth homelessness. Of late, Lighthouse Foundation has been able to recognise the fact that it's not simply a case of addressing current youth homelessness, rather doing that but also turning a lens towards the future generation of potential homelessness, so young people in and out of homecare, children who are experiencing far less than ideal family environments, recognising that research demonstrates the high percentage that will go on to become homeless doing something now often having to do from a at least a cost perceptive significantly less now to ensure that down the track they're not essentially creating the next wave of those who may be at risk and that lead conversation I was having with you in relation to one of the exciting new directions that Lighthouse is looking to take, so in Victoria amongst the percentage of youth who are considered either homeless or at risk of homelessness, it's very much recognised that to be the definition of homelessness isn't as simple as having a roof over your head, rather it's about having a social space that you've got autonomy over, your accommodation is more consistent, predictable, that it essentially enables you to carry out the other really important functions in life such as relationships, employment, socialisation. And that group is sort of coequally referred to as couch surfers and what we've seen more and more of is couch surfers were typically those who might have a friend's couch to sleep on in its most basic sense, but also for example having the opportunity to say stay with a friend for a couple of weeks, sleep on a mate's couch in their parent's house and to a lesser extent it might be those who were finding more creative ways of getting a roof over their head for example in a student library or other sort of functions associated with TAFE and university. But as you can imagine, with the pandemic and the various restrictions associated with that, the prospect of having a friend agree for you to sleep on their couch became very different when you were talking sort of six to twelve months rather than one week and so what we have seen certainly anecdotally and the expectation is the research will support as we move forward is an increase in those number of young people who perhaps unbeknownst to them and perhaps unbeknownst to the adults around them at university or TAFE or Year 12, are doing everything and anything to get through the various cycle processes that enables them to become self-sufficient be that sleeping in a library while they get through their last subject at university or be that sort of hanging out to the late hours at a local café or library so as to be able to get their homework done and turn up to the last couple of weeks of Year 12. It really is through the

introduction of a more outreach focus in addition to what we've always done, so proactive outreach that seeks to engage educators, university students, wellbeing co-ordinators, young people themselves upskilling around identifying those on the precipice of homelessness and seeking to do a lot more at that sort of early intervention space, rather than waiting until a young person is absolutely in crisis and then obviously requiring a lot more supports.

CAROLINE GURNEY: You've helped more than a thousand young people access homeless services. What are the other sort of key cause behind homelessness? We read a lot about it, but what do you see and what do you address as those sort of that couple of key themes, the causes?

DR EAMONN McCARTHY: It's fairly widely accepted that the three main causes, there are obviously many, many layers, but the three main causes that seem to be present in those who are either at risk of or homeless are mental health, family violence and what's described as sudden unexpected and unsupported changes to one's circumstances and of course the challenge with that is that while it may be some time before the research world catches up on the exact impacts of something like COVID on our collection of homeless youth, but also homeless adults for that matter, what has certainly been collated already is demonstrating significant spikes in mental health presentations across the lifespan. Not just increased presentation, but certainly increases in the significance of first presentations. Sadly it has seen certainly increases in family violence call outs and that's in a time when those of us in the field clearly recognise those numbers will not be accurate by the very fact that there are obviously barriers to those seeking help in situations where restrictions are in place and in terms of significant changes and unexpected changes to one's circumstances, unfortunately I think we've seen a sort of global example of that. Unfortunately it does stand to reason that those three main underpinning factors are also going to be situations that I daresay research will show has resulted in a significant increase in homelessness and the risk factors associated with homelessness over the last two years as well.

CAROLINE GURNEY: Thank you Eamonn. We've got a number of questions now that are being submitted and if anybody else would like to submit please do. If we don't get through all of them today, we will come back to you afterwards. Thank you Eamonn, it's amazing the work you do. It's incredibly inspirational for you and the team as well.

DR EAMONN McCARTHY: Thank you.

CAROLINE GURNEY: My first question will go to Bill and this is from Louis. What opportunities are you seeing in the small to midcap space at the moment Bill?

BILL PRIDHAM: Thanks Louis, it's a great question. In terms of the sector as a whole when you think about the valuations, it's interesting comparing them to where the large cap relative to the mid small caps are, they're at almost generational lows in terms of the relative valuation, you think about the mid small cap space and when I talk with smalls I'm talking multibillion companies, so they're still pretty sizeable businesses. It's just that you're competing against the trillion dollar companies of Apple (NASDAQ: AAPL) and Microsoft (NASDAQ: MSFT) overseas that's their relevant size of them. So the rest of 2000 which includes those mega caps it's trading at a P's we saw in the early 2020, so back in the doomsday scenarios. Remember I talked about the recession and the lot of it's being priced and it feels like that's a bit of a case there. But where we see the opportunities in terms of our positioning, it's around those businesses that are benefiting from secular growth say data growth with 5G industry 4.0, that's not going to change any time soon, it's probably going to accelerate from here, so companies that are benefiting from that and if you followed me for some time I've been investing in the 5G thematic for several years now and that hasn't changed and actually it's getting stronger as machines are talking to machines now, that thematic is actually getting stronger. The second one is kind of a function with what's going on today with supply chains. We're seeing opportunities with businesses that are helping with supply chains, you think of GXO. Flex Manufacturing (NASDAQ: FLEX) which is one of the largest contract manufacturers globally, they have manufacturing fleets around the world helping customers, helping clients with their supply chain. They have 10,000 people sourcing components and helping put them together for their customers, so we're seeing the opportunities in those irrespective of the market in terms of the data growth and because of the market in the supply chain, so that's where we're seeing the opportunities there and when you think about today there's quite a high probability recession being priced into a lot of the names. I with Mark in terms of the valuations though I like to pay a lot of money right now from AMGI, keep it quite close, high cash flows, great valuation support and that's why if you look at the names you can feel fairly comfortable that you're getting that in a lot of names, so we're seeing some decent opportunities irrespective of what's going on with the headlines right now.

CAROLINE GURNEY: Yes there are a lot of big headlines at the moment I agree with you. Bill I've heard you speak a lot about ESG and one of the questions that we have from Helen actually is for you and it's how do you actually approach ESG in your investment style?

BILL PRIDHAM: ESG is really important and it's actually a function of investing to my value and I've always invested this way and it's just that now we've got the ESG nameplate above it, so it's actually suited my style quite well. The way we incorporate it is that it's part of an analysis with the stocks that we look at and it's easily, look at the negative screen which is really easy, alcohol, tobacco, mining, that type of thing so that's a really easy screen to do and I think a lot of people do that anyway. The harder ones are the more, not as tangible are... we watch animal cruelty, we watch human rights. Companies that have great sustainability reports so we really watch and made sure that our companies are adhering to best of practice in all of that, so that's the first sense. We have a negative screen which we put in place. I think when you think about it though the minimum test for us is that the company does no harm, so that's an easy... that's a minimum test. The ultimate scenario is if they're doing good, say doing recycling like AZEK (NYSE: AZEC) does plastic recycling in the US. Companies that are helping us move to net zero. TKH is a great example of that. I've got a number of names, Flex owns the largest solar tracking business globally as well along with their contract manufacturing, so companies that are enabling that and when you think about it just companies that are making our world a better place at the end of the day, so we really like to own them and we're not at fund so to speak but we're very ESG aware and I think that's important from the cost capital where capital flows and we're very focused on that, you know environmental and social aspect of that, so it's a really deep part of what we do but it's actually been part of it since I've been investing, really based in my values anyway.

CAROLINE GURNEY: Excellent. Thank you Bill. The next question goes to Mark from Ian. I know you have the ability to short stocks in your long short fund, what parts of the market are you more cautious on?

MARK LANDAU: We're usually pretty cagey when talking about long shorts, but I'm happy to give a couple I guess high level themes that we're pretty cautious on. As Bill and I touched on at the outset, I think the last couple of years have been very reminiscent of the dot.com boom

and a lot of those unprofitable tech stocks have really had a reckoning, so one of the things that we've been short is the non-profitable tech basket which like Gold & Sachs very kindly packages up for us. To give you a bit of context of how extreme the valuations are in that part of the market, between 2017 and 2020, that index went from about 100 to 150 and this part of the market was already a very expensive pre-COVID in our view based on cash flows, earnings, all the sort of typical fundamentals. As a result of COVID in the following 12 months it went from 150 to almost 500 in the space of a year where people were extrapolating one off events from COVID and saying okay this technology is going to be massive now or this eCommerce business which has lost money is going to be a juggernaut because of COVID. So the valuations went through the roof and these companies were not being priced off earnings or cash flows don't forget, they were being priced off sales, so they were on 15 times sales, they're now on 35 times sales. So from our perspective that part of the market is a joke. It's fallen 50% just in the last few months, so it's fallen roughly from 500 in that index to around 250, but bear in mind 250 is still 60% higher than where it started pre-COVID and pre-COVID was not cheap. So even though it's down 50%, we still think there's a lot more downside in that part of the market. It's incredibly spivvy. There's a lot of people promising things that are just not even close to reality. The cash flows are at best five to 10 years out. It's very hard to predict what the world is going to look like in five or 10 years in such a dynamic part of the market as technology. The second part that we're cautious on is some of the US consumer stocks and the reason we've been shorting some stocks in that part of the market is again they've had this one off event, COVID hit, governments gave massive stimulus, the Fed made zero rates, everyone had money to spend, you couldn't spend it on services so you had to spend it on goods. Within goods you had to spend it online because the shops were closed, so effectively you had these companies where the share price has gone up 500% on the back of a one off event. COVID is not going to be with us as a dominant lockdown theme for the next 100 years. This is a once in a 100 year event. So areas of the market and we saw it with Peloton (NASDAQ: PTON). We saw it with Shopify (NYSE: SHOP), we've seen it with William Sonoma (NYSE: WSM) and Logitech (SWX: LOGN) are some of the stocks that we shorted previously, we've now got a new bunch of shorts that have that sort of consistent theme that they had some sort of one off benefit and we think the share prices are going to collapse as they start to normalise both their sales and margins.

CAROLINE GURNEY: Excellent. Thank you. The next question that's come in from Luke is what are some of the key themes that are shaping your investment portfolios currently? You've

answered a little bit of that, I think we'd be interested more in terms of the themes that you're looking at most strongly as it were.

MARK LANDAU: I might focus on the longs. Essentially when we build our portfolio it's all bottom up company specific research that puts the stock into the portfolio. But if you step back and you look at our portfolio at a high level, you'd see four or five key themes that are really what's going to drive the success or failure of our performance going forward. The first one is the reopening trade which I spoke about a little bit with Qantas, but we like companies like Webjet (ASX: WEB), Airbus (EPA: AIR) , Safran (EPA: SAF), essentially companies that are going to be getting the benefit of this inflection point in travel, particularly in Australia and the US where we're seeing it very clearly. If anyone saw the comments from the CEO's of any of the big four airlines over the last week, every single one is saying this is the strongest conditions that I've ever seen in my thirty year career. You know the head of Delta, the head of America, the head of United they're all saying the same thing. Second theme is US online sports betting. One really exciting sector and one opportunity that we think is truly exceptional is in the US State by State they're opening up and legalising online sports betting and Australians know sports betting better than most because we've been doing it for a long period of time and we are world's best practice at gambling, but in the US it's a new thing and people haven't cottoned on to essentially people shifting their gambling habits from casinos to sports betting and we're seeing iGaming as well as part of that, so we think that Entain (LON: ENT) and Flutter (LON: FLTR) are going to be the leaders in that space, they have about a 60% market share between them and they're also the leaders in terms of doing much more appropriate betting restrictions than what we're seeing from other players. They are at the forefront of having bet limits of having much more socially conscious ways of making sure that you don't get the problem gamblers doing that and so a lot of the stuff they've been doing proactively in the UK there's going to be some regulations coming out later this year in the UK along those lines, but they've already pre-empted that and gone firmer than what the regulations will probably go. The third one is energy. Obviously everyone would know that people are starting to drive to work again. People are starting to fly again. Demand for oil is now higher than what it was pre-COVID, but supply just hasn't responded, so we think that companies like Santos (ASX: STO) and Cenovus Energy (TO: CVE) which is a Canadian listed oil stock will be beneficiaries and then the last one is those companies that will be beneficiaries of higher interest rates. Now for most companies higher interest rates are a clear negative, but for a company like QBE where they've got an investment portfolio that's

going to be benefit from higher bond yields, we're trying to find those companies. It's a bit of an eclectic mix of themes, but I think there's still plenty of opportunities in the market even though we're not excited about the market overall, we think there's plenty of themes and opportunities that are presenting themselves.

CAROLINE GURNEY: Thank you. I think that's really interesting. I've got quite a lot more questions for both of you, but I think we'll go to Eamonn now. This is a question from Chris. How do you think we as a community can secure a better future for young people and the next question that is along that line is from Emma and what are some of the key shifts you've seen in young people at risk as a result of the pandemic?

DR EAMONN McCARTHY: In terms of what can be done as a community, this is probably a really good example of exactly what the answer should look like and that is that recognition that it's a case of it being a community challenge and it's a case of I suppose the leaders required to address already exists. For example I've sort of sat here and listened and tried my best to understand most of what's being said but it's not my area of expertise and what I have to offer in this space in my space is obviously my training, my expertise and my experience to provide direct support to youth homelessness. But what groups like FGX have been able to do is to take those who their expertise and their excess of knowledge and their excess of resource, might sit outside a space that can most benefit group direct engagement of our youth, but is instead finding a way to have that common sort of approach, so it's really situations that allow for multiple year solutions. Situations that allow services and organisations like mine to have the confidence to proceed forward with what our expertise tells us as the best approaches. But in general, opportunities like this also serve to continue to educate and upskill in relation to some of the precursors to homelessness starts to shift some of the myths around I suppose you know what sorts of outcomes we should be expecting for our young people. So there's no specifically simple answer, but certainly anything that serves to take the strengths that already exist within our community and at least in part channel them towards balancing out the playing field or providing the same access and the same opportunities to our young people is certainly the right direction to be heading. As far as the pandemic goes, as noted before I think we've certainly seen implications in relation to how, to date, young people might have avoided the final fall off the cliff into homelessness, but I think equally so we're seeing obviously withdrawal of societal safety net such as school, such as face-to-face university, such as ready and easy access to

medical and all the rest of it, we are unfortunately seeing that first presentations are more significant than perhaps they previously would have been and of course what that means is we've got a situation whereby the hopes of providing earlier intervention become increasingly challenging, a) because it's been hidden to a point of crisis and b) because a number of the avenues that might otherwise have identified it at the point of early intervention haven't been functioning at full capacity, but I daresay the degree of impact will be seen over the next six to twelve months.

CAROLINE GURNEY: We've just had another question in and this is from Ian. This is for you as well Eamonn, I'm really interested in your answer to this. Do people approach you directly or do you network to find them and how do you give them support?

DR EAMONN McCARTHY: It's a great question and Lighthouse in particular the answer is varied. We very much have a no closed door policy and therefore we may receive a number of inquiries that ultimately can't be fitted within our service, but nonetheless we seek to create very warm handovers to services that can support. But rule of thumb is that we may have young people themselves approach us in relation to younger children, very much that would come either via government services such as Child Protection or even through schools, TAFE's and universities and some of the time it's also through existing homelessness services. So services that may identify a young person for whom the intensity of their supports won't be sufficient, but who know Lighthouse through reputation can provide a longer and more intensive approach. As I said though, all of those functions are fantastic, but certainly the gap in that service and the reason for our sort of increased direction is that it ultimately relies on it being apparent to the average member in the community or the sector that that young person is in fact requiring support, hence the reason we seek now to sort of conduct more proactive approaches to not necessarily over identify, but certainly to recognise that population who aren't coming to attention and coming through our doors at this stage.

CAROLINE GURNEY: Excellent. Thank you. Mark we have another question for you from Glen this time. How are you positioned in terms of offshore exposure from Australian stocks and do you hold more or fewer ASX companies with higher leverage to offshore markets than you did twelve months ago?

MARK LANDAU: In terms of our offshore exposure, at our gross levels that means the total of our longs and shorts, we never have more than 30% of our positions overseas. In terms of I guess what the question is getting at how much of our long positions or how much of the companies that we're buying are based overseas, it's roughly half. Essentially half of our positions are Australian companies. Half of our long exposure is international companies. The overall net long to the portfolio so effectively how positive we are on the market, how much market exposure we have has reduced very significantly over the last few months reflecting my views about the market outlook and the composition of our international has also changed. So where we were much more positive on the US market if you can look back one or two years ago than what we are today. We've been reducing market exposure to the US, partly through putting on some of those shorts that we were talking about before and also finding better opportunities in parts of the world like Europe where many global businesses that just happen to be listed in Europe have sold off very aggressively because of the concerns about Ukraine, because of the concerns about China wakening and obviously Europe is a key exporter to China, so we've seen some anomalies where you have these great global businesses that just happen to be listed in Europe and they've sold off we think unfairly, so there's a lot of moving parts under the surface, but essentially the Australian versus international relativity has been relatively constant.

CAROLINE GURNEY: Thank you and I have a question from Cathy to both you and Bill. What has been the most notable contribution to your portfolio in the recent period? Go Bill.

BILL PRIDHAM: This financial year there's been three major contributors and I think they're all very different as well so it kind of goes to your comment earlier with TKH the biggest contributor is a company called the WillScot Mobile Mini (NASDQ: WSC) and I think it was actually one of the first stocks we actually talked about on a FGG webinar years ago, I've owned it for over four years now and it's done really well and it's still a top five position, so they're one of the largest, the largest owner of modular office leasing in North America with over 45% market share. It's getting 20% pricing growth with that market share it's really a leverage to the infrastructure spent in North America which is starting to turn the corner. It really hasn't got the funding package enabling thing until next year, so it's another tailwind for the business as well, so I think that's one of the bigger ones and the other ones is all on the lines of Mark's QBE insurance company called Assurant (NYSE: AIZ), actually the biggest company or our biggest holding today. They

actually provide the insurance for large consumer purchases. Think of your phone. Think of your car. They track home loans in the US to make sure they're up-to-date in terms of their insurance. They have a $9 billion float and same as the QBE bearing nothing. So compare that to its $10 billion dollar market cap, it's got a good upside potential from that float coming through but what it is really benefiting from is the trade in of 5G phones. As people trade up, they typically will put an insurance package on because they are of higher value and what they're really doing now and they're actually here in Australia too under Allegro brand so they do a lot of refurbishments of phones so they're really strong in that secular economy angle as well. I think the final one is Option Care Health (NASDAQ: OCPH). I want to give a quick call out to that one. So they're one of those companies that make the world a bit of a better place. They're the largest independent provider of at home infusion services in the US. They cover 95% of the population and it really helps patients, payers if you leave the hospital after surgery you don't have to go back to get an infusion for antibiotics, they'll come to your home and do it and they've got the nursing fleet to do that and secondly the biggest part of the business is chronic, so you think of muscular dystrophy, you think of Cronin's Disease, you don't have to go to the hospital to get this done you can get it done at home and typically it's 40-60% cheaper to do it at home and the patient loves it as well, so I guess those are the top three this financial year and as you can see they're quite different across the board as well, it's kind of the balanced approach we're trying to take.

CAROLINE GURNEY: Excellent. I was going to hand over to you Mark and then I think we're going to have to wrap up, so any questions that come in from now on we will reply afterwards if that's okay. Over to you Mark.

MARK LANDAU: I'm going to copy Bill and also have three reasons, but they're totally different reasons, but the first one being company's specific update. The company had a really positive piece of news, we have a very diverse set of investments, a typical position for us is a very small percentage weight it might 2% or 3% of the portfolio and we have in aggregate about 80 positions on average including longs and shorts, so it's lots and lots of small companies' pacific winds tends to be the driver. From a top down point of view there were two major positives. First one is being long some of those new energy stocks and some of the old energy stocks, so new energy as in like lithium and copper which are critical in the energy transition to electric vehicles and that whole I guess the new sustainable forms of energy, those stocks have gone

crazy over the last year as people realised there is a shortage of both lithium and copper and the second area is old energy where obviously oil where about 18 months ago we built our biggest sector net long to oil because we could see that as we emerge from COVID, there's going to be a shortage of oil. No one's invested in new supply. We've got demand and it's going to accelerate very fast partly because of the recovery from COVID as people start to drive and fly again, but also because the developing world is starting to cars and motorbikes and starting to fly as well, so it's this structural growth that I think people are continuing to underestimate that will persist for longer and the last one is the shorts that we had in those ultra-expensive stocks, they are the Peloton's and the Shopify's and unprofitable tech stocks and we had a very concentrated bet on those companies collapsing. Peloton is down about 80%. Shopify is down 70%. The unprofitable index is down about 50%, so that has been a great contributor as well and a nice offset in a falling market.

CAROLINE GURNEY: Excellent. Thank you. Thank you everyone for joining us today and for your support of Future Generation. Thank you to our Speakers Bill, Mark and Eamonn. I really hope you enjoyed their insights and if you want to find out more please let us know. Any questions please contact as well and hopefully I will see you all in May at our Future Generation LIVE presentations when we're going across the country. Thank you everyone, thanks very much.

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