

Future Generation Investor Q&A Webinar

Wednesday 12 October 2022

Caroline Gurney, David Paradice AO, Steve Anthony OAM and Martyn McCathie

CAROLINE GURNEY: Welcome to Future Generation's webinar. Before I begin I'd like to acknowledge the Gadigal people of the Eora Nation. The traditional custodians of this land we met here on Sydney and I pay my respects to both Elders both past, present and emerging. I'm really delighted to be joined today in person by renowned fund manager David Paradice AO who founded Paradice Investment Management in 1999 and he manages funds for both Future Generation Global (ASX: FGG) and Future Generation Australia (ASX: FGX) and he does that pro bono, so with no management fees and no performance fees and we have Steve Anthony OAM who helped co-found Giant Steps one of Future Generation Australia's social impact partners. For those that don't know, Giant Steps specialises in working together to develop high quality education and support for students with autism spectrum disorder and complex needs. In today's webinar we're going to speak to our guests Dave and Steve and then Martyn is going to come into the room and we're going to give you an update afterwards on Future Generation. So if you have questions for Steve and for David, please enter them into the Q & A box and we're going to monitor that throughout and any questions for Future Generation as well and then I will answer those afterwards. Thank you to everybody who has already submitted some really great questions there that I will summarise. So to our guests. As most of you do know David Paradice AO, one of Australia's most respected stock pickers and the founder of Paradice Investment Management. So he started as an investor in Australian small cap stocks in December 1999 the funds management business. They're experts in Australian and global equities and David is also on the Board of Future Generation Australia, so he manages our money pro bono while he's portfolio manager too and so thank you David, thank you very much for that and thank you very much for being on the webinar today.

DAVID PARADICE AO: No problems, it's good to be here, thank you.

CAROLINE GURNEY: Thank. And Steve, who is also there in the other room, he co-founded Giant Steps as I mentioned, but also he worked in Citi Bank from 1992 and he was head of investment management in Japan and then he was head of Financial Markets in Australia to '96, so he helped cofound Giant Steps in 1995 and in 2016 he established SILC which is Supporting

Independent Living Cooperative to help other groups of families really establish cooperatives to operate similar homes under the NDIS system and he's recently retired as the pro bono CEO. So you guys don't need any introduction to each other. You first met in the '70's at Sydney Uni. You played rugby together and I suppose just one quick question who was the better player?

DAVID PARADICE AO: No, no, no he never, he was also the coach and I showed him that I was great but he never picked me.

STEVE ANTHONY OAM: Yeah no David should not have been in first grade.

CAROLINE GURNEY: But their lives have been firmly intertwined ever since, in fact we were just talking about how David contributed to Steve in terms of Giant Steps when they were at a lunch that was organised by Michael Hawker who many of you might know who was that sort of rugby great. Is it worth Steve you just quickly going through that story because I think it really shows how you've worked together over the years and David has been a very generous supporter of Giant Steps and now obviously you've been a consultant to Paradice Investments as well?

STEVE ANTHONY OAM: Sure. David has forgotten this but I hadn't. In 2003, Mike Hawker organised a lunch to raise money for Giant Steps and invited David and he also invited Dick Davis who was the inaugural CEO of a company called InvoCare which had just been listed and David was an investor and David very generously said that he would donate \$1,000 dollars to Giant Steps for every cent that the InvoCare share price went up in the next 12 months, it went from \$2 dollars to about \$3 dollars so ended up donating \$100,000 dollars and ever since then he's continued to be a very generous supporter of Giant Steps.

DAVID PARADICE AO: Yeah no it was good.

STEVE ANTHONY OAM: And in fact a funeral parlour... and in fact in a way I think it's not dissimilar to idea of FGX that a fund... the fund managers are contributing a percentage of their gains to help charities, so you know not to steal Geoff Wilson's thunder but in a way it was Para was about 13 years ahead of him.

CAROLINE GURNEY: That is a very unique vehicle in terms of what Future Generation. So let's go to David in terms of markets and we'd really like to get your view. Obviously it's incredibly volatile at the moment and everybody's looking at Australia's economy. A lot of our shareholders are we've noticed basically talking about Australia being one of the better performing markets in the world and one of the questions there is how do you view the Australian market relative to opportunities overseas at the moment David?

DAVID PARADICE AO: I think Australia is in a reasonably good place. It's obviously got a lot of commodities and over the years there has been an underinvestment in a lot of commodities especially with energy, uranium and other particular commodities and Australia is proving to be a beneficiary of that on the economy side of things, but also if you look at Australia and in the same AM time zone and there's a number of things that benefit Australia over say other countries up there so it's like it's a nice place to visit, tourism is strong, healthcare is strong, technology... a lot of Asians come down here to go to University as well so education is strong and so if Australia continues to focus on that as well as the commodity side I think long term Australia is in a really good place to be. I mean at the moment the currency is as you probably know is being belted and that's just because people really aren't certain about where things are going and that's as you said inflation driven and you had this up until the beginning of this year, I mean the year on new number for the beginning of this year was say 10% and that 10% inflation is concerning. If you look at some of the market countries like Argentina for example, inflation is about 60% or 70% and interest rates are about 80% and obviously I won't get into that particular area, but I do feel that we are beginning to see that the rate of increase is declining and interest rates the other day the Americans came out with some good labour numbers, strong labour numbers, so they felt that interest rates are going to go up so the equity market went down, so actually what's weird is that the markets are looking for weak indicators economic indicators coming out to go up now how does that work well. That's how the markets work. The markets look a fair way in advance, so we have a view that yeah things have... there's a lot of people that are very nervous at the moment, but that always says to me it's probably not a bad time to start sniffing round in two years' time, I mean I don't know, but in two years' time you would see that equities is not a bad place to be.

CAROLINE GURNEY: So we've talked, I mean obviously you talked about Australia a little bit globally there. Geopolitics, what should people be looking out for? What are the themes that you look at?

DAVID PARADICE AO: Look it's a tough one because you've got China and Taiwan and North Korea and Japan and you've got Ukraine and Russia happening at the moment and there is some concern there. The thing that's driven part of this inflation has been well 1) coming out of the pandemic and there's been massive demand, but 2) has been kind of general lockdown in China because of COVID and 3) the Russian and Ukraine war has put a bit of a skid under the oil price which has been inflationary and it's also caused energy issues in Europe, so that last one is obviously the geo political thing. Now who knows when it's going to get sorted, but those things overshadowing the market it can bring issue you know. But it's not like... like back many years ago in 2007, there was a fundamental problem with you know it was the GFC, Global Financial Crisis. It's not like the economies are broken at the moment, you've got this inflation, but in a years' time you would hope that inflation has come back a bit and you are seeing it happening at the moment. Like I said before you are seeing not so much declining, but the rate of increase is slowing down and you're seeing that labour shortages aren't as great. You're seeing cost of transport, say shipping costs is winding right down. So you're seeing the demand for labour from IT people is going down a bit, so you know there are signs that inflation is not going to keep on going 10% year on year. So next year, around about this time next year or say at the end of this year, you will be looking at a lower number you would think which then has ramifications for interest rates and equity markets.

CAROLINE GURNEY: So the IMF has just downgraded its gross assets and 2023 it's going to feel like a recession for millions of people and I think people are fearful but they are also quite hopeful as you said you've got surging inflation and further interest rate hikes. You have also recently said and you just said that maybe the time was to look at that stock picking. What do you actually mean by that and is it really now or is it over the next quarter?

DAVID PARADICE AO: No I think it's over the next... if you've got a long term view which you should have in investing, that being a kind of contrarian investor, where you're investing in companies that are still growing but there's but a deterioration in their valuation say because of interest rates, so the fundamentals of business is still the same it's just that there's been a move

away from what they call growth stocks which is these companies that buy technology stocks which have got growth many years out and what happens is people apply a I'm going to try and not to get too technical here, but people apply interest rate to those earnings to bring them back to current day discount at cash flow and their present value and if rates go up then the valuations of those goes down and there's a number of stocks in the NASDAQ and around the world that are still producing good cash but their valuations have come down and you can see their growth and they're entering new markets and it's not like they're relying on let's say the economy to turn, they're like Amazon (NASDAQ: AMZN) has grown from next to nothing over quite a few years, but it isn't like where you've got something like the large companies like Ford (NYSE: F) you know they went like that and then they kind of went like that. Things are changing so much at the moment because of technology and that is creating growth without relying on the economy and it's those kind of companies that have been marked down quite considerably over the last couple months and amongst all those companies there are you know technology there are beginning to be good things to buy. But also not only going into technology you know we talked about reduction in spend on some of the commodities. People have said there hasn't been a lot of money spent on exploring for oil. Uranium is also another area, especially as the world moves into more of the green energy things like uranium and we're a big shareholder in Paladin (ASX: PDN) and a few things like that. But there has been an underspend and a structural change – underspend on supply and a structural change on demand on a lot of these things and that does create opportunity, so yeah look it's those [inaudible] you know people talk about copper for example I mean I'm not a big buyer, I mean I... companies where you have to rely on outside forces like whether it's currency, whether it's interest rates, whether it's commodity prices things that you really don't know where they're going to are always hard to pick because you can't pick those particular data points. But over the long term if you're a believer that there's this massive change to electric vehicles and away from the carbon side of things, then things like copper or things like Paladin are going to be a beneficiary of that, but you have to take a long term view and you have to do a lot of work on the particular companies because there's a number of companies that I have invested in over many, many years which I remember there was one it had this massive amount of... I will try and describe it easily... had this massive amount of oil under the ground and they were able to show it all there, the only problem is and it was miles down, kilometres down and it was in the ocean, the problem is it was like black spaghetti right, so it was all over the place, so if you were trying to drill it you couldn't, the oil body was very ordinary and there are a number of examples of like that of companies that have been

worth \$1 billion, \$2 billion dollars that have got a really bad asset, but they've gone up on the back of a dream and I give you people like Andrew Forrest and those kind of guys that iron ore is a lot easier because it's on the surface and you can read the iron ore body a lot better. But for everyone one of those Fortescue's (ASX: FMG) there's probably about 20,000 mines that don't do very well. So it's all about my job or the people that work with me it's their job to go and pick good investments.

CAROLINE GURNEY: I think I might just draw you back on investment styles. You just mentioned then that it's been asset growth investors who have been the really big winners. So where does that style of investment sit in the current market and who do you expect to be the winners going forward as we continue into that sort of high inflation market. What kind of investment style is going to work for the foreseeable future?

DAVID PARADICE AO: Look over the long term buying good quality companies that are growing or conversely buying cyclical stocks that are super cheap and the economy is going to pick up the stocks that will benefit, the guys that are buying well blue sky you know pipedreams and they have short term lips but long term the bandits end up getting you and I've seen you know over the years masses of situations where and I will give you an example I think back in 2000 I had a company that came in and saw me it was technology company I think it was valued at about \$1 billion dollars and I was looking at some brokering reports and it was towards the end of the reporting season and a broker said it was going to make \$100 million, another broker said it was going to make \$200 million and another broker said it was going to make \$300 million and so for the market that got this really, really inconsistent message said to me there's problems here because the company is just telling the investment community changes their tune and its massive divergence too and that company ended up going broke and there's a lot of companies back in 2000 because I started in March 2000 and the first three months were horrible for me because we underperformed and I just started and we only had \$30 million dollars, but then in about June/July 14 I think it was the market started turning down and all the speculative stuff came out of the market place and we started doing really well because we based our investments on fundamentals and not on speculation. So those that speculate won't do well over long term, they might do the short term stuff, but buying quality companies is obviously always the way to go.

CAROLINE GURNEY: I might turn to Steve now. I mean obviously Giant Steps is one of our key partners and when Giant Steps was founded it was for children experiencing autism and to alleviate the associate stress and to guide the achievements of measurable results and Steve I'm really actually interested how did it come about? What or who inspired you to start this pretty amazing school at a time when there really wasn't that much else at all?

STEVE ANTHONY OAM: Well I actually a man called Rob Llewelyn-Jones heard about Giant Steps which was a school for children with autism based in Montreal Canada and he got a group of six families with children with autism together and said let's work out what we need to do to establish a school in Australia and so that's who/how it started.

CAROLINE GURNEY: And why did that model appeal to you? Why did you decide to do a school?

STEVE ANTHONY OAM: Because what Darlene Berringer and her school in Montreal did was to include on the one site not just teachers but one to one support for the students and a whole range of therapies, so they had as we have speech therapists, occupational therapists and music therapists working collaboratively as a team and the benefits of that to children with severe autism is massive and so we said well that's the state of the art let's bring it to Australia.

CAROLINE GURNEY: So you started in 1995 and you have 12 kids and you ran the school out of a small administration block. How has the school though evolved over time and I mean obviously now you've got the school in Melbourne, tell us more about that and what you're doing in terms of the programs?

STEVE ANTHONY OAM: Sure. So look in 27 years, it's grown beyond our wildest dreams, so as you say we start a school in Melbourne I think about 7 years ago. We started an adult program, so my son actually was five when Giant Steps started and he is now 33, so we started an adult program in 2009 and then two years ago started an adult program in Melbourne as well. We've establish the Rob Llewellyn-Jones Clinic so that the children and adults with autism don't have to go and visit a doctor or go to a hospital which is very difficult for them, but the doctors come to the school and seen them in their familiar setting and met with the whole team, so the families and the staff that work with them as well, so it's grown beyond our wildest dreams.

CAROLINE GURNEY: I mean we've had obviously the pandemic and that's been incredibly tough for many, many people. Can you give us some insight into what was it like for the families with autistic children and how did you at Giant Steps get through in terms of how did you manage to stay open and funding?

STEVE ANTHONY OAM: Well the credit to the staff, the program ran pretty much at full capacity for the whole of the pandemic. So what they did was to... and the parents, one or two parents withdrew their children to the family home, but nearly all the parents including us said we actually can't manage particularly during lockdown with Patrick at home 24/7 and so they organised the school in bubbles so that there were... fortunately we've got quite a lot of space at the site and so pretty much one staff member worked all day with one student and they didn't come in contact with anybody else, so the risk of spreading of infection was very low. From a fundraising point of view, the pandemic was a problem, so when we started in '95, we received funding and had to raise a half million dollars, so pretty much the formula hasn't changed, we need to raise... because we have the therapies and the high ratio staff to students, it costs us a lot more than the government provides and so we have a substantial fundraising task. Right that was half a million dollars in '95, it's now \$6 million dollars a year and so yeah we rely very heavily on generous donors like Paradise and FGX has been amazing, but we raise about \$10 million dollars a year from events, so we have a ball every year which raises half a million dollars and organise a bike ride and have for 18 years which David's participated in with Mike Hawker Olympic Games actually and that raises a couple of hundred grand a year, well during the pandemic all those events were cancelled and so we had quite a big hole, but people have been remarkably generous and we managed to get through the... and of course donations like the money that comes from FGX continued during the pandemic, so we managed to stay financially viable and to give fantastic student service to our students and to our families.

CAROLINE GURNEY: And how great is the need for this type of school?

STEVE ANTHONY OAM: It's substantial. So I mean Giant Steps caters for very high support needs people. So autism is a spectrum and there's a lot of people in the financial market that are probably on the spectrum including myself, but the group of students that Giant Steps support are at the very high end of support needs and which is why they require very... lot of

resources to make things work best for them. So look there's plenty demand... fortunately the NDIS has done a lot of good for people with disabilities, so it means that many people in the NDIS now have access to therapies that they previously didn't and also fortunately the general awareness in the community of disabilities like autism has changed massively in the last 30 years and so people with disabilities like autism are much better off, but still I don't know Giant Steps has a waiting list with I think 400 people on it and we have 130 students, so there is a massive increase of demand over supply in terms of such services.

CAROLINE GURNEY: I think the work that Giant Steps do, the teachers, all of the people that are involved is really impressive in terms of the results as well. We've just got a few questions coming in, but I just wanted to ask you David what was is the question you ask Steve and Steve what is the question you would ask David because I mean you obviously know each other very well like what do you talk about on a regular basis and what is important?

DAVID PARADICE AO: Well he comes and helps me with my business so our discussion revolves around that a lot of the time doesn't it?

STEVE ANTHONY OAM: Yes.

DAVID PARADICE AO: Or it's joking around. No but my question for Steve was just listening to that was how do you fill up the 400? How do you take account... what happens to the people outside the 130 that aren't getting there?

STEVE ANTHONY OAM: Yes well a lot of them go to local schools with different levels of support. Some of them are at home schooled. Some of them miss out, so it's like anything where there's the need exceeds the available services and some people have to survive with less than optimal support.

DAVID PARADICE AO: Yeah you guys must save the government quite a bit of money by taking them too?

STEVE ANTHONY OAM: Well that depends how you look at it yeah so...

DAVID PARADICE AO: Right. So why wouldn't they go and support you more?

STEVE ANTHONY OAM: Well I mean it has been that we get the funding which the government provides to special schools right and our mantra has always been that we need that without that we couldn't operate absolutely, but you get so much extra value from the additional resources that our model depends on that and we've to some people's surprise we've run for 27 years and grown every year and managed to even through COVID, managed to stay financially viable basically because people are amazingly generous actually. Even during the pandemic, we had almost no drop off in donations which is incredibly right, so we had a big drop off in terms of events fundraising, but almost no drop off in donations. One of the things which happened during the pandemic so one of the things which FGX has enabled Giant Steps to do is establish a learning hub which is incredibly important because not only... so we've got 130 students and nearly about 120 staff and they require a lot of training, so the learning hub facilitates that, but they also do training for the families and people who aren't at Giant Steps. So you mentioned SILC that I've been involved with and SILC has 130 employees also in our 12 houses and almost all of those have been trained by Giant Steps in terms of how do you support somebody with autism and during COVID, there was no ability to do face-to-face training, so Trish and Rachel who run the learning hub developed a whole suite of online training programs which thanks again to FGX, but which has meant that people were able to continue to learn about autism and how to work with people with autism most effectively even during the pandemic.

CAROLINE GURNEY: Excellent thank you. And we've just got some questions coming in and one of them is to David in terms of you talked about the tech companies' tax less sector or described as the profit less tax sector not performing and obviously it's been hit hard recently. What value or potential do you see in that sector?

DAVID PARADICE AO: I think there's potentially massive value there because taking contrarian view there are things out there that get thrown out the baby with the bath water so to speak and there's great value and it happened back in 2007 when SEC and car sales and real estate .com got turfed out and they turned out to be massive buying opportunities and they're multi-billion dollar companies now. So those opportunities are out there it's just a case of finding the buggers you know it's hard.

CAROLINE GURNEY: That's what... that's all the stock pickers, that's all you guys do so you know it's important.

DAVID PARADICE AO: That's right yep.

CAROLINE GURNEY: So another question was you have seen many economic cycles, what are your thoughts on this one and how do you think it's going to pan out? Is it going to be the same and how long do you think it will last?

DAVID PARADICE AO: I don't know I think that in the short term interest rates probably will start going up and as I said before and inflation is still moving up but the rate of change is diminishing and so I do think that if that was the case say some of the companies that we've invested in at the moment Computer Share (ASX: CPU) which is a share registry which has a lot of cash on its balance sheet and it benefits from interest rates going up in the short term. Long term rates will start rolling over and when that happens financials are the place to probably be, but in these situations and it happened in the bottom of the pandemic where people were saying oh you know you've got to get rid of staff and you've got to do this and you've got to do that, I feel these times create great opportunities and within the next six months to a year I think we'll see some better clarity and I think it's a good opportunity to start sniffing around and if you're a contrarian, for example there's lots of little opportunities. Someone was explaining to me today that 'cos the Aussie dollar is quite low that gold prices in Aussie dollar terms are near their highest, but the share prices of gold companies for example that are near their lowest and probably 98% of the companies probably aren't worth a great deal but there's a few out there that have been where the baby has been thrown out with the bath water. So look it's not like the whole system is broken, I think that in six months to a year there will be a lot more clarity and view better.

STEVE ANTHONY OAM: Caroline you invited me to ask David a question can I do that?

CAROLINE GURNEY: Yes please do please.

STEVE ANTHONY OAM: So as a naïve person, everybody seems to think that interest rates going up is a massive problem but if interest rates go to 5% or 6% and stay there is that really excessive?

DAVID PARADICE AO: That's a really good point Steve because you might have been alive in '87?

STEVE ANTHONY OAM: You know we remember when interest rates were 15, 18% and that was not obviously good for the market right and for profitability, but I think that everybody has got used to near zero interest rates and everybody is getting very distressed at the moment that the poor people that have just bought a home for the first time won't be able to pay their mortgage payments, but I would've thought that in the long run we've got to get used to interest rates around 5 or 6% as a sort of moderate level?

DAVID PARADICE AO: That's a good point, they're still low relative to... no absolutely and quite a big retailer in the country said the same thing, we think things are pretty good out there, rates are not like they were many, many years ago and unemployment is quite low, so people are getting paid and I mean yeah sure I think you're right there are some individuals balance checks when people have bought houses at the top and 1% increase in interest rates is quite significant to them but generally a lot of the smaller medium enterprises and people balance sheets are okay so yeah no I think you're right rates are low.

CAROLINE GURNEY: I'm just going to ask you the final question from a shareholder. David you mentioned the next quarter it might be time to start stop picking again what is the main thing you look for before going all in?

DAVID PARADICE AO: Sustainability of earnings and cash flow relative to say the size of the company, like business strengths, margins and all that kind of stuff are very important but what's good at the moment is like a year ago when the equity market was 25 – 30% higher and there was a massive amount of speculation in the market it was really hard to find those particular companies because the valuations were so high. You knew it was a good quality company but the valuation was really high and what's happened over the last nine months to a year that a lot of stuff has fallen and so you can find good quality companies that have those attributes and

those asset strong cash flow, strong balance sheet, strong margins you know defensive positioning and significant growth runway, they're out there, they're out there and they're hard to find but they're a lot easier to find nowadays.

CAROLINE GURNEY: Yep. Thank you. Thank you very much David. Thank you very much Steve. You are incredibly important to us Steve in terms of Giant Steps and the funding that we've given you since inception and David thank you very much for your support for Future Generation Australia and Future Generation Global with both of the funds that manage our shareholder's money, so we can give that 1.0%, so thank you very much both of you.

STEVE ANTHONY OAM: Thank you very much.

DAVID PARADICE AO: No problem, thank you.

CAROLINE GURNEY: I'm going to give you an update on FGX and FGG and just briefly go through what we've actually just seen in terms of the last quarter. But one of the things I actually wanted to talk to you as well about is the IC that we have two investment committees for both companies and their responsible for selecting and monitoring the fund managers and our investment styles and I'm going to ask Martyn McCathie to come in and actually talk to you a little bit about the investment committee and how we are actually making sure we have that diversified investment portfolio and which try outperform through the market cycles with reduced volatility and downside protection. As you know, in FGX we have 18 leading Australian pro bono fund managers and obviously you've just spoken to one of them and we have 24 funds there and the managers include Regal, Paradise, Coopers, L1, Firetrail, to name a few and on look through basis the investment portfolio now has its view towards the small and mid-cap companies and that did weigh on the Future Generation Australia investment performance during the year. As you can see from this slide for FGX, we have increased our fully franked interim dividend, I hope you can actually see that, we've increased our fully franked interim dividend by 8.3% with profit reserve 29.0 cents per share and the dividend yield is 5.5% and that's based on Future Generation Australia's 11 October 2022 share price of 1.175 per share and the annual year 22 fully franked interim dividend of 6.5 cents per share. Our grossed up dividend yield is 7.9% which I think is very strong and our dividend coverage there is 4.5 years. So if you look on the other side in terms of Generation Global, that's our global investment portfolio and it's made up of 13 leading global pro bono fund managers and we've got Munro,

Antipodes, Cooper Investors and obviously Paradice to name just a few. So FGG we've increased our fully franked interim dividend by 16.7% and obviously that's now twice a year and the profits reserve is 45.2 cents per share. The dividend yield is 6% and that's based also on Future Generation Global's 11 October share price of \$1.165 per share and the annualised FY22 fully franked interim dividend of 7.0 cents per share. So the grossed up dividend yield there is 8.6% and dividend coverage is 6.5 years. So the investment portfolio remains exposed to absolute bias managers and traditional long equities managers and that did weigh on Future Generation's Global investment performance during the period, especially given the volatility in global equity markets throughout the year. I mean you know we're very well across in terms of what's been happening in Ukraine and inflation supply chain issues as David was talking. The Future Generation Global investment committee reviews the individual fund managers within the portfolio continually, especially during these volatile times and we have made changes to the investment portfolio and welcome new fund managers which I will ask Martyn to talk about. So the slide here which is our fully franked dividend since inception, you can see really there where we've got that stream of fully franked dividends and you can see how it's increased since inception to the benefit of our shareholders and that's what we're all working towards to making sure we increase that fully franked dividends for both of the companies. You can see there that the fully franked interim dividend is up 8.3%, 3.25 cents per share and then for FGX it's that 3.25 cents per share which is up as 8.3% as I said on the previous slide. I think these slides are worth looking for because for both companies it's very consistent with what we're trying to do and is pay that stream of fully franked dividends to shareholders and that's something that we are really hope that that will give you long term certainty, especially when we have the profits reserve. So now I'm going to ask Martyn to join us and to go through a few question.

MARTYN McCATHIE: Yes.

CAROLINE GURNEY: So we're getting some questions in from shareholders and I think they're really important. A lot of them are about the IC and what we're actually doing in terms of that portfolio construction, the diversification and also the fund managers, but one of the main questions we've got is like how do we choose the fund managers and Martyn who is on the IC is the perfect person to answer that so thank you Martyn.

MARTYN McCATHIE: Thanks Caroline. Look how do we choose the fund managers and I guess what's probably interesting is how we identify the fund managers and how the opportunities to invest in these managers come along and then capital and the due diligence process. So on the identification of fund managers we're extremely lucky across both investment committees to have representation from Lonsec, the cofounder of Zenith, Morningstar and AMP Research, so we're able to leverage...

CAROLINE GURNEY: And fund managers that really know what's happening in the market so I think it's really important.

MARTYN McCATHIE: I think so and that... and I was going to get onto that but I think you know with the research side of it obviously we're able to leverage them and their teams, the meetings that they're conducting annually with the fund managers and we can leverage the output from those meetings and as you said the fund managers themselves, fund managers are a competitive bunch, they tend to know their peers who is performing well and up and coming managers as well, so great opportunity for us to get access to up and coming managers. The other point of that is as Future Generation as a profile of both companies has grown. We've been going for almost eight years now in the case of FGX and seven years for FGG. The number of inbound inquiries we are getting has significantly increased. Managers approaching us who want to be involved with the unique model that we provide and looking to give back to the community as well. On the on boarding and how we go through that next step once we've identified potential managers and that's over to the investment committee to complete our due diligence framework which includes scrutinising the trust, the service providers, the security of capital but also meeting with the managers in person and going through that process understanding how they fit within the construct of our portfolio to make sure that they will add value to our shareholder base.

CAROLINE GURNEY: So the next question actually which I'm summarising because I think it does really follow on in terms of the portfolio diversification. Why are there more fund managers in FGX as compared to FGG and then one of the questions that comes in is like if you could just briefly talk about the diversification in each portfolio please?

MARTYN McCATHIE: Yes. So looking at FGX it does have a larger line up of managers, there's 18 managers, 21 funds and in the case of FGG it's 13 managers at the moment. With FGX there's obviously a domestic product, the Australian market is a lot smaller than global markets, the capacity that the Australian fund managers have compared to their global peers is significantly smaller and therefore the capacity that the managers are willing to give up on a pro bono basis as a result of that is smaller again, so what we've got with the group of managers that we have in FGX, the smaller managers that are there are managers that have given us maybe less capacity, but they've done so because they're either investing in a niche investment process or investment philosophy which we believe adds value or they're investing in that small micro-cap scale of the market and they want to be able to remain nimble and active and add performance to shareholders and pleasingly the tail of managers have done so for us, they've been outperformers compared to some of the larger managers which is why we've decided to retain them. On the second part of the question was it the diversification.

CAROLINE GURNEY: Yeah.

MARTYN McCATHIE: Yeah got it. And so on the diversification across both, I guess one of the criticisms often laid against funds is that you end up two managers in a portfolio competing or opposing views, their strong views are offset somewhat and you end up with index or index return. With the analysis that we've done with FGX and FGG and we go through this on a quarterly basis with all of our managers, we have a very... from a portfolio construction point of view we've got a very active share percentage which means that we're not giving shareholders index style exposure or index style return, so an investment in FGX or FGG can be really complimentary to our broader investment strategy

CAROLINE GURNEY: So one of the next questions I'm just reading it out is FGG has underperformed the benchmark and what are the drivers for the underperformance and how are we addressing on it? I mean firstly I would very much like to say that it's something we're incredibly focused on, I mean it is primarily it is an investment vehicle and it's really important that you have that performance and that's something that the IC is working on. I mean we have extraordinary bench of fund managers and they are exceptionally good with what they've done and they have managed the money incredibly well over the long term and we expect them to do the same again over the long term. But I think I mean Martyn maybe you could speak a little

bit to the IC process in terms of we've recently changed the portfolio and in terms of that the bias in terms of growth and what we're actually doing there please?

MARTYN McCATHIE: Yep and I think to start I think it's important to know active and busy the FGG investment committee has been. We have been meeting on a very regular basis. There was a period this year where we were meeting more than monthly and we've got a scheduled meeting cycle of quarterly so we're really getting our pound of flesh from each of the IC managers as we look to navigate these extreme situations we're seeing in equity markets at the moment. Within the FGG as I touched on earlier we do conduct look through analysis in the portfolio. It's part of our risk management framework and what that has given us is an understanding of the drivers for performance in the portfolio and we've long known that we've had a growth bias in the portfolio and we've long known that we've had a bias just small, middle and micro-cap as well. Both are a function of the managers that we've got and a function of where they have been able to find value and believe they've found long term value within their respective funds. What that's resulted for FGG and our portfolio performance is as we've seen a de-rating of growth companies and I guess a return to value that's hampered performance that's been you know in addition to that small, mid-cap stocks globally and domestically have underperformed you know large cap peers that's at power performance and there's been an element of idiosyncratic fund manager underperformance in there as well which is going to compound it and wrapped it all off. I guess we've had a couple of exits in the investment portfolio for FGG. We are recycling that capital at the moment and we're taking this time to make sure that we're bringing complementary managers into the fold. There is an opportunity at the moment to add strategies which are complimentary and to that we've added another value manager which will hopefully complete the rebalance of the portfolio and what we're looking to do there is set that portfolio up to perform over the next five to seven years. There will also be changes I'm sure things will happen managers will come in their favour and but we do take that longer term view and think we've got the right mix of managers from a style perspective on a go forward basis.

CAROLINE GURNEY: So we have another question and I'm going to read this out verbatim, so a shareholder would like to really know about thoughts, targets and trends around ethical types in investment in the portfolios particularly clean energy, biodiversity, inclusion, circular economy and this is with FGG and do we have any fast drives in plans to remove all fossil fuel of these

companies from the portfolios this is Rebecca she's actually hoping for that. I mean I think it's really important I mean we have this huge social impact working with these amazing not for profit organisations to help sort of the views of Australia and I mean I look at the FGG portfolio and that's what 99.2% ESG aware, and we're very lucky we've actually just got the new Lonsec report in on the 11 October, so we have no exposure to weapons and some other sectors but Martyn you were just going through it yesterday would you just as a high level what sectors are we there and what are you looking at in that respect?

MARTYN McCATHIE: Yeah hot off the press. I guess from a sector and industry's perspective when you talked about ESG aware there, we've got a couple of sectors that we classify as non ESG aware and where we've got exposure there is gaming and the casinos, we've got a small exposure there, less than half a percent and we've also got exposure to vineyards, alcohol vineyards and breweries again less than half a percent. Sorry, so as you said no ammunitions, no tobacco which is pleasing from the portfolio. We don't enforce negative screening on a manager so managers can hold any stock around the world unless they have their own internal ESG framework and policy that they abide to we don't enforce it upon them.

CAROLINE GURNEY: But we're seeing a number of them now sign up.

MARTYN McCATHIE: Yep we are and you know I've been involved with FGG and FGX almost since inception and worked alongside the investment committee and what we have seen is that really pleasing transition. You know David as a great example of a fund manager that has brought internal capabilities in relation to ESG incorporated ESG principles within their investment process on the broader team and we've seen that trend throughout our managers especially in global states and it's definitely more prevalent.

CAROLINE GURNEY: And we've seen a lot of our fund managers I mean you sort of read about it in the newspapers actually lobbying the companies to do better and I suppose the argument is if you don't lobby them to do better and get them to do better, then you know they just slip off the radar and therefore they are sort of allowed to sort of continue on their devices.

MARTYN McCATHIE: Exactly and it's that act of ownership versus exclusion and I don't have the answer for which one is the right way but I definitely prefer the act of ownership. You can

make meaningful change by owning the shares instead it simply excluding them, so that's where we're at today. We've seen positive change and hope that continues into the future.

CAROLINE GURNEY: So our last and final question because I'm very aware of time is and this probably wraps what most people are asking about is that sort of are we getting enough diversification through our fund managers? Are you comfortable where the portfolio is sitting from an IC perspective?

MARTYN McCATHIE: Yeah we are and you know we've made a lot of changes with ESG. You know there's one as I said that's imminent, we're in discussions with a couple of managers, but what's pleasing and you know joining the IC we've got additional resource now and what we're able to do is really engage with the managers more regularly, not only existing managers but perspective managers and the plan there is to have a bench of managers that if for whatever reason we lose a manager, we've got a like for like replacement or if we lose a manager and we want to make a change to the portfolio construct we can do because we've got an opposing manager or a complementary manager that can come into the mix. From a diversification standpoint, I think we've covered a lot of it already. You're getting non benchmark style returns. You know definitely that small, mid and microcap exposure as our managers are seeking value in under researched, under covered segments of the market.

CAROLINE GURNEY: Excellent. Thank you. I think I'm going to wrap up now due to time, but I really wanted to thank David Paradise AO and obviously Steve Anthony OAM for speaking to us today and to Martyn from our Investment Committee. We are incredibly grateful from the support of our shareholders in what we're actually trying to do and also to the fund managers that work pro bono with that no performance fees or management fees and also our service providers. We're looking forward to our next update. We released a podcast on Monday with Tim Minchin talking about the business of giving. I really encourage you to listen to it it's very entertaining. Thank you very much again for joining us.

[End]