Future Generation: Investment Insights

Caroline Gurney and Jun Bei Liu – Tribeca Investment Partners

CAROLINE GURNEY: Hello and welcome to Future Generation Investment Insights. I'm delighted to have Jun Bei Liu here from Tribeca Investment Partners with me today. Jun Bei Liu manages 3.0*

of Future Generation Australia (ASX: FGX) and she's done that and has been involved with us for a number of years. But more importantly, you manage the funds for us pro bono, which is incredibly important because we give that 1.0% to those not-for-profits, so your work is incredibly important to us, so thank you. You have more than $1 billion now in terms of management and what you're managing, and that's really pretty amazing, especially now in these volatile times. How is your fund holding up?

JUN BEI LIU: Thank you, first of all, thank you so much. I always feel such an honor to be part of the Future Generation managers and Future Generation's family really, and I always feel so happy to be able to give back to society and knowing where those dollars are going, and then you know, all the charities that you represent, which has been phenomenal. Look, it's currently very volatile markets. Actually, I look at our performance given we're a long-short fund, we've actually done quite well so far this year, as well, as you know, so far this financial year, the September quarter, we actually delivered over 2.0%, or 2.2% to the executive Board for our investors, compared to a market it has been up and down pretty much flattish at this point. Look, it's a very tough environment at this point, you know, for fund managers like us, because we long-short, so sometimes investors are a little bit confused of what short is, it's to bet on the share price falling. So this is really our market. And, you know, to be an investor with more than 20 years' experience, we, and you know, I get very excited in this sort of market, because we find so many opportunities. You always see me getting very excited talking about stocks, and this market is fantastic. You know, every few days, we find those high quality businesses just being sold off. We, fortunate enough to be a long-short manager, active manager, we can actually, you know, buy some of those businesses and a lot of them are probably as cheap as they were during the onset of the pandemic. So, you know, it is volatile markets. But it really is a great market for finding and picking out great companies.

CAROLINE GURNEY: With the IMF (International Monetary Fund), you know, they've just downgraded in terms of their growth outlook, and they've warned that it's going to be a recession for many millions of people. So, it is tough out there, especially globally. You've got central banks, they're sort of raising rates, you've got inflation and you've also got a number of markets now in that bear territory. What do you think the temperature is like in Australia, and then maybe afterwards, if you think about how ring-fenced we

*As at 30 September 2022.

are, from all of that global uncertainty?

JUN BEI LIU: Look, Australia's better positioned on that basis. Let's look at some of the uncertainties and risks. Other markets, they have got really rampant inflation, the inflation hitting high single digits. Australia somewhat more benign, still in that mid-single digit level, it's partly because our labor market is structurally different. Because of the awards and unions sort of space, it takes longer to come through. And so some markets really are hitting those energy crises. You know, the European market where they get a lot of their energy coming from Russia and sanctions. There's so many disruptive forces which are really forcing those markets into crisis. Also, if you look at the interest rate increases, you know, in the US, they've gone up a lot, we have really just started some of those paths, but not nearly as much as that and if you look at the UK, they've gone through the crisis of their pound collapsing. Also don't forget, they're managing Brexit as well. So you know, economies go through many challenges. Australia's better positioned. Our corporate earnings in a way, because of the lockdown, in a way that we are still yet to return to the pre-COVID levels. So our corporates are still recovering from the lockdown believe it or not, six months ago, a lot of big parts of Australia locked down, now everyone's flying. So you know, corporate earnings are still yet to recover. We still have some earnings growth compared to the other markets, so we will grow better. And the Australian market of course, is more dominated with you know, the financials, the resources, and both of these should do reasonably okay. During an environment where there is a bit of inflation, high interest rates, it should do or cushion our community, our economy much better. China is a little bit tough at this point, but we do think that they will reopen their economy by early next year. This probably means the commodity prices will be reasonably supported, which means our economy, in terms of demand for our products, will continue to be pretty good. So we look pretty good and we're very cheap in terms of the scheme of things relative to globally, that's why we are such an outperformer globally so far this year, and we continue to be doing so you look at NASDAQ hitting their mark and our market is flat. So you know so we continue to see our market will do reasonably well. You know, obviously, there's a lot of uncertainties and variables. But, you know, this is the market that I do see some sort of earnings growth coming through.

CAROLINE GURNEY: That’s actually really positive to hear. In terms of your outlook for one, three and five years, are you changing your portfolio a lot now to position for that? Or are you just doing it slowly over time? Or when you see those opportunities?

JUN BEI LIU: I'm probably the last one, the latter. I'm more opportunity driven. You know, every investment we make, we always work out what our estimated expected return is. If a meter hurdle, we will then take positions. So right now because we sell so much off across some of the growth and quality leaders and to us these are structural businesses, or structural growth businesses, they will future proof your portfolio whether they're healthcare, whether there's some tech or whether they're in the stable business, or whether they you know, listing businesses, these are businesses we expect to grow well over the next five years to be much, much larger than they are today. Short term earning might be a bit volatile because of cycles and things, but we do think this is the opportunity to pick them up. Right now, our portfolio certainly is gradually moving towards those companies simply because their share price is just becoming unsustainably low. You know, my views, if any of those businesses that continue to stay at this price for the next six months, they will all become private.

CAROLINE GURNEY: You mentioned China. Obviously, there is a lot of geopolitical risk out there. How do you think that's going to impact Australia? You know, what are the long term consequences? Or perhaps opportunities in the long term?

JUN BEI LIU: Of course. Look, we definitely have gone through a rough patch. While it's harder to call, you know, the political direction, then relationships and who's visiting who, I would just take a step back. Looking at China's relationship with its own neighbors, you know, over the last three decades, right. Look at China's relationship with Japan, China relationship with South Korea. They have fights over time, you know, from periods of time to three years, and then you look at the trade between China and those countries, they've been growing stronger ever since. So, you know, to me, it is short term, it would seem it's a short term blip. We have differences and then over time, hopefully, we'll be like those neighbors, like China with those neighbors, then we'll get over our differences. Certainly, currently, it does seem like publicly, the US exchange, what I have read is their relationship seems to be thought thawing. And we do hope that, you know, there will be improvements from here, which will mean greater opportunities for our businesses, and potentially some of the harsh tariffs can be removed. It's all great for our businesses, our economy, and you know, our consumers.

CAROLINE GURNEY: Ultimately, I think it's really important. I think many are really hopeful that that relationship is going to improve. For you, what are the most promising sectors in Australia at the moment and why?

JUN BEI LIU: Look with all the macro uncertainty and backdrop we just talked about, I will absolutely put my focus on health care sector for a couple of reasons. First of all, healthcare earnings, or healthcare sector, is one of the most defensive earnings space. They will grow with or without recession, or regardless of economic activity. Also on top of it, quite a lot of the health care businesses whose earning has been impacted enormously by COVID, you know, you thought healthcare businesses would benefit enormously from a global pandemic, but it turned out, they didn't, many of them didn't. So the likes of CSL (ASX: CSL) because their collection center was shut in, you know. There's all the earnings, and these are actually just on the way back up. Even the pandemic recovery alone will give them high single digit growth. On top of that, you have double digit sort of demands, five years out. And so this is a business will grow by double digits, and with a very reasonable valuation because of markets at the moment, just bit fearful about buying anything at the moment. That's your great opportunity. Another great one we really love is Ramsey Healthcare (ASX: RHC). We thought private equity clearly has sort of messed up the share price. But now the share price is way below where the private equity bid was. And this is one business, I do believe, in the next six months, if it's still a current share price is certainly will be sold to another player. So you know, it's just very high quality business that we generate earnings growth, and so without it, we are in a very defensive way.

CAROLINE GURNEY: In terms of your family alpha plus fund, it's long-short. What are you looking at in terms of your short positions, what sector are you looking for there?

JUN BEI LIU: Absolutely. We tend to follow the earnings and right now the sector that exploits more vulnerable to earnings downgrades is really the consumer sector. Whether it's staple or consumer discretionary consumer sector, you know, over the last eight months, I will say has experienced still continuing to pretty buoyant conditions. But in just more recent times, we've started seeing some of the cracks of Pirie not only across the US market, but in the Australian market, we started seeing some of that as well. Just more recently, we've seen a downgrade from a couple of retailers, Baby Bunting (ASX: BBN) to a sharp slowdown. Really it could be just consumers started pulling back on some of the spin not collapsing, just started pulling back some of the spending, and they need to pay for that overseas trip that they that everyone has booked. So you know, all of that together. We do have a few shorts in this space, really just to gain exposure to you know, potentially weaker earnings coming through over the next 12 months.

CAROLINE GURNEY: Thank you, our shareholders love stock picks. So if you could possibly give us one, that'd be fabulous, but long term.

JUN BEI LIU: One I touched on before, I think this one is, absolutely, I will put my mother's money in it is Ramsey Healthcare (ASX: RHC). This is a premium private hospital chain, the largest in Australia, and it has a lot of quality, high quality assets, those private hospital assets sitting on the balance sheet. And also, it's also got operations in the UK and in France. The earnings have been impacted because of the pandemic lockdown, elective surgery was not able to operate at full capacity. But that's coming back, we've seen the waiting list in the public hospital now up to two years long now, it's just a matter of time before people return. And it will have double digit earnings growth, very stable, you know, strong sort of franchise. The share price is one of the very few that hasn't really recovered to the pre-COVID levels. To us, this is, you know, one company that you can just buy and put in the bottom drawer.

CAROLINE GURNEY: Excellent. Thank you. My final question is why is managing Future Generation's money important to you?

JUN BEI LIU: I think it's so incredibly important. As fund managers we manage investments and we're generating returns for investors and we feel, you know, very happy about it. There are investors who like have a better lifestyle and things. But for Future Generation, there is an additional bonus, if you like, on the side that we can actually see that money being donated into different charities. And then by learning more about those charities, you really see how much impact we could have, by doing what I love every single day. I myself was very involved with one of your charity [partners], which is Raise Foundation. We can see for every $2,000 they raise, they can find one kid to find a mentor. So to me that's very, very incredibly rewarding to be able to see that and, and to be able to help.

CAROLINE GURNEY: Well thank you very much. Thank you very much for managing our money pro bono. Jun Bei Liu from Tribeca Investment Partners, thank you.

JUN BEI LIU: Thank you so much for having me. It’s such an honor to be part of your group. Thank you.