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Future Generation FY2022 Full-Year Results Webinar

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CAROLINE GURNEY: Welcome to the Future Generation FY2022 Results Webinar. My name is Caroline Gurney and I'm the CEO of Future Generation. I would like to acknowledge the Gadigal People of the Eora Nation, the traditional custodians of this land where I'm sitting and recognise their continuing connection to lands, waters and communities. I pay my respects to Elders past and present. I am really delighted to be sitting here and to be joined by two of our leading pro bono fund managers Mark Landau, Co-Founder of L1 Capital who manages funds on behalf of Future Generation Australia (ASX: FGX) and Jacob Mitchell, Founder of Antipodes Partners who is the Future Generation Global (ASX: FGG) portfolio manager. We will also have Geoff Wilson AO, Founder and Director of Future Generation and Chairman and Chief Investment Officer (CIO) Wilson Asset Management and he will be joining me in the second half of the webinar to discuss our FY2022 results. As you all know, Future Generation companies are unique. The Future Generation companies are Australia's first listed companies to provide investments and social returns. We offer a unique opportunity for shareholders to invest with leading Australian and global fund managers whilst supporting youth focused and not-for-profit organisations or charities as well. In order to achieve this, all of our pro bono fund managers including Mark and Jacob waive their usual management and performance fees and this allows us to donate 1.0% towards improving the lives of the young Australians. As we all know we've all lived it 2022 proved to be a challenging year for markets. Despite this we were really pleased to be able to increase the dividends to shareholders in both companies and also to donate $12.3 million to our not-for-profit partners. Geoff and I will discuss performance, the dividend outlook and our social investment later on in the webinar and also take shareholder questions, so please thank you to everyone that's already sent them in, but please do send more in the box provided. I've asked Mark and Jacob to discuss their market outlooks, highlight some investment opportunities as well as answering any shareholder questions, so let's get straight to it. Mark, Jacob welcome and thanks very much for being with me today. For markets as I've said it's constant negative news flow, it's been very volatile, so how is 2023 shaping up for you? Perhaps Mark if you could give us a brief market outlook and let us know how you're positioning your portfolio to cope with what's happening out there and then if we could perhaps go to Jacob, so Mark over to you thank you.

MARK LANDAU: Thanks very much for having me. I feel like a bit of a party pooper because I'm relatively cautious and it's a big contrast in terms of how we're positioned at the moment versus how we were positioned for the most of the period following March 2020 when COVID hit and essentially the situation today feels like a complete inversion of what we've experienced over the last few years, so going back to March 2020, the valuations were amazing, the ASX 200 was at 4,500, today it's at 7,000. SNP 500 at that time was at 2,300, today it's at 4,000, so we've gone a long way in terms of recovery in share prices and at the same time you've seen interest rate policy dramatically change, so we're seeing huge increases both in Australia and the US in terms where interest rates are, we've got an enormous amount of pressure on cost of living for most consumers and when you bear in mind the GDP is around about 2/3rds made up of consumer spending, that's obviously going to have a big effect on the growth outlook. At the same time, you've got a bit TAR(?) risk than what you had previously, GO2 core risk we think is elevated is likely to stay elevated, it's not just the Russia/Ukraine situation it's also the China/US tension including Taiwan. The situation in the Middle East isn't getting a lot of airtime but that's something that's been buried in the background and we also think from an earnings point of view that you're planning this persistence strong earnings upgrade cycle a lot of corporates with leading expectations as their cost base has been cut during COVID and revenues to most companies bounced back strongly, now I think we're going into a gradually more difficult environment where costs are putting a lot of pressure on corporate margins and at the same time revenue is likely to slow. So we think there's a number of reasons to be a bit more cautious in terms of how we're positioned and also I think of how people should be thinking about the outlook equities in general. We've got a fortunate position we're able to go long and short in our portfolio and it definitely is a nice feeling to be able to I guess punch with both hands. In terms of how we're positioned generally, essentially we're holding half of our portfolio in cash and the hard part within that is to work out where to position essentially defensive stocks which is where you would naturally gravitate to they're actually very expensive and very crowded, so it's a part of the market that even though intuitively where you might like we can't make the numbers stack up from a valuation point of view so a lot of those typical stocks and a lot of retail investors would be holding a lot of healthcare stocks, supermarket, toll roads, even CBA we think they're all relatively fully priced and you really have to go outside of that to find opportunities where both value and quality are available, so hopefully you can make sense of what we're thinking and I'll turn it back to Jacob.

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JACOB MITCHELL: Yeah thanks Mark and thanks Caroline it's great to be here. Look Antipodes Partners really would sort of agree with sort of a lot of those views. There's building risks as a result of central bank policy during COVID. You had central banks amplifying really loose fiscal policy, so probably doing the opposite to what they should've been doing. They should have been sort of in some ways acting in a counter cyclical manner but they weren't, they were actually adding fuel to the fire and that got expressed in asset prices. I mean now they're really mopping up the mess in terms of we've got this inflation hangover, but the Fed has been tightening aggressively probably a lot more aggressively than other Central Banks and now you're starting to see the consequences. Inflation is probably coming down, but we're starting to see real stresses appear in the financial system and it's kind of… no matter where you are in the world it's roughly the same issue, short end rates went up very quickly and anyone who pays has a whole lot of leverage and is paying and is exposed to variable rate as opposed to fixed rate is starting to feel the stress, so it's households, it's certain parts of the corporates and we don't think that's yet priced into earnings. It's certainly not in the case of the US as a global investor I suppose when we think about where it is priced in, it's probably more outside the US than inside the US. If you go to China for instance and we acknowledge the geopolitical risk but China did the opposite to what the Western Central Banks did, they actually tightened coming out of COVID and Chinese economy is actually coming out of a recession. You've already had a downgrade, earnings downgrade cycle and your starting multiples are quite low, they're at around 11, 12 times whereas you go to the US and you're on 18 times and you've hardly downgraded earnings at all, you're about most until recently earnings expectations were flat which is incredible given how the shift in interest rates which will ultimately impact housing and impact the consumer economy with a lag, but eventually it happens and we're putting those high earnings on a high multiple and Europe is somewhere in between, but is certainly a lot cheaper. Europe had the energy crisis as a result of… and it was actually the spike in energy prices in Europe what it did was it actually probably brought forward a downgrade cycle and now as energy prices have normalised, we think Europe can actually muddle through probably better than expectations, so to summarise pretty cautious on the US and anywhere in the world where we think the recession is not priced we're relatively cautious and a bit more constructive on regions or parts of the market where we think you're already pricing in a fairly pessimistic scenario and the global fund that is a part of the Future Generation Global portfolio is our global long fund, but similar to L1 we also manage a global long short fund so we're probably finding

it's an interesting environment, you've got a lot of macro dispersion and a lot of single stock dispersion so it's a more interesting environment I think generally for active management.

CAROLINE GURNEY: Thank you. Thank you both. As you've mentioned in your talk about one of the key reasons for market volatility is inflation rising interest rates. What do you both think in terms of when will interest rates peak? Maybe Jacob you could talk about global and maybe Mark for Australia. What are your thoughts there?

JACOB MITCHELL: Yeah look I think like they're peaking right about now. I think maybe Jerome Powell has to do one more hike just to save face but I suspect he probably doesn't want to do that last hike given the issues in the regional banking sector in the US which is a result of… it's a combination of things. I mean there's some idiosyncratic issues obviously the banks, the regional banks are pretty short capital, they don't have a lot of capital buffers and they don't have great business models which means they end up being quite exposed. As interest rates go up their profits get squeezed 'cos they can't reprice their lending right in the same way that say European banks can. So you've got now signs of stress and you've got the issue of Credit Suisse in Europe another major issue for the financial system, so I think in the US I suspect there right now inflation is rolling over and the Fed is going to start to think about financial stability ahead of fighting inflation and I think eventually you will start to see unemployment sort of rising in the US and the Fed will then have to start to focus on employment and in Europe we saw a 50 basis point rise just the other day, they're a little bit behind the curve and we think Europe will still have to play a bit of catch-up, but they're really going to be quite sensitive, the ECB will be very sensitive to what's happening at Credit Suisse and then you have the Bank of Japan which hasn't even started to tighten. Doesn't have as big an inflation issue, but ultimately they will have to sort of normalise their interest rate policy.

MARK LANDAU: I guess in terms of Australia the story is relatively simple. I think the RBA is very close to the end of their tightening cycle with one smaller rate rise. I think most people are on variable rates they've gone from roughly a 2.0% mortgage to somewhere between five and six and we're yet to see the impact of those rate rises flow through to economic activity and consumer spending. The other thing I'd say is that it's probably helpful for the RBA if the Fed is likely close to the end of the tightening cycle as well in terms of the flow on impact to currency and I think that the RBA would be trying to strike a balance between making sure that they slow

the economy and slow the pressures that were pushing inflation to higher levels, but also not to overtighten and result to the situation where you effectively have to back pedal and which is obviously not ideal from an economic point of view and it's not ideal from a credibility point of view either. So my guess is that the RBA is pretty close to the end and we'll soon find out if that proves to be a good prediction or not.

CAROLINE GURNEY: Thank you. So, we obviously just have had the reporting season and both of you I know would've been extremely busy speaking to CEO's and CFO's throughout that time both here and globally. One of our shareholders and I'm going to paraphrase their question asked what trends are you actually anticipating coming out of your conversations but from reporting season generally. Maybe if I can go to Mark you first.

MARK LANDAU: Sure. I might just stop in on Australia where I've seen maybe lots of companies overseas as well but I'll leave that for Jacob to comment on. In terms of Aussie companies, it's a really interesting point in time, most companies reported relatively strong results. Most companies were upbeat on the results they were delivering, but as soon as you started talking about the next 12 months there's probably a higher degree of uncertainty than what we're used to hearing. Part of that is what we've seen in interest rates and cost of living pressures. Part of that is a bit of uncertainty about labour shortages which was a very prevalent topic in lots of different sectors and lots of different companies that we met with and I think the other one is a bit of uncertainty about how thinking China play out, obviously there's been a big shift just in the last few months in terms of going from COVID zero policy to reopening and to what extent China will stimulate their economy and also to what extent you start to see an improvement in relations between Australia and China, so they are a few of things and I think the labour shortage issues are probably the most consistent topic that gets raised without even mentioning it in many of the meetings we had.

CAROLINE GURNEY: Jacob.

JACOB MITCHELL: Yeah look in the US it's really almost the tale of… it's most like a two-speed economy. You're starting to see just in the last couple of months you're getting a little bit more narrative around a weakening of the consumer environment. It's not falling off a cliff, but you are starting to see some discussion around and it's mainly let's call it housing, more housing

exposed parts of the economy. As you know interest rates and the way the interest rate market in the US works is they don't have variable rate mortgages, so when you lift rates it's really the marginal buyer of the house that gets hit by the higher rate, whereas the existing mortgage households are able to lock in at a very low rate and so their spending is holding up but that new build activity in the US is really starting to weaken. Secondly, look the industrial economy is doing quite well. Now that's a function of some of the policy type policies that are in play in the US whether it's the Chips Act, the Inflation Reduction Act, you're starting to see ongoing a fairly resilient industrial sector, they're sort of reshoring activity. Now also auto. The auto market was the part of consumer spending in the US that was below trend because of Chip shortages, so that part of the economy is also holding up. So the US and US companies have actually come through in relatively good shape at this point. But there is discussion about weakening in IT spending. You can see it in the results of Microsoft (NASDAQ: MSFT). You can see it in AWS in Amazon (NASDAQ: AMZN). Corporates are moderating, they're preparing for tougher times, so they're reigning in IT cap ex, projects are getting deferred, the rate of movement to the Cloud is slowing down and I think that starts to… that will bite over a longer period of time and then if you go to Europe, look the companies have navigated a pretty tough energy market and that's starting to get a bit better, so they're talking about sort of… they've actually come through their earnings I think in a slightly more optimistic outlook versus say where we were 3 or 4 months ago. China is a different… China has fundamentally shifted, and we note it in the tone of corporates. Their results were weak, but their forward guidance is actually relatively constructive and that's a standout and I think that's critical because China is the one market where you haven't really had an inflation issue and it's the one market where you can see central banks can actually proactively ease and that's what they've been doing without stoking the fires of inflation.

CAROLINE GURNEY: Thank you. So you've been talking obviously to a lot of companies both here and offshore, so maybe if I stay with you Jacob perhaps you could give us a couple of companies that you think are exciting to you at the moment?

JACOB MITCHELL: I'm not sure they will sound like the most exciting companies because I think it's in an environment to be relatively defensive at least in the west because western economies we've got to go through I think a bit of a tough period where unemployment will go up so we're looking at companies… we've been invested in a number of Pharma stocks for quite

a while now and given everything that's going on in the world we're always surprised that you can get these businesses that are very resilient relative to the economic cycle. They have pipelines, Merck (NYSE: MRK) and Sanofi (EPA: SAN), some of their peers would have issues in regards to having not invested in the development of new drugs versus these companies that have and therefore are not as exposed to let's call it patent cliffs or patent expires on key drugs and those stocks are trading on 14 times or lower type multiple for what we see as 9.0% to 10.0%% type EPS growth and an EPS growth that's very low risk, so we're pretty constructive on that space. As you may have gathered from my comments around China, I think it is the one part of the world where you should be looking for some excitement as in good excitement. Looking for cyclicality. Looking for companies that are going to benefit from an upswinging consumer spending because China was in COVID zero for so long they do have that… they've built up those surplus savings we think that's roughly 15% of income and those surplus savings will start to be spent as China reopens and there will be out of home spending, it will be travel, entertainment and getting exposures like a life insurance company which hasn't been able to sell its product like Ping An (SHA: 601318) during lockdown where face to face selling was very, very difficult or a company like Midea (SHE: 000333) that makes air conditioners and it's a high quality manufacturer but has a great lock on its consumer as people come back and start buying, participating in the real estate market their business will do better and the starting multiples are very low.

CAROLINE GURNEY: Thank you and now to you Mark for a couple of stock picks please?

MARK LANDAU: Sure. I guess one of the areas that we think is particularly exciting is copper stocks. The reason is that you've got a commodity that's traditionally been relatively unexciting. It's an industrial commodity that's used in lots of different appliances and applications globally, but we're now at a point where at this huge inflection point in terms of sustainability and the shift to electric vehicles and what both of those things require is heaps and heaps of copper and what's difficult is to bring on a new copper mine in any short period of time, so even if you have an amazing deposit today and you had all the funding you'd be lucky to have that mine producing in seven to 10 years' time and in that intervening seven to 10 years, we're likely obviously to have about a 30.0% increase in property demand and it's going to be very difficult just to sustain the current production let alone grow it, so a lot of the companies that we're looking at globally and in Australia in the copper space we think are basically looking backwards

in terms of their share price. People are viewing them in the context that the way the world was for the last 10 years and not with the context with what's likely to happen over the next 10 years, so if you look at a company like Sandfire (ASX: SFR) in Australia or a company like Capstone (TSE: CS) in Canada they're trading on basically the same share price that they were a few years ago despite the fact that the outlook for copper is undoubtedly better and what you're essentially betting on is that this transition to electric vehicles and this transition to solar power and wind farms which is incredibly copper intensive that's likely to happen which we think is a relatively safe bet. The other part of the market we really like is what we call cash machines, so these are companies that trade on very low PE multiples, they generate huge amounts of cash flow, they're typically got under gear balance sheets and you're likely to see these companies return a lot of that capital to shareholders through dividends and buy backs. Some of the names are sort of household names that everyone would know companies like BlueScope Steel (ASX: BSL), Qantas (ASX: QAN), QBE (ASX: QBE) they're trading on single digit PE's, they've got excellent management that have been able to prove themselves over a long period of time. Most of them are also at a positive inflection point in terms of their earning cycles, so particularly in the case of QBE and BlueScope we think there's upside risk circumstances forecast, so it's not a case where you're buying a company that looks like it's on low PE's but the earnings are not reliable, we think if anything the earnings are likely to be, so hopefully it gives people a few ideas that they can go away with.

CAROLINE GURNEY: That's more than a couple so that's great, thank you very much both of you. We've had a question from Max one of our shareholders and he wants to know what will be the biggest influence on the Australian dollar this year. Is it China reopening or the imminent US slowdown? Maybe I should go to Jacob for that?

JACOB MITCHELL: That is a good question. I think the Australian dollar tends to trade around China more than the US. I think the US slowdown they probably work together anyway. Like we think China is accelerating at the time that the US is slowing down and both of them are going to be positive for the Aussie dollar because obviously China takes our exports and currencies are also driven by interest rate differentials and you've had this big we call it policy divergence i.e. the Feds have been really tight, the RBA's probably been pushed to tighten, but now interest rate differentials will move the other way as the US slows down, especially if the US is experiencing some systemic issues. I think both work in favour of the Aussie, but the only

caveat to that is the Aussie is not typically associated… there's not really a risk of currency right. It's arguably the yen tends to be much more defensive, but all else equal we think it's okay.

CAROLINE GURNEY: Excellent thank you. I've got another question, this one is to Mark, obviously you've just expressed you are very cautious in your outlook. How much cash are you holding and how does that compare to your historic levels? Are you sort of waiting on the sidelines really to start investing again?

MARK LANDAU: Essentially we talk about a net long position, so if we're 100% net long we're essentially fully invested, whereas of today we're sitting at a 50% net long that basically means we've got half of our portfolio essentially in cash, but it's a little bit different to our long-short funds, so just bear with me and I'll try to explain. Essentially we buy stocks so we go along with certain companies and we go short other stocks and essentially the net of those longs minus those shorts gives the net position. So when we talk about a net long of 50% it doesn't mean we don't have enough ideas to fill a portfolio, we've actually got lots of ideas to fill the portfolio but the way we get to 50% might be 130% long and 80% short and that gets us to 50, so please don't be under the impression we don't have lots of ideas we've got 80 different positions in the portfolio, we've got more ideas than we have space in the portfolio so it's actually a very exciting time from a portfolio management point of view given all the different macro events and different inflection points in different sectors.

CAROLINE GURNEY: Thank you Mark and finally Jacob we've spoken in the past and obviously you talk about monetary policy divergence. What do you mean by this Jacob and how do you think it will play out?

JACOB MITCHELL: Yeah look as I mentioned the Fed has been tight, sure rates have gone up a lot in the US but it hasn't really because most households have a fixed rate mortgage, it hasn't really bitten yet into consumer spending in the US, but all the other central banks in the world outside of China have to follow the Fed to a certain extent and in most of those economies they do pay… we do pay variable rate mortgages so the impact on the economy is much more immediate, so that's what we're saying about divergence, the Feds being much tighter, other central banks have lagged and look we think it's somewhat unsustainable, something has to give and you're starting to see pressure, real pressure in the household sector in smaller

countries like New Zealand, Australia. We know this year all the variable rate mortgages in the next 12 months will roll, all the fixed rate mortgages in Australia will roll into variable and that will have a decent hit to household spending, we also see it in Scandinavia. So, we see these economies are most vulnerable to what the Fed is doing. It's actually economies outside the US that are more vulnerable to what the Fed have done and we see consumer spending in those types of economies absolutely falling off a cliff and that's I think exacerbating pressures in the financial system where you have high leverage and we can see pressures in the commercial property market and we think in our long short fund where we've been taking advantage of those stresses to the benefit of our investors and we think that it will continue because as you go these things tend to get worse before they get better because it's the tightness that's causing the stress and it ultimately causes a recession, so that's what we mean by policy divergence.

CAROLINE GURNEY: Before we wrap up I have to ask you about Silicon Valley Bank. I mean obviously you've been sending out a lot of communications to your Shareholders. Tell the shareholders about it in terms of regional banking in the US? I mean I know you haven't got any exposure but I'd be really interested and I know our Shareholders are asking as well for your thoughts?

JACOB MITCHELL: We've avoided the US regional banks because we see them as actually being relatively weak banks and the weakness is now being exposed and the key issue in regional banks in the US you don't really have the ability to lend to mortgages because most of the mortgage lending in the US is done by government entity and it ends up being a fixed rate mortgage. Now the banks can buy the bonds to fund those mortgages but they end up in a fixed rate bond and what happened in the COVID period was Silicon Valley Bank expanded its balance sheet, they had a lot of deposits coming in from Silicon Valley Venture Capitals, Venture Companies and that deployed the deposit growth into these low yielding bonds. Now flip into a rate tightening cycle and you start to see those deposit start seeking higher returns, but Silicon Valley Bank gets stuck because it has to pay more for its deposits… it has to make an unpalatable choice, pay more for the deposits and crunch its profits or start selling the bonds. Now the problem is the bonds now have a big loss on them because interest rates have gone up and that's the story and we've had the first let's call it social media lead run on a bank, but it's a microcosm of a broader issue of participants in the financial system who are exposed to variable

rates who are feeling the pressure of that and obviously the pressure on the economy comes with a lag. We've really tightened financial conditions now in the US and that will be on the Fed's mind yep.

CAROLINE GURNEY: Excellent thank you. Mark did you have anything to add before we go?

MARK LANDAU: No. I think for most people they've never heard of Silicon Valley Bank and it really came out of left field and it's the sixteenth biggest bank in America, it's not in and of itself critical to the financial system, but what it highlighted was that these aggressive rate rises can have consequences that you can't predict and but what you do know is that there is a real consequence to it and it is likely to lag the actual rate rises and you often the weakest and flimsiest business models get exposed first, so it's a bit of a warning more broadly for investors and also for Central Banks that there are consequences of rapid adjustments in interest rates and we're starting to see that.

CAROLINE GURNEY: Excellent thank you. Thank you very much both of you, from Future Generation to the shareholders as well, so thank you very much. I'm going to let you go now and I can see that Geoff Wilson AO our Founder is now in the room...

GEOFF WILSON AO: Hi Caroline...

CAROLINE GURNEY: ...but thank you very much Jacob.

JACOB MITCHELL: Thanks Caroline.

GEOFF WILSON AO: That's technology talk in the room because I've actually been in the room listening all the time but maybe physically I'm... well not physically but my picture is in the room now.

CAROLINE GURNEY: Thanks Jacob. Thanks very much Mark. So Geoff before we kick off in terms of Future Generation, anything to add in terms of what you were hearing from Mark and Jacob?

GEOFF WILSON AO: No. I mean they've really given you really good summaries of what's happening around the world. It's a difficult period and it'll get more difficult in the real world because the equity… we know the equity market sort of moves in anticipation six to nine months ahead of what happens in the real economy and that's what Jacob was saying that and Mark eluded to as well that these sort acts that we're seeing the impact of those will be further down the road and yeah it's going to be a tough 2023, like a lot of people thought oh well it was all over. Like we've had the tightening cycle, now we'll have slowdowns or recessions and the markets anticipated that all. Now in terms of what's happened, now we're seeing some of the cracks sort of open up from what's the tightening cycle and Jacob explained it very clearly what happened to SVB and then now we just don't know what those… what the other impacts are because we saw that Credit Suisse was effectively well seemed to be bailed out by the Swiss Government, we've seen First Republic in the US being bailed out by 5 or 6 local banks and you assumed there would be more and the question is how will the equity market perform through that and that's the million dollar question no one exactly knows and probably when we're doing that… I know you said earlier we're going to talk about… talk to the managers and talk about performance dividends and a few things like that and if you look at the performance and you probably let's look at each company… let's look at FGX initially and the performance numbers there and then we'll go to FGG next.

CAROLINE GURNEY: Excellent.

GEOFF WILSON AO: What both Investment Committees do and there's Investment Committee with sort of high quality individual that spend their life picking fund managers and that's the Morningstar, the Zenith guys, the Jana, so they're really good Investment Committees and with FGX they're looking together to put together the best Australian fund managers that they believe will add value and they've skewed this is logically or is to boutique managers because you tend to find someone who is running their own business has more effectively flesh in the game than someone that's been employed just to work a salary potentially bonuses. So that was the logic about the boutiques and in terms of selecting the boutiques and looking at the portfolio we've got at the moment and everyone will see that on the monthly NTA's we've really got a combination of managers and definitely got a skew to more medium size and small cap managers and that's why… because when we're looking in the Australian context trying to find managers… what we're trying to do is find managers that outperform the market over time and

it's been… it was… it is challenging and you tend to find the mid and small cap managers are the ones that can potentially add value. Now the negative in the last say six months is because we've got a skewed of mids and small so it's been a difficult period and I think the mid and small caps, I know on a global basis I think the cheapest they've been against the large caps the last 25 or 26 years so our managers have done a good job. In terms of how the portfolio is split up, we not only have and again we're just focusing on FGX, we don't only have long equity managers, but we also have other managers that can potentially shorten you know Mark Landau one of our boys one of the FGX managers and they can hedge their positions and also we've got… so we have the long equity managers but we've also got the absolute managers and that's pretty like a little over 40% and you can see the exact figures in the monthly and days… of each of those areas, so and that's why we show you on the performance numbers the volatility so what we're trying to do is give you the market performance if not better and less risk or volatility in the market and both FGX and FGG I think the volatility is about 2% less than the market and the market of 14% and it's… sorry for the Australian market and for MSCI index it's a bit less than that. We are happy with the performance of the portfolio since inception with FGX. We understand in the last 6 months why that portfolio hasn't performed that well and I know maybe we'll talk about manager selection a little later I think I saw a few questions come back so that's sort of FGX and in terms of FGG go back a year and a half ago now when the market was adjusting from a very strong growth market and with interest rates starting to increase to a more challenging market. Now we saw a lot of the tech companies over there fall significantly and growth managers come under pressure so the Investment Committee over the last say year or so has done a lot more in terms of changing the structure of the portfolio. So and maybe, I'll address it here. The Investment Committee sits there and obviously the Investment Committee decides what exposures we want in terms of absolute managers, long equity managers, there could be some market neutral managers of quantitative managers depending on which fund, so the Investment Committee decides that, so that's more the bigger picture of the asset location, but then there's the individual managers that are managing the pools of each individual pool of capital and the Investment Committee scrutinises them very closely and so the red flags in terms of if there's underperformance now or if there's outperformance, so I know we all are looking for outperformance, but sometimes if you've invested in a manager… you think he's a low risk manager and he significantly outperforms then you might actually find out… that's when you've got to do… dig in a lot deeper because you actually might find he's a high risk manager not a low risk manager. So yeah variation in performance from expectations. What we're looking for

is the managers that outperform the benchmarks we hold them against and to outperform over time, but if they're significantly outperforming then or underperforming then obviously we'll look at them more in detail and any management change and personnel change that's another red flag for us and I'm just trying to think what are the other red flags for us Caroline?

CAROLINE GURNEY: structural change...

GEOFF WILSON AO: Well exactly yeah if there's a bit of structural change, but it's all those changes if they start managing their money differently because we've invested with them expecting them to manage a certain way and we expect certain results and that's different and so from an FGG perspective there was in terms of change in the portfolio there they were in a different environment. Some of the managers were finding it difficult to perform, but also some of the managers had personnel changes and structural changes, so it was sort three strikes and you're out. So that's pretty much and I know I'm probably covering off on a question that came in a little earlier.

CAROLINE GURNEY: Do you want to talk about how we bought some quantitative in there with Plato and Vinva?

GEOFF WILSON AO: Yeah well that was on FGG and it was only about 6% of the whole portfolio, but it was more we were looking for managers that can add value over time. We did have some quantitative managers in there a little while back, a couple of them, and then we didn't think it was the right time and then thought these couple of managers they've had quite a good performance that we'd add them to the portfolio but it's only a small percentage.

CAROLINE GURNEY: And they were sort of within the five new managers that we brought in in terms of Holowesko, Lanyon and Martin Currie as well. We actually have some more questions on that, so why don't we turn now to dividends and then perhaps go through to some more of the shareholder questions that are coming through. So, we have a slide on here because I think one of the things that we are most pleased about was being able to deliver and increase dividends for shareholders during difficult times. I mean as you can see from the slide there FGX declared a fully franked final dividend of 3.25 cents per share bringing the full-year dividend to 6.5 cents per share. But I think proportionately that was 8.3% increase on the

previous year and that was represents a dividend yield of 5.8% and that's grossed up dividend yields of 8.3% and I want to mention also our dividend coverage here which is 4.7 years and I think one of the questions that's come in is about dividend coverage and how the Board looks at it, so I think perhaps if we'll go to Future Generation Global first in terms of the fully franked final dividend of 3.5 cents per share which was a full year dividend of 7 cents per share and this was an increase of 16.7% on the previous year. So that represents a dividend yield of 6% which is significantly above the average global equity market yield of 2.3% and the average US equity market yield of 1.8%. So I think the profits reserve there of 46.3 cents per share that gives us 6.6 years of dividend coverage and I think one of the questions we have also is about the key responsibilities for the Board in terms of dividend policy and Geoff obviously being on both Boards I think it's really important that we explain the Board's approach to how you make this decision and how we build up the profits reserve if I could hand that to you please?

GEOFF WILSON AO: Thanks Caroline and the profits reserve has been building up over time and then a couple of years ago there was a change in the accounting policy which allowed a lot of the unrealised gains to actually be reserved and that's really given both FGX and FGG a really good cushion. I think FGG's is about 46 cents and I think FGX is just a little under that 40 cent level and that profit reserve will change by… if the portfolio over a 12 month period that's from the start of 1st of July each year if it increases over a 12 month period then that's effectively profit that we can put into the profit reserve. And in terms of the franking, where does the franking come from on FGG? Sometimes when we've invested in these managers and as Caroline said before we actually changed five of the managers on FGG, then they would've made money for us so we would've paid tax when that's been realised. And then with FGX, we are in a better position there in terms of franking because we're getting the distribution from the fund managers there's franking in those and if there's any realised profit from changing managers then there's an initial tax that we pay, so we're getting it both from our managers and also from paying tax whereas FGG it's just from payment of the tax, so FGG's ability to continue to frank the dividend at that rate, now obviously that will be challenging and FGX is in a better position and the Board's view was that if we have the franking then it's better off in the shareholders hands rather than in the company's hands and so that's why we're paying it at probably a higher yield than the market is… well obviously with FGG it's significantly higher than the market and with FGX probably strongly higher than the market yield. So effectively we've got to make more profits for the profit reserves to go up, there's a lot of protection there. Historically when FGG in the early days was

paying only 1 or 2 cents so then the rule of thumb we wanted a couple of years profit reserve up our sleeve, but the Board is comfortable, very comfortable with the significant profit reserves we've had or have, sorry.

CAROLINE GURNEY: And maybe if I could just talk a little bit about our social impact partners, I think it's really important because this is actually what we're doing as well. As you can see from this slide in lieu of management or performance fees last year we donated $12.3 million to our social impact partners and they all work unbelievably hard and tireless with youth at risk and to prevent mental ill-health in young Australians and I think that's meant a lot to them. I've been listening to all the stories and talking to a lot of not-for-profits they have really suffered in terms of their fundraising and what they're doing, so that sort of seriously that they will get some money is really important and as you know we ran a process for new partners in Future Generation Global and we're really pleased with the progress of those 14 partners so far. We've got a fair few shareholder questions coming in Geoff. Maybe if I can kick off and we can answer them between the two of us, so you've spoken about the restructure of FGG investment portfolio thank you Geoff, you're the sharer of FGX as well in terms of the Investment Committee, Neil wants to know what are you anticipating and if you're going to be making and if you are going to be making any changes to the Future Generation Australia portfolio?

GEOFF WILSON AO: Okay well I'm just one member of a group and we pretty much work on unanimous decisions and FGG I don't know if I would go as far as restructuring but it was changing the management and different allocations because it was a different environment I suppose that's a fair call. In terms of the managers, there's I suppose like a portfolio of stocks. Say you've got 20 stocks in the portfolio then there will always be 1 or 2 that you're keeping an eye on and that's the same with the managers. You're keeping an eye on them for a period of time and then there's a little bit of underperformance you understand why the underperformance was there, then they outperform again and you've got to remember the managers we're picking and you heard two of them earlier like they're very passionate, they are highly intelligent, they are very skilful of what they've done and they've all outperformed over time and in the smaller period like when there's dislocation in markets, then there can be more shorter term outperformance, but what we're trying to do here is find managers that can add value over time. Thanks Caroline.

CAROLINE GURNEY: Thank you and the next question is from Don, so I'm reading this out now. Since the 2013 float at $1.10 in 2013 the FGG share price moved comfortably to the $1.45 to $1.60 range in 2021. With the dividends and philanthropic benefits this was seen through shareholders, and they've remained supportive to be a good investment. Over recent months the price seems to have stagnated, and it is losing its appeal. Please explain why shareholders should remain supportive?

GEOFF WILSON AO: Well that's fair and obviously the good things these entities are listed on the stock market and if decide you want to buy more than you can and if you decide you want to sell you can. I mean FGG, like the NTA at the end of last month was a little over a $1.37 and the MSCI and Australian dollars even though there's enormous volatility because the Australian dollar has been a bit weaker, as of last night the MSCI and the Australian dollar is actually up .15 of a percent, that wouldn't be your gut feel. I think the Australian market is down 3.2% over the same period, so the NTA is about that around that, well actually probably closer to $1.38 assuming the managers have performed in line, so therefore like FGG is trading at a big discount to NTA and I think there is another question coming up on that, maybe we will cover that off there. And also, one of the interesting things is now that FGG... in the old days FGG was only paying a cent or a cent and a half or 2 cents, now that it's paying... I mean this year it's effectively paying 7 cents, last year it paid 6 cents, a lot of people they tend to forget that in their returns. Let's assume the company is trading at... the true value of the company is the NTA, so it's $1.38 and then there's 6 or 7 cents, well this year it's going to be 7 cents, now what's that four and a half, 5, well I think it was 6% on the share price but on the NTA it's just a little under 5%, 4.8 or something like that. So if you're paying such a high yield, now say the market over time does 10% and say we're trying to do 11 or 12% with less risk, say if you're paying 4 or 5 % of that out, say you're going to do 11% minus 5% then your NTA is only going to increase 6%. Now I accept from 2013, it's been a tough period and you look at the performance of the portfolio and it's performed broadly since then I think within a percent or two in line with the market, so with less risk, so in theory you're taking less risk and getting a similar return. So yeah it hasn't been fantastic. Myself as a large shareholder or foundation a large shareholder obviously we'd like to see them trading at NTA if not a premium, now we're very confident we'll get there and I think we'll cover that off in another question that and you've just got to be aware that now that we're paying bigger dividends, now be more so over the next couple of years, your return is going to be in a combination of that and also you've got to remember for us to pay you... say we're paying

you a 5% fully franked dividend on NTA, then you gross that up and what is it 7% or something like that, we pay the tax, so these are company structures, so that the couple of percent went out in terms of paying tax so you've really got to look at it from before tax basis to get it to true comparison, so that's right if we're doing 11%, 5% you're getting fully franked plus there's 2% tax and then your capital gross is only 4% and if we keep pushing the dividend higher, it could be more skewed to the dividend rather than capital growth, so just be aware of that. In the early days I know FGG we talked about because we didn't have the profit reserve and we could only pay [inaudible] out in dividends, we said hey looks it's more capital growth, now you've just got to be aware there's a lot more yield than it was before. Thanks Caroline.

CAROLINE GURNEY: The next question has come in from Denis re FGG. There is still a significant discount against the asset backing. Does this surprise you having regard to age of the fund and the good dividend yield to shareholders? Your thoughts please with the share price versus less asset backing difference looking forward for 2023 and 2024? Thanks.

GEOFF WILSON AO: Okay. Well, that's right, better get my cloth out and polish and see what the crystal ball is saying.

CAROLINE GURNERY: These are long term investments I think that's a good thing.

GEOFF WILSON AO: Perfect, perfect. Well, the interesting thing is and it's really probably because FGG I talk about before how the Aussie dollar has fallen so the MSCI in Aussie dollar terms has held pretty flat. FGG on sort of today's NTA, I don't know what the NTA is and this is my guess just to adjusting it for the market, it's about a 15% discount to NTA and FGX 'cos the Australian market is down 3.2% let's just say the NTA is down by the same as the Australian market this is as of last night, now then so the NTA's probably lay around that 127 cents level, so the FGX NTA's discount is a little under that 10% mark but both FGX and FGG… like our plan is to for them to trade at premiums to NTA and historically they have traded at premiums and they've been premiums of up to 10% and what's happened over the last couple of years there has been a bit of dislocation in terms of we changed CEO's and there was a period of… before Caroline took over there was like a 6 month period where we didn't have a fulltime CEO, we had a temporary CEO and also go back was it 3 or so years we actually both FGX and FGG were traded at good premiums and we had a lot of people that had missed out on the float that wanted

to get in and said hey look can we have an opportunity to get in, so and we ended up doing an SPP and a placement to shareholders and what we found and normally you get a little bit of rotation of those people that come in and they don't quite understand what they're investing in, but soon after we did that the market… it was that tough quarter in December, the December quarter I think 3 odd years ago, and the market sold off quite significantly and so a lot of people that came in on the capital rating all of a sudden they were questioning why are we there and normally you'd get probably 20% even 25% of the people that you raised money from deciding or changing their mind for some reason which is crazy, but this time we got a lot more, like I think it was around that 45 and what I assume the reason why that happened is because it just happened to coincide soon after we raised the money is global markets and it's own market fell significantly so a lot of people questioned oh well maybe I don't have the money to invest there or they changed their investment strategy etcetera so there's a rebuilding and that's been part of Caroline's job. You would've noticed there's been a lot more sort of visibility on the Future Gen entities. There's been a lot of work done on communicating with shareholders and please if you have any other thoughts or suggestions we're here because of you and you as shareholders you are very valuable to us now please give us the feedback, but I'm pretty confident. It's a tough period at the moment because of where the uncertainty and the volatility in the markets, but both FGX and FGG have a very clear strategy, both teams have been increased in terms of personnel quite significantly from 3 or 4 years ago, so we do have our communication, shareholder engagement marketing strategies that's been rolled out and eventually what you find is eventually the share registers they tighten up, I remember well I actually only did first year economics but I remember the first year economics when they showed that chart you know supply demand and equilibrium I mean what we're trying to do is the share price is just a combination of the people that are prepared to sell at that price and the people who are prepared to buy at that price as well and that's where you get equilibrium so effectively the people that are selling it's well either they sell… ideally if the people selling they could all sell and then there's clear air, but really it takes time. The people sell and then it's really the people buying that understand what we're doing, understand why we're doing it, understand the managers we've got and want to back those managers, believe those managers to perform, like the dividend, like the fact that we can grow the dividend, like the fact that it can be franked yeah so to me it's really about the sellers selling and leaving and your shareholders are there and staying there and additional shareholders coming onboard and that's when you get it to NTA if not a premium and we've done that with a lot of the Wilson Asset Management entities

some of them trade at ridiculous premiums 30 or 40% and have over time, so I'm incredibly confident that will happen, unfortunately it's a matter of time. Thanks Caroline.

CAROLINE GURNEY: So, a lot of the questions were around those two areas, so I won't repeat each and every one of them but I will ring everybody that has sent a question in as well. One of the other questions that I will answer is on currency and whether or not what we do in terms of FGG but we don't actually take a view on currency at Future Generation and I think that's important to note, but in terms of our asset allocation we do leave that to the underlying managers and some of them do hedge and at the moment it's Munro and WCM and that's 13.3% of hedging which provides balance to the portfolio as well and if anybody wants any more information on that ring me. We've also been asked a question in terms of what our top 10 holdings are in both of the portfolios. That's actually in the Annual Report but I'll ring you and let you know and I'll send it to you and if anybody else wants that please let me know rather than reading out the 20 of them, but I'm just wondering one other question that's just come in please quote performance after fees.

GEOFF WILSON AO: Well, it's quite simple. Like effectively it's just the performance we quote is the performance after fees because there's no fees, these guys are doing it pro bono. And then so you understand… we're in their main funds so we're in the funds where they live and die by that performance, so the numbers we are quoting are after fees because we get all the fees donated.

CAROLINE GURNEY: And one other question was very quickly Geoff because I know that you can speak to this for hours in terms of do you think $3 million is enough to put in your super account and did you want to give a quick update on franking legislation and super reform, although I can direct everybody to an information event that you're holding on Monday which is on the WAM website if anybody wants to have more information, but Geoff did you want to give an update on that because we've had a few questions on that?

GEOFF WILSON AO: Yeah I try not to buy into the super debate because well fortunately I have money in super and the incredible thing is we look at the performance if you were lucky enough to have… anyway to me if you can perform over time your balance in super increases very quickly because there's the old Warren Buffet effect and yeah so I try not to buy into that,

but what I will say is I think it's appalling what they're talking about is taxing people on unrealised gains and what frustrates me about these type of policies and there's been a lot of talk about the super one, it looks like it was done on the run, we thought it was something else and then it came this way, I was talking to one of our shareholder who is a farmer down there just out of Goulburn, I think he is 6 or 8 kilometres out of Goulburn and things were tough a while ago so he sold half his farm and he's put the other half in his super fund. Now the prices of the farm land has obviously gone up quite significantly because he's close to a regional centre and he said what am I going to do, when they give me a tax bill how am I going to pay it? I can't just sell 2% or 3% of the farm, he said I had to sell half of it to survive quite a period of time ago, like so to me it's that taxing on unrealised I think is unfair and in terms of I've always been a believer. I don't know why they don't do a progressive tax. The people with more money in there they pay more tax. The people with less money in there, pay less tax like income tax, so I don't know why they can't do that and to me that's the more logical thing and that's what we're trying to do, we're trying to have equality so that people that get it, don't give the people that have got a lot of money in there a significant benefit and tax them, anyway so that's that one. In terms of franking, again I'm incredibly disappointed by the Government because I had quite high expectations for Jim Chalmers and back when we had the battle with franking in 2018 and 2019 everyone said like they had a view on Bowen, but they had a different view on Chalmers and to me the significant unintended consequences on the two bits of legislation that they're talking about is going to, well I don't know if destroy is too strong, but the second order affects are significant and a lot of people haven't read the legislation and don't fully understand it and we've probably seen 30 to 35 Politicians Liberal, Labor Advisors both sides Independents, Greens and none of them understood the legislation and what you've got there are two pieces of legislation one is the Buy Backs and there's a hidden paragraph in there which is effectively the hand grenade that Treasury has put in there and these are the off market Buy Backs, so if anyone in say two years' time or three years' time does an off market buy back just to recapitalise the company and like we did that when we set up FGX it was the Australian Infrastructure Fund, we did a buyback to let everyone get out at NTA to restructure it. Now if we were doing that today, even though we weren't paying a fully franked dividend we would lose franking and if we didn't have the franking we would pay a franking deficit tax, like that is just appalling, so forget restructurings like that and on the other part which is the one that they're talking about only raising $10 million dollars a year, that is the brutal one because that will destroy the opportunity for small and medium size companies in Australia, listed and unlisted, that need to raise capital

to grow, pay tax and need to pay out fully franked dividends it will destroy their opportunities of doing that because the legislation says if a dollar is raised at any point in time a thousand years ago or in a thousand years' time, like it's ridiculous the legislation, if a dollar is raised at any point in time it allows the company to pay say $100 million dollar fully franked dividend then that fully franked dividend is unfranked and small Australian companies that have Shareholders and we got a letter in from one of our Shareholders been going for 8 years, set up a company, been losing money for 5 years, finally starting to make some money and paying tax in Australia so it has the franking wanted to pay a dividend to his Shareholders but needed to raise more capital to keep growing, he can't do it, so to me it's incredibly… sorry and actually you probably shouldn't have asked me that question Caroline because it makes my blood boil and unfortunately a lot of people just don't understand it, so if you are interested we've got a webinar on Monday and there's a Senate Inquiry and please put submissions in and that's open until the end of this month, so from our perspective we'll keep trying to fight so the system keeps operating efficiently and effectively, so thank you Caroline.

CAROLINE GURNEY: Thank you Geoff. I'm going to wrap up now. But we do have our roadshow coming up very soon which hopefully you all have got an invite to and so we would love to see you as we go across the country so please do register in your city. If you have any questions please email me direct or any of the team or Geoff and we will come back to you as soon as possible, straightaway pretty much and I want to thank very much Geoff our Founder but also Mark and Jacob for their time today and to all of you our shareholders for your support for Future Generation. Thank you very much. Have a good weekend.