Future Generation: Meet the Chairs Webinar

Phillip Lowe

Jennifer Westacott

CAROLINE GURNEY: Hello and welcome to today's webinar. Thank you so much for joining me this morning. I'm Caroline Gurney, the CEO of Future Generation. I'm delighted to be joined here today by Jennifer Westacott, chair of Future Generation Global (ASX: FGG), and Philip Lowe, the Chair of Future Generation Australia (ASX: FGX). Welcome, Jennifer, Phil, thanks very much. Good to be with you.

So, neither of these people really need an introduction, but just to make sure that we do introduce them properly, Jennifer, as many of you know, was the chief executive of the Business Council of Australia. She's the director of several boards including Wesfarmers (ASX: WES) and Chancellor of Western Sydney University. She's also the government's representative for Indonesia and she's just come back from Indonesia.

Phil, obviously the former Governor of the Reserve Bank of Australia, which means for many years he's been responsible for setting monetary policy, including interest rates, and I noticed from shareholders, we do have a few questions on that, do just to forewarn you Phil, and making sure that Australia was continually financially stable, many questions have come in. I just want to thank all of our shareholders for those.

There is a disclaimer, I'm going to let you read that, but obviously we are not going to be giving advice.

Before we begin, I would really like to acknowledge the Gadigal people of the Eora nation, the traditional custodians of this land where I'm sitting and recognize their continuing connection to lands, waters and communities. And I pay my respects to elders past and present.

I'd like to just give you a very quick update on the Future Generation companies. We are unique, as all of you know, our pro bono fund managers and service providers waive all management and performance fees so that we can give 1% of our net assets to donate to Australian, not-for-profits in the youth mental health prevention space and youth at risk. That means that you as a shareholder get access to these great boutique Australian and global fund managers free of charge, and support high impact not-for-profit organizations. That means we can give that 1% as a company, which really makes a huge difference. So you are getting those investment returns and the company is making a social impact. To date, we have given $75.8 million to Australian not-for-profits and that is a staggering number to make sure that our future generations, our future young Australians are actually going to prosper and to be as strong as they possibly can.

All of our portfolios are really well. And I can really see that the questions that have been coming in, and obviously we've been speaking to a number of you over the last few years, so it's been a very challenging time for small companies and that's where we operate. So I'm very happy that the Future Generation companies have performed well despite these headwinds there. If we look at Future Generation Australia, that basically shows you from the 12 months to 31st of May, the portfolio has increased by 16.1%, outperforming both the all odds and the small odds.

Since inception, the investment portfolio has increased by 9.2% per annum and that's outperformed the S&P/ASX All Ordinaries Accumulation Index and S&P/ASX Small Ordinaries Accumulation Index. And that's been done with lower risk volatility to the market, which is incredibly important. The one thing that many of our shareholders really want is to have that strong dividend coverage and the profits reserves, which means you actually get that constant income in the form of dividends as well as long-term capital growth regardless of what's happening in the market. And I think there where you can actually see that 8.1% grossed up dividend yield, that's been incredibly important to many of our shareholders through this time.

Now let's turn to FGG briefly. For the 12 months to the end of May, the FGG portfolio has increased by 15.5% and that is actually respectable in terms of our bias towards small and mid-cap stocks. We have a very low exposure to the mega stocks that seem to be going up and down on a regular basis in the news. FGG also has strong profits reserve and dividend coverage. FGG, as you can see from the slide there, has a strong grossed up dividend yield of 7.9%.

I just want to thank everybody for all of those questions. Please continue to submit them. I can see I've just got another two. So, without further ado, let's turn to Jennifer and Phil because these really are the people you want to speak to today and to see. So please, maybe if I can go to Jennifer first. Jennifer, you joined Future Generation Global as a chair last November, Phil took over from Mike Baird as Chair of Future Generation Australia in May. So, I'm going to ask you this question both. Jennifer, you first, what actually attracted you to joining Future Generation and what have your initial impressions been?

JENNIFER WESTACOTT: Well, what attracted me was a few things. First of all, it's got a great reputation and so has Wilson Asset Management, I've always been a great admirer of Geoff and the role that they've played in the financial markets. But what really attracted me was the innovation around doing a classic investment model, but then this 1% of funds being able to be reallocated to this very important purpose, which is youth mental health, which is something that I've been involved pretty much all my life. Whether I was chair of Mental Health Australia, whether it was as the Secretary of Education, running the Department of Community Services, running the Department of Housing. I've seen right up close and personal the failings of many systems and their impact on people's lives. And here's a model that is to me what I call the double dividend, the classic kind of investor model with people getting good returns at the same time as being able to use that classic investment model to do something that's really profound. And then the final thing was the focus on youth mental health, focusing on prevention. I think many of these vehicles often try and boil the ocean. They try and do too much. This is a very focused program and it's also got a very rigorous methodology for allocating funds to the not-for-profit organizations. So that package to me was hugely attractive.

CAROLINE GURNEY: Thank you. Excellent. Phil, maybe if I could hand to you to say, why did you join Future Generation Australia? This is your first and only board after leaving the RBA. Why us? Why FGX?

PHILLIP LOWE: It really brings together two things that I'm incredibly passionate about, that's finance and helping kids in need. When I was the Governor of the RBA, I met a lot of people in the world of finance who really wanted to make a difference, good people, who really wanted to help the society. And the team at FGX and the fund managers who support FGX, they really want to make a difference. They give their time, they give their expertise, and the result of that is an investment product, as you said, generated higher returns than the ASX and list volatility. So it's a good investment product supported by good people. And on the other side of the equation, we're giving 1% of the assets each year to kids charities who I know from other experiences I've had, just how much need there is out there. So I've got a fantastic investment product helping kids, and I love being surrounded by people who are prepared to give their time, effort, and expertise for free to help others. So that's why I joined.

CAROLINE GURNEY: Thank you very much. We are obviously incredibly grateful that both of you work pro bono for the Future Generation companies and there's been a lot of work to do and thank you so much for your time from our shareholders. The first question we have from David, and it's more a big picture for both of you. What are your biggest concerns for Australia going forward? Maybe Phil, if I could go to you for that one.

PHILLIP LOWE: Well, Australia has fantastic prospects, so I think we've got to keep that in mind. I'm fundamentally optimistic about our future, but my biggest concern is that we're drifting into a period of mediocrity. We really had 30 years of substantial uplift in our living standards. It was generated by faster productivity growth, very favorable demographics and a bigger increase in the price of our exports relative to the price of our imports. So those three things together lifted our collective living standards. Right now, productivity growth is weak. The demographic dividend is behind us and demographics are moving against us and it's unlikely that the price of exports keeps rising relative to the price of imports. So those three drivers of growth over the past 30 years have diminished. They're not there. And if we can't lift productivity growth or we can't get lucky from some other area, then we are going to have to get used to very slow growth in our average living standards, and that's going to come as quite a shock to the community. Something we can do about that is lift productivity growth, but if we don't do that, then our living standards are going to stagnate after having had 30 or 40 years of very good growth. So that's my fundamental concern about the economy.

CAROLINE GURNEY: Jennifer, before I go to you, we've had a question from Sarah, because you have spoken about the need for Australia to increase its productivity, which obviously you've just mentioned. Her question is what do we need to do to increase Australia's productivity levels?

PHILLIP LOWE: What do we need? Well, the good news here is there've been endless reports on this issue. So, when the politicians used to ask me this question, I would suggest that they go and read the reports, but those reports have a number of ideas. First is that we still tax income and wealth generation too heavily and consumption too lightly. The way we tax land is all screwed up. We have a tax on mobility that's stamp duty, that's kind of crazy. So, there's a whole bunch of things on the taxation side we could do. They're all politically difficult, so none of that is being done. Another key recommendation of these reports is the way we invest in infrastructure, the projects we choose, how we manage the pipeline, and how we charge for the use of infrastructure. A third very important area is skills development, both STEM and the creatives.

We're not doing that as well as we could and our scores in global rankings have slipped. So, skills development is incredibly important, and getting the energy system a strong economy needs an efficient, reliable, relatively cheap energy system. We don't have that. And I think the final area that these reports talk about is the delivery of government services, services, particularly in the health space. There's tremendous possibility for productivity improvements there. So, it's tax infrastructure skills, public services and energy. They're the areas we've got to focus on. Unfortunately, they're all very politically difficult. So, I would say to the politicians, the issue isn't a lack of good ideas. It's a lack of political will to actually execute effectively some of those ideas.

CAROLINE GURNEY: Thank you. Well, that gives us an awful lot to do. I'm not sure how much Future Generation can do, but I'm going to go back to you, Jennifer. I mean, what are your biggest concerns but also maybe your hopes for Australia going forward?

JENNIFER WESTACOTT: Sure. Look, my answer is almost the same as Phil's. I mean, Phil and I have been on this bandwagon for many years about lifting productivity. I think the hope is that we've got all of the endowments that you need. We've got great natural resource endowments, we've got great position to the markets that are growing really fast like Indonesia where I was last week. And we've got very, very skilled people, and I agree with Phil, we've got to kind of keep that skill base up and we've got to do something about some of our poor performance, particularly in some of the areas like stem. But my concerns are the same. You've got very low growth. I mean, I've just been in Indonesia where they've got a 5% GDP growth, they want 8% and they want 8% because they know that that's going to raise people's living standards.

My concern is similar to Phil’s that we’re sleepwalking into a decade of lower living standards by not taking the action to increase our productivity of our competitiveness. The second big concern I've got is the narrowness of our economic base. Ten companies pay 30% of all tax, and that tells us we've just got too many eggs in one basket. And there are a range of things that you can do to deal with that. But the most important thing is to get the fundamentals right that Phil's gone through, infrastructure tax driving investment. Investment is very low as a share of GDP in Australia, and it should be higher because it's investment that drives capital change. At a simplistic level, if workers are working with better skills and better equipment, they're going to be more productive. And of course, I think part of our challenge and part of our hope is that we're sitting on the doorstep of some of the biggest markets in the world and the challenge now is for us to get our fundamentals right, get our industries of the future and really tap into those markets. As I said, I've been in Indonesia, currently our 13th largest trading partner said to be one of the biggest economies in the world, massive diversification and digitization of that country, and they want Australians there, they want Australian companies there, whether they're large or small, we've got to take advantage of that.

CAROLINE GURNEY: Thank you very much, Jennifer. I mean obviously you were head of the BCA for 12 years and you've been on the board of Wesfarmers for 11 years. I mean Wesfarmers alone, that's given you a huge opportunity to see the building and the retail sector, that would give you a really good insight in terms of how the economy is traveling in this high inflation interest rate environment. Can you share some of those insights because obviously Wesfarmers is a massive employer also in Australia.

JENNIFER WESTACOTT: Sure. Look, I think the Wesfarmers story is the story of why Australia has weathered the storm of many externalities, be it the pandemic, be it the global financial crisis, and that is strong performing balance sheets and a very financially disciplined organization with a very clear purpose, which is return to shareholders. And I think the simplicity of Wesfarmers purpose, that satisfactory return to shareholders, means that the company is focused on the fundamentals and the financials, and it's focused on a strong balance sheet. And that has enabled that company to both be opportunistic when things arise to be expansionary, but also during Covid, we paid our workers when they didn't have any work to do. And that comes from having a very strong company, a very strong relationship with shareholders and a very strong balance sheet. I always think about that company as a sort of lesson for Australia, a diversified portfolio, a strong balance sheet, a strong commitment to the fundamentals and a fundamental investment and protection of our people. If you took that lesson from that great company into Australia, I think we would avoid that drifting into lower living standards that Phil and I have talked about.

CAROLINE GURNEY: Excellent. Thank you. So Phil, the number of questions we have coming in really are about where do you think the economy is going and what can we expect in terms of inflation and interest rates? So Phil, please your view.

PHILLIP LOWE: Well, thank you. We're clearly in a period of weak growth, households are dealing with higher interest rates and that's constraining household spending. On the other side of the equation though, investments picked up because the population's rising quickly in firms, and governments need to keep investing to keep up with the population growth, but the main narrative is a period of weak growth as households adjust to the higher interest rates, inflation's proving to be quite persistent, which is a problem. There are two issues here. One is the level of demand in the economy keeps pushing up against the supply side of the economy to meet that demand. And the most obvious example of that is the housing market where there's very strong demand and the suppliers are coming forward, what happens? Prices and rents go up. But the housing market's just one example. There are a lot of other examples where demand and supply aren't in balance.

The other challenge we're facing is because of the weak productivity growth that I talked about, business unit costs are rising quickly. If you're not getting strong productivity growth, your costs are going to rise more quickly and when your costs rise more quickly, then prices go up. That's how it works. So, demand and supply not being imbalanced, weak productivity growth with costs rising quickly, prices are going up. So, we've got persistent inflation and it's really important that the Reserve Bank takes the necessary steps to get inflation back into the two to 3% range. I've taken a lot of steps so far. The future is fundamentally uncertain as I would as often found out, but it's quite possible that interest rates will need to go up again to secure a return of inflation back to two to 3%. I know most people will hope that doesn't need to take place and it may not need to, but it's entirely possible given the demand and supply balance and with productivity growth, that interest rates will need to go up again and that's going to be quite difficult. And we'll get the next reading of the quarterly CPI, I think will be quite important there.

CAROLINE GURNEY: One question that's just come in from Jeremy is what's overseas doing about it? Caroline mentioned that you've been overseas. What are you seeing in Europe in terms of them trying to manage their economy? Is there anything we can learn from that?

PHILLIP LOWE: Well, I've just been in Europe for a couple of weeks and the conversation in most of the rest of the world is that interest rates are at their peak and now they're starting to come down. The questions that the central banks are grappling with are when to start, the interest rate reductions they haven't already done and at what speed to bring rates down. The issues they're dealing with are quite similar to ours, with underlying growth in unit labor costs quite strong with wage growth, pretty firm and weak productivity growth. So, firms costs are still rising quickly and that means that the underlying price pressures are still there and some countries are more advanced in the disinflation process than Australia is. Interest rates got to a higher level in some other countries and growth has been weaker. So, we're all kind of in the same position broadly, but the timing of lowering of interest rates is going to vary across countries because of the difference in the inflation pressures that are being experienced.

CAROLINE GURNEY: Jennifer, following on from that, a couple of our shareholders have actually said what's happening in the economy, inflation, interest rates is actually really hurting people, especially young people, and those are the ones we're trying to help with the social impact. What do you think we could do to solve the cost of living and the housing crisis?

JENNIFER WESTACOTT: I think Phil's given that excellent macro answer. I think my kind of message to government when I was at the business council remains the case, don't make things worse, don't make it so that you are adding to the cost of doing business because that just flows through to consumers. So, these are the things that we've got to kind of fix. Don't make it harder to employ people. Don't make it more expensive. Like stamp duty for me is like a productivity sapping tax and we won't tackle that issue because it kills mobility. We've still got payroll tax, we've still got these taxes that all add, particularly for that small cap market that we're in. They all add to the cost of doing business. So, my first message is do no more harm. The second is don't make short term decisions that are going to have long-term consequences.

So, this current debate we're having about migration, particularly the kind of caps on international students, now clearly I'm a Chancellor of a university but not one that has a massive international student base. The message we send to the rest of the world is potentially in our own goal for the country. We are saying, well, we don't really want international students coming to our shores. Of course we do. We're competing in markets where those students want to study at our universities. Our universities are some of the best in the world. Why would we kick our own goal in the long term and send that signal? And things like labor market flexibility, the stuff that Phil's talked about with energy, and I think governments have got to make sure that those fundamentals get sorted. They don't add to cost, they don't add to the cost of doing business because that just flows straight through to the cost for a consumer.

Then of course, governments I think are obviously being asked to respond to things with energy packages. Obviously, the tax cuts flow through now and that's perfectly a legitimate response for governments to make and they've got to strike the balance of not adding to inflation. But I think the biggest risk, Caroline, is that people take short-term decisions that have got long-term consequences that are actually their own goals for the country. And of course, and I know we're going to talk about housing later, we have got to fix the way the housing market runs in this country because the sort of pressures on it now are in many respects, creatures of the failure to manage demand and supply, which has been a generational problem in this country.

CAROLINE GURNEY: Paula has actually asked, and you've kind of answered this already, but to both of you really, how can we instill a long-term thinking culture in Australia? I mean Jennifer, you are talking about how we can't make short-term decisions. Phil, you were at the RBA for many, many years and you are definitely not short-term in your thinking, but to both of you, how can we make sure that we think for the long-term, maybe Jennifer, you could continue.

JENNIFER WESTACOTT: Look, I think, and this has been floated around a bit, but I think it's a really good idea, which is to fix the term of parliament for federal government to go to that four year fixed term which operates in the states. And I think that would have a profound impact on Australia because already we're into this discussion about are we going to have an early election and are we not? And already you can see people kind of waiting for policy discussions around things that are more electorally interesting versus things that may or may not be in the country's long-term interest. So that would be one and one quite simple thing to do, and I think the community would get behind that. I think the second thing is you have got these really important institutions that take a long-term perspective. Obviously the RBA being one of them, I don't think we make enough of the intergenerational report.

And when I was at the business council, I always argued that it be for both Commonwealth and the states so that we really got that picture of demography, tax and cost of doing business and cost of infrastructure for the entire federation. But I do think that report could and should be used more to generate more long-term thinking. And then I was always of the view that notwithstanding you saw a kind of four year forward estimates in the budget, it would be good for the budget to cast out over 10 years. Now of course it becomes harder and harder to predict in the long term you are dealing in a very volatile world. But I do feel that, and Chris Bowen, when he was a treasurer at one stage, was quite attracted to this idea that you did do a bit more kind of that long-term forecasting.

But I do think that we've got the right institutions in this country and that gives us a big advantage. We've got to make better use of them. But I think also Caroline, it's a mindset issue. I think we've just got to get the long-term mindset that we don't have the burning platform that people talk about. But the burning platform for me is this sleepwalking into lower living standards. It's sort of like all of a sudden, we'll wake up and this kind of incremental declining living standards. We'll see that this generation of Australians that's us, have been the first generation not to leave the next generation with better living standards. And that will be a really serious problem to manage. And then the choices will be much, much harder. And so, my urgent call is we don't want that creeping up on us. We need to take the action now.

CAROLINE GURNEY: Thank you very much, Jennifer. Phil, do you have anything to add to that? I mean you would understand the benefits of long-term thinking.

PHILLIP LOWE: Well, I think Jennifer's hit the right points. I think longer terms of parliament and greater focus on things like the intergenerational reporter, two great ideas, but it's fundamentally difficult because the combination of the political cycle and the media cycle lead to short-termism. And I think in the listed corporate world, the frequent reporting of profits can lead to short-termism by business as well. It's not just government. So how do you push back against that unfortunately requires both leadership and discipline. And I saw at the central bank, if you're very disciplined about your thinking and think, well, we're taking decisions here for the long term, it makes a difference. So we were kind of living in a very turbulent world, but we would always say, well, where are we going to be in two or three or four years' time? And we've got to think about, so that was our mindset and we were very disciplined on that.

Just while we're talking about long-termism, I think one of the things that attracted me to FGX is that we are supporting the charities for long-term. The charities that FGX is supporting, we've had for 10 years, we're doing a review now, but one of the things that attracted me was that we kind of pick charities and then stick with them. And I think that's the mindset shift that

Jennifer in a way was talking about. We are doing things for long-term, we're not just chopping and changing all the time. And if we can get that mindset into the leaders of both business and government, it will be a better place. And longer terms of parliament I think would help there.

CAROLINE GURNEY: Thank you very much both of you. Obviously in terms of Future Generation, that's something we are incredibly proud of, the fact that most of our shareholders are long-term investors, but also we do invest in these not-for-profits for the long term. I have a question here from Alan and Jennifer, Phil, whichever one, Australia always seems to be looking for overseas investors, yet we have probably the biggest superannuation pool in the world. Do you see a mismatch here and what should be done about this?

PHILLIP LOWE: Well, I don't see a mismatch member, but we want Australians investing abroad and we want overseas entities to invest in Australia. We want the two-way flow of capital. That way we all end up with more diversified portfolios. We get the benefit of having assets overseas and foreigners get the benefit of having assets in Australia. And sometimes that comes with expertise. So, we really want the two-way flow of capital, and that's as it should be. Everyone ends up better off that way.

JENNIFER WESTACOTT: I agree. And I think it's always important to remember that if you are a superannuation holder, you want your fund to have the discipline of where it makes its investments. You don't want to see the lack of discipline and lack of integrity discipline fall away there. These funds have got very strong commercial parameters, and they should stay. But I agree with Phil, it's a two-way street. I know there's a lot of interest in Indonesia about our superannuation funds, which are 3 trillion at the moment, but by 2040 are forecast to be 9 trillion. We can have a big impact, but we've got to make sure that we are driving that two-way investment. And again, that goes back to making sure that the conditions are right for outbound and inbound investment and making our economy more competitive or attractive to investment, making it easier to invest. And that's the case for superannuation funds, whether they invest here in Australia or whether they go internationally.

CAROLINE GURNEY: Thank you. Thank you very much both of you. There is a question that is actually quite close to my heart, so thank you very much. I think Theresa had asked this, this is for Jennifer. You are one of the most successful female directors in this country. You have been a recognized CEO. How tough has it been for you and other women, and can you tell us if it's changing?

JENNIFER WESTACOTT: I think it's changing dramatically. I mean it is tough. It's much tougher. I'm now getting very old, so I kind of remember it being a lot more difficult. Certainly, when I was a public servant, it was always unusual when you realized you were the first secretary of a particular department. In fact, when I was the head of the planning department in New South Wales, I used to occupy Henry Parks' office, which was a real treat. But the point of the story is that it was one of those offices where on the wall outside was just a pile of men going back to federation and then me at the end. And so that told you just the battle that was there. Do I think it's getting better? Absolutely. Do I think there's a long way to go? Yes. I think we've got to frame the debate properly around things like the gender pay gap, making sure that we're not focused on the wrong things.

We've got to continue to do the reporting that we are doing, put the spotlight on things. But I think there isn't an Australian company I dealt with at the business council that wasn't really focused on this and wasn't focused on bringing their pipeline through. It wasn't focused on gender diversity on their board. And I think the really crucial thing to do is to make sure that this conversation is linked to productivity and participation. It's not linked to just a sense of fair play. Of course it's a sense of fair play. Of course it's a social justice issue, but we'll get lasting change if we make it an economic issue and if it remains an economic issue. And that's why the business council lent its support to pay parental leave to fixing the childcare system. We saw it as fundamentally about the productivity equation, which is very much driven to participation and not just participation, but people participating at their full potential. So, we've got a long way to go, but I really feel confident this is one area where certainly corporate Australia I think has led the way and have really not been given the credit for that. But I do believe that everyone's on the same page now. I've just got to do the hard yards.

CAROLINE GURNEY: Phil, I'm actually going to ask you that question as well because I think we need everyone to support women. So, what are your thoughts on that

PHILLIP LOWE: Well, it's fairly simple. I always thought that we were going to get the best results with the best team and the best team, the best portfolio is a diversified one. You're not going to get the best returns on your portfolio if you're just kind of in a single stock. So, you're not going to get the best outcomes for your business or for the country if you don't have a diversified team. And diversified team includes men, women, people from different backgrounds, and I saw that very much at the RBA. When you get these different perspectives coming together, the conversations that you have are richer and from that richness you get better outcomes. So, when I was at the RBA, I was always keen to build the best team. So just like we want the best portfolio, and I think that helps productivity as Jennifer talked about.

CAROLINE GURNEY: One question from Phyllis, which I really like is do you have any ideas about how many more Australians, particularly young women, can gain financial literacy and set up share portfolios to bolster their savings for the long term? Maybe I could ask you that, Jennifer.

JENNIFER WESTACOTT: It's a great question and it's something I know Phil's interested in as well. Look, I think it starts with school to be honest. I think we've got to start inculcating financial literacy in schools. And I would love to see a lot more focus on this and a lot more interoperability with the corporate sector, getting the curriculum developed so that people really understand why you would invest in shares and what the role of the share market is. And of course that starts with a bit of a mindset shift. I think what we don't want to instill in our children is somehow that the corporate sector is evil. And I know when my grandson came home from school once and said, this is really bad, I rang the school pretty quickly. So, we need to instill that culture though this is really a good thing. Ethically run businesses are good, but I think we could do a lot more in the schools and then a lot more to make sure that we are making the system less complex so that when people invest in products, and this is what I love about our model, it's a pretty simple one. They're investing in really simple products, but it's a huge issue around making sure that people are generating wealth. And I see the wealth generation as a really ethical, good thing to do in a society, that's in a market driven economy. And so, we've got to do everything to educate people but also change that mindset about it's absolutely legitimate and perfectly legitimate for young people to start thinking about how they create wealth.

CAROLINE GURNEY: Phil, do you have anything to add there? What about your kids? Did you teach them how to buy shares?

PHILLIP LOWE: Well, they've worked it out. They're a bit older, so they worked it out. And I've always encouraged them because if you're going to build financial security for you and your family, you need a diversified portfolio and that includes super. And if you've got the ability, maybe some shares and some bank deposits. So, it's about diversification and building a portfolio over time. And I agree very much with what Jennifer said as well about building the right culture. And I think it will benefit the kids and society if we have a strong shareholding culture in the country.

CAROLINE GURNEY: Excellent, thank you. I must admit, I love talking to our shareholders because often they will talk to their children and their grandchildren about how to invest because, as Jennifer said, it's a very straightforward model. And if you go through, for instance, CommSec, you get the brokerage back. But also, what they really like talking to their children about is also choosing which not-for-profit to give to. So, I love the fact that with Future Generation, you can become an everyday philanthropist as well as get that sort of income and those returns. So that I think is really important. We are getting a lot of questions in about the social impact, but one thing we do have a question is Richard has asked, some years ago, directors stated they wish to increase the size of FGG markedly. Jennifer, I've noticed that in the years since this declaration, there's been no rights issue or SVP SVPs are common with other Wilson licks. Are there plans for a fundraiser maybe? Obviously, Jennifer has only joined the board since last November, but I mean that's something we think about a lot in terms of the board, but obviously maybe if I hand to you, Jennifer, to talk about the discount.

JENNIFER WESTACOTT: Look, I think while we're trading in a discount to NTA, I think the board's very conscious about wanting to make sure we solve that problem. We get the product at a premium and then clearly once we do that, we want to increase the size of the company. We feel like we've really got a balanced portfolio, we've got a lot of investment in the small caps, and that's where our sweet spot is. We are kind of underweight in what's called the magnificent seven, but there's no doubt that we want to get the fundamentals right, get the discount rate sorted, and then obviously we would love to grow the size of the portfolio.

CAROLINE GURNEY: Thank you. And the next question we have for Jennifer, for you from Armina, what are the other blockages to Indonesia and Australia? Two ways in investment, we invest more into New Zealand with a population of 5 million than Indonesia with a population of about 300 million.

JENNIFER WESTACOTT: A great question. And it's funny, I was in Indonesia last week in my capacity and this question came up all the time. I guess I put it down to two things. The first is perception, and I think there is this longstanding perception that's really, to be honest, kind of dated back to the 1970s, which is really hard to do business in Indonesia. And yet when I was there, I could see the British companies there, I could see Australian companies there. I can see a lot of US companies there because they see this rapidly growing economy as a massive opportunity. And then there are some kind of complexity issues, which I was talking to the Indonesian government last week about issues of permitting, licensing and things like skills where my university's opened a campus there. We've got to get mutual recognition of the qualifications in order to get that interoperability between our education systems where I think there's huge social and economic opportunities.

And so, one of my jobs is to pull together a series of deals over the next 12 months and really break down this perception issue. But I think fundamentally we've got to change the mindset of investment. As you say, this is a massive market, it's a rapidly growing market. And I think people, if I can say this, I think people have this kind of almost imperious view of countries like Indonesia, whereas what I see is a massively sophisticated economy growing sophistication in the institutions and really crucially an absolute desire for Australian companies and Australian superannuation funds to invest in Indonesia. And they've set up an investment vehicle now modeled along the lines of a sovereign wealth fund, which I think will make inbound investment a lot easier. But the first thing I think we have to change is mindset. And my message to Australian companies last week was why would we not want to be part of an economy that is already big that's going to grow at 8%? That's right on our doorstep.

CAROLINE GURNEY: Thank you Jennifer and Phil, this is a question from Russell. Is a living wage a way of addressing disadvantage and overall a potentially positive thing?

JENNIFER WESTACOTT: Look, this came up all the time in the business council. I suppose my question is we sort of have one and through the minimum wage structure, and I've looked at this a lot of times because I've spent my life really arguing for equity and justice and I looked at the living wage concept that I know a lot of European countries have looked at. And big risks to it, I think were higher than I think the rewards should we continue to have a conversation about it? Sure. But what we need to do I think in the first instance is remove the barriers to labor market participation for disadvantaged people. And because when I talk to a lot of people, they want to work, they want to get a good job, a well-paid job and a lot of work's been done now to get the minimum wage back up and making sure that the conditions that people are employed in are fair. But we've really got to, I think both productivity reasons and social justice reasons continue to invest in the skills space of Australian people, particularly disadvantaged people to make sure that they've got access to good jobs and prospects to keeping a job for the long term. And if I were government, that's where I'd put a lot of the attention in skilling people and making sure that they're going to be able to stay in the labor market and progress in the labor market.

CAROLINE GURNEY: Phil do you have anything to add there?

PHILLIP LOWE: I think that the best way to help disadvantage for most people is to get a job and to make sure that job has a reasonable wage. And we've got a minimum wage system that broadly ensures that. One of the things that I was very proud of during my term at the RBA is the efforts to get the unemployment rate down. We got the unemployment rate down to the lowest in more than 40 years, and that meant that more people entered the labor force, they found jobs, they got experience, and they developed skills. I think that's the best way to help people rather than more costly, complex government interventions that end up having side effects, which were kind of are costly. We know people getting jobs is good, they develop skills, they become a strong part of the community and they can build up wealth. And as long as the minimum wage is reasonable, which I think broadly we have in Australia, seems to me that's the best way. Jobs, skills, and pay people decently rather than yet more government interventions with deleterious side effects.

CAROLINE GURNEY: Thank you very much Phil. We have a question from Bruce, which is really for you Phil. I feel very fortunate to have Philip Lowe appointed as chairman of Future Generation Australia, the 13th of March, 2024 director's interest notice had Mr. Lowe with a nil balance of securities holding. My question is, does Mr. Lowe intend to purchase securities in the company and or intention to invest any income from his directorship into securities? And then so I will ask that to you, Phil and to Jennifer, but realistically I will say that if both of you were directors of this board and you were being paid, you are already donating your fees perhaps as well. But do you have anything to add, Jennifer?

JENNIFER WESTACOTT: Well, I certainly intend to take shares and obviously that will be notified to the ASX. But look, I think this is a great investment proposition. I think, as I said, it has that double dividend and certainly I'll be getting some shares.

CAROLINE GURNEY: And Phil, I should ask that to you because he's just reiterated. Phil, will you buy some?

PHILLIP LOWE: I certainly will. And I'm just organizing my financial affairs and so on the next month or so I'll be buying some shares because I've been saying to other people, I think it's a fantastic investment. So if it's a fantastic investment for other people, it's going to be a fantastic investment for me and my family and we're moving in that direction shortly. And the second part of the question is going to reinvest any income from the director's fees back into shares is do you see Caroline? There is no director income. We do everything pro bono, but I will be buying shares shortly.

CAROLINE GURNEY: Thank you. And really I'm so sorry to put you both on the spot. So I will ring Bruce afterwards. The other question that I wanted to ask you has come from Gary. It's basically a talking point is often how FGG and FGX have significantly higher dividend yields to most LICs. Can you explain from a conceptual point of view how this is achieved and the likelihood of maintenance? Maybe I might go first there and maybe if I could ask you to add, Jennifer. I mean I think that's a really good point. I mean we do have very good strong gross up dividends. FGG is 7.9%. FGX is 8.1%. And in terms of how this is achieved, this is very much our profits reserve and that's allowed our profits to be quarantined so we can actually make sure the dividend provides that very reliable consistent yield rather than very lumpy distributions.

I think as one shareholder pointed out when I was talking to him during covid, this was really important because a lot of the other companies cut dividends altogether, but FGG and FGX actually increased. Obviously dividends are very much a decision for the board, but the board is very much committed to provide that stream of fully franked dividends and to make sure that the company still, obviously they've got that sufficient profits reserve and the franking credit, both of them do have a strong profits reserve and that does enable the dividend coverage in terms of the numbers, we regularly put those out. But FGX and FGG have a 60 cents per share available in the profits reserve and that equates to 4.9 years of dividend coverage. FGG has a strong profit reserved of 58.10 cents per share and that's 8.1 years of dividend coverage. So that really means what people want in licks is to get that yield and you're going to get that consistent income in the form of dividends as well as the long-term capital growth regardless of what is happening in markets. And that's what has been talking to shareholders and is really important for them. But I will actually go to both chairs of the boards because obviously this is a decision for both of them. So Phil, as you're on screen, I'm going to go to you first.

PHILLIP LOWE: Well, I think you've given a very good summary. The main thing that surprised me after coming onto the board is the discount. You can buy a dollar's worth of assets for less than a dollar, let's say 90, 92 cents. So in the world that I used to live in, believed in efficient capital market. So if dollars worth of assets should be priced at a dollar, but that's not the case with our funds and it's something that at the first board meeting, we talk quite a lot about why that is and what we can do over time because you shouldn't in efficient financial markets be able to buy assets at less than their fair value. And it's an issue for expansion of the fund. I'd like our funds to grow over time because in the end that would mean more money for kids charities, but we can't do that, as Jennifer said before, while the funds are trading at a discount. So, we would hope that over time as more people understand the benefits of this model and the interest rate environment normalizes, then the discount would go away and we would again be able to expand the size of the fund to help more kids.

JENNIFER WESTACOTT: I think you've given an excellent answer Caroline, but I think just to add to that, the FGG board is very committed to number one, we've got to deal with this discount, we've got to get the performance right and we've got to get this kind of premium product. But I do think it's really important for us to state very clearly to our shareholders, we want to be paying good dividends. We're very committed to that. We're very committed to the fund, we're very committed to the model. And I think the profit reserve, which has really attracted me as I've got my head into this, I think is a really important thing that we can give that certainty of having that profit reserve because we obviously want people to be getting good dividends. And so, I think one of the features that I'm sort of very committed to continuing is that profit reserve at the same time as why we take those long-term actions to deal with the discount rate.

CAROLINE GURNEY: Thank you very much. We actually have a question now from Zoe. How do you select your not-for-profit partners and how do organizations seeking funding best engage with Future Generation? Maybe I can answer that briefly. And I think FGG in terms of the company that Jennifer is chair of is a really good example because two years ago, three years now actually the board decided to go very much into that prevention space for youth mental health. And that is something that Jennifer is incredibly involved in as well and can talk to that being chair of one of the big organizations there. And when we went out with an expressions of interest, we got 180+ brilliant applications and we went through every single one of them and we could have funded every single one of them if we'd had the money, we got it down to 14.

And for us, that was basically making sure we had a mix of not-for-profits that really had that room to grow just as you invest in companies as a fund manager that has that sort of growth mentality. That's what we did with our not-for-profits. And we are really delighted with the performance that we've had from our not-for-profits, and we are doing capacity building and we are working with them to help them. We bring them together on a regular basis and so we are tracking their impact. And that's something that Jennifer will be announcing shortly. We really want to help as many organizations as we can, and we get a lot of applications. We get a lot of people calling and we really try to talk to all of them. I mean, Jennifer, do you want to talk a little bit about why you think this area is just so important to fund?

JENNIFER WESTACOTT: Absolutely, and I think what the other methodology that you instituted Caroline and the board before my time was one of getting organizations that were in that startup phase and then helping them reach scale and helping them get to self-sufficiency. I think the other really important point about our investment model is we're not trying to replace the legitimate role of government. In fact, the responsibility of government to make sure that these services are funded properly. But the thing that has really attracted me is the rigor of the EOI process and the fact that we've done this very, very sophisticated work on impact, which as Caroline said, we'll be announcing in a couple of weeks so that we're really measuring what we're doing. And then this focus on prevention, which I am passionate about because all the evidence, all the data I saw when I chaired Mental Health Australia was that we could take very practical, very sensible steps at prevention that do not cost a huge amount of money, but they have a colossal impact both individually and then collectively in terms of the cost of mental health services. So the combination of all those things I think has given us a portfolio. If you think about our portfolio of non-government organizations, a really strong diversified portfolio on the investment side where we are reinvesting, that's focused, that's performance and that's being measured, and I think that's a great story for philanthropy across the country.

CAROLINE GURNEY: Thank you very much. And I mean I won't go to you Phil, because obviously you've just been on the board for a couple of months, but what is your view in terms of looking at the youth at risk sector and what we might be able to do more there because that's something I know you're very engaged in.

PHILLIP LOWE: Thank you. We've just started a review of the not-for-profits that we support. We've supported them for 10 years and after 10 years it's appropriate we take a look again and go through a similar process that Jennifer's fund has been through because Jennifer said that's been a rigorous process and I'm hoping to do the same thing with FGX. And I know from previous roles that I've had, there's tremendous need out there for kids that are homeless or have difficult situations and we're hoping that we can help them, but we want to go through this rigorous discipline process just as FGG has done.

CAROLINE GURNEY: We have another question from Rebecca, and we get this question on a regular basis and I think it's really, really important that we actually look at it. What is your thinking about the two funds, ethical and environmental sustainable performance? Social matters are obviously well in hand, which is fantastic, but making money from companies doing good in the world could be strengthened in the funds government matters around risk for future generations here would obviously apply. In particular, it is hard when some of the FGG or FGX investments in companies involve gambling fossil fuels or significant environmental degradation. What is your response to this? Maybe if I could kick off. I think FGG is a good example because we don't have any coal and consumer fuel exposure. We have no tobacco exposure. And we do actually in our annual report go through our environmental, social and corporate governance summary. But I think we do have exposure to distillers and vinous, but it's 0.8 and brewers. We have 0.35, that was at September last year.

I think in terms of coal and consumable fuel, we actually have a couple of our measures that short that, but that's point N, point N three. But I also am a believer that our funds have to perform. And one thing that we are doing, and FGG is a great example, is really talking to our fund managers about their environmental credentials. And that's something we have very much ongoing debate with. And I think that in Australia it is a lot more difficult because a lot of them do have exposure to smaller companies and there is a of resources there and there is some gambling. But this is something we're reviewing, and we are taking steps to this and that's something we keep everyone regularly informed on and we will continue to do that because I agree with you and I appreciate that sentiment. And that is something that we are really looking at from the investment committee point of view and the border across it. I mean, Jennifer, Phil, do you have anything to add to that?

JENNIFER WESTACOTT: Just to say that we're certainly onto this. We're looking at it very closely. We agree that we've got to make sure that we set the highest standard here, but many of these issues particularly say energy, I think are a long-term transition. And we've got to see both the performance of our funds. But there are things where I think tobacco, I'm really pleased we've got a zero tolerance and coal is obviously not there at all, but we've got to constantly be vigilant about this and making sure that we're talking to our funds managers about things like modern slavery, not just the kind of usual things that we look at in ESG portfolios, but the whole thing around ethical sourcing, making sure that we've got fund managers that are not contributing to these other very, very serious problems in our society, in our global society around modern slavery and around some human rights issues. So, we're very conscious of it. We're going to be watching it very carefully at our investment committees and making sure that we keep it well and truly in our focus.

CAROLINE GURNEY: Thank you. We are coming to time now and I really want to thank the engagement of our shareholders. Please continue to ask your questions and we will write to you and include your phone number and I will ring you with the answers, but one thing I really want to say is I think this has been a really unique opportunity to have both Jennifer and Phil and I am really very happy that they're on the same page on so many issues about Australia. We all live in an incredible country, and I think it's all incumbent on all of us without fail to actually make sure that we do good for young people, but also that we gain return because we also need that cost of living. I also want to reiterate that we are working extremely hard on reducing that discount. The investment committee have removed a number of fund managers over the 18 months in both of the funds to make sure that the performance of those fund managers continues to improve.

These fund managers have that proven long-term performance and we will see that the investment committees are incredibly pleased with where they're performing. We are not mega cap, that's just something as Jennifer said with FGG, we are very much on that small to mid-cap and I think with FGX, the performance has been really strong. I mean the investment committee are moving the banding and who we actually have, but also in terms of what the portfolio construction is, that's something they're working incredibly hard on. We have regular meetings and we have reduced and expanded some of the exposure to various fund managers and I think you're going to see that over the long term. I mean in terms of licks, I love the way that Geoff says that it's really about economics. It's supply and demand. So, if all of us can just buy a little bit more at a discount, that would obviously reduce the discount, but really we really love that you all own the company. You all have questions and that's something that's really important to us. Please do continue to write in. We really do want to engage, and I really want to thank Jennifer and Phil for being with us today and also really for all of their expertise they're applying to both of these companies. So thank you very much.

CAROLINE GURNEY: We hope you enjoyed today's webinar. Please join the Future Generation family, Australia's first listed investment company to provide investment and social returns. We are proud to have given more than $75 million to Australian not-for-profit organisations. You can be part of this and gain investment returns while contributing to improving the lives of young Australians. For more information please visit our website, www.futuregeninvest.com.au.

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