

Future Generation

Future Generation Investor Webinar

LOUISE WALSH: Thank you all for joining us today for the Future Generation Investor Webinar. I'm Louise Walsh, the CEO of the Future Generation Companies. I'm joined by Founder and Director Geoff Wilson AO, Paradise Investment Management Portfolio Manager David Moberley and Marsico Capital Management Portfolio Manager Brandon Geisler. During this call we will provide you with an update on both Future Generation Australia (ASX: FGX) and Future Generation Global (ASX: FGG) on our full year results and the investment portfolio performance. Our pro bono Fund Managers will then discuss their current views on the market and provide two of the top stock picks each. After the presentation there will be ample opportunity we hope to ask questions which you can submit via the Webinar and we'll also open up the phone line for any questions as well. So just firstly from me, if I can touch on the high-level full year results for both companies. We have been focused on engaging with shareholders, listening to your feedback and telling the Future Generation story as we work to close the discounts for FGX and FGG. Now firstly, if I touch on Future Generation Australia FGX we delivered a solid 2020 result to our shareholders. The investment portfolio increased 10% in the 12 months to 31 December 2020, outperforming the S&P/ASX All Ordinaries Accumulation Index by 6.4%, with an average cash level of 8.5%. FGX delivered a fully franked final dividend of 2.6 cents per share to shareholders bringing the fully franked full year dividend to 5.2 cents per share which was a 4% increase on the prior year. Now we consider that a good result particularly during a time when some companies are cutting dividends or they're deferring the payment of dividends. We have a dividend policy that we like to have at least one to two years in the kitty at the current rate that we're paying in dividends in case of a severe downturn. And it's pleasing to know that we have actually been able to achieve that. The dividend for FGX will be paid on 26th of April 2021. Now also with FGG, if I can just touch on that one, we were very pleased to deliver significant outperformance and to record an increase in operating

profit after tax for FGG. In the 12 months to 31 December 2020 the investment portfolio increased 14.3%, outperforming the MSCI AC World Index in Australian dollars by 8.2%, while holding an average cash level of 10.7%. With FGG the estimated profits reserve as at 31 December is 6.7 cents per share which represents 3.4 years of dividend coverage. So you can see that there's certainly a healthy amount of dividend there for future payments. In August last year FGG declared a fully franked dividend of 2 cents per share which was a 33.3% increase on the previous year. The FGG Board along with the FGX Board will consider a further dividend payment following the June 2021 half year result, dependent on the released profits from the underlying fund managers as at 30 June. Now if we move along and talk a little bit about the social returns or the charitable side of the business, it was pleasing that last year we were able to make a total donation or social investment to our Youth at Risk and Youth Mental Health charities of \$10.5 million. And the great thing about this model as you know is that as the assets of the company increase so does the donation to charity. At this stage we're on track to make an estimated donation of \$11.6 million to charity to those cause areas for 2021. The other thing that's pleasing in a social returns side of the business is that I'd like to just announce that we had savings of fees foregone from our fund managers, our service providers, of \$8.6 million for FGX and \$8.4 million of savings for FGG. And those savings of course well and truly outweigh or outnumber the donation to charity for both companies. The other highlight for last year was that in May last year we had Emily Fuller from Cambooya the family office of the Fairfax Family and the Vincent Fairfax Family Foundation join us as our Social Impact Manager. Emily certainly has a wealth of knowledge about the charitable philanthropic sector and is here to make sure that we closely measure the impact and social return for our charitable partners and she's off to a great start after the first year. Now I should just touch on my resignation as well. I think as you'll all know in January this year I announced that I'm stepping down as CEO of the Future Generation Companies after six years. And I must say it's been an absolute delight and pleasure to be the inaugural CEO of the companies and I thank you as shareholders for your support. I'd also like to thank Geoff Wilson, the Founder, for I suppose plucking me out of

nowhere really to take the role. It's been an absolute pleasure and I'm really proud of what we've achieved in the six years. Korn Ferry will be managing or are managing the search for my replacement and I'll be finishing up on 16th of April. And Kate Thorley, who many of you know, was involved in the IPO for FGX, she sits on the Board of FGX, and she will be taking over as Acting CEO in mid-April. So now what I'd like to do is hand over to Geoff Wilson, the Founder and Director. Geoff of course also chairs the Investment Committee of FGX and he also sits on the Investment Committee of FGG, to give you an update of the performance and the results in that area for 2020. Thank you very much Geoff.

GEOFF WILSON: Thank very much Louise and on behalf of all shareholders and I suppose all participants in the various Future Generation entities thank you for your tireless work over the nearly half decade. Another four years and you would have made the decade but hey it's been fantastic, thank you. And good luck with where you go. And I know we've talked about it, you're looking for another exciting opportunity and I'm sure who knows it might be a shareholder on the call that connects you with what that exciting opportunity is. So thank you. In terms of your replacement, as you mentioned Korn Ferry is doing the work there. We're very very happy with the quality of people that have applied. And the funny thing is probably as soon as it became aware that you were retiring a lot of people were on the phone. So I'm very confident that we'll have someone that you'll be proud of, a high quality individual stepping into your shoes. In terms of the Investment Committees, FGX has an Investment Committee and FGG has an Investment Committee, and we've got a high quality group of individuals that spend their life picking fund managers or are involved in the fund management industry. And we're very happy with both the Investment Committees. And to me the proof of the pudding is in the eating. They have selected some excellent fund managers. We've tended to focus on boutique fund managers. There's always been those arguments about passive managers versus active managers. What we have always focused on is looking at the boutique manager because in both that passive and active argument you tend to find the boutique manager outperforms in both those other styles. So we've got in

FGX some of Australia's best, well we believe we've got Australia's best boutique fund managers, and FGG we've got what we believe are globally the best boutique managers as well. And in terms of how they've performed over the last 12 months, both FGX and FGG managers have performed exceptionally well. I think when we were talking at the IC the other day I think it was 80-85% of the managers had outperformed the Index over the period. For FGX broadly the managers were up nearly 17%. I think it was 16.9%. And that's well and truly outperforming the market which was 9.6%. In FGG it was a solid 13.8% over the last 12 months against the market 9.5%. And since inception both FGX and FGG have outperformed. I mean one of the pleasing things, and this is to do with how the Investment Committee has selected the various managers, we have a combination of managers that are long the market but also some managers that can hold levels of cash or can short shares, to give you some more absolute rather than relative outperformance metrics. And what that's done is allowed both FGX and FGG to perform well in difficult periods. And with FGX since it's been listed until the end of February there's been 27 down months and FGX has outperformed in 23 of them. Now with FGG there's been 27 down months as well and FGG has outperformed in 17 of them. Over the last year when there's been a lot of volatility FGX has outperformed in all the down months over the last 12 months since we were negatively impacted by coronavirus and FGG has outperformed in 80% of them. In terms of how the Investment Committees put the various managers together, what we're trying to achieve is a better-than-market performance with less volatility. And one of the pleasing things is both FGX and FGG have delivered that since inception, less volatility to the market and a better performance than the market. And Louise as you mentioned earlier if you want to get an understanding of the benefit that all shareholders are getting you just subtract the amount of money that's been invested with the charities versus the amount of money that would have gone to the managers. And you've got to remember all these managers are doing this pro bono. And I really can't thank the guys today more for what they're doing in terms of managing money on behalf of shareholders. But if you look at those numbers, the amount of money that goes to the charities versus the amount of money the managers would normally

be earning, that's something like a 50% or 60% discount. So it's a really exceptional opportunity for investors. I know at the moment both FGX and FGG are trading at discounts. FGX less of a discount than FGG. And we're very confident that they will trade at NTA if not premiums in the near future. And it'll just take a little bit of time for the share registers to tighten up again and then you'll see them trading at NTA if not at premium. Because that's what they deserve. In terms of the managers, the Investment Committees, there's various reasons why managers are added or subtracted. Now one of the Investment Committee's asset allocation view. Another one is performance, either significant outperformance or significant underperformance when we don't understand exactly why. And another is if there's any significant management changes or any change in strategy. Now looking at FGX we've had exposure to the Paradise guys from the very start and with David starting a new fund effectively a long short fund it was an opportunity for us to get more exposure to David's performance. So we actually moved out of his current large-cap fund into his long short fund so we're actually getting, it's a 130/30 fund, so we're getting more exposure which the Investment Committee was very relieved. We wanted to do that when David very kindly allowed us to do that. Also with FGX, a couple of managers have been removed, Watermark Funds Management and LHC Capital. Looking at FGG, again the Investment Committee, we've been invested with Antipodes since pretty much since they started and we were in their fund which was a combination of long and shorts, gave us about 65% exposure to the market. We changed funds and went into the Antipodes Global Fund which gives us 100% exposure to the market. So that was a decision there. We've also upscaled our exposure to Nikko Asset Management, Munro Partners and VGI Partners. And that was at the expense of Morphic Asset Management and Manikay Partners. And one was to do with Manikay had decided to hang up their boots. And Morphic there was a significant personnel change or significant personnel changes there. So that's why we were redeemed from those guys. So thank you to everyone for supporting it and I'll pass back to Louise now.

LOUISE WALSH: Thanks very much Geoff for that thorough update. I'd like to invite Paradise Investment Management Portfolio Manager David Moberley and Marsico Capital Management Portfolio Manager Brandon Geisler to the Webinar now. And I'm just going to start with David first. And the question for you David is, can you give us your view on the market and the most recent reporting season? Thanks for joining us David.

DAVID MOBERLEY: Thanks Louise. And firstly I just want to say thanks for the opportunity today. You guys have done a great job with this initiative and I was reading your presentation last night actually and some of the great money that's been donated to some great causes so well done to yourself and Geoff for that. And I also need to put the standard disclaimer out there that anything that we discuss today is not considered financial advice so talk to your financial adviser. But yeah so in terms of markets I think it's a really difficult environment at the moment and I think the first point and the most important point to make is we're in an incredibly strong market. No one expected us to be where we are but there's been a huge amount of fiscal and monetary stimulus being pumped into the system and conditions are incredibly strong. So I think that's the first point to make. The second point to make is, as you know its reporting season, we've just come out the back of it, it was one of the most positive earnings revision periods that we've seen on record and I think only just behind the Global Financial Crisis (GFC). So we've got really strong macro, really strong positive earnings revisions, and that's typically a good time for equities. But the only thing, which we'll get into a bit later, is just the price you're paying for those earnings. But in the short-term I think it's important to maybe talk about the bond market and inflation because that seems to be what's driving everything and you're getting economies reopening and vaccines seemingly effective and the cycling incredibly weak data periods. And into that strength you're also seeing supply chains being restocked and a lot of people are talking about this shift from just in time inventory management to just in case. So prior to COVID a lot of people were running things very tight. They realised maybe that wasn't the smartest thing to do and there's also some geopolitical angles around that and now we're starting to

expand that up. So the risks around inflationary pressures are probably the biggest that most of us have seen for the last 10 years. And what's that resulted in is basically the long end of the bond market being sold off and long rates going up. And typically the bond guys would call that a bear steepener where the long end's going up and the short end's relatively thin. And typically in those types of environments, and what we've seen, is you'll see a shift towards value. And given many of these sectors are quite cyclical or economically sensitive, these are the type of sectors that are actually doing quite well anyway. So what I mean by value or economically sensitive from an ASX perspective is really those big sectors like financials and energy and materials or commodities. And the sectors that are lagging on the other side are those that are long duration or growth in nature, such as staples, tech and healthcare and the growth parts of the market. And this is really how we've been positioned and we continue to be positioned in this type of environment. I think the only point of note is this week will be incredibly important because the Federal Reserve is meeting and in our time in Australian time on Thursday morning there will be a Q&A session. And the bond market's playing a little bit of cat and mouse with the Fed at the moment and we're sort of pushing up the long end and we're seeing at what point does the Fed get a little bit nervous about that. And to date the Fed has said we don't see any dislocations or unreasonable behaviour in the long end of the bond market. But if they do that'll have significant implications for this value rotation or value versus growth. So that's sort of what we're watching at the moment. So it feels like it's quite a constructive environment to be managing money at the moment, but we're a little bit circumspect and cautious firstly on valuations which I mentioned at the start which are quite high. But also there's a level of speculation in certain pockets of the market that are a little bit concerning and some of the behaviour that we've seen more recently with retail participation at record highs, call volumes, speculate derivatives trading at record highs. And you've seen some of these special purpose acquisition vehicles being raised in the US, multiple times oversubscribed, some of them with celebrities as their backers. Some of this sort of signalling late cycle behaviour. So whilst the economies are reopening and refloating and everything seems very strong, there

are some late cycle concerns on the behavioural side of the market that we're watching for. So that's all very macro and I guess interesting but we prefer to talk about stocks. So do you want me to give a couple of stocks that we thought were interesting post reporting season Louise?

LOUISE WALSH: Yes why don't you do that and then we'll flip to Brandon. That'd be great. Thanks David.

DAVID MOBERLEY: Okay no problem. So one of the stocks that we really like at the moment which was one of the strongest results coming out of reporting season and a significant surprise to most was actually IDP Education (ASX: IEL). Despite the ongoing headwinds from international student mobility being restricted IDP has continued to invest in growing its English language testing business called IELTS and they've actually grown share significantly. So despite demand being somewhat suppressed their volumes are already above pre-coronavirus levels. And once things recover they are going to have a tsunami of activity hitting their revenue line. So at the moment the stock has actually been under a little bit of pressure more short-term because some of the universities have indicated they would like to sell down some of their shareholding in IDP. We think this is a great buying opportunity. It's got one of the best management teams in the market, incredibly strong balance sheet, generates huge cash flow and has medium-term growth opportunity. So that's one of the names I think that looks really interesting at the moment. Another one coming out of the results was a small-cap, Unity Wireless (ASX: UWL), which was another standout for us. These guys have been competing with the NBN to roll out fibre to new housing developments. Similar to what I was talking about with IDP, they've got a great medium-term growth opportunity which we think is underappreciated by the market. And the strength short-term in the property market has meant that a lot of these new projects are actually coming to the market quicker than what we and others in the market had expected. So again great management team, it looks really cheap, strong balance sheet and a great

medium-term growth opportunity. They are two names for me that look outstanding at the moment.

LOUISE WALSH: Thank you very much David and I'm sure we'll have some questions for you a little bit later. And also thanks so much for your generous support of FGX and FGG I must say with Paradise involved in both. So thank you.

DAVID MOBERLEY: Thanks Louise.

LOUISE WALSH: Now Brandon love to hear your view on the market with you based in the US with Marsico. Thank you.

BRANDON GEISLER: You bet. First off thank you Louise for the many years together. It's been a pleasure with you and Geoff and the team. And it's a pleasure presenting with David today as well. I think David took a lot of my points already but maybe a little more colour on how we're thinking about the environment. I think from our perspective last year we characterised the environment as a dance with coronavirus. We would be open, we'd close, we'd open and close in many parts around the world. And now it's turning into a dance with the financial markets. And I think David alluded to the fact that there's an interplay between interest rates, value and growth stocks. And obviously I think what we're looking at here in the US obviously a lot of franchises are seeing that incremental demand particularly in leisure and restaurants and those sectors that were particularly hard hurt. And you don't have to look much further for example in countries like Israel where the vaccination rates are quite high and we're seeing quite a strong response from the populous. So to some extent going into 2021 I think the rotation was to be expected. With interest rates levelling out last year in the US at around 50 basis points and then climbing to where we are today 1.5%. I think our base case at Marsico is that we're kind of maybe halfway there. And the reason why I say that is many of our companies in retail and in leisure are now talking about coming

off of 2019 results and in certain cases are seeing growth particularly in the cyclically impacted industries. We all know that the service economy has continued to push forward through this period quite strongly. And to David's point you're seeing the biggest earning revisions now in those cyclical sectors. And if we look at where interest rates were back in 2019 they were roughly in the 2.5% range and today we sit at 1.516% and so we are sensitive to the rise in interest rates, in particular as the economy improves. I think what we're questioning though over a longer term basis is, there's no doubt over the next several months base effects, supply chain effects and the massive stimulus that we've just passed here in the US are definitely going to have an impact on the economy. But we're trying to think one step further ahead again after this. And to some extent this stimulus is already reflected in certain stocks. If you look like at a global franchise like Hilton Hotels for example, which was significantly impacted by coronavirus, is in fact now trading at a three or four term premium to where it was in 2019 despite the fact that occupancy rates are still 40% lower than they were. And we look at many parts of the value economy frankly and are seeing similar results in what are high quality franchises both in the industrial landscape and in parts the consumer. As we're now moving forward we're saying what could the fall look like and what 2022 could look like. And we think as we progress through this year things like the supply chain that everyone's talking about today will abate as the year progresses. Things like stimulus are going to have to be lapped in 2022, how do we really lap a two trillion dollar kind of package that's been recently put in place. And so we're trying to think longer term, and as we also think about ultimately the drivers of that inflationary and growth environment, demographics and debt. In many respects we are more indebted across many countries around the world than before and demographics really aren't improving. So I think from our perspective we're preparing ourselves for interest rates to kind of start creeping up. We think we're kind of halfway there. And so as we move forward we actually want to start looking at stocks that have been impacted by this rotation and so that's where I'm going to focus on my picks today on a little bit of a contrarian view. As far as in this intermediate period where we are today, what I did want to highlight is large-cap that I think everybody

knows is Disney (NYSE: DIS). Disney has been in our portfolios for awhile on the back of Disney Plus. And many of you are probably familiar with Netflix. In 2019 Disney didn't have a streaming business and today on its way to well over 240 million consumers of the product by 2023. So this has drastically changed the business. This will put them on place with Netflix and streaming. The big difference is Disney charges \$5.00 per user and Netflix charges \$15.00 per user here in the United States. Obviously global rates are slightly different. But we think over time Disney, which has tremendous price power, will continue to expand the service globally and the margins and given their catalogue the margins should continue to come with it. The other reason why we like Disney is because it does have this thematic of a reopening economy and the massive part as we all now of Disney is both the theme parks and the resorts and they were significantly impacted for obvious reasons last year. Our expectation is those businesses by the second half of 2022 globally are back to run rate levels from a top line perspective and at a profitability level that is substantially higher than it was prior because of all the cost cutting and productivity initiatives that were put in place. And so as we look at the results which have been great from Disney but then when we actually look forward, this is one that provides a nice balance to both secular growth with the growing streaming business and some cyclical through reopening with the theme parks. The second stock as rates to continue to move up that we think presents itself and will continue and should be accumulated is Cellnex (BME: CLNX). It is the largest provider of cell towers across Europe. And the stock has been weak for two principle reasons. Most recently one obviously interest rates have been moving up and owning a cell tower when you buy one it usually comes with a long duration contract even though there are inflation lifters in those contracts over time they do tend to trade to some extent with a move in interest rates. The second reason the stock has been weak is they've been doing a €7 billion rights issue for two significant acquisitions that they're doing both in Poland and in France and some incremental opportunity as well. And we're a big believer in 5G. We're a big believer in the importance of cell towers. And if you look at a market like the US which is a very mature market in cell towers, Cellnex is now trading at a 7% free cash flow yield for

20% to 25% top line growth over the next several years and we think as interest rates kind of find their way to a more stable level here ideas like that are ones you want to be looking at going forward.

LOUISE WALSH: Thank you ever so much Brandon. And I have to especially thank you because certainly your performance of the fund have been outstanding. You've had a particularly good year. And also I know it's 10.00pm in Denver, US.

BRANDON GEISLER: Right yeah.

LOUISE WALSH: Fantastic that you've stayed awake for us tonight. So stay with us a little bit longer because we'll open up to questions shortly. I just want to touch on the fact that shareholder communication and engagement is particularly important to us at the Future Generation Companies and it's especially important because it's really the key focus and driver for us to close those discounts. We've worked particularly hard on that. In the second half of last year we put on a couple of Comms people, we put on a Social Impact Manager, and it was all about freeing up my time and some other people's time in the team so that we can concentrate on those discounts. And really what we're trying to do here is stop any selling and obviously promote more buying. So you'll be aware of some of the things that we started last year, the podcast series. In fact this morning I recorded the latest podcast with John Coates from the Australian Olympic Committee and the International Olympic Committee and that will be released later this week. We also converted our investment forums into virtual forums and saw the audience grow to over 110,000 last year, and typically those forums might attract 5,000 people each when we did them as live events as we did pre-coronavirus. More independent research, later this month Lonsec will be rating us for the first time and of course Zenith already rated us as recommended. So we're looking forward to seeing that inaugural rating from Lonsec hopefully later this month. We're in the middle of doing a very detailed broker and financial adviser roadshow with financial planners

as well. Geoff, myself and our Head of Operations and some of our fund managers, we did a big virtual roadshow similar to this last July which really helped us start to close the discounts. And we're really hoping to make an even bigger dent in those discounts in the coming weeks. Now, we would encourage you if you know anyone that would like to sign up to our newsletters to hear about our news, Slide 11 on the deck actually gives you details about how to do that and again we'd certainly be encouraging you to listen and subscribe to our podcasts as well which are on any preferred podcast platform. What I'd like to do now is open up the webinar for questions now. We've got myself, Geoff, David and Brandon here to answer any questions that you may have. We'll endeavour to answer as many of them as we can in the time provided. And if for any reason we run over time, because we would like to finish by or on 4.00pm, we're more than happy to contact you after the call. Now what I'll do is I'll facilitate the questions. I know I've got some that have come up in the chat box now and I know there are some other ones in the pipeline as well. Geoff, I might start with you for the first one. "How much transparency do you get on underlying portfolios? For example is it possible one stock could represent 10% of the Future Generation portfolios?" It's a question from Peter Morgan.

GEOFF WILSON: Thanks Peter. The Investment Committee models all the various manager's portfolios. And that's on a three month lag. The whole logic is, the portfolio is effectively the investment manager's sort of holy grail in terms of stocks that they believe are cheap or not, and we don't want to be potentially second guessing them but we just want to be aware of various exposures we run. And so we are aware of those exposures. In terms of communicating that to shareholders, with FGG we were including that in the annual report so it is available and are aware of the various exposures. At the moment nothing does make up 10% of the portfolio. You've got to remember, and Peter you would be well and truly on top of this, each manager usually has a portfolio, I know from our perspective, that's in Wilson Asset Management, we probably have 120 stocks in our portfolio and we only manage a very small percentage of FGX total capital. Caledonia does have some quite

concentrated bets. And we split that out going forward on a monthly net tangible asset (NTA) basis. We're trying to make everyone a bit more aware of the various exposures.

LOUISE WALSH: Thank you very much Geoff. And while I've got you another question. This time on the dividend for FGG. "Given the increased dividend reserve for FGG is there a plan to move to semi-annual dividends, as is the overwhelming practice for LICs, including of course the LICs holding international assets?"

GEOFF WILSON: First of all in terms of the ability to pay those dividends, really with FGX obviously we've invested in the individual managers' main funds and they distribute on a 12 monthly basis, some are distributed on a six monthly basis. With FGG nearly half of our managers have overseas structures. So therefore they don't have to distribute, they're accumulating. So our ability to get distributions and then pay them out to shareholders with FGG is a lot less than it is with FGX. And obviously with FGX you get fully franked dividends. With FGG we pay the tax on the distributions in Australia and then we can pay fully franked dividends to shareholders. So we would love to, being one Board member, I know I would love to do semi-annual dividends. I think as a whole Board and from a logic perspective we really need to get the reserve up to a certain amount and also making sure that the annual distributions are at a level and I know Louise said earlier that we want to be in a situation that we're very confident that even if there's a tough year we can keep paying dividends so we've got at least a couple of years up our sleeve. And I know with FGG, the problem is it just depends, distributions can be lumpy. And particularly last year with Marsico, with redeeming from the managers, then you tend to find well you get realised gains which help boost your profit reserve. So the answer is we'd like to go there, it just might take a little bit of time.

LOUISE WALSH: Thanks Geoff. Now maybe one for each of the fund managers here. "What has been some of the most notable contributors to your portfolio in the recent period?"

And are there any particular sectors that you're especially keen on?" Firstly maybe David and then Brandon. Thank you.

DAVID MOBERLEY: Thanks Louise. From our perspective most of the contribution in the last quarter really came around a number of great stock selection decisions coming into reporting season but also on that positioning that we discussed. So the fund's been overweight cyclicals, and we've had a view that bond yields would be rising in this environment, and we've taken advantage of that. So being overweight cyclicals like banks, energy and resources has been a key part of the driver of the outperformance versus market. Going forward, the market's sort of in a bit of a holding pattern here, and I think as Brandon highlighted which was a great point that in the short-term we're going to be having some really easy comps in a number of sectors that is going to suggest earnings upside for a number of stocks. But the issue is how sustainable some of those are. And on that inflation point in particular I sort of agree with Brandon in that medium-term it seems difficult to see a structural breakout in inflation despite these short-term cyclical benefits. So what we're really looking for at the moment is at what point do we shift back into some of these great quality franchise businesses that are starting to be sold down on higher interest rates? So that's a lot of focus for the fund at the moment.

LOUISE WALSH: Brandon what about you?

BRANDON GEISLER: Last year was a good year for us. I think the tactical move we made was recognising we were going to have a pretty big growth shock with coronavirus. We really shifted the portfolio into more aggressive growth names across healthcare, consumer and technology, and that was one of the reasons for our significant performance. So names for example like Spotify (NYSE: SPOT), the music service. We also owned a position in Twilio (NYSE: TWLO), which is a communications as a service company. That's also by the way a name that we actually feel very good about as we kind of transition through this

current period of rising rates but then moving beyond that because it's a usage based company and so if you think about the text you're getting at the airport about your plane or communications from a doctor over telehealth or Uber or your food delivery service all those are running on the backbone and probably on a Twilio backbone and those companies are getting paid per text and per communication versus a flat licence fee. So you can imagine all of our lives how they've changed and they've gotten more digital that's a name that has performed well and we think will in the future. And similar to David's point I think from our perspective as we move into the beginning of this year recognising that rate environment and also recognising that we are really a global growth-focused boutique manager we shifted more of our attention to the names that could be impacted by travel. So for us, some of the luxury names like Louis Vuitton (PAR: MC) or Hermes (PAR: RMS) have been strong performers. Safran (EPA: SAF) which does after-market part sales for the airline industry for example. And Disney was another one I highlighted earlier. So some of those names have helped us here to date. And as I articulated with names like Sea Limited (NYSE: SE) or with Cellnex or Twilio I think you have to separate the wheat from the chaff but you're going to have opportunities here to really buy businesses that have true staying power and strong market position. And that's where we're spending most of our time because they're presenting themselves. And as we get into the fall and into Q1 of 2022 I think that's where many investors are going to want to be again.

LOUISE WALSH: Thank you very much Brandon. Next question is one for Geoff on fund manager rotation. Firstly for FGG the question here is, "why the increase in the allocation in VGI funds as we assume NTA as it's a charitable class in their unlisted fund when their mirror VGI1 listed investment company (LIC) is at 15-20% discount to NTA?"

GEOFF WILSON: That is always an opportunity for both FGX and FGG; do we invest in their main fund, or if they have a listed investment company trading at a discount do we buy that. Now in terms of the negatives to that are you actually, even though you may be picking

up the removal of the discount, you're getting the same exposure and you get the benefit of the removal of the discount, assuming that occurs. What you're not doing is, you are still paying management and performance fees. And with say VGI over time as they've performed exceptionally well their management fee is 1% management fee and it's a 20% performance fee effectively with a very low hurdle. So the Investment Committee decided it was more prudent to invest that way back into their funds. And also it provides more flexibility and liquidity. So if at some point in time the Investment Committee decides that they want to redeem some of the money in VGI then you get in and out at NTA. To me buying an LIC you've really got to take a medium/long-term view, particularly if you're buying at a discount, and be of the belief that it'll get to NTA if not at premium. And with VGI's funds I believe that will happen over time. On this case the Investment Committee decided we would do it through their main fund.

LOUISE WALSH: Thank you. The second part of that question is, "could you please clarify the Antipodes allocation, was it reduced from what it was due to performance? We note that their long and short strategy has been struggling. Or was it changed to another style?"

GEOFF WILSON: It was really a combination of both. We'd done quite a lot of work on their performance and looked at the actual performance of the longs and performance of the shorts. And we know they are more of a value based manager. Jacob came from Platinum Asset Management and more similar to Platinum. And we concluded, we reduced the total exposure, and we decided that we just wanted the long exposure to Antipodes. And that was really after doing quite a bit of work on the short side. So that was the logic there.

LOUISE WALSH: Thanks Geoff and while I've got you, one more for you before we head back to the fund managers. "Can you please explain how the profits come from the funds to go into FGX or FGG profit reserves? Are all of the funds required to distribute all profits on an annual basis?"

GEOFF WILSON: Effectively what we're doing with each of the managers we're investing in their main funds which are trust structures. And on an annual basis any realised profit they need to distribute. So you could have a situation where say you invest in a fund, say the fund's a \$100 million, say it goes up 50% over the twelve month period to \$150 million valuation, and it's a trust structure, if the manager didn't sell any shares there would be no distribution. If they sold their whole portfolio or turned it all over then the distribution would be \$50 million dollars. So they can be quite lumpy when we get the distribution. So the managers have to distribute realised gains and those realised gains are offset against realised losses. So it's not necessarily as smooth as you'd anticipate. So that's why both Boards have decided look, we'd like to keep a bit of a buffer, keep a two year buffer up our sleeve, because we wouldn't want to be in a position where we'd have to cut dividends. So you could have a year where the market mightn't go up much, but there might be significant realised gains in the portfolios of the managers. And if they happen to sell those then distributions could be quite high. Or you could have a situation where the market goes up a lot, but the managers don't sell anything so there's no realised gain so the distributions could be quite low. So the Board and the IC just need to keep a close eye on all that.

LOUISE WALSH: Great. Now I think this next one is definitely for our fund managers. I'm not sure whether it'd be both of you or one of you. "Do you see the likes of 5G, AI, Cloud computing, electric vehicles to be generational opportunities for chip manufacturers? Who wants to take that one?" Brandon maybe or both of you?

BRANDON GEISLER: I could start off with that. I mean absolutely. If you look at the content for example of Silicon in any of the modern products whether it's robotics, whether it's automobiles and data centres etcetera, the content is going up and the complexity is going up and so we do think it's a very unique time for semiconductors. I think the other thing, in particular for example most recently, is the semi industries to some extent is stretched and is it going to require some investment to meet future obligations. I think we

talked about this earlier, in many respects this recovery has been much stronger particularly in things like automobiles than anyone expected. We all knew PCs were strong because everyone bought a home computer. But as Cloud adoption has continued to accelerate and the utilisation of those assets has continued to accelerate, and then we look at what's happening with electric cars now, we think it is a very good time for semis and will continue to be for a long period of time.

LOUISE WALSH: Great. Excellent. David anything you want to add there?

DAVID MOBERLEY: Not really Louise. I think Brandon actually put that quite eloquently I don't think I've got much to add. But I think obviously all of this technological advancement across all of those mediums that were mentioned there it's just going to cause a huge amount of increased demand on PCB and chips. So yeah I think if you look forward over the next five to 10 years, you think back at even something as simple as a car how much electrification that had 10 years ago versus what it has now, and those types of trends are going to persist.

LOUISE WALSH: Great. Now do any of you have a view on Sonic Healthcare (ASX: SHL)? According to this shareholder or listener it had an outstanding first result or most recent result aided by the pandemic. "With the Board deciding to pay down debt with the cash windfall, do you expect more acquisitions to drive earnings growth ahead?"

DAVID MOBERLEY: Yeah I can do that one Louise. So Sonic was an interesting stock over reporting season. They fitted into a camp of a category that I would say included the retailers and had an amazing result, record result, benefited from coronavirus obviously on the testing. But the market didn't actually get that excited about it and we saw that happen with a lot of coronavirus beneficiaries. They printed record numbers, most of which were above market expectations, but the stocks were not bought and in many cases they were

sold off. So I think the challenge for Sonic is, as the reader or listener has mentioned, they've elected to keep their powder dry and they've been very clear to the market that that will be put into acquisitions. So yes I would expect an acquisition from Sonic.

LOUISE WALSH: Thank you very much. Now we've had another question here. "Is Future Generation planning to release an ESG statement, I'd like to know about carbon emissions, controversial weapons, etcetera?" I might just start on that and Geoff might like to add a bit too. Currently we're not planning on doing a statement at this point in time but ESG is something of course that's an ever increasingly important topic. We actually ask our fund managers every six months a very detailed due diligence questionnaire which has a lot of questions and intel around ESG on it. Thanks to underlying reporting data that we get from Lonsec who are represented on our Investment Committee we do publish some information around ESG for FGG in particular. And what I would say, and you can see it in the latest annual report, is that FGG is 98.8% ESG aware. There's a little bit in alcohol which means that it's not 100% ESG aware, we'd like it to be there. We don't mandate the 100% ethical to our fund managers but we actively encourage it. And Zenith who are represented on our Investment Committee for FGX, and also we're rated by them, they're about to be supplying our Investment Committee with similarly underlying data, performance data on our managers for FGX for the first time very shortly, and we'll be able to hopefully in the next annual report be able to release some similar data for our shareholders around ESG for FGX. Geoff I don't know if you want to add anything else on that one?

GEOFF WILSON: We're obviously well and truly aware of it, and talking to some of the people that look closely at ethical investing, part of it is being in a situation to clearly explain to shareholders what exposure they have so therefore they can make those clear decisions. And as you mentioned like on a regular basis we ask our managers various questions which come from our focus on ESG.

LOUISE WALSH: Great, thank you. Now there's a question for Brandon but I have a feeling it might be one that's meant to be for me. I think someone might have got confused and thought that Marsico might be exiting or retiring from FGG. I think it might be for me. So they're asking the reasons why the retirement? Well with me, just so you know, it's six years. I believe that some CEOs around town don't necessarily go out on a high or on top and I believe the companies are in a very good place and after six years I think it's time to hand the baton over to someone else. And also just to be very frank, I'm 55 about to turn 56 and I am keen to have a crack at another senior CEO type role, and what I worry about is the longer I stay in those role, even though it's been an amazing role, I could be perceived as being long in the tooth as I get closer to 60. And I think there's a lot of difference between going out there looking for the next gig when you're 55 as opposed to 60. But I am keen to work with another interesting creative entrepreneur like a Geoff Wilson in the next life so that's sort of what I'm out looking for at the moment when I'm not doing roadshows and investor calls like this one to close those discounts before I go. Now lastly, I think we've got a congratulations to the amazing charity work for mental health. Thank you for that acknowledgement because it is a cause area that we are very fond of. We know it's such a huge issue. We want to tackle that going forward. If there are any shareholders that are particularly interested we're holding a mental health funders forum on 14th of April in Sydney as a live conference at EY. And if anyone's particularly interested in attending that please don't hesitate to contact us in the next little while so we can issue you with an invitation because we are very keen to leverage our involvement in mental health and see if we can tackle what I used to say was the biggest health issue of our time. Now I didn't predict at that time that of course we'd have a pandemic so that may have overtaken it. I think we're running close to time with one minute to go so what I will do is close this afternoon's session. And again thank you to everyone for your support of the Future Generation companies. I want to thank you for dialling in this afternoon. But I especially want to thank Geoff and also our incredibly generous fund managers, our pro bono fund managers, David Moberley and

Brandon Geisler for joining us this afternoon. The recording of this Webinar will be available on our website shortly. Thanks again and have a good evening. Thank you.
