

Future Generation Australia
Caroline Gurney and John Coombe

CAROLINE GURNEY: Welcome John Coombe, Executive Director with asset consultant JANA Investment Advisors. We're delighted to have John here today because he advises not only us but also some of Australia's largest super funds. John is a member of the Investment Committee both for Future Generation Global and Future Generation Australia, and he can provide insights on both of those but today he's actually going to be talking about a report that we've recently had commissioned by JANA. The portfolio has 18 leading fund managers and it's a very diversified portfolio and it's really important we have that as we navigate markets currently. All the underlying fund managers, the IC and the Board, all actually donate all of their services pro-bono as well as the service providers. And we are incredibly grateful for that. We're also pleased to be rated by Lonsec and Zenith and Independent Investment Research. So John, please can you tell me about the Investment Committee and its philosophy and strategy.

JOHN COOMBE: Well thanks Caroline for inviting me to do this. It's a real pleasure talking about the portfolios because they are unique because we've really got a mix of different managers. So let me start off by what we look for at the Investment Committee. Firstly we sort of look for, have they got an investment philosophy that makes sense, is it going to make us money in the longer term. Second have they got the right people running the portfolio, you know are they articulate, can they explain what they really do. Thirdly we like to see that they've done it, and they've made money, and that they've got a history of making money. And so our role is then to take all of those managers and sort of blend them together into a mix because we want to perform in most market circumstances. So we have a mix of long only managers, absolute managers, and hedge fund type or market neutral as we call it in Aussie equities. So we're really trying to get a blend that will deliver in most markets circumstances.

CAROLINE GURNEY: So when you actually looked at the JANA Report I remember you saying what strikes me is, and what is that?

JOHN COOMBE: What struck me was how different it was. I've been in this game for over 30 years and have built a lot of portfolios for a lot of people and this was the most unique portfolio. The young guy at work who ran the numbers for us, he said John is this portfolio real? And I said yes it is. And why he was so interested in it was because it was so different. We had 533 stocks, but we had an active share which was out of this world. Now what do we mean by active share? This is where we add up all the differences between positives and negatives against each individual stock in the Index and we say, well how different are we? Well we had an active share of 60. On average for a multi-manager portfolio you generally see an active share somewhere between 20 and 30, maybe 35 at the high-end if you've got really concentrated managers. But we'd never seen a 60 before. So he was really really surprised.

CAROLINE GURNEY: So I mean obviously you've spoken a little bit about it but what kind of blends are you seeing with the different investment strategies?

JOHN COOMBE: So the really interesting thing for me is we've got some market neutral portfolios. And I always thought oh well, we won't keep up with the market when it's going up because you know we've got these guys who go against cash. And what has shown up over time is that we've done really well in upward markets. Yeah we do really really well in the down, and we'll talk about that probably. But the other thing that is really interesting is just looking at how far down the market cap we go. You know 533 stocks versus 300 for the Index. We've got 233 stocks that are either micro-cap, or not in the Index at all, and basically it's really interesting to see the conviction that we see in the manager portfolios. We've got some managers who have only got 20 odd stocks in the portfolio and they've got really quite chunky positions in quite small stocks.

CAROLINE GURNEY: So it would be really hard to replicate the portfolio wouldn't it?

JOHN COOMBE: Impossible, because a lot of the managers are either closed or have been closed for a long period of time, or only take very limited cash flows, and they generally only take cash flows when someone else leaves. And so we're really fortunate that you know through Geoff and other people, they've been able to convince some of these managers to give us an allocation into the portfolio which is really fantastic.

CAROLINE GURNEY: So talking about performance because obviously that's what we're judged by, and obviously our social impact, I mean how do you deal with negative performance in a portfolio? What's the philosophy and the strategy to do that?

JOHN COOMBE: We're long term investors and I think that's the one thing we love about, or I love about, FGX is that we really have a long-term perspective and therefore we don't fuss over quarterly numbers. We do start to think about how the manager's behaving if we've got a couple of years of underperformance. But we as an Investment Committee get the managers in on a regular basis. We query them about their performance relative to the market environment in which they're operating. And sometimes there's a logical reason why they're struggling. The really good part about it is we want to have a blend of managers that we can have some managers who are struggling at a point in the market cycle but others who are doing really well and next minute, we've been able to outperform over most time periods which is fantastic.

CAROLINE GURNEY: And that's really the importance of diversification isn't it?

JOHN COOMBE: Correct.

CAROLINE GURNEY: So it would be remiss of me not to ask you, ESG, and obviously your advice to the funds. So what are you talking to super funds at the moment about?

JOHN COOMBE: Our superannuation funds are really in a real dilemma because the regulator themselves are asking them about what's happening on the ESG. And in

particular you know APRA has put out questions about sustainability due to carbon. And so a lot of our superannuation funds have really got an emphasis on capturing data to see their impact in the world, particularly on the carbon side, but also on the governance side. So we're starting to see them putting a lot of resources into making certain that they know the impact that they're having. And many of them have already decided that they're going to be net zero by 2050. So from that perspective it's all about measurement. It's all about, here's our starting point, and we know what the ending point is, but here's our starting point and how are we going to get there.

CAROLINE GURNEY: And is there anything else you want to add about the portfolio, what you are thinking about on a very regular basis?

JOHN COOMBE: When I think about the portfolio I just really want to keep that mix of managers that we have, that unique blend of managers who are way down in the market cap spectrum in the micro-caps almost, and the guys who are at the top end who are delivering value on an absolute return basis. So it's our blend that is going to continue to deliver to investors.

CAROLINE GURNEY: Excellent. Well thank you very much John. If anybody has any other questions we're very happy to answer them. Thank you.

[end]