Future Generation
INVESTMENT & SOCIAL RETURNS

Future Generation Australia (ASX: FGX)
HY2024 Q&A Results Webinar
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Transcript

Caroline Gurney: Good morning and welcome to the Future Generation Australia half-year results webinar. My name is Caroline Gurney. I'm the CEO of Future Generation and I want to thank you so much for joining us this morning. Before we begin, I'd like to acknowledge the Gadigal people of the Eora Nation, the traditional custodians of this land, and acknowledge the elders past and present of the lands on which we are sitting. Joining me today is one of our pro bono-fund managers, Sean Fenton, founder and portfolio manager from Sage Capital, who's going to be sharing his market insights and giving his stock tips. Thanks very much, Sean for being here.

We also have Mary-Jean Howard from Debra, one of our incredible, not-for-profits that we support and obviously Geoff Wilson, Future Generations founder and he's going to be wrapping up and answering any questions you may have. So, Future Generation, as you all know, gives you the opportunity to become both an investor and an everyday philanthropist, harnessing the generosity and expertise of the finance community to raise millions to help support young Australians. It's a very unique model one, which Geoff can talk to you later, and I want to thank you so much for your support. As you know, Philip Lowe was appointed chair of FGX at the AGM and as one shareholder asked him on his last webinar, I'm very grateful to that shareholder, they asked would he buy shares and I'm delighted to say that he has. And he basically said that it's an opportunity to invest in high quality investment portfolio managed by Australia's leading fund managers.

So Future Generation is not only an investment, it also has a social impact. And this year, Future Generation Australia has donated over $43 million to Australian youth at risk not-for-profits since inception and the 10th annual social investment this year is $5.4 million. So without further ado, let's go to our half year results for Future Generation Australia. I'd also like you to submit questions as we go along and then we can actually add those into the Q&A segment at the end of the webinar. We'll also be taking questions earlier for one of our, not-for-profits or for Sean. So please do start typing, use the Q&A segment. I think you can press on that and add them in. So this is the first time that we're actually hosting a separate Future Generation Australia results webinar and we really want your feedback on whether this works for you and a survey will pop up at the end and so please do fill in any feedback you have at the conclusion of the webinar.

So if we go to the next slide, this is our Future Generation half year 2024 results. As you can see there, there are highlights 6.0% investment portfolio performance over the six months, 5.6% annualised fully franked dividend yield 8.0% grossed-up dividend yield, 35.1 cents per share profits reserve, and we have five years of dividend coverage and 3.5 cents per share, fully franked interim dividend. So I think for the six month period, the total shareholder return was 9.8% or 11.1% when including the value of franking credits. And this was driven by the share price increase together with the payment of the fully franked final dividend of 3.35 cents per share and the narrowing of the share price discount to net tangible assets at the end of the period, the share price discount to NTA has narrowed to 12.8% from 17.1 at the 31st of December, 2023. The Future Generation Australia management team is actively committed to returning the share price to NTA or a premium.

And now if we look at our dividends, the board of directors for Future Generation Australia declared an increased fully franked interim dividend of 3.50 cents per share. The full year 2024 fully franked interim dividend provides an annualised fully franked dividend yield of 5.7% and a grossed up dividend yield of

8.1% when including the value of franking credits, the board's decision to increase the fully franked interim dividend was formed by the annualised grossed up dividend yield of 7.4% on pre-tax NTA and the objective to provide shareholders with both capital growth, which is the movement in the company's share price and income through franked dividends paid to shareholders on a semi-annual basis. The long-term investment portfolio performance, the listed investment company structure and the profits reserves available has allowed Future Generation Australia to pay shareholders at stream fully franked dividends. Since inception, the company has paid 66.40 cents per share in fully franked dividends to shareholders including the value of franking credits.

As at 31st July, 2024, the company had five years of dividend coverage based on 35.1 cents per share in the profits reserve through the payment of the fully franked interim dividend of 3.5 cents per share on the 29th of October, 2024. I think let's go to the performance now because this is something that the investment committee has really been very focused on. The Future Generation Australia investment portfolio has outperformed again increasing 6.0% during the six-month period and this outperformance has been achieved by the company's leading Australian fund managers while taking less risk than the market. Since inception, the investment portfolio has increased 9.1% per annum outperforming both the S&PASX, All Ords indexed by 1.1% per annum and the Small Ords by 3.2% per annum. Future Generation Australia gives you shareholders access to a diversified investment portfolio, and we have exposure to 18 of Australia's leading fund managers. One of them we're about to hear from a few minutes, and that has really shown they have a proven ability to outperform the market and their peers over the long term.

We do have a large weighting towards small, mid and micro-cap companies and are underweight exposure to large caps or as you well know, the investment committee and our leading pro bono fund managers continue to believe that active management in the small, mid and micro cap sectors are going to drive long-term outperformance for shareholders. And now let's talk about our social investment. This year we deliver our 10th annual social investment, $5.4 million to our social impact partners and other not-for-profit organisations bringing the total social investment to $43.3 million since inception and the companies' combined, our social investment, Future Generation Australia and Future Generation Global is now $87.2 million. We can do this because our fund managers are IC members, investment committee members, I should say board members, accountants, lawyers, and everybody that does our shareholder communication videos. They all waive their usual fees, and we estimate the value of the management and performance fees generously forgone to be approximately $8.6 million per annum or around 1.6% of the net assets of the company. These savings to shareholders far exceed the annual investment to our social impact partners of 1% of the company's average assets per annum. I would really like to acknowledge you, our shareholders, for your commitment to doing good while doing well and in speaking to you over the last six months, we've really come to realise how much you value the social impact as long as you're getting the financial returns that Future Generation Australia provides. So one of our pro bono fund managers is Sean Fenton from Sage Capital. Thanks so much for joining us Sean,

Sean Fenton: Pleasure to be here. Thanks for having me.

Caroline Gurney: Thanks so much. So I've got lots of questions to ask you and hopefully our shareholders are busy typing in as well. So reporting seasons just ended. What are the key themes that have emerged and who are the winners and losers?

Sean Fenton: Yeah, as always it's a very hectic time of the year companies going through the annual reports. So I think we saw a reasonably positive reporting season. There's always some winners and losers results coming through are probably a little bit skewed more towards the downside in terms of downgrades, but that's a pretty common pattern. But we did see a little bit more caution looking out in

FY 25 in terms of outlook statements which seem to be a little bit more conservative. So probably the best sectors were growth stocks, so some good results there. Early on, ResMed with stronger margins, Life 360, getting some great subscriber growth and towards the end WiseTech with a new product launch and there coming through and stronger margin outlook. So that's often a strong area. We saw that again, some of the cyclicals actually did pretty well. So Bramble's really stood out in terms of also improving margins but possibly getting towards the end of that sort of inventory cycle that we've seen fast moving consumer goods, some strength, there's some reasonable strength in the consumer as well. So we've all been expecting recession for a couple of years, it just hasn't happened. And margins for retailers, there's less promotional activity there so they continue to hold up wells and JB Hi-Fi, pretty in line sort of results albeit but performed quite well afterwards as well. So retailing has held in there in terms of the consumer largely because it hasn't been as much promotional activity coming through. So JB Hi-Fi is probably the standout there. We saw Qantas deliver a pretty inline result but with a stronger outlook. The market's becoming more comfortable there, AGL electricity retailing, it's cost of living pressures, but that's performed quite strongly, provided a bit of value, but we have seen some broad weakness across a range of sectors as well. So some slowdown in volume. We're certainly seeing the consumer trade down, housing cycles been weak, so Bunnings had pretty flat growth and a poor outlook. So Wesfarmers that weighed on that a little bit and across the ditch in New Zealand looks like the economy is turning down a bit more heavily and had some very weak, like for comps coming out of Harvey Norman, which weighed on that as well.

Generally costs for companies that have less pricing power have been an issue. So Ramsay Healthcare had a pretty weak outlook as government funding isn't really being lifted in line with inflation. They've got a lot of cost pressures coming through. Companies like ASX with technology replacement cycles all had a lot of costs, so a lot of winners and losers, but generally those themes of 25 companies are a bit conservative. Margins have been very strong the last few years, but starting to come under pressure and not really cracks but just some signs that the consumer might be running out of puff a little bit.

Caroline Gurney: Excellent, thank you. So I really want to ask you for two stock tips because obviously our shareholders love those, but I'm really hoping you're going to give one around AI because I'm really interested also in your outlook for AI.

Sean Fenton: Yeah, AI is fascinating and it's obviously captured the world's imagination pretty much everyone's jumped on ChatGPT by now and been blown away by some of the responses that you get from that generative ai. So it's an interesting future ahead, whether it's an evolution or revolution, it's always hard to tell, but it will be an incremental driver of productivity and companies will use that as they've used technology consistently to improve outcomes for consumers, improve productivity efficiency, hopefully hang on to some margin, but it's still pretty early days. So where we stand at the moment really is more the hardware rollout side and NVIDIA's very much ground zero there because it's very much all about training those big language models, rolling 'em out. We haven't seen so much the applications to come that hardware rollout cycle's obviously driven huge earnings growth through Nvidia, but you're starting to see that flow through in terms of data centres, which has been a strong thematic with the shift to cloud computing.

But that's being accelerated by AI as well. There's a few companies that benefit from that in Australia’s next DC rolls out: data centres. But an interesting one at one of our stock tips for today is Goodman Group, which traditionally has been more of a property manager in terms of particularly industrial property and developing that there, but it just happens that they've also got that industrial property bank has great access to power and they've outlined a very strong programme to roll out data centres and in a model that's quite capital light and efficient as well. So bringing in their third party capital partners to give them a bit of a cost of capital advantage whereas they get to receive the development

profits and benefit from the management of those assets longer term. So that's going to be a very key profit driver for Goodman Group going on.

It's a very sound business model, very consistent stable earnings. It's one that we have very high confidence just going to deliver consistent 10%, 10% plus earnings growth for the foreseeable future and AI's a real driver of a little bit of an acceleration in that going forward. So that's a stock that we quite like AI's - other beneficiaries, companies will use it for productivity, starting to be a little bit hype around the consumer and AI enabled laptops and phones, which might help JB Hi-Fi and Harvey Norman, but that's a little bit down the track and we'll take a little bit of time to get momentum as well.

Caroline Gurney: So one of the things our shareholders are always saying is how can we be exposed to AI in the Australian market? So you've done that for us, that's fabulous. So you always talk also about the global nature of the Australian market. Perhaps you could expand on that a little bit more and give us a really good company to watch in that area.

Sean Fenton: Yeah, I think one of the truly fascinating, amazing things about the Australian market, despite being down the bottom of the world here, we do have a range of really high quality companies that have some niches in global markets where they really dominate and have some real innovation and pricing power. And one of our favourites for the last couple of years, and I mentioned it before in terms of having very strong result, is WiseTech who have a really dominant global position in software for logistics. So think about freight forwarding when you buy something from overseas, it gets moved around the world, it's got regulations there, there's a lot of information data management and they're expanding from freight forwarding into customs and warehousing and sea freight and land logistics as well in the us. So they've got a very strong dominant software position with CargoWise - their core product - and continuing volume growth story and that's accelerating a little bit over the next year or so.

They've got a new product called Neo which does some more granular data and tracking for companies and consumers of packages moving around and they're packaging that up into a bit of a newer release of CargoWise, which will have a bit of a price uplift and help drive margins. So it's a strong company with great organic growth. They've grown a lot through acquisition of smaller companies, but they've really used that to integrate in, grow their customer base and really get a dominant position in that market. So a lot of pricing power and a genuine leader in a global industry.

Caroline Gurney: Thank you. So let's turn to China because obviously their growth outlook has softened especially as the property bundle is unwinding. So what is the knock-on effect for Australia and also perhaps how exposed are you currently to China as well?

Sean Fenton: Yeah, so China's our number one trading partner and has big implications for Australia. So particularly through steel demand and iron ore, which as you mentioned that property, it's been a slow sort of contraction but a very steep contraction. It's been offset a little bit by manufacturing infrastructure spend, but that's starting to run out of puff as well. And we've seen the iron ore price come down in response and that flows through the Australian economy in a few ways. Number one is probably really tax revenues, so royalties for state governments, but also income corporate tax for the federal government. So that's very important for government budgets, what they can spend and redistribute. It's important for income in terms of terms of trade and national income and how that flows back through the economy, but also its impact on mining investment. That's a lot of acceleration in terms of how that flows through job creation and consumption.

So that iron ore price is very important for Australian growth and coming down we'll place some pressure there on Australia as it flows through the broader economy, but within the equity market it's

most clearly felt within the resources segment and the leverage to iron ore prices there. And we're seeing a similar dynamic in lithium, which slower uptake of EVs is also weighing under excess supply. So it's an area we've actually been avoiding in the portfolio. So within resources we've got a stronger preference for base metals and even a little bit of energy which benefit from longer term electrification trends as well decarbonizers. But it does look like Chinese steel production actually peaked a couple of years ago and is going to decline, which means it's very hard to get that pricing tension back in iron ore and that's flowing through a broader consumer malaise in China. So we're also avoiding areas that have China consumption themes like ACM or Treasury Wine, so avoiding iron ore related stocks, Rio, Fortescue mineral resources, even BHP to extent, and some of those consumer stocks, it looks like there's some sort of secular trends pushing against them for a while.

Caroline Gurney: So let's turn to interest rates as they've risen. We've very much seen that flight to safety and into large caps. So where are the opportunities and the risks in this and when are you expecting a rotation back into small to mid cap companies in Australia?

Sean Fenton: Yeah, it's definitely interesting. Australia's a bit out of sync with the rest of the world, so whilst Jerome Powell, Jackson Hole recently outlined the case for cutting rates in the US, you've already seen New Zealand cut rates, UK, parts of Europe. So we are definitely probably through peak rates into that rate cutting cycle. But the real questions, how fast they come down, how far they come down and when Australia joins the party. So Australia really under tightened deliberately through this inflationary cycle, which means we're going to be later to cut and probably have less room to cut as well. And that means the market's probably got even a little bit excited about the prospects of rate cuts and what it means. But as you point out so far it's actually just been feeding into broader market indices and we've seen it actually probably reflected in larger cap stocks and multiple expansion to actually get real interest down to the smaller end of the market, which tend to have a little bit more domestic exposure, a little bit more cyclical exposure. We do need to see the consumer pick up and that could be quite a delayed process. So we don't see rate cuts in Australia till sometime next year and unless something goes wrong it'll probably be quite a shallow rate cutting cycle as well. So it's probably a little bit of time before we actually see cyclical strength come back to the smaller end of the market.

Caroline Gurney: So I've heard you speak before in terms of that massive shift from active to passive management, what is driving that and what are we seeing as a result of this? And I'm really interested in the risks as well.

Sean Fenton: Yeah, well there's two things I think that are really driving it. One's a bit of a free rider problem. If you think about economics, it's great to have an efficient market where companies are priced effectively and information is disseminated quickly and capital's allocated efficiently. That's what markets are there for. And if you avoid paying active management fees, you can just buy an index and you get all that for free. That's a free rider problem and that's a bit of a trend that people go, why bother paying for active management? I can get all the benefits without paying for it. But you do get to the point where if passive becomes so large, the market starts to lose its efficiency, capital's not allocated well and actually everyone loses out. So there's a bit of a failure of the market there and a failure of policy to address that.

And the other issue is the way the government approaches superannuation in our country, which has supported consolidation of larger and larger managers to the point now where we've got these huge super funds, they're actually too big to invest actively so they themselves are investing passively. So there's both a shift to passive and then even within active managers there's more passive allocations occurring and that's starting to distort the market. And we've seen it very clearly over the last year where the larger end of the market with bigger index weights in our market, even overseas markets because liquidity conditions are still pretty easy, the economy has done better than expected, markets have been strong...

So yeah, we're just talking about passive and the fact that free rider from the market means people can get something for nothing. They can invest passively and that's fine, but once passive becomes a significant part of the market, you actually start to lose efficiency. So you lose that pricing efficiency. What markets are there for allocating capital and actually everyone loses out because the economy and growth falls off. The other thing that's probably wrong with the market structure is just the Superfund industry is consolidating and getting bigger and bigger from a back office administration point of view makes sense, but from an investing point of view they've become too big to actually make a difference with active investing. So they're also investing more passively. So you get this situation where biggest stocks in the market receive more of the flows coming in when things are going well and their multiples have been stretched out.

And it's a pretty clear example of that in CBA Commonwealth Bank, the largest company now it's about 10% of the index that's trading on 25 times earnings, which is bizarre and unheard of for a bank. It doesn't have any real earnings growth. We've got a very mature mortgage market, you've got some stability now in net interest margins and there's not a lot of capital risk but there's not a lot of growth to justify that it's premium to its own history even to an extent to other banks. The whole bank sectors very expensive. It doesn't offer a great dividend yield now it's dividend yields below the cash rate. The valuation is so stretched it makes sense even for people that have owned it for maybe 20 years or however long it's been listed to sell it and take the capital gains tax. So yielding those sort of inefficiencies in the market building up and that can cause instability so that if we do have a downturn and suddenly people aren't interested in Australia globally, they might want to allocate back to emerging markets or developed markets globally or into bonds or something else or we hit a recession some downside, suddenly the valuations of the market look very exposed and the cost to you of investing passively becomes quite great because you've got 10% of your portfolio in a bank trading on crazy multiples.

Caroline Gurney: So I'm actually going to interrupt you there because we've got a question from Harry for you. What is your view on the Australian regional banks e.g. Aus wide bank? My state bank, please.

Sean Fenton: I get down to Bendigo Bank and Bank of Queensland but don't really go down beyond there too much basically because it's a mature industry. If we're talking about the mortgage market, it's also a scale industry in terms of processing and capital efficiency and everything else. So as you get down to the smaller end of the market, there's some structural disadvantages there in terms of having cost base being able to compete. So I actually don't know specifically about those banks, but you generally see the market be less interested as you go down the smaller end of the market. And certainly Bendigo bank and Bank of Queensland trade on lower multiples, they don't have the capital efficiency of the larger banks and they can be a bit more exposed to economic downturns when they do hit. I imagine as you get down smaller it gets a little worse as well. But I don't know those companies specifically so they might have some particular edges I'm not aware of.

Caroline Gurney: So one question we've got here is the cost of living is obviously a huge focus for government and consumers - this is very topical, the select committee on cost of living is underway. Do you think anything will come out of it that can impact markets?

Sean Fenton: I think it's probably a little bit of pre-election positioning in a political sense. We've had quite a big focus on cost of living politically. It is still obviously a major issue for households, but we've sort of been there a little bit with the airline inquiry. We've had supermarket inquiries and we've had quite a lot of political bit up there. Other areas that are driving cost of living like electricity's regulated so hard to get too much there. Insurance is going up but because inflation's going up and loss rates are going up as well. So I think it's hard for them other than political grandstanding to do too much more than they've already done.

Caroline Gurney: Thank you. So you actually also, you mentioned earlier in terms of power putting a September rate cut on the table, what are you expecting from the Fed in the next 12 months and what does this mean also for Australia?

Sean Fenton: Yeah, so the Fed very likely will start cutting, its next meeting in September. They've signalled that quite clearly and they meet every six weeks and I imagine they'll cut by 25 basis points at maybe every meeting. They might skip one or two, but as with the RBA, there'll be data dependent. So we've had a good run of inflation coming in lower than expectations, but most of that's been driven actually by global goods prices and goods deflation. So China's built a whole heap of excess manufacturing capacity and it's back to its old trick of exporting disinflation to the world, which is good helping anchor things. But if that ebbs away, don't forget you got a political cycle there. Tariffs are coming in all around the world, tariffs are great, but actually inflationary, they push up retail prices. That core services bit, things like housing and rents, even wages and labour costs are actually quite sticky and hanging in there.

So we're absent of the recession, we're not expecting big falls in interest rates, and probably not enough to really get some of the cyclical sectors firing. Like house prices have stayed elevated. So even with interest rates coming down and moderating affordability is still actually quite stretched. There's not that quick relief coming there. All the incentives for people to go out and inspect, build houses and be able to onsell them. So we don't see a rate cutting cycle and a big cyclical upturn coming. It's more of a removal of some of the restrictions and we'll see how we go.

Caroline Gurney: So the question that we always get is we've got November the fifth, we have an election in the US, I won't ask you who you think is going to win, but are you factoring in different scenarios into your portfolio?

Sean Fenton: Yeah, we are largely sitting on the fence like the bookies, it looks very much 50 50 at this stage. So I wouldn't even hazard to guess. I think whatever happens, you've got to bear in mind that there's a lot of emotion that goes around political cycles. But as we saw the last time Trump got in with the presidency, there's a fair bit of volatility to start with but the world didn't end and things moved along. They've got some obviously different political policies that impact markets in different ways, more the US market than the Australian market. I think the biggest ones probably Trump put in some corporate tax rate cuts, which Biden actually extended out and Kamala Harris is talking about taking them away. So moving that rate from 2122 back up to 28%, that would be a negative for markets. They're both talking about, they talk hard on China and trade and tariffs, they actually both got tariff policies but Trump's a little bit more aggressive in terms of tariffs against EVs and other bits and pieces. Once again, inflationary - probably doesn't change the outlook for those things. There's not a lot of Chinese EVs being sold into the US so the actual impact of that's probably a little bit more limited, the responses to geopolitics can be different, but that's another whole mess in itself in terms of what's going on there. That's probably even independent of the US election cycle.

Caroline Gurney: Excellent, thank you Sean, thank you so much. Thank you for everything you do for Future Generation as well in terms of waiving your performance fees, and your management fees, which has been substantial over the years. So thank you very much. And now we are going to turn to Mary-Jean.

Geoff Wilson AO: I think we lost Caroline. Anyway, I think she gave you the start of the introduction. Obviously you are one of the senior team members at Debra and that's one of the children at risk charities that FGX supports. Do you just want to, I think Caroline sort of briefed you about shareholders, a little bit of an idea of what your work does and how it significantly changes young people's lives.

Mary-Jean Howard: Yes, absolutely. So some of the shareholders may already know about Debra

Australia, but for those who don't, we are the national charity in Australia that support those living with Epidermolysis Bullosa, which is a group of rare genetic disorders that predominantly affect the skin but can also affect the internal linings, airways, eyes. In more severe cases it can be fatal as well. So our focus is to support people living with this and their families and look towards our vision, which is to reduce suffering of people living with this affliction. So we do that through a range of different programmes and services across Australia. There is roughly just over a thousand people living in Australia statistically speaking with this disease - EB we call it for short. It's a bit easier to say and in the last financial year for example, we had five new babies born with this disease and life expectancy can be very low for those that have the severe presentation of it, there are four main subtypes of EB, but even within those it presents differently for different people, which makes management a very specialised service. So part of what we do besides actually offering these hands-on services where we're there for them in the sense that in the medical world we also are about advocating for awareness and for the understanding of this disease because many within the medical community aren't very familiar with it and there really is specialised treatment for this. So we do support nurses as part of our programme. We have in-hospital nurses and we have in-home nursing programme as well. And since having FGX'S support, we've also been able to implement a psychology programme, another gap we identified within the system. So there's fantastic support now available there and since its inception in 2019, we've been able to respond to our community's needs and the utilisation of this programme has increased by 400%.

Caroline Gurney: I'm back. I'm so sorry for everyone for that. So I mean I think the work that you do is really amazing, but do you want to talk some of the key changes that you've advocated for to improve the lives of young peoples living with EB?

Mary-Jean Howard: So look, as an organisation, there's been many areas in which advocacy has grown and been a focus, but in the last 10 years, more specifically with FGX'S support, the implementation of the psychology programme was huge and it started off really small and as I just mentioned it has increased significantly since inception and even over the last year it's doubled. The need for this has doubled and we as an organisation really want to pivot our existing services and develop new ones and programmes that meet the needs of our community. So it's been great with the support we've been able to do that we've been able to advocate for a focus on mental health as well as the physical side because everyone understands the physical side often in the more severe cases, as you'll see if you visit our website, et cetera, with the imagery we have there, full body bandage in or part body bandage in is required.

So it can be a very physical disorder where you can see it. It can create scarring in cases blindness. So there's the physical side and we deal with that and have been, there's in the past there was advocacy towards the government to further support. So they did set up a bandaging scheme. So bandaging is more freely available now, but there's the mental side as well, which, until this programme, hasn't been addressed as fully. So we're really glad that we've been able to advocate for that support as well as obviously continuing looking at research into treatments. And then we also advocate connection within our community and against that sense of isolation that can often happen with the social side of living with something that's so physically impairing that really stands out to people. It can be difficult for both the individual living with it and those around and their family to see that suffering

Caroline Gurney: Without a doubt. One thing you did mention there, which I was actually really interested in is how you've leveraged the funding because obviously we provide you with multi-year untied funding - untied funding being you spend it on what you really need to do and obviously you've leveraged it to get the government. In terms of the bandaging programme, are there any other ways that you've actually leveraged it? Anything going forward?

Mary-Jean Howard: Well yes, I think that it's been very helpful obviously. I mean it's been vital, really. Untied funding is getting harder and harder I think for charities to get that sort of support where there's that trust and gives that flexibility to be able to use the funding where needed. So it's been greatly appreciated and certainly has helped us when talking to other people, other organisations looking for support to be able to say that a fantastic organisation like FGX supports us already and has been for the 10 years now. So that's been fantastic and it's also freed us up to be able to go for those grants and et cetera, which are more tied and focused and knowing that we have that flexibility with the untied funding to work around that and still be able to grow our programmes and shift as needed to meet our community.

Caroline Gurney: And Mary-Jean, I think it's been really important that you've actually got global funding as well. But actually I've got a shareholder question and the question is what is EB and how would a child get it as in is it genetic?

Mary-Jean Howard: Is generally considered a genetic disorder but in some cases it does start spontaneously. So that is another area that we obviously continue to look at, the whole genetic side of it. Often people don't even know that they have. It can skip a generation - they don't know that it's in their family line. But yes, there's also a move towards any people that do know that they have it or there's a chance of having it to manage that. So that is something else that it's a growing area I think. And we look to support that and often there's limited funding for that. Some hospital we actually recently-

Caroline Gurney: I think we're having a few technical issues in terms of going in and out. What I might do is say thank you so much. I think the work that you do is incredibly valuable. And now I might actually go to Geoff, but I really want to thank you so much for coming in and it's quite heart rendering when I look at your website and when I've met some of your ambassadors as well. But thank you very much. So we are getting some questions. Thank you. We're getting some questions now in for Geoff, but one question, Geoff, are you there? I just want to make sure you're there when I talk to you. Yeah,

Geoff Wilson AO: I think my connection's been the highest quality so far, but who knows, things happen in threes.

Caroline Gurney: The one two three. Yeah, we're good. So I mean Geoff, in terms of Future Generation Australia as an investment vehicle, I mean please do a wrap in terms of the importance of it as an investment vehicle to our shareholders.

Geoff Wilson AO: Well that would actually have to be for the shareholders to decide. I can't tell them if it's important to them or not. From my perspective, Future Generation Australia, which gives you exposure to the best Australian fund managers that we can find. And anyone who listened earlier listened to Sean Fenton, a. lot of experience, highly intelligent, one of Australia's top fund managers. We've selected the best and we've got 18 of them. And to me the interesting thing is I know in your introduction you talked about discount NTA, you look at the performance of these managers and also how the portfolio has been put together by the investment committee and a high quality investment committee, you take less risk than the market And these guys, normally when you take less risk than the market, you expect to get a proportional less return and these managers have given you a better return than the market. But also when we've been looking at the best managers in Australia, you tend to find the ones that look for the smaller growth or the medium-sized growth companies. And Sean talked about CommBank, how crazily expensive it is at the moment.

And we've selected those managers and they manage - so they're focused on the more medium sized growing Australian companies and all the passive money hasn't been going there. So to me that's an area that really hasn't performed that well. The mid and smalls, you put that to one side, the universe

we've picked in terms of the 18 managers put them all together, they've outperformed. So they're giving you, you're taking less risk, you're getting outperformance, you're taking exposure to a sector that hasn't performed that well and you're getting outperformance of the All Ordinaries. So to me, going back five months, FGX was trading at about an 18% discount. Now, well at the end of last month it was a 12%, I just looked it up assuming the market - the portfolios performed about in line with the market as of now it's about 11 and a bit percent discount FGX, it's on its way back to a premium.

I mean it should be at a premium. To me you're getting exposure to these managers and the incredible thing is you're actually not paying for it. Some of the money that the managers would get go to support the charities, but also a reasonable amount of it stays with you, the investors and then you've got a fully franked yield. And so to me, I'm pretty confident that FGX is heading back to traded at NTA, which a few years ago it had, and to me there should be an embedded... To me, some of these managers you actually can't get exposure to their funds are shut. So does that answer your question slightly?

Caroline Gurney: It does, it was quite an open-ended question! I think the other question we've got is in terms of the discount to NTA is narrowing now, why do you think that is? Because there's also been a lot of work and with the investment performance that as you said has come down. But why do you think it's now?

Geoff Wilson AO: First of all, a listed investment company has to do four things to trade at NTA, if not a premium, it has to perform and FGX had performed. Also the marginal buyer tends to a self-managed super fund or someone who's looking for yield or fully franked yield. So you have to have a clearly articulated dividend strategy which FGX has. Also, you need to treat shareholders with respect. And that's, to me, that's every listed company has to do that. And you see some companies that raise money at discounts and do the wrong thing by shareholders. And (respect) that's what we do. And the fourth thing is you really have to have a disciplined shareholder engagement communication strategy. And because in the end it is supply-demand and if all the shareholders understand what they've invested in and are happy, then they're not selling and you only need a few first-year economics, actually only did first year economics at uni, but they show you the supply demand curve and that's where you need to get it to.

And so we're in the process of tidying up the share register. If you're a shareholder and you haven't been contacted by the investment team, send them an email and sorry, the FutureGen team, send 'em an email and give them a little blast because we're trying to engage. Well if you haven't, hundreds of people on this call, please communicate because it's your company and you need to understand what you've invested in. If you understand what you've invested in, then you'll realise what a great opportunity is that it's trading a discount and you'll realise why it should trade at NTA if not a premium and it will trade there. And I'm very confident and historically that's what you need to do. So why isn't it trading at a premium now? Unfortunately these things take time. A number of years ago we had quite a reasonable size capital raising and of that there was a lot of flow back in terms of sellers. So we had to work through that. There was a CEO before Caroline. There was a period there where the company had a big break in the CEO side. So to me they'll trade back at a premium NTA. It's quite clear that we we're on that path.

Caroline Gurney: So hopefully Nigel that's answered your question. Maybe the question was can you please explain why the market seems to price the shares in FGX and WAM Capital also at a rather steep discount to NTA? And I think you've explained the catalyst -

Geoff Wilson AO: Let me just touch on WAM Capital. WAM Capital is trading about three point half percent premium NTA, so it's not at a discount and effectively supply demand and WAM Capital is a totally different kettle of fish because it's paying out super dividends, it's paying out the equivalent of

about 14% pre-tax as fully franked dividends. So it's when the assets might go up by 10%, it's paying you more so the capital actually declines. But that's not the situation in FGX and this is, Caroline talked about the board gently increasing the dividend. The dividend on assets, it is a little over 5%, that's fully franked. Now what does FGX have to earn? It obviously has to earn the pre-tax amount, which is probably heading above 7.5% pre-tax or in the sevens to then pay the tax and then pay the fully franked dividends. Now obviously we get some flow through fully franked dividends from our fund managers, but so to me FGX is poised to give you a combination of a sizable fully franked dividend, gently growing and capital growth. And it gives you an incredible diversity. To me, if you had to pay to get exposure to these fund managers and if you just paid their normal fees, you'd be paying nearly double the money that goes out to charity. So to me it's a great structure for shareholders.

Caroline Gurney: The next questions that are coming in in terms of Future Generation Australia and Future Generation Global, is there a maximum amount that FG would like to manage or are the size of these funds uncapped due to the LIC structure? Another question from Sam saying what is the maximum size we're targeting for funds being managed by FGX? I mean maybe you want to explain that obviously we need to get to a premium.

Geoff Wilson AO: Yeah, well the good thing is we have never raised capital at a discount to NTA. So the goal will be to get both entities to trade at NTA, if not a premium. My view is they should all have an embedded premium in them. And then the logic of potentially growing these entities, there's an option there, sorry, I don't mean option as and have an option issue, but that's then we can potentially look at that. The plan is to, it would be to grow. Obviously the capacity of the global one is probably higher than the Australian entity, but there's still a number of managers that are very willing to manage money pro-bono. The current managers we've got, they see the impact that FGX has on children at risk and very real impact and they're sort of emotionally attached to the journey we're on. So to me they're just phenomenal structures. We've put Caroline and her team and we've been lobbying the government to try to improve these structures for the investor. To me they're incredible structures, but we just think there's a lot of opportunity. Obviously how we'll do it is that it's in shareholders' interests.

Caroline Gurney: Thank you Geoff. Well actually one question we've just had in was whether or not we assist the not-for-profits more with their corporate governance and their process. And yes, we do try to, but realistically what we want to do is make sure that these vehicles are really good for shareholders. Just as Geoff said. I'm actually going to wrap up now. We do have a few other questions, but I will come back to you and speak to you.

Geoff Wilson AO: Don't wrap up yet, Caroline, we've got five minutes! I tweeted and told them that everyone will be on until 11 o'clock. So unfortunately in my world I came from investment management stock breaking my word is my bond.

Caroline Gurney: That's all good!

Geoff Wilson AO: What other questions should we got?

Caroline Gurney: So one other question was would we ever think about doing a buyback?

Geoff Wilson AO: Well that's always an option. As a board, capital management is always on the, every board meeting, capital management is one of the agenda items. Obviously capital management's not only doing a buyback, it's dividends, it's raising capital, it's profit reserves. So to me it's multifactorial, but we've always looked at it. To me, the interesting thing is, buybacks for operating companies tends to work. Buybacks for closed end companies or listed investment companies tend not to work. One of the reasons, and if I got a group and if you haven't come been to one of our presentations, please, we'd encourage you to come along in Melbourne and Sydney. So we have a thousand people in the room. If I said, look, put your hand up, who thinks a buyback is good? And this is, think of the logic. You're

buying a dollar of assets safer. Well, at the moment with FGX, you're buying a dollar of assets at 11.6% discount.

Then you think, well that makes sense for every dollar of assets then the asset value for everyone else goes up. But if I asked that question in a room of listed investment company investors, probably only about 10 to 20% would put their hand up. Now why is that the case? And so the other 80 to 90% wouldn't, they would say they would prefer not to - that a buyback didn't occur. And the reason they'd say that is because first thing they think of, well if the group, like the investment manager thinks that he can only make 12%, then hey, I'm investing with these guys to make 20 or 30%.

So to me that's a question mark. And then also it actually does reduce the size of the company. And to me there's a lot of negative connotations in the closed end space. And we've done all the analysis on the listed investment companies that have done buybacks. And we have done, for Wilson Asset Management, we bought back 35% of WAM research go back about 20 odd years ago. And that took us seven years to get it to trade at NTA. It's the longest of all our LIC's, and I think one of the reasons why is because we bought back 35% of the company cheaply. And investors don't like that. They want the manager to be growing to be successful, finding investment opportunities. For us as Future Gen, finding new fund managers are going to add value, investing with the ones that we've already got and we do. The fund managers, they're not there forever. If they don't perform then they're removed. But that's another sort of question. I know we've probably got room for one more question.

Caroline Gurney: We have. So Andy has said, which I quite like, he says, don't buy back. We need to get bigger to get in the ASX 200. But he's also asked for whether or not you have any stock picks for us. Geoff,

Geoff Wilson AO: I'm not stock picking today. To me, I would've had to do a little bit of work. I know I've given stock picks before and I think my last one did extremely well!

Caroline Gurney: Of course. But actually - the question here that we have, another one is: why, as obviously you're on the board, why didn't the board lift the dividend higher to help close the discount?

Geoff Wilson AO: Yeah, well that's a good question and a really good question. And there was very vigorous debate at board level as there usually is on dividends. I mentioned the figures before, let's say hypothetically the portfolio, what has it done? It's done over since inception. The portfolios return 9.1% outperforming the All Ords by about 1.1%. With the volatility, probably 30% less volatility. So you're actually taking a lot less risk and you're getting a better return from the market. That's what you want. Normally when you take less risk, you put your money in the bank, you get less return. So to me that's really exceptional performance now. So 9.1%, let's say we increased the dividend to 10% fully. We've got the profit reserve, we haven't got the franking at the moment, but let's say we did have the franking and we increased it to 10% fully franked.

So then to do that, you've actually got to pay the tax. A little bit of franking will get through. So you've probably got to return about 14%. And the 1% goes to charity. So probably about 14 point a half percent, probably 13 point a half percent gross up after tax. So 14 point a half percent, but we've only made 9%. So that's been the performance even though it's outperformed the market. So then your assets are going to fall and then what happens is, because how do you get your returns? It's either - it's income or capital or it's a combination of the two. So if you push the income too much, then you actually lose capital because in that example I was giving you say you've got to make 14.5% but you're only making 9%. So the capital drops by 5%. And that's what's happened with WAM Capital.

We've held the dividends during the GFC, everyone cut their dividends. We probably should have done that. We kept it high, we had the franking and then everyone says, oh look, I put it in this price and the assets have come down, but you've actually paid them out to shareholders. So FGX and the board, look, good on the board. I think they came to a really good compromise where you're getting a really - an exceptional, fully frank yield compared to the market. You can't get that at the market. I haven't looked recently, but the market yield is probably around that three point a half 4%. It's probably 70. Last time I looked it was 77% franked. So you're getting 20 to 25% better fully franked yield. You've got the profit reserve, the franking so that you've got a little bit stored there so we can keep it going and plus you'll get a bit of capital growth. So to me it's that combination because you want to see your share price going up gently. The beautiful thing is if you buy now, well in theory you're getting that free kick of say 11.6% discount, then you'll make 12 or 13% because it increases to NTA on top of the market.

Caroline Gurney: I think that's good. Thank you. We do have a couple more questions on not-for-profits, but I will take those. But also which time, and I want to apologise as well for any of the technology.

Geoff Wilson AO: Any more investment questions, Caroline or?

Caroline Gurney: None. I think we've answered - I mean a lot of them are about the discount, buying back. They're all roughly the same. If we get anything else, I will call them.

Geoff Wilson AO: And remember guys, this is your company, so please, any suggestions, any ideas, any questions, please contact us. Contact Future Gen team.

Caroline Gurney: Thank you. So thank you Geoff. Thank you Sean. Thank you Mary-Jean. And please do fill in the survey because we'd like to know if you'd like to continue with this format. And any feedback, any questions, as Geoff said, please do email them in and we'll call you back and hopefully we will see you at our regional shareholder presentations in October or no doubt in Sydney and Melbourne or Perth. So thank you very much for listening.