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Future Generation Australia (ASX: FGX) Half-Year Results Q&A Webinar

Tuesday, 9 September 2025 at 11:00am (Sydney time)

Ben Griffiths, Executive Chairman of Eley Griffiths Group and one of our founding and top-performing Future Generation Australia pro bono fund managers, Caroline Gurney, Chief Executive Officer of Future Generation; Lee Hopperton, Chief Investment Officer; and Emily Fuller, Social Impact Director.

CAROLINE GURNEY, CEO, FUTURE GENERATION: Thanks so much for joining us. I'm Caroline Gurney. I'm the CEO of Future Generation and I'm joined today by Emily Fuller, who is our amazing social impact director who's going to give you an update on the new not for profits that we're going to be working with. I'm also delighted to be joined by Ben Griffiths, the Executive Chairman and co-founder of Eley Griffiths Group and one of our incredible pro bono fund managers. He's also one of the original founders of Future Generation Australia. So thanks very much, Ben, for being here.

BEN GRIFFITHS, EXECUTIVE CHAIRMAN, ELEY GRIFFITHS GROUP: Thanks, Caroline. Great to be here.

CAROLINE GURNEY: That's good. And we also have Lee Hopperton, and he is our CIO for Future Generation. So delighted to have both of you together in the same room. So, I'm expecting some interesting comments. As you all know, we are all incredibly proud to be part of Future Generation Australia. It's a very unique investment vehicle and we deliver solid long-term investment returns for you, our shareholders, alongside our social impact - and that's real impact in the community and something we really want to talk about to you today. We really value your input. You own this company. So please submit questions as many as possible throughout the webinar. And for those that have already done so, thank you so much. Before we begin, I would like to acknowledge the Gadigal people of the Eora nation, the traditional custodians of this land, and acknowledge elders past and present.

Now, on this slide we actually have the disclaimer. I know the font's too small so I can't actually read it all out, but please know that this is important information in there and we are not giving advice. So before, before we kick off, let's go to that slide which is the sort of growing stream of fully franked dividends. I'm just going to go through the highlights for our recent half year results.

Despite a challenging market environment our investment performance has really held firm. And importantly, we've increased the dividend by the tenth consecutive year. And that's something that all of you tell us that you want. That's something the Board is very, very focused on. We're actually making sure that we're going to give you that consistent stream of the fully franked income that I know you value.

We announced the interim dividend of 3.6 cents per share, fully franked back in July. And thank you so much to everybody that wrote in to say that you really appreciated that because it was a month ahead of schedule. And I think that really shows that the Board has confidence in our investment strategy and our structure.

So, since inception, our shareholders are in line for dividends totalling 81.6 cents per share and that includes the value of franking credits. The interim dividend represents a 5.5% yield on a fully franked basis and 7.9% grossed up. So this is a strong result, especially in this market at the moment where, you know, dependable income I think is really increasingly hard to find. So, if we turn to the performance the Future Generation Australia investment portfolio increased by 4.0% in July and we outperformed the S&P/ASX All Ordinaries Accumulation Index by 1.4%, taking the 12-month investment portfolio performance to 11.3%. Since inception, we've outperformed both the S&P/ASX All Ordinaries Accumulation Index and the S&P/ASX Small Ordinaries Accumulation Index - and importantly, we've done that with less risk.

That kind of sustained performance really does underpin what our model is all about because what we're doing is we're combining really strong financial returns with real social impact. So, on that front, we have made a really large leap this year for the very first time in our history that's sort of 11 years now. We actually ran an open funding application process for not-for-profit organisations and we received a staggering 329 applications. And that's amazing. And I just think the depth of not-for-profits in this country is really incredible. And the fact that they actually applied and heard of Future Generation, what we're doing is really good for us. We've constructed a fresh new portfolio and we have 11 social impact partners. And that's something we're going to get Emily to talk about afterwards with all of the work that she's done to get that real sort of portfolio.

But let's bring in now Lee Hopperton. Let's look at sort of that deeper dive for the portfolio. So Lee, for everybody's background, he joined what, seven months ago now? Eight months ago, and he's been working very closely with our Investment Committee and the fund managers since the start of the year. I'm really interested and I think the shareholders would like to know a little bit more, Lee, about what's being been driving the portfolio performance?

LEE HOPPERTON, CIO, FUTURE GENERATION: Thanks, Caroline. Well, if you look over the last 12 months up to the end of July, which is our last reported numbers, the indexes are up 11% or 12%. And as you said, the portfolio has done more or less the same kind of number, 11.3%. And that's actually a pretty respectable result because markets have been very challenging, very difficult, lots of volatility, and that's been hard for a number of active managers. Those index performance mask a lot of volatility, particularly in some very large stocks. So for example, and very much contrary to what everyone's been talking about and expecting, CBA has increased about 30% over that period and CSL is down around 30% also over that period. And then we've also just come through reporting season in August, which is widely commented as having been one of the most volatile on record. So, it's been a pretty challenging market and the portfolio has kept pace with that.

One theme which I think is really interesting that has emerged is that after many years or over many years, the smaller part of the index, the Small Ordinaries, has been underperforming the All Ordinaries quite significantly over a number of years. But that started to reverse particularly over the last 12 months and in the last quarter and accelerated again into August. And that's significant for Future Generation Australia because over many years we've had a leaning towards mid cap and small cap managers like Ben, who is one of those high performing managers. And I think the fact that over the life of the fund that we've managed to keep pace with the All Ordinaries despite that kind of trend happening is a real testament to the active managers that we've got. The 17 managers that perform have delivered that performance. So, it's been a big theme that should play to the advantage of Future Generation Australia. We should see that as a massive support over the next few months if it continues. And that's really a dominant theme. So the portfolio has kept pace and I think is well positioned from here.

CAROLINE GURNEY: So I mean, one of the things you talk about, Lee, well we all talk about is the fact that this has been done with much lower volatility than the broader market, which is very much proxy for risk. But one of the key strengths of the portfolio against the current market backdrop, what would you say they are?

LEE HOPPERTON: There's probably three key things that Future Generation does I think exceptionally well. The biggest of those is diversification and that's our secret sauce really. We've got 17 managers, they're all different managers. So we're diversified by the people that we're using. They all have different strategies. We've got quant strategies, we've got long short strategies, long only strategies, activist strategies. So we're diversified by the ways in which they invest and that leads the underlying investments, the securities that are held by those managers, to be very diversified as well. And diversification is really the trick to reducing the volatility and risk in the portfolio. So that's a really important part and an important strength of ours.

The second is we use active managers. I think at the moment that's a particularly important part of the portfolio because concentration of the index and the performance of the index has been very extreme both in Australia and around the world. When you get that level of concentration in performance, you also increase the risk for the indices. If you've got passive investments at the moment, you own a lot of CBA, for example, it's 10% of the index. So any wobble that CBA has will have an impact on the index and passive investments. So having active managers who can look for opportunities outside of those mega sized companies and the ones that have been driving performance and is a really important aspect of how we manage money.

And the third thing, and possibly the most underrated part of our portfolio strength, is that we have a very strong Investment Committee. It's got people like Geoff Wilson on it who help to construct these portfolios in a really sensible way to make sure that we're not leaning too much in one direction or another, that we're able to cope with market corrections, market shocks and be sensibly diversified rather than over diversified and have the right allocations to the best managers in Australia. And we certainly think the 17 managers that we use are the best in Australia.

So those three things are really critical and they are what makes Future Generation very special. Obviously that portfolio sits within investment company structure which gives us the opportunity to pay sustainable, fully franked dividends. And I think that's critical. But at the moment we really feel that the portfolio is extremely well positioned in the way that we've constructed it and the managers that we're using and the themes that we're seeing in the market.

CAROLINE GURNEY: Excellent. Thank you so much. I also want to say thank you so much to the Investment Committee because you know, they are truly some of the sort of great minds in the financial markets. So not only do we have Geoff, we also have a number of others who actually advise super funds as well. So, thank you very much for that Lee. So now I'm going to turn to Ben. I mean Ben, you have been an amazing part of Future Generation, and since the inception, you are one of our inaugural fund managers.

You know, you're the founder of Eley Griffiths Group and obviously you're the Executive Chair as well. You are a top performing pro bono fund manager, as I like to say, your returns for your shareholders have been excellent. And the ones for us also, because you actually waive your management fees so we can fund our not for profits. I'd really like to ask you that sort of that question about your recent performance. I mean, it's been so strong and what has actually driven that over the last 12 months. And maybe if you could talk about some of the sectors or themes that have really been standout contributors.

BEN GRIFFITHS: Sure. Thank you for that gracious introduction Caroline. Look, one thing I can say with confidence is that good numbers come with hard work. And as Lee touched on volatile markets, there's been plenty to think about as a professional money manager, how to position and how to make sure the portfolios can get through markets. Okay. We've had a good time of it, as you point out on your introductory comments.

I think a couple of things that I'd draw your attention to, the fact is that as a house, we have been bullish stocks, whether that's big or small, but we've been bullish stocks since about October 23rd. I picked that time because that was coincidentally about the time when the market began to pivot from interest rate trajectory being upwards to maybe interest rates have been hiked enough globally and we're going to start to see interest rate accommodation.

BEN GRIFFITHS: So that pivot took place in about, as I said, October 23rd, and we made sure that we were pretty well invested, nicely invested from that point onwards. So I think it's having faith in stocks when at the darkest hours there, when rates were being hiked, people were losing faith, we went quite counter to that trend in terms of portfolio construction. Certainly, in the last 12 months, we've made sure that our portfolio has been reasonably well invested and light on cash and heavy on stocks. As you might expect, that goes a long way within the portfolio.

There's been a fair and good representation among the materials names. And in particular, I draw attention to a number of gold stocks. As much as we're bulls on gold and have been for a couple of years, we're particularly bullish on the prospects for a number of companies that we have in the portfolio. I'd identify Genusplus Group (ASX: GNP), Capricorn Metals (ASX: CMM), De Grey Mining (ASX: DEG) and even outside the gold space, which has been a great place to go hunting. We've had a nice position in Lynas Rare Earths (ASX: LYC) and Lynas has been a very strong performer. So, materials has been well represented. It's a big part of the market. It is coincidentally a part of the market that many of our competitors don't like to play in. They prefer not to place bets there, but we certainly do. And the other thing that I think has really differentiated us is we've gone after good quality industrial companies, good quality businesses that we're happy with. Temple & Webster (ASX: TPW) to name one, Codan (ASX: CDA) another one, and even Charter Hall Group (ASX: CHC), probably the first REIT we've owned for quite some time.

So it really is owning good quality names, owning them in the appropriate bet sizes, keeping cash lean and not being tempted to be lured off or basically resisting the urge at any point in time to sell some of these winning positions. And as you rightly say, the numbers have been good and we're pretty happy.

CAROLINE GURNEY: So thank you very much for those stock tips ahead of time, but we're going to ask you that question later as well. So let's just go to the reporting season. I mean the August reporting season is incredibly volatile. I think Barrenjoey called it the most volatile in 15 years. So what for you have been some of the key themes that have emerged and are there any lessons you've actually learned from it this time?

BEN GRIFFITHS: Sure. Well Lee touched on it earlier about the volatility as you say, Goldman Sachs were an interesting study. Everybody's got a stat on just how volatile this market was or has been in the last month or so six weeks. Goldman Sachs made the point that 46% of those companies reporting had share price volatility up or down 5% on the day of reporting which is unprecedented in terms of share price moves. So that was truly quite amazing. CSL (ASX: CSL) I'll just comment on one stock before I give you a sector rundown. But CSL, as a professional equities manager, trust me, you can wait a lifetime and not see a top three Australian company have a share price implosion like we saw with CSL. On the day of its result, the stock lost 20% over the course of three or four trading sessions. Utterly spectacular as the company issued a mea culpa and effectively said that it's RD program kind of hadn't worked. They were going to divest the one of the foundation parts of their business and look to regroup to go forward.

Quite stunning. So the volatility is amazing. But stocks specifically in sector wise, I think surprise element for me was the consumer facing businesses exposure to consumers and consumption patterns. Those sorts of stocks fared really well and it did surprise people and when I'm talking about consumer facing businesses I'm talking about Nick Scali (ASX: NCK) and JB Hi-Fi (ASX: JBH), I'm talking about Harvey Norman (ASX: HVN), those sorts of names, those stocks perform quite creditably and I guess why not you'd expect the consumer to be performing. It's good to see confirmation that's happening with tax cuts, lower interest rates and some easing up on cost of living pressure that certainly manifests itself in some pretty good consumer facing company results.

I think the market was looking towards New Zealand facing stocks or companies to have had a better time and it looks like the key takeaway for me was that New Zealand isn't turning. The prospects for the New Zealand economy aren't getting much better, and I think that was probably a disappointing feature of a number of companies that had reported. But for me I thought apart from the consumer facing section of the market I thought that the performance of the banking sector with their trading updates was quite amazing.

A number of the bank stocks as a collective came out and said that whilst costs are on the rise and net interest margins are under some pressure I think the market was surprised that net interest margins, which is the profit margin for a bank, are actually trading and trending quite well. Asset quality is better than they might have thought given where the economy is at this stage. The bad and doubtful debts are traveling in a comfortable position and that the level of capital adequacy among the banks was also quite high - in fact capital levels running above the APRA recommended levels.

So I think in summary the banks fared particularly well and in the end we saw either no change or upgrades to future earnings for our bank stocks so I thought that was actually quite a feature. So the banks did well, the consumer stocks did well and not much good news coming out of our friends across the ditch.

CAROLINE GURNEY: So I mean obviously you've just talked about CommBank but I mean there's a lot of discussion out there about that market concentration, the valuations around these really big companies. What opportunities are you actually seeing in the small to mid-cap space right now?

Obviously an area which are incredibly strong.

BEN GRIFFITHS: I think it's important for investors, and Lee touched on the fact that the Small Ordinaries has been a chronic underperformer versus large caps for quite some time. I think investors have taken their eye off the ball if you have a look and you'll see that the Small Ordinaries pen is actually at a 10% discount to the ASX 100 names. So you get a 10% cheaper entry point for your typical small cap.

So we're 18.2 times rough PE versus 20 times. But for your 18.2 times you get a sector that's growing at around 12% in FY26 versus the big end of the market, which is essentially going to release flat results, we think looking forward for 2026. So you've got far superior growth prospects for smalls versus the big end of the market and they're trading cheaper. It was interesting. The recent reporting season saw the tempo of earnings downgrades to be much milder amongst small cap stocks versus big caps. So I thought that was also quite interesting.

So essentially the valuation case is there for people to see, it's there for investors to make a decision on whether they want to embrace smalls or the large end of the market. But I think, as Lee said, the market is voting this year with some pretty strong performance from small caps. And I think you'd expect the sectors that have been performing well today to probably continue.

I think the materials sector, I touched on our gold bet and our rare earths, but I think those parts of the market will continue to perform well. And as usual, investors could do far worse than expose themselves to good quality industrial companies that are priced reasonably but have got good sustainable defensive earnings growth looking forward certainly for the next 12 months anyway.

CAROLINE GURNEY: I sort of see overseas that small caps are really coming back into favour. I'm not sure whether or not it's something more durable or whether or not it's just a moment, but from your point of view, what actually makes a really good small cap manager consistently outperform the large cap because as you said, there's a lot of space in between.

BEN GRIFFITHS: That's exactly right. In its simplest terms, and being a little crude, but small caps are a very easy bet on the interest rate cycle and investors, whether they're sitting in Pitt Street or whether they're sitting in the City in London. But it's all about the trajectory of interest rates. Put crudely, if you want to bet on the Fed, you take a punt on the Russell 2000, the US listed small cap benchmark. So it's really in the first instance the perceived setting of where interest rates are. And I think it's a truism to say that interest rates are moving lower. And we've seen that expressed not only in the Australian context, where calendar year to date, the Small Ordinaries benchmark is up about 18%. The ASX20 is up about 5%. So we've had a pretty handy outperformance there as the RBA continues to ease its interest rates and we've got probably another cut in November and another one next year and that wouldn't surprise me. The U.S. market, of course, hasn't even got started.

We expect to see interest rates cut in September. But have a look at the performance of some of the small cap benchmarks. In Canada, for instance, the Toronto small caps are up about 25%, their broader benchmarks up about 18 in Europe. It's quite stunning really. If you have a look at the MSCI European small cap benchmark, that's up 24% year to date, whereas the EURO STOXX 50, which is the 50 leading stocks in Europe, are up about 5% or 6%.

So there's a chasm between major small cap benchmarks and what the big cap counterparts are doing. So I think that move is underway. The portfolio shift and the rotation is definitely underway. And that's been pronounced since January. And I think bringing experience to the fore that trend will continue. I think we'll see the continual rerating of small caps in line with the action of central banks.

And you asked a minute ago about what makes a good small cap manager and I think it's hard to move too far away from - I started the comment today when you introduced me that there's plenty of hard work involved, there's no doubt about it, there's been plenty of hard work from our team, but I think its too hard to move too far away from experience. Having an experienced small cap team that have seen a few cycles, that does help. They know how to react. When you get an adverse share price movement like a CSL, for instance, what do you do? Do you add to the position? Do you sell it? So I think that certainly is a great value add to investors knowing you've got a fund manager that's seen a few cycles. And you do need a process; you need a sound investment process that keeps you away from just buying momentum. You actually need to be reminded of the underlying fundamental merits of a stock or a company.

So I think it's process, it's experience, it is time in the markets and it's a recognition also, and we mustn't forget this, that the overarching theme for stock market indices in the developed sphere is that we are in a bull market. And so investment managers should be looking to buy retreats, they should be looking to buy sell offs and corrections and retracements. So a poor result? Well, we have a think about it. A not so bad result that gets overreacted to selling wise should actually be considered a buying opportunity if you've done the work and you're confident.

CAROLINE GURNEY: I love the fact that you're so bullish about the market. So I always find it really interesting hearing about what the ingredients are that you're seeing that suggests we're actually in a true bull market. And I would really, if you can touch on the China recovery as well, I think that would be really interest interesting to our shareholders.

BEN GRIFFITHS: As I said, our bullish stance was largely activated or actioned in around October 23rd on the pivot. Again, the fact that there was the strong and growing conviction at that time that interest rates were no longer going to be tightened and we were due for a dose of accommodation and that's exactly what we've had. That dose of accommodation is going to continue. As a rule, Caroline, a professional manager doesn't sell stocks when they're at all-time highs. You don't sell stocks that are making highs. Right? You buy stocks that are making highs. And even though the AFR and the SMH don't seem to report it these days, we are at all-time highs in the Australian share market. Now the Small Ordinaries is doing it but it's not quite there. But the ASX20, ASX100, All Ordinaries, mid-caps, they're all at all-time highs. So, there's your fundamental backdrop.

If I look at the Australian share market, you can really get excited and you can draw the line. Starting from the Federal election in May of this year when the Albanese Government swept in with the majority, that was the first plank that investors could stand on to say, hang on, the Australian economy can move upwards and stocks can rally accordingly because we have stability, we'll get some element of predictability. We won't have a Parliament that's not workable. So we had that then.

It wasn't long before we moved in May, also late May, to the Macquarie Conference, which was colloquially referred to as the "downgrade conference". Everybody went down. There were hundreds of us down there at the conference waiting for downgrades and they never came. So if anything it was actually quite an upbeat gathering. And then shortly after that we had the reporting season, we had the confession season and the reporting season.

So the sum total of what we've seen is essentially a fairly positive and constructive feedback and update from Australian corporates. And I just mentioned the reporting season essentially saw more beats than misses and it did see more downgrades and upgrades. But that's okay. Overwhelmingly, corporates were posting quite constructive outlook statements. So, we have fundamentally, a stable political system. We have an earnings backdrop that's quite constructive, fuelled by, I think, the consumer and the fact that the consumer is being fed. Well he's been feasting on tax cuts, lower interest rates, a general belief that probably the property markets off the bottom, certainly on the east coast, that will feed through to sentiment. So, animal spirits are actually recovering fairly quickly and we've seen that with a couple of IPOs that have gotten away.

And of course, the other important element that you touched on in your question, of course, is China and where's China at? Naturally, the fortunes of the Australian economy are somewhat connected to good outcomes of China and a recovering China. And we think if you look at that stock market up there, the Chinese stock market is up about 28% calendar year to date. Already professional money is betting that the Chinese economy is off the canvas, that they will invoke reforms and stimulus to get things moving along. That can only be good news for the Australian share market.

CAROLINE GURNEY: So you have said previously the only piece missing is the IPO market and obviously just mentioned the couple that have gone up. What really needs to happen for that final piece, you to fall into place?

BEN GRIFFITHS: It's the one element of the market that people are continuing to worry about and it's causing some angst. I think it's important to remember that it's not just the Australian share market that's suffering a sick and tired IPO market in Australia this year. We've had about 20 plus or minus IPOs this calendar year. But that's the same as what they've seen in the London Stock Exchange as well. So only about 20 have listed there. In the United States calendar year to date they've had about 235 IPOs list. In a proper year and a good year such as 2021, which was a bit of a boom year for IPOs, you had just over a thousand IPOs in the U.S. and you had in Australia about 200 IPOs. So we're tracking at about 20. So it is somewhat subdued. But I think it's important to take stock of what is happening in The Australian IPO market. And just think seriously - there's a new normal for IPOs, and we're all coming to terms with this.

The first thing is vendors and promoters who are bringing companies to be IPO'd with the market. Essentially, you won't get the full value extraction. Day one, the Australian share market is moving to the U.S. model of IPOs, where only a part of a company will be IPO'd, which provides skin in the game for fellow shareholders. So promoters will only be able to monetise part of their shareholding. They'll be able to monetise the balance of their shareholding as they deliver improved earnings. And then the stocks rewrite and they can remove themselves or sell down on that basis.

So we're seeing that's the new method by which IPOs will take place in this country. Quite important that the other important element is we need retail activity. We need the household investor to come back. I describe the consumer, the investor sentiment for the average household investor as measured but aroused. So it is actually happening. The retail investor is coming back into the market. They are such a pivotal part of successful IPO campaigns. Without them, we just won't have a healthy and thriving IPO market.

And the final piece of the puzzle really is the intent from the regulators. And I mean, ASIC and also the ASX for that matter, have come out publicly and said, we want to make changes. We want to do what we need to do. We want to make changes that will make the IPO market great again. We want to bring back successful IPOs. What do we need to do? And they've basically thrown themselves open for feedback on what needs to be done.

Can I just reflect on a little study that our quant analyst performed just recently where he reviewed IPOs over the last decade. We looked at some 500 IPOs. Then we cut it back to IPOs above $100 million in market capitalization. And the message was quite simple. The average IPO doesn't outperform over 12 months. The average IPO actually performs quite disappointingly over the last 12 months, which is an interesting fact. But we found in our study that the two categories, the two sectors that go really well are healthcare and technology IPOs. So they go particularly well. And the two sectors that seem to struggle are energy and materials. So there's a little bit of a note to the investment bankers out there that are wondering what style of company should be wheeled out and put before investors. It's technology and healthcare companies.

And the final thing, too is the PE vendors who are substantially a big part of the IPO market. They are vending assets. The vendors that tender, promote or are responsible for successful IPOs is more the family run business or the genuine vendor selling rather than a private equity sell down. So that tends to be what the experience has been over the last 10 years. But that too can change, especially as we evolve more to a U.S. model around how we're going to do IPOs going forward.

So the IPO market, Caroline, I'm here to say, is not broken, it's just being reconfigured. And investment bankers and companies are just going to go around the process of bringing a company public in a slightly different manner to what they've been used to.

CAROLINE GURNEY: That's excellent, Ben. I think every investment bank will be wanting that research for sure. So my last question to you is our shareholders, they really love stock tips and obviously you've mentioned quite a few, but are there any companies that you're really excited about now that you've been following for a long time and you're either still with them or you're buying?

BEN GRIFFITHS: Well, there's always companies we're excited about. I think there's one that stood out to us that we think looks quite exciting and that's a a2 Milk (ASX: A2M) who of course make powdered milks. Infant powdered milks reported a great result in August. Very happy with the result. We're familiar with the business and familiar with the management team who are first rate. Interesting to see with that business. And by the way, it's, it boasts about $900AUD million of net cash on its balance sheet. So it's a very conservatively financed business. Interesting to see just recently that they've made some major transformational moves on their supply chain. They have sold a manufacturing facility or in the process of divesting it, replacing it with a business in New Zealand, the Pokeno facility. And that will enable them to more efficiently produce milk powders and also enjoy two registered Chinese labels as well as the prospect of being able to produce more product into China.

So I think we look at a2 Milk and say it was a former darling of the market. It's recovered nicely with good management, a sound balance sheet, a very sensible reordering of their supply chain. We think the prospects for a2 Milk look pretty good at the moment despite the fact it comes with a somewhat hefty price tag. It's on a 34 times multiple. It's actually, if this is any consolation, it's not quite as expensive as it has been in the past, but given its investment merit and its strategic merit, it tends to trade at a premium to the broader market. But we think things for a2 Milk are looking just fine.

CAROLINE GURNEY: Excellent. Thank you, Ben. We're actually getting quite a lot of questions in for you, so if you'll hang on, I'm just going to give you a heads up. A lot of people want to talk about CSL and your experience around that and would you buy. But we'll come to that afterwards. But thank you so much for going through your thoughts on the market as well. We're actually now going to go to Emily Fuller because, you know, one of the things that we think is really important and it's the other side of our model, is our social impact.

Just like we have a portfolio of fund managers, we also have a portfolio of not-for-profits. So it's 10 years since Future Generation was launched and I think it gave us a really good opportunity and the Board to really reflect on the not-for-profits we'd been funding to now ask those really hard questions and make sure that our philanthropic strategy, it was really still fit for everything that's happening in the market.

So we've undertaken a very, very comprehensive strategic review and that's been led by Emily. She's looked at all of the latest research, the scale of unmet need in Australia and where our funding can really move the dial. And what we found has been really compelling and it's really sort of shaped a very much more refined direction that we are really very excited to share with you today because there is so much need in Australia and we want to make sure that you, our shareholders, and the Boards, etcetera, that we're all making the most possible difference that we can.

So, Emily, I'm just going to talk to you now in terms of the decision to review Future Generation Australia's philanthropic strategy. And for you, you are probably one of the most experienced in the market at doing this. You did it with Future Generation Global (ASX: FGG), which has been incredibly successful. So what stood out most in the process?

EMILY FULLER, SOCIAL IMPACT DIRECTOR, FUTURE GENERATION: Sure. Thank you, Caroline, and great to be here. I think what stood out to us in our review is just how widespread childhood adversity is in Australia and how piecemeal our national response remains. The Australian Child Maltreatment Study is a landmark first of its kind study that came out in 2023, and it showed really clearly that childhood trauma isn't a rare or isolated issue. It's something that affects millions.

That study showed that more than a quarter of young people had experienced at least three types of maltreatment during their childhood. So that could be neglect, physical, sexual or emotional abuse, or witnessing domestic violence. And I think it's really well known that those kind of traumatic events can set a negative course for your whole life. But what's less well known and that we found compelling in our review, is that with the right support at the right time, those trajectories can be changed positively and that children, despite the adversity they've faced, can recover through the supportive relationships and experiences that help the brain to heal and grow.

CAROLINE GURNEY: So, Emily, obviously we've shifted our focus, but what for you has been really the main shift in focus that we've moved to because of the review that you've done?

EMILY FULLER: Well, I think we've moved from focusing quite broadly on children and youth at risk to really specifically looking to support organisations that help vulnerable young children under 14 to develop healthy relationships, to develop a positive sense of self and an ability for resilience, because those are the things that the research tells us will help vulnerable children to heal and grow despite early adversity.

And the organisations support children nought to 14 and they're priority groups that we know are at higher risk of facing adversity early in life and also their caregivers, because one of the greatest levers that we have to improve outcomes for vulnerable kids is by supporting their parents.

CAROLINE GURNEY: Why is the focus now on children aged between nought and 14, especially in that bracket?

EMILY FULLER: I think the simple answer is basically the earlier you can intervene positively, the better the outcome is. But the rationale for nought to 14 is because it covers the key developmental phases and transitions of childhood. So they are from early childhood to primary school and primary school to high school. And we see within that that there's quite a lot of focus and investment for really good reason at the early childhood phase and then again at the adolescent phase.

But that leaves something of a missing middle in that mid primary to mid high school, 8 to 14 area. And, for example, we have a Minister for Early Childhood, and we have a Minister for Youth, but we don't have a Minister for children. And interestingly, we're seeing now that issues that used to start cropping up in sort of early to mid high school are now starting earlier in the late stages of primary school.

So for us as private funders, we're always looking for spots to channel our support where others might be under invested or they're overlooking those spots. So that 8 to 14 age group is a really key opportunity for us to create impact.

CAROLINE GURNEY: And we had for our Expression of Interest process 329 applicants, which I think is really amazing. You know, you had the unenviable task of whittling that number down. And I know it was really hard work. But what were you looking for in that selection process and what made the organisations that were chosen? How did they stand out?

EMILY FULLER: Well, we have a fairly hefty list of criteria, but I think it's really good to share, first of all, that we're thinking about our partnerships as a group to create impact in that area of childhood adversity. So, identifying partners is a combination of individual characteristics from those organisations as well as the aims that we have for the portfolio as a whole. So if we're trying to build a portfolio for social impact, we're looking for partners who are complementary in that they're all pushing for that same overarching goal, that young children facing adversity will thrive.

But they're all getting there in different ways and using different strategies, whether that be mentoring, whether that be participation in the arts or music, or whether that be animal assisted learning. And our approach is really informed by our DNA as an investment manager, when we're trying to identify undervalued companies and invest in them to realise growth. And if we apply that to social investment, we're backing high potential non-profits that have a really solid track record that's aligned with that evidence base about what will work.

But really importantly, they've got high potential and runway to significantly increase their impact. And we can see that our contribution can help accelerate that.

CAROLINE GURNEY: So one of the things that has always been key to us is measuring the performance of our fund managers, because shareholders want that return. So, what are we actually doing on the social impact side to ensure transparency and measure the impact?

EMILY FULLER: Absolutely. Well, we spend a lot of time and effort on impact measurement at Future Generation, and we support all our non-profit partners to participate in impact measurement. And we do that through a platform that allows us to not only understand the progress of each individual non-profit and their outcomes with the children that they work with, but it allows us to aggregate that and bring it together so we can understand the reach and the impact of the portfolio as a whole. And that kind of impact measurement at a portfolio level is still very rare. And we've been doing that. We're into our third year now with Future Generation Global, and it's been a bit of a trailblazer in that and we've won awards for that work. And so we'll be applying that same methodology to Future Generation Australia because we think it's so important to be accountable to our shareholders and all our pro bono fund managers and service providers who contribute so much to Future Generation.

CAROLINE GURNEY: So I know how hard you've worked in terms of getting to this group of not for profits. You know, for us, everybody works incredibly hard to get that the investment right for our shareholders. But when we talk about best-in-class philanthropy and making all of our shareholders a philanthropist for every day, what does that actually mean to you?

EMILY FULLER: Well, it means that we're applying the principles of best practice in our giving. So, to start out, that means we're really looking hard at that evidence base and research to identify where are the areas that we can have a really meaningful contribution. So those areas, they show high potential for social benefit, but they're overlooked or underfunded by others. And that's the spot where private givers can have an outsized impact, if you like. So as well as being really thoughtful about what we give to, it means being really purposeful about how we make our donations so they're as useful as they can be in the hands of those exceptional non-profits. And in practice, that means we're doing a lot of due diligence up front to identify our partners and then we're supporting them over multiple years and providing what you call untied funding, which means that they can direct the funding according to the greatest opportunities that they have to create impact. Because we'll never know as much as they know about how to support vulnerable children because they're at the coal face.

And finally, we touched on it, but it also means gathering that evidence about what that contribution does so we can continue learning about what works and we can continue to build the case for greater investment by governments and others in vulnerable children who, you know, are confronting things early in life through no fault of their own. And we believe they have the chance and deserve that chance to recover. And you know, as a country, we're not putting enough investment and focus on that at the moment.

CAROLINE GURNEY: Thank you so much, Emily. So, I'm actually going to go to Ben before we go to the Q&A because we've got quite a lot of questions coming in for you as well, Ben. But Ben, when you listen to Emily, I mean, I just think the work that has been done is amazing. But you basically work pro bono for Future Generation Australia. You know, you waive your performance and your management fees, which we're incredibly grateful for. But how, how does it make you feel about the work you do after you've listened to Emily?

BEN GRIFFITHS: Well, in the first instance, Caroline, I can say every time I listen to either Emily or one of your underlying charities, I'm always humbled. I kind of go up the knees. I just cannot believe the extraordinary work. I used to wake up in the morning before I joined Future Generation when Geoff Wilson came barging into my office, banging on the door and demanding that I give him some time to explain this concept called Future Generation and how we're going to support children's charities.

I used to think that my job was the most important job in the world. And whilst I'm not diminishing the importance of what I do, there is no higher calling. And I've learned this along the journey with Future Generation. There is no higher calling than the welfare of our children and defending and protecting our children. And Future Generation does such a marvellous job. I listened to Emily's comments in and we've chatted before off camera about the work that Future Generation does to ensure resourcing is made available for charities.

It's extraordinary stuff and it really is. I don't know, it makes me proud to be involved and I just feel at times I'm not doing enough, to be honest. I'm a father myself and I know how so significant this work is. So, Emily, keep up the great work. And Caroline, well done. And to Geoff too, of course. It goes without saying that none of this would have been possible without Geoff's determination and drive.

CAROLINE GURNEY: Absolutely. I mean, in terms of what Geoff has founded, the money that we've given to not-profits, it's truly amazing. But, Ben, we're getting quite a few questions in for you. Some of them are about CSL. This one is from Andre, so I might just read out a couple of them for you. Is CSL one of those companies you would buy on retreat? And the other one from Nava says, how would you have reacted to CSL with your experience?

BEN GRIFFITHS: Sure. Well, I should preface any answer I give here with the fact that CSL is the top three or was the top three Australian company. I don't profess to have great expertise in investing in that sort of top 20 end of the market, so I don't have any great insights other than to a seasoned professional investment manager, I read as much as I can on every business. I started my comments when we were talking about reporting season, I picked up on Lee's lead. I was stunned at the move for CSL. You can work a lifetime as I almost have and not see a top three company employed like that. So I think there's some learnings there.

The company as a stock has traded sideways for a number of years so there's been investor indecision for a long period of time. What's important for CSL I think going forward and again I'm not a healthcare analyst, I'm not a big cap analyst but what's important is that they write their strategy, that they get on top of things. They've announced a big buyback, a $750AUD million stock buyback. So they're attempting to support the share price because management and the Board clearly believe there's value there. I think the decision for investors really boils down to am I going to embrace the spin out? There's a divestment occurring. CSL's legacy business, Seqirus, which is their vaccine business that's essentially been in the business since the early 40s, 1940s. Am I a buyer of CSL or am I going to buy the spin out, the divestment vehicle? I think that investors need to go away and consider whether they want to stay with CSL as it is or they want to go across and land on the invest in the business that's being spun out. So I think through CSL that's one way of approaching the decision on CSL. It's certainly sad what has unfolded there but clearly there's a strategy at play. It's incumbent on Board and management to right the ship and to get to see a sell back into investors good books and have it once again as a key shareholding. And I know it's very well held anyway amongst institutional and household investors.

So that's a popular name. But I think in closing I think you just need to get your mind around are you staying with CSL or are you going to buy the spin out which will happen sometime this financial year.

CAROLINE GURNEY: Excellent. Thank you for that. I've got another one for you Ben, from Steve. Can you see a time on the horizon when you might be taking profits in some of the successful small caps that you own?

BEN GRIFFITHS: Certainly, Steve. Whilst we're not traders we know that the big gains are made when you invest in smaller mid-caps in the sitting, not necessarily the thinking. So it's better to hold your positions and run forward. Every day we come into work, every day we go into war with the market, as it were. We're continually asking ourselves the question of whether stocks are becoming too expensive. Are stocks being appropriately priced? Is their price right for their earnings per share growth?

So that's a daily discussion. You can be assured that at times we take profits and at times when stocks get carried away, we buy stocks that have already had big runs. So that's certainly it's a dynamic that we have to live with. It's yin and yang, as they say. It's when stocks overreach, we might trim and when stocks overreach on the sell side, we look to buy. So that's certainly the essence of how we manage money. But all the while the intention is to sit with stocks we have high conviction with.

CAROLINE GURNEY: Excellent. Thank you very much, Ben. So now I've got a question for Emily. This is from Trish. Emily, how do you determine which charities to support from an impact and governance perspective, will the number of charities be increased?

EMILY FULLER: Thanks Trish. Well, I suppose our sort of hefty criteria fall into four categories. So first of all we're looking at how the organisations work, aligns with the evidence base in terms of the factors that we know can help children on a positive trajectory to buffer that kind of adversity. So how strong is that alignment?

Then we look at their organisational foundation. So, they have to have sound governance, sound financial management, great leadership.

Then we're looking at the sort of mindset and the high potential. So, they need to have sort of ambitious impact growth plans and they have to sort of map out a pathway that looks reasonable and achievable to us and we have to be able to see that kind of our sized contribution can make a meaningful difference inside that organisation. And so, we've got 11 partners now that we'll commit to for at least four years and we hope that we'll have more funds under management to be able to bring others on. But at the moment we'll commit to those 11 organisations for at least four years.

CAROLINE GURNEY: Excellent. Thank you very much. And Lee, I've got a question for us from David. What is the future dividend coverage from current profit reserves and does the franking account 100% payable coverage relevant to reserves?

LEE HOPPERTON: So, the first part of that question is quite easy to answer. The profits reserve for FGX is about 42 cents and we're paying out on an annualised basis about 7.2 cents per year. So, dividing one by the other, we've got just under six years' worth of coverage, which is important. That means there's a lot of certainty about the dividend and we can weather more difficult markets if we need to.

There's a slightly more convoluted answer to the franking. So, the way it works is we carry about a year's worth of franking credits on the balance sheet, which gives us 100% coverage for the next year. And then there's a bunch of liabilities also on the balance sheet, which the Board can elect to pay tax on at their discretion. And so, if we need more franking credits, that's where they come from. And there's another two years' worth there. So, in total, three years' worth of fully franked coverage. And then of course, we're generating additional tax and franking credits each year from the distributions we receive from the managers and the profit in the company. So that number naturally grows over time.

CAROLINE GURNEY: Excellent. Thank you. So, I've got another one for you, Ben, from Jan. You've seen a few market cycles. Does the current market environment remind you of any past inflection points?

BEN GRIFFITHS: Thanks Jan for that question. Questions are coming through thick and thin. Sorry. Thick and fast, Caroline. So, I'll do my best here. Look, Jan, good point. And every market clearly is different. But what we're seeing, as I think I suggested in some of my earlier comments, what we're seeing play out across stock markets globally is what one typically sees as interest rates are eased, and they move lower, and that is you get an allocation effect in favour of stocks, you get easier rates, suggesting that's supportive of economies. And so that you get a real world mechanism effect where a transmission effect from the stock market through to the economy and then it loops back again when the economy starts to start to perform well. So essentially, it's really all about rates. It's about the performance we'll see from stocks, including small caps when rates are moving lower. I think we're seeing, as I said, global indices at all-time highs.

Stocks tend to get quite excited around all-time highs and move higher. What we haven't seen is that euphoria. We've seen a little bit of euphoria creep into cryptocurrencies and vehicles that are associated with mining crypto or the recent raft of Treasury IPOs in the U.S, but we haven't seen the euphoria which we would typically see at the end of a cycle. Conditions are buoyant, spirits are, as I said, measured but aroused. But we haven't seen that euphoria.

So Jan, feels to me like stocks are reasonably in a good position, notwithstanding the fact that valuations are tending on the fulsome side. So, I'm not going to stand here and say, or sit here and say that stocks are cheap. Stocks aren't cheap at the moment, they're not cheap. But if interest rates, what traditionally happens is interest rates move lower and yield. Investors get after stocks where they can go and hunt down some dividend yield. So I think that will start to play out as well. So more of the same. I've seen it all before. Yes, sort of. But I know what to do when stocks and indices are at all-time highs. It's not a time to fold, especially in the backdrop of lower rates.

CAROLINE GURNEY: Excellent. And thank you so much, Ben. I've got one more question, but I know we're sort of coming to time. So Lee, we talk about the Investment Committee, we talk about the strength of the Investment Committee, how do they actually operate and how are the decisions made and how many managers have we come out of since inception?

LEE HOPPERTON: So, the Investment Committees that we've got, they're all recorded on our website if you want to see who they are, but they're extremely experienced fund managers, institutional asset consultants, CIOs, they're very experienced fund managers. Geoff Wilson is of course on them as well, so super experienced. They all work for free for us. So, they're part of our pro bono setup and the way that we interact. There's really three layers to it. Every quarter we have a lengthy meeting as a committee and in that we review the manager's performance, make sure that they're performing in line with how we'd expect them to do in the market conditions and the weightings that we have to each manager to make sure that the portfolio is positioned in the way that we want it to be. We review new managers that we may want to introduce and managers that we may need to down weight or pause with. And we are active in the way that we manage the portfolio.

So managers do come in and out of the portfolio from time to time. I think it's over 20 that have come in and out of the various portfolios over time. So that happens on a quarterly basis, on a monthly basis, I report into the Committee and report on performance, cash flows, how the portfolios are going, any issues that need to be resolved.

And of course, there are always managers that we need to keep an eye on and make sure that they're doing what we'd expect them to. And then there's also an ad hoc element to it as well. So if particular opportunities arise or particular problems, then the Investment Committee is on standby and we do that on an ad hoc basis. So it's a pretty comprehensive, actively managed team of people, the team of people actively managing the portfolio and that active management is really important in the way that the portfolio is constructed. So, we're very fortunate to have them all giving their great expertise for free.

CAROLINE GURNEY: Thank you very much, Lee. I actually can bear testament to the number of ad hoc, because if you think about it, between Future Generation, all of the vehicles, we've got nearly 40 managers. So we've interviewed every single one of those separately as well. So a fair amount of work goes into that. But I have to draw it to a close now.

I want to thank everyone for listening. Our shareholders, we really couldn't do it without you. And also to Ben, you know, you've been with us since inception. You are incredibly valuable to us. And we also couldn't give the money to the not-for-profits if you guys didn't work pro bono. So, thank you, Emily, for all your work. I think in terms of where we've come from and to the number of not-for-profits to know about the work that we do, I think that's really testament to you.

As I said before, you all own the Company, so any questions, please do contact us directly. We all love what we do in terms of the Company, and I think the fact that it's growing in terms of what we give to not-for-profits is really incredible. So now we have a survey. I would very much like you to answer it. And any feedback is really valuable because we want to make sure that we answer all your questions. And thank you very much for your time today.

[End]