

Future Generation Australia FY2025 Q&A Webinar

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Geoff Wilson AO, Founder & Director of Future Generation, Lee Hopperton, Chief Investment Officer, and Matthew Kidman, Co-Founder and Portfolio Manager at Centennial Asset Management.

LEE HOPPERTON, CIO, FUTURE GENERATION: Hello everyone and welcome to the Future Generation Australia Full Year 2025 Q&A webinar. Thanks very much for joining us. Before we start, I'd like to acknowledge the traditional custodians of the land where we are and pay my respects to elders past and present. I'd also like to introduce the two people here with me. Geoff Wilson probably requires no introduction. He's the Founder of Future Generation and Director of Future Generation Australia. Thanks for coming along, Geoff.

GEOFF WILSON AO, FOUNDER & DIRECTOR FUTURE GENERATION: Thanks for inviting me.

LEE HOPPERTON: Pleasure. We've also got Matthew Kidman. Matthew is the Co-Founder and Portfolio Manager of Centennial Asset Management, a longtime supporter of Future Generation, pretty much from the day dot, one of the first phone calls probably for Future Generation. So thanks very much Matthew for coming along. Before we start today, I would just like to make sure everyone's aware of the disclaimer, and the small print there essentially says that the three of us today, anything we say is general in nature. There is no personal financial advice being offered today. So please speak to a financial advisor if you want any of that.

The agenda today is Geoff is going to give us a quick update on 2025 from the Board's perspective in terms of dividends and how he's seeing things. And then I'll give a quick update on the portfolio, how 2025 went, how we're positioned, a little bit of a look through on how we're currently positioned, and then we'll have a chat with Matthew. There's plenty going on in the market. Matthew's had a great year in 2025, so it'll be good to find out how he achieved that and how he's positioned going forward. So, with that, Geoff, we might get a few comments from you.

GEOFF WILSON AO: Thanks Lee, and thank you to all the Future Generation shareholders, you know why we do this is to communicate with you guys on a regular basis, it's your Company and, the Board is there, the Board does the work pro bono, Matthew and all the other fund managers do the work pro bono, so thank you for that and thank you for your support.

In terms of the last 12 months, it was really a very solid year for Future Generation Australia. The portfolio outperformed the market, the portfolio was up about 14%. Now that's before the 1% goes out to support

our children at risk. And the market over that period of time, the All Ordinaries Accumulation Index was up about 10%, so that's really solid outperformance.

In terms of dividends, you'd all be aware, the dividend was able to continue to be slightly edged up, and provide shareholders a yield of about, a little over 5%, I think it's 5.3%. On the share price and gross that up, you're in the sevens, around the mid 7%, in terms of if you get the refund, back from the government, and in terms of that's on share price, and you'd be aware that the share price is trading at a little bit of a discount to NTA. I think it's around about that 8% or 9% discount to NTA. Now go back, it was at a larger discount, The plan for us, I know Lee's came in more recently, actually, you might be able to claim most of the crediting, all of the credit, because since you've been there, the discount's narrowed, hasn't it? It's continued to narrow, and Bonnie, who's joined us as General Manager to take over from Caroline, we expect, Lee and Bonnie and the rest of the Future Generation team to continue to, from the Board's perspective, is continue to perform, in terms of the Investment Committees, selecting the right managers, so there's underlying performance there for investors, but also to get the share price to fully reflect the value of the assets. It's like if you go down to BMW to buy a car, and say it's a \$50,000 car and you're only paying \$45,000 but actually if I went down to BMW I'd probably be paying a lot less than that. But anyway, to me it's relatively cheap, because you're buying assets cheaply, and where should it trade.

There's an old theory about listed investment companies, I think when I started, looking at creating a first listed investment company, which I did with Matthew Kidman when he worked at Wilson Asset Management in the, well, we won't say good old days, I'm going to say previous century. Now, when we're looking at that there's a theory that maybe a listed investment company should be trading at a discount which is the NPV of the management fees. Now you'd be aware with Future Generation, there's no management fees, like all the work Matthew and the other fund managers do pro bono, the Board's, their pro bono, there's no performance fees, no management fees, so if you work out, and if you accept the 1% going to support the charities, and you do a NPV of that benefit, then you could argue that both these Future Generation entities should have implied premium, to pre-tax NTA. And the MPV probably gives you 6% or 7% premium, so we're looking forward to trade at a premium. Quite a period of time where they've traded at discounts.

Future Generation Global is trading within a couple of percent of NTA. Future Generation Australia is still about 8% or 9%, and the plan is to get it to fully reflect the trade at NTA, if not a premium.

LEE HOPPERTON: Thanks very much, Geoff. So, from a portfolio perspective, 2025 was, as Geoff said, a good year. Well ahead of the 10.1% return of the All Ordinaries. The first is we have some fantastic, we think the best fund managers. The equities working with us, there are 16 of them, they're highly diversified. So the objective we're trying to deliver, market or better returns but with lower volatility as a measure of

risk than the index. And if you look over the life of Future Generation Australia that's been achieved, so better than market returns since it started, and the volatility is something like 17% or 18% lower than the index. So, getting great risk adjusted returns. We get good managers and we make sure they're appropriately diversified.

The managers all invest in different ways. We have large cap managers, small cap managers, we've got long short managers, systematic managers, all sorts of different strategies and styles, and the blend of those that the Investment Committee put together is the secret sauce that helps us to deliver those results.

Periodically, we do look-through analysis to look at what those managers are investing in. So, we're picking the fund managers. We're making an allocation to those, but they're picking the companies that they invest in. Around the world, one of the issues that's been around now for over a decade is markets have been becoming more and more concentrated into a small number of very large companies. That's not been so much a trend for Australia. It's always had quite a lot of concentration inside the top 10. But when you look at the spread of the index across market cap bands, you can see that there is a heavy concentration in the top end of the market.

So, to put some context around that, there are around 2000 listed companies in Australia. The All Ordinaries represents the 500 largest of those. But the top 20 largest make up over 50% of the index. So, they're really dominating the performance of the index. When you look at the Future Generation Australia profile, we have a much broader spread outside of the top 20, top 50 companies. In fact, something like 60% of the companies that are held by the managers we invest in are outside the top 50. And that gives us a much broader diversification. That diversification really helped us in 2025. Smaller companies, the smaller company index had a really good year. It was up around 25%, so more than double the All Ordinaries, the broader index. So having that diversity and that spread into small and medium-sized companies was super helpful for us and helped to drive returns.

If we go a layer deeper and look specifically at the very large companies in Australia, you can see on your screens now, the top 10 companies in Australia are quite concentrated. CBA alone is 10% of the index. If you add together the big four banks in Macquarie, you get over a quarter of the index. They're very dominant companies inside the All Ordinaries. Future Generation has exposure to those, but it's much less. We have closer to 8% exposure to the financials part of the index, and a much lower exposure to the top 10. So that enables us to spread the risk and diversify our exposures. That's particularly important at times when uncertainty is heightened. We don't have all of our eggs in one basket. We're spread across the market. So that's how the market is positioned now, how the portfolio is positioned now, and we think that's a sensible way to be positioned as we face a lot of the uncertainties which I'm

sure we'll speak to Matthew about in a moment.

The other major objective that Future Generation Australia has is to do good. We realise that we've got to do well for our shareholders first, but because of the way the model works, once we're doing well with the portfolio, which we feel we're meeting our objectives there, we're able to do a lot of good in the community as well. Because as Geoff said, all the fund managers waive performance and management fees, our suppliers all work for free, we're able to make some very significant savings. In fact, in 2025, the fee and expense savings in Future Generation Australia were over \$11 million. It's a pretty chunky number. Of that \$11.4 million to be precise, of that \$11.4 million we were able to donate 1% of assets, which was \$5.7 million to some great causes that support young people at risk in Australia. We haven't got time to go through the detail of all the great organisations that we support, but it is worth having a look at our website, we've got all of them listed out, all of the not-for-profits that we support listed out. Some detail about what they do and case studies of the types of children that we're supporting.

So, our second objective is to do good. As I said, last year, Future Generation Australia donated \$5.7 million. Over its life, it's been close to \$50 million. And when you look across the Future Generation network more generally, \$100 million has been donated to not-for-profits, and that's against the saving of \$175 million. The difference, of course, as Geoff was saying, goes back into the Company and it's to the benefit of shareholders. So that's the update on the portfolio. If there are any questions, we'd love them. I can see some questions have been coming through already, so please keep those coming.

We might turn to you now, Matthew. As I said, you've been a long-term supporter. You've surrendered a lot of fees to our good causes. I do know how many, but I wasn't going to tell you. I won't embarrass you. It's a good number, so thank you for that. It's really that transfer of fees saved to the charities which makes the whole model work. So, thank you very much. A fantastic year last year for your performance, so thank you for that. Could you maybe run us through, how you did that, any particular contributors, any factors you saw that really helped you in 2025?

MATTHEW KIDMAN, CO-FOUNDER & PORTFOLIO MANAGER, CENTENNIAL ASSET MANAGEMENT:

It was a solid year, as you said, small caps did really well in the market, and we concentrate on small caps. Now we've got a lot of flexibility. It's out of the Geoff Wilson kit bag, keep as many options available as possible, and it's said in the early years, I watched Geoff assemble how he went about managing money in a portfolio sense, and for us it hasn't changed that much, so, we can do a lot of different things. We can go as much cash as you want, and we can go into big caps if we need to, we can go right across the board. So last year was an interesting year, like, most years are on the markets, but we had the tariff impact from the US, so in that period, we were highly cashed up. There was a reporting season and then into February and the market just fell away dramatically into early April, and at that stage we were 35%

cash, but, as it became obvious that the US were going to back off on that tariff strategy, we thought, well, here's an opportunity because, on the other side of the ledger was interest rate cuts, so from a macro policy, we went back to 95%, 97% invested for us that's about as much as you can get, we don't gear, and you know we normally have 45, 40 to 50 stocks, we don't follow an index, so we just pick the eyes out of what we think is working. Why, we probably couldn't knock the cover off the ball was that what really drove the small cap world was resources are mainly gold. And we don't play, we're always underweight, that area. I've never been great at investing in resources, we get it slightly, one arm tied behind our back last year, but that flexibility really helped us, that asset allocation. We think a lot of fund managers aren't allowed to do that, but we prioritise it.

The other thing is that we're small. We're a \$280 million dollar fund, 20% of the money in the fund is the insiders, the 4 or 5 people that work in the office, 4 on the investment side, we've all got reasonable amounts of our money in the fund. And so, we'll protect your downside as much as possible. Because your own money, you don't want to lose it. And in part, is the reason you said before that you want flexibility because if a lot of the small cap funds at different times get absolutely smashed because when liquidity dries up in the market, the small caps get hit harder for obvious reasons, people migrate towards where the liquidity is, it's got a comfort area, the businesses are more developed and so on, so you want to be there. So, that really worked for us. So, on average over the 15 years we've been going, we capture about 30% to 35% of the downside for the small cap market, and we get about 70% of the upside. And so, if you mix that through with the portfolio structure we got, we should do net, and it's slightly different because of the performance fee structure and that, we should do net 13%, 14%, a bit higher under Future Generation, and we've done that almost to the number. Now that's a bit of luck. You might see next year when the market's down 30% and our numbers are a bit less than that, or if you get a bull market you'll go above that, but that's what we do.

Final answer to your question, where do we go? We're small enough to go where things are happening positively, we don't have to think two years in advance and try and guess where the world's heading. So, what worked last year was Capex, out of the US finding its way into Australian data centres, electrical services companies, there's a big Capex spend in energy transition, there's a big spend just generally in the mining area, so the Capex side of Australia, which has been underfunded for years, all of a sudden is now the dominant, and we stayed away as best as we could from the consumer, or that part of the economy, which is about 60%. And it all changed in the end of the year when we went from, we're going to get more interest rate cuts next year to by October, people were saying maybe there's no cut, and by Christmas time, we're going to get a rate rise. And that has been a huge impact on the market, the 10-year bond went from 4.1% to almost 5%, and at the short end, the RBA's going down and we're not quite sure how much, we might get an interest rate increase next week. I don't know, and that's made the market really heavy, so in the last few months we've gone very defensive, we've lifted our cash position,

that 95% invested, turned into about 70% to 75%, and we've gone a lot more defensive in what we own. It's not a disaster, it's not like in 2021/2022 when rates, we didn't know how high they'd go, because the rest of the world were putting rates up at a rapid clip after so low, this is more of an adjustment we hope, but it's enough to just sit back and watch it for a bit. And we've even invested in companies at the bigger end, it's not a dominant part of our portfolio, we're still small cap guys.

We've got a position in Woolworth's at the moment. They're operating really well, it's food, it's not a bad place to park your money for the moment, but we won't hold it for that long. But things like that we're doing to move around and try and adjust. So, I would say what we're doing today, you've got rates on the rise, that's a worry, let's see where that ends, and when it does end, we'll switch again.

You have a war in the Middle East that's causing a lot of anxiety, and obviously a bit more inflation with the oil price. You've got disruption with AI which we're talking about, pre-webinar, we're talking about what it can do for businesses, but it's hurting some businesses, so you have to stay away from the tech software thing, we were lucky enough to do that. And so, at the moment, you want to play defense and protect your money.

LEE HOPPERTON: What is defense now? I mean, the bank, and I know you're a small cap, but the banks looked expensive for 8 years. Resources, they're leveraged to global growth, consumer potentially at risk from interest rate rises. Is it hard to find?

MATTHEW KIDMAN: It's narrow, but we've done really well out of mining services because the miners are spending a lot of money. There's been an underspend from Australia's big, there's the culprits BHP, Rio, Fortescue and a few others. That is powering ahead and the plans for the next 2 or 3 years are enormous spend in that area. The AI spend is accelerating, and those Capex budgets sort of coming out of the US, those unbelievable numbers that we hear about, and it's going to get to \$1 trillion from back, like the days from the dot com boom, except back then it was the equity markets that were doling up the funds to get these, now it's the big US tech companies that have just got so much cash and they're just pouring it in, where it ends, I don't know, but all the companies we speak to say it's accelerating, so you stay with that trend. That's Southern Cross Electrical (ASX: SXE), that's GenusPlus (ASX: GNP), which also do energy transition, that's SKS Technologies, (ASX: SKS) and then there's just a general Capex spend. There's the Southeast Queensland's flying and the Olympics are not far away, so you can get companies like Wagners (ASX: WGN). So at the small end there's this smattering, but you've just got to as I say, it's the Capex cycle that's working in your favour, but you don't want to be in financials, you don't want to be in discretionary retail in particular, you just want to buy a bit of defense, and then we'll do a few turnarounds.

We've been in Tabcorp (ASX: TAH), so Gillon McLachlan he's come in and it was poorly run, there's costs

that come out, and there's revenue gains to be made, and it's a business in decline, but it can be a lot healthier than what it is. Valuation's alright, we'll play that. I mean he's doing a good job, he's probably only half-way through, and he's identified what needed to be done, he's implemented it, he's a great politician, it requires, you know, it requires everyone in the industry to come on board, politicians and everyone, because gambling's a sensitive, thing, wagering. And I mean some people won't invest in that, we're OK with it, that's fine, we'll move ahead with that. It's more of a turnaround, there's little bits and pieces like that, and you put it all together, so we don't follow an index. And when we're a bit nervous, sell some things out that aren't working, take a bit of cash, don't be too nervous about the fact that markets are jumping up and down, you sit, you come in, you've got 25% cash, the market's up 32% or 3%, one day everyone goes, oh, we're not invested enough, but it's still got that volatility.

It'll calm down. I'm actually quite bullish on the markets, and the main reason about that, and maybe I'm pre-empting some questions is, I think the interest rate cycle in Australia will level out. But in the US, once the Middle East, I think the Middle East is temporary, there's only so much appetite from all parties, hopefully, and that will go in the next 2 to 3 to 4 weeks, will settle down, and we'll get back to where the US actually needs to cut rates again, because the economy's not that healthy. The consumer's not doing that well. They've got an election at the end of the year, we would think there's more rate cuts to come, good for equities. So, I think now the biggest market in the world, if everyone behaves themselves, will pick up at the back end of the year. That's the dream.

LEE HOPPERTON: That's nice to hear some optimism, fantastic.

MATTHEW KIDMAN: We're small enough to pivot. As you say, small enough to be able to get in and out of some of those positions relatively quickly if your mind changes on some of that stuff or because the world's changed a lot as you said, since October last year, it is a different market for 4 or 5 months out of the tariff saga and the liberation day, whatever you want to call it, it was just one-way traffic, it was straight up, which was great, but it's changed since then.

LEE HOPPERTON: Fantastic, alright, well, you've covered a broad ranging answer, just about everything I had here, so let's turn to the questions, there's quite a few questions coming in from shareholders, so let's answer these. The first one is from Casey. What is the impact of the war in the Middle East on Future Generation Australia? I mean that's a difficult one to answer. Matt's just sort of covered off a lot of that, but the way that we try and manage that risk is through diversification. We're hoping that we've got enough of a spread of strategies, enough of a spread of opinions amongst the fund managers who we use. To make sure that all of those uncertainties out there, a lot of which Matt's mentioned, things like, the oil price, inflation, bond yields, what's happening in the US, private credit, all of those things, there's always worries, I mean there's always been worries. However there's enough spread in the opinions and

the positioning of the fund managers that we're invested in so that we feel we've got a balanced approach to however that ends, but we don't have a view on how that would end.

There's a couple here for you, Geoff. Gary's asking to explain the profits reserve, and Peter's saying, I'm invested, I like the income, will dividends remain and increase in the future? They're probably similar questions, those two.

GEOFF WILSON AO: We've got a company structure, this listed investment company, then when the value of the portfolio goes up on a monthly basis, the Board can then, increase, say it's \$100 million the portfolio goes from \$100 million to \$120 million over a month period, then what the Board does is that \$20 million change in the value, we put it into the profit reserve. Now, if then the portfolio drops from \$120 million back to \$100 million, and it stays there for the full year, then it doesn't come out of the profit reserve. You've actually made no money, so in the balance sheet, it'll have a \$20 million profit reserve, and it'll have retained losses of \$20 million, but one nets off the other. So effectively a profit reserve is a structure that is, is more an accounting structure, that allows you to have confidence as a Board that you can pay dividends, because, the Corporations Act, or the tax guys, say that you need a profit to pay a dividend, for it to be franked, you need, they call it a booked profit, and that's why we do it monthly, so it'll be booked, and also, if it's fully franked, you need franking credits as well. So, what you might find is the profit reserve could increase a lot, we could have retained losses as well. And then you'll say, well why haven't you paid it all out as dividends, is because we actually don't get the franking until we get the distribution from the fund manager that's franked, from the shares that he owns, or we pay tax on Future Generation Australia. It's not a simple concept, just to be aware of it.

The fact is, the profit reserve is there. It's about 6.3 years. So whatever dollar amount, 45.5 cents I think. So you as an investor can be confident that we can keep paying dividends for at least, at that rate for, 6 years plus. The plan is to gently increase them, but our ability to pay the fully franked dividends means we need to make some money and pay tax or get distributions from the fund managers. In terms of how much franking, we carry a couple of years, we'd like to have about 2 years up our sleeve, so in terms of confidence, now obviously they're Board decisions. Now say if the market fell significantly over a 12-month period, the Board may decide to cut the dividend, they don't need to because the profit reserve is there and the franking's there. To me, they're all Board decisions.

In terms of certainty of the dividends, you can have some confidence because there is a profit reserve there is some franking on the balance sheet. And that's one of the great things about the listed investment company structure. The listed investment companies are never going to grow at the rate ETFs are. ETFs are an open-ended pools of capital, so a lot of money can flow in, also a lot of money can flow out, and you don't quite know what you're going to get from an ETF in terms of dividends or distributions, or their

trusts so the distributions.

LEE HOPPERTON: There's a question here from Craig, which sort of opens up, I think we were just referencing to, does the current portfolio allocation include any exposure to private credit, debt, or non-equity alternatives through the underlying managers, or is it fully focused on Australian equities?

Well, the answer is, it's focused on Australian equities, but we did just mention private credit and there's a bit being written about that canary in coal mine being referenced quite a few times. The Jamie Dimon cockroach. There's two ways in my mind that private credit can come unstuck. One of them is a recession or a bad cycle, and so there's a lot of bad debts, and that it kills any lending business, because you end up having to pony up more capital and so on and whatnot. I don't think we're going through that at the moment, but the Americans are hitting what is the other risk, I think, which is the liquidity events. So what you've got is investors like mums and dads now, which are a bit more nervous, previously it was just institutions. But in the last couple of years they've structured products for mums and dads, and once they get a bit nervous, they want their money out.

The assets that are being funded within those businesses can't be liquidated in that short time frame. So, they've got a mismatch at assets and liabilities. And that's where you get gates go up and capital being stuck in there and then they've got to sell assets, which hits prices again in terms of the asset prices. It doesn't feel too bad at the moment. There's been a couple of frauds, one in the UK, believe it or not, not in the US that has got a bit, people are a bit nervous, where they pledge the assets two or three times, the same assets, which brings most businesses undone when they do stuff like that. But isolated to the ones in the US which are the really big ones, and they are meaningful, but people are saying it's not a big enough amount of money in in the US to really send a shockwave through, but it can definitely cause a lot of anxiety, and at the moment it's that mismatch between assets and liabilities and the investors trying to get their money out, but they're not being able to. Get those distributions because of the assets, can get a lot worse if there's bad debts, can get a lot worse.

In terms of the Future Generation portfolios has no exposure, not direct, but you can invest with listed equities. In Australia, I mean you can invest in things like Qualitas (ASX: QAL). Now there's no problems with Qualitas, they're pretty good operators, but you can invest in MA Financial (ASX: MAF), they've got a version of it, you can do it through the ownership of the companies that are lending, who you manage the funds, not direct though. But in terms of Future Generation, we're invested with equity managers who are buying equities. Those equities that they invest in some I don't know that I imagine it's tiny, if it was anything. But as you said, there could be one listed here that's been sold off significantly, and a countercyclical manager could buy a little bit. It would be 000% of the portfolio.

There was private credit, what were the other things that they asked, non-equity alternate alternatives.

No, we don't have any of those. All the money's with equity managers. And it does have a skewed to mids and smalls which you showed. That's been challenging in the last month or two.

The other thing to say is that because we're diversified, our largest exposures typically tend to be 2% or 3% at most of the whole portfolio, so among those smaller players who might, who have some exposure to private credit. The overall exposure for Future Generation Australia would be relatively small. We're not aware of any of our fund managers that have private credit, they don't have private credit funds. No, no, no, no, I think you can safely say there's negligible exposure.

LEE HOPPERTON: From Gary, what is the selection process criteria for choosing fund managers? Maybe I'll just have a crack at that one. So, we're very lucky in the support that we get in Future Generation Australia in that the Investment Committees that I get to work with include some great people, highly experienced people. They're CIOs of superannuation funds, they're fund managers, they're institutional asset consultants, they're highly experienced, highly credentialed investment professionals. They've helped us to develop a process for selecting managers which is extremely robust. We basically white label, we borrow some of the best institutional asset consultants' processes. To help us do due diligence on managers. So, I spend a lot of time meeting with fund managers. We try and make sure that we're finding the best ones we can possibly find.

We then put them through a very extensive, and probably quite painful for them due diligence process, lots of paperwork, lots of DD. They meet with the Investment Committee at least once, everybody gets to ask them the questions that they want to ask. And then we use some quantitative models which we also get for free to make sure that if they're a great manager, they may still not fit ideally within the current portfolio. They may not be additive to the risk return profile of the portfolio. So, we use some quantitative tools to help figure out the best allocation, if any, and then the Investment Committee approves that. So, it's a pretty detailed process to get and difficult for fund managers to get into the portfolio. And then once they're in there, we meet with them all very regularly. So I meet with them frequently, and then when there's a problem or a reason to sort of ask more questions, we get them in to meet the full Investment Committee. And that could be anything from their returns aren't what we would expect, they're worse, they're either significantly worse or significantly better than we would expect, or there's been some changes within the people managing the money or something like that. They'll come into the Investment Committee and they'll be reviewed.

So, we're not per se worried about individual manager performance at a point in time because we would expect, given our diversification, some managers to do well at some points in the cycle and some to do less well, but by balancing it out, we have to smooth the returns and do well through the cycle. But if they're doing, something which is not what we had modelled or had expected, we would certainly look

in a bit more detail.

And in terms of how many managers have we had? So we've currently got 16 in the portfolio. Over the life of Future Generation, we've changed managers somewhere in the mid-twenties, so people do leave the portfolio from time to time and new managers come in and that's just to optimise the portfolio for what we think the outlook, and to get the best balance in the portfolio. So, we're active, we actively manage them. We also actively manage the weights of the managers that we have in the portfolio. So, you may be a high conviction manager with a large percentage, but we might reduce that at times in the cycle. We also reduce if a manager does really, really well, their weight in the portfolio will go up, we'll naturally trim that to make sure they don't become too big a part of the portfolio. So, it's quite an active management.

For Matthew from Sara, when it comes to the traditional Australian blue chips, do you believe they still deserve blue chip status? Do you hold these? And are there any companies that you think should be treated as blue chips, as a staple for a portfolio and maybe aren't?

MATTHEW KIDMAN: I've never kind of grasped that idea of what a blue chip is, every business is a business. As much as they can outperform, they can underperform, they're fragile. Look, there are some terrific companies in Australia that have gone the test of time, the banks in particular, BHP, Rio, they've been around at Rio with CRA and RTZ and all these, but the same assets over time, but the majority of companies have their moment in the sun. And that's why we like being stopped because you try and pick that moment, a catalyst. At the moment, what one of them at that blue chip level which became in everyone, it got into everyone's portfolio over the last 15 to 20 years was CSL (ASX: CSL). And today it's underperformed dramatically. And so, stocks like that make everyone question, like Sara just said, are they blue chips?

I would say that you have to be aware of every stock that you've got and nothing really is bulletproof. And there's that idea, put them in the bottom drawer and open them up 10 years later and they've gone up and you've got all the dividends. They're the minority of companies, even at the big ends. You have companies that come from nowhere. Like look at Goodman Group (ASX: GMG) used to be Goodman Fielder all those years ago, a bread, a food company that pivoted into industrial warehousing and became a global player, and now it's struggling a bit, but it went from nowhere to something that businesses are very dynamic and change, so I wouldn't classify anything as a blue chip. Don't fall asleep on any.

LEE HOPPERTON: So on the other side, the green chips that are going to come, become blue chips. Have you got any of those for Sarah?

MATTHEW KIDMAN: It's always tough. The tough thing is it tends to be a company that's growing very

rapidly, and we know with companies growing very rapidly, you're taking a lot more risk. Here's the hesitancy in what I say. If you asked most people 12 months ago, what's our next blue chip, they'd probably say things like WiseTech (ASX: WTC), or Pro Medicus (ASX: PME), these global businesses that have got a niche, huge returns on capital, and growing nicely. And that's what you want, I mean that's the Buffett ideology, what everyone wants to find. Well guess what happened? They've all halved down 60%. And you had a terrific run, and now they've halved. Most people think it's been solidified, this idea that you only need a handful of companies, and Australian investors have changed over the years because they've been able to access foreign markets a lot easier than they used to. So, everyone now seems to have Apple, Microsoft, Amazon, Facebook in their portfolio, the Magnificent Seven. You know, in 10 years' time, all of them might have had terrible decades. Things, the world changes all the time. There was only one company after 100 years that was still in the Dow out of the 30, and that was GE. And we know what's happened to GE, it's been picked up since then. You know, 120 years it basically got dismantled. So, no, I don't know, it's hard to pick.

I suppose one thing we do know that in the blue chips, and particularly the liquid, I like that change your mind looking at Australia, like the banks. Like they're just great franchises, you've got an oligopoly with the banks, they're the journey since the GFC is quite interesting, they used to have higher credit growth, higher returns on their equity because they're very leveraged businesses. Since then, the regulators have made them higher, hold a lot more capital, so the returns on equity have come down. They've made them go into residential real estate rather than across the board a lot more. And their multiples have expanded. So against financial wouldn't normally, it's reducing growth, reducing your returns and growth, they're less risk and I think that's why you've got a few more PE points out of them. Commonwealth Bank's scored to 3 times book. Expensive round the world but heavily regulated, dominant in its position, and it's also, as we learned in the GFC and I remember having a conversation with Geoff at the time, I said, do you think these banks can re-rate because they're government backed, they're too big to fail. And you said, well, not the equity. The equity can disappear. The institution can stay there, and I thought, yeah, you're right, the equity can just evaporate.

LEE HOPPERTON: This is again for you, Matthew, you started your career as a journalist. How has that helped you to become a Portfolio Manager?

MATTHEW KIDMAN: Well, I started as a journalist, but as Geoff picked up when he hired me, he said, oh, you did a law degree. We'll go to market with that.

GEOFF WILSON AO: Well, you did a law degree, so obviously you've got a great way of thinking. You actually did have an operating business that you worked in.

MATTHEW KIDMAN: Yes, my wife had a cafe, well we had a couple of retail shops, so you understood

business. Businesses were interesting and I grew up on a farm, which is a bad business, and that we always talked about business, so there is that conversation. In terms of journalism, I fell into journalism because there was no jobs for me. I came out in the early 90s recession, done a law degree, and I thought, ok, journalism sounds alright. I'd never invested in the share market, never had any money, wasn't in the family, but I started reading stuff about the share market. I was interested in economics. And I got a job out of Campbelltown for a year on a general newspaper, which was terrific learning experience, and then got a job in the business section at the Sydney Morning Herald, and that's where I met people like Geoff. It was a new world to me. What did it teach me? There are a couple of things you do get out of it, and there's been a couple of journalists that have done really well. Alex Pollock, who Geoff knows. Alex was a journalist briefly. John Sevier, who's now retired, he was a journalist, so there's a few of them. And it teaches you basically two things. One, it teaches you, as a fund manager, you sit in the middle of a lot of information. Sources everywhere, companies, brokers, industry people, other fund managers, and you've got to distil down to what things are actually important from all that information you collect. That's what a journalist does every day, collects a lot of information, what does the article look like, what are the key points. So I like that, sorting information.

I suppose the other thing is you interview a lot of people and you've got to be sceptical. So, you know, fund managers always have this excuse, the guy lied to me or the person lied to me or the company, they're a fraud. Part of your job is to try and pick that up, and it helps on that front, and you're very good at collecting information. Journalists are. You're on the hunt all the time for information because that's what interests you, which helps in terms of trying to work out what company's worth, what are the drivers for the company's profit, curiosity and it's all about that information.

LEE HOPPERTON: There's a question from Peter. What is the FGG and FGX annual returns since inception?

That's a great question, Peter. You've given me the opportunity to point out that FGX has outperformed over just about every time period. So, 1 year, 3 year, 5 years since inception. Does that answer the question?

So over the life of FGX, it's delivered, 9.8%, which is about 1% better than the index has done over that period as well. With less volatility over that period, 17% less volatility. You'd expect there to be a direct relationship between volatility and returns, so you'd expect it to be 17% worse than the market, where it's actually been 10% nearly 10% better.

FGG, I think is 9.5% since inception, a little bit below the benchmark. I mean, I don't want to go into FGG at the moment, the global market has been very highly concentrated amongst, a small number of companies, which is a risky position for a low volatility fund to try and take.

From Kate, would you consider FGX as a bottom of the draw stock?

I guess, I don't know how to answer that. That's kind of what it's what it's designed to be in some ways. It's a diversified portfolio.

GEOFF WILOSN AO: To me, it can be the top drawer or the bottom drawer, but in theory, you're taking a medium to long-term view. First of all, you're buying a dollar of assets at 92 cents, so you're getting a free kick of that 8% discount. One day it'll reflect a dollar, or if not, as I mentioned earlier, more than that. And it gives you a really nice, diversified portfolio of fund managers, you've got a professional Investment Committee that's looking through the data and works in the industry all the time talking to and selecting people like you Matthew, at Centennial, and as to manage part of the portfolio. There's 16 of them, that are spending 100% of their time. Definitely a lot more bottom drawer than an individual stock because of that diversification. Stock picking's difficult. And everyone has a go at it, but at the end of the day, this product gives you great diversity. Both the managers and, and the underlying assets, so it's terrific, read the structure.

A lot of people think of ETFs, and to me an ETF, if you know nothing about the market and you just want to get exposure to the market, then buy an ETF, if you want to do a little bit more work, and I sort of call a listed investment company a thinking person's ETF is because you can do some really basic analysis, which we've done for you and told you what the NTA is, and you can work out you're actually getting a good deal by buying it cheaper than that.

LEE HOPPERTON: There is a question here from, I think that's Agnel, but I might have that wrong, sorry, any plans to increase AUM given there might be an opportunity to purchase good companies at a good price when volatility increases?

I guess that's a good one for you, Matt, in the sense that you said you're holding a lot more cash at the moment. Presumably that's partly defensive but partly to take advantage of opportunities as they come up.

MATTHEW KIDMAN: We look at it maybe over, as I said, we don't like to go too far out, so we look at it over the course of this year and what lines up is there's always something going on in the market, so you never get an absolute clean run, but there are moments where things get better. Like I said last year it was when you picked the pivot on the tariffs because everyone got so obsessed by the tariffs were going to lead to a recession in the US and maybe globally. And then that changed and then everyone, the relief factor went bang, and that's what you're looking at. Maybe the first step there is the situation in the Middle East. As I said, I don't think it's got a long phase, the Americans haven't gone in there with the idea that they're going to be there for years, or so they tell us, so let's hope that that ends fairly soon, that's a relief.

And as I said, then there's the interest rate environment which is the earnings and interest rates are the main drivers of markets, earnings OK at the moment. But the interest rates are weighing heavy because we're not quite sure how high they go. It affects not only the evaluation of companies but the future earnings of companies because it slows down the economy. It's got that double whammy. That can level out flatten out, and we don't go into recession. Probably not a bad scenario for the period as I said before and add to that the US will be cutting rates hopefully in the second half of the year. Now as I said, that can change, but that's the scenario that we kind of think that, once we get through this period, it could be nice inflection point, we would try and invest our money as best we could with the best ideas we've got to take advantage of that.

GEOFF WILSON AO: When putting a Future Generation Director's hat on is that we're trying to get a discount to NTA so we won't be raising any money at this point in time. If we get to a premium and we're there for a little while, then maybe we will. Now how would we do it? Obviously it's a Board decision, it could be an SPP something like that. And then they have more capital to give to you guys, but the idea is to grow it over time. Which when it's \$620 million of assets now when we floated it initially it was \$200 million of assets, so in theory, to grow. I mean we need to get to a premium.

MATTHEW KIDMAN: So, the other opportunity I guess for active managers at the moment is that there could be quite a good setup here in the sense that markets have been quite concentrated, big divergence between PEs of some companies and others.

It could be classic active management kind of territory pretty quickly. It could be. And what I like about active managers is generally what goes up for a year, everyone eventually owns that. But the active manager or the active managers, normally they eventually, cause the market draws you in, you have to, if you're going to perform year in, year out. But if you're small enough, and that's what we pride ourselves on, our idea is to stay around that \$300 million mark for the small cap, mainly small cap Australia. You can pivot quickly enough to go somewhere where you need to be. And hopefully that delivers pretty constant returns or consistent returns.

LEE HOPPERTON: A question from Mark which, I feel is going to give Geoff the opportunity to increase my KPIs, but anyway, I'll ask it. The vision for Future Generation was to get to \$100 million in donations by 2030. You're already there, 5 years ahead. What's next?

GEOFF WILSON AO: Well, it's funny, when we got to \$100 million, the tough thing is, you think \$100 million is a big deal. Well, when we created Future Generation, 10 or 11 years ago we thought if we raised \$20 million, so that means we'd be giving \$2,000,000 a year. That that was one of our goals. But then when we got bigger, we had a bigger, goal. I know I shouldn't probably say it, but you've got to say a billion, don't you? There's got to be, in theory, the entities have at some point, hey, it mightn't be in my

lifetime. What am I, you know, 68. Dad made it till 87, so I think I'm about, I'll get 95, 96, so I've got to, I don't know if we'll get to have given a billion away by then. But that'd be nice if we had.

It's not about giving it away or donating the money to the charities and I know we're talking about investing, but if anyone who's invested looks, we've got shareholders on, so thank you because all making this possible and everyone here is making it possible. And when we set this up, if we could just save one person's life, children are at risk, youth mental health, they're enormous problems, they get worse, we talk about technology and investing in it, that's great, but we all know the negative, the downside impact of that and we've all probably had personal or ourselves seen it or with friends. And to me. Just hope, that luckily we've had the generosity of everyone that's been involved to create an investment vehicle that may have saved someone's life, and if it saved one person's life, then, we've succeeded.

MATTHEW KIDMAN: I reckon in addition to that if I just put my investor hat on. And Geoff and I learned this a long time ago, was that people like to be involved with growth stories. And it doesn't have to be extreme growth and growth done taking too much risk, but you know, the Future Generation vehicles are a growth story, that you're going to grow the business and that's good to be associated with. And we weren't, I remember years ago we kept buying back stock in the world of products and at the end people wanted to see a growth story. So, it's good for investors.

LEE HOPPERTON: A question from Amy, I'm new to Future Generation and thinking about buying shares. Can you explain how it works. Well it's really easy to buy shares in Future Generation. They're traded on the ASX, so you can buy them through any online broker or through any full service broker that you're aware of.

If you want to not pay brokerage, which, a lot of people don't want to pay, I say that as a former broker, CommSec rebate your brokerage when you buy Future Generation, so another little incentive to use them.

GEOFF WILSON AO: So you just buy shares, on the stock market. You can sell them whenever ASX: FGX for the Australian one, if you want global equities, it's ASX: FGG depending on what exposure. And then you get a fully franked dividend on a six monthly basis.

And as part of our philanthropic efforts, you get also to have a say in where the donations go. You can look through on our website, the not-for-profits that we're supporting and vote which one you'd like to be supporting.

LEE HOPPERTON: A question from Bill. Matthew seems bullish at the moment. Geoff is often bearish. What's Geoff feeling at the moment?

GEOFF WILSON AO: To me, it's all the second order effects, and particularly the run on the private credit. To me that's going to be fascinating because the unexpected consequences of what that'll do in terms of what I've seen over time is when the tens, when people gate, stop you from redeeming, it tends not to be a good end result, and one is like someone who's quite topical at the moment, Bill Ackman, who's floating his management company at the same time as doing a LIC in the last couple of days, he lodged a prospectus for his management company for a LIC, but he couldn't get away last time, so he's putting some of the management. He's doing what Rob Luciano did with VGI at some of the management stapled it, to get people to put money in, I remember going and seeing them, which is his management company gated people.

I can't remember if they had \$6 billion then or \$8 billion or \$9 billion. I was looking, I was reading the prospectus the other night. \$900 million isn't that fun? He's got his listed investment company which is listed in Europe, which has got \$15 billion or \$16 billion or whatever it is. But when you gate things, and so you've got all that, the billions of dollars that's created liquidity for certain companies, I'd like to see what the negative end impact of that is, I mean there's no doubt, the war will finish at some point in time. I know our guys, Matt and Damien, I know you were saying next couple of weeks, and we've seen by the oil price that they're saying, things are going to change, it's fallen from the peak it got to, obviously there's the inflationary, the negative impact of the inflation, that's got to play through and then to what extent the market's going to look through that. Matt, you've got 25% cash. So at the moment it's tough.

There's no doubt what's happening in the Middle East, the war can end. It might take a little bit longer because there's more than one player, just because the US says it's over, it doesn't necessarily, means it's over. There's also a lot of damage being done. And I'm no expert, because we haven't seen this quite happen before, but they've got to reboot a lot of the production. It could take several months. But as long as the market knows that's happening, they'll build it in. But the private credit stuff, let's just hope that, I haven't got a lot of faith in US regulators, they're pretty loose, but let's just hope they're getting on top of that and they're tightening everyone up because we've had the canary in the coal mine. A couple of cockroaches run out, so let's get back to normal transmission hopefully.

Back to Bill's question, what I have learned, and Catriona, who runs our global fund, gave us all a book, that showed, I think over a 20 year period, it looked at the US market. And if you hadn't invested, if you missed the best day a year for 20 years, so it's only 20 days of performance, the market over that 20 year period, if you'd just invested at the start of the 20 years, and at the end of that 20 years, you'd made about 8% per annum. If you missed the 20 best days, your return, you made no return. Whatever the

money you put in at the start was the same at the end. So even though you can feel negative today and you think, oh I should sell everything, and what does the average investor do, Matt, we talked about it a little earlier, is the average investor gets about half the market performance. So, the market does about 10% per annum, the average investor gets 5%, because what the average investor does, he tends to buy it when things are going really well. And sort of when things are tough now, he tends to sell.

So to me, what have I learnt? Is it market timing, or time in the market, it's time in the market. There you go, Bill.

LEE HOPPERTON: There was some optimism in there from Geoff Wilson.

GEOFF WILSON AO: You don't listen to what I've said, Bill, just stay invested.

LEE HOPPERTON: Well, I think we're at time there. Thank you everyone for joining.

Just a couple of other things to highlight. I think Geoff mentioned Bonnie in his opening remarks. So, Bonnie's joined us as general manager in Future Generation. She's been with us about a month now. She'll be coming on the Roadshows with me. She joined us from the Packer Foundation. She's extremely well credentialed and you'll be seeing a lot more of her.

We've got some Roadshows coming up. They're on your screen now. We'd love to see you at any of those. You can register using the QR code or from our website. Before we say goodbye, I'd just like to say thank you again, Matthew, for joining us. It was a lot of fun, and Geoff as well. And thank you all for, for joining us. We'll see you next time.