Future Generation Australia HY2026 Interim Results Q&A Webinar

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Geoff Wilson AO, Founder & Director of Future Generation, Lee Hopperton, Chief Investment Officer, and Tom Richardson, Portfolio Manager at Paradice Investment Management

LEE HOPPERTON, CIO, FUTURE GENERATION: Welcome to the Future Generation Australia Half Year Webinar. Thank you for taking the time to join us. I'd like to start by acknowledging the traditional owners of the land where we are and pay my respects to elders past and present. I'd also like to introduce you to the guests that we have today. To my right, we've got Geoff Wilson, who probably doesn't need an introduction, but on the off chance there's somebody online who doesn't know Geoff, he is the founder. of Future Generation. He remains our biggest supporter, and he's on the Board of the Future Generation Australia. He's also on the Investment Committee as well. So, thanks for coming in, Geoff. We've also got Tom Richardson here. So, it's been a tough year for active fund managers, but Tom has continued to do really well. He's the portfolio manager for Paradice Investment Management and has been a major contributor to our performance for a long time now. So, Tom, thanks for taking the time to come and see us as well.

The agenda today is we're going to talk a little bit about the results. So, Geoff will talk through the dividend decision which we announced a couple of weeks ago. Then I'll give a quick update on the portfolio, and then we'll have a bit of a chat with Tom about markets and stocks and see what he's seeing. But before we start, there's a disclaimer on your screen now which essentially says that anything that we say today is a general in advice only. There's no personal advice that we are giving. So, with that Geoff, we can say whatever we like now. So, we announced an increased dividend a couple of weeks ago. Would you mind explaining the Board's thinking there?

GEOFF WILSON, FOUNDER AND DIRECTOR, FUTURE GENERATION: Yes, well sitting on the Board and Lee, you being in the Board meeting, you look at how Future Generation Australia has performed and I suppose you look at it from a shareholder's perspective and you look at total shareholder return and that's what the share price has done, plus the dividend you've got and I think we've added in the value of franking and over the last 12 months they've made a little over 20%, which is a very solid return and part of that return is the fact that FGX shares were trading below what the true value was, and now they're trading a little bit above, what the true value was, and we'll talk about that a little bit later. The Board thought let's come out early, let's announce the dividend, just to give shareholders clarity, and that was 3.8 cents per share so therefore, the 12-month dividend is double that at 7.6 cents per share, giving you a yield of a little under 6%, fully franked. So, if you gross it up, if you're in a super fund and you get the refund back or you don't, if you're in a low tax environment, you know then you're talking about what is it, 7%, 7.5%, nearly 8%. I've seen some questions coming in, but we'll talk about it a little later, in this new taxing regime, where capital gains have sort of become a dirty word, income is what people are looking for, and so it is a significant part of their return, particularly franked income, so to me, that'll go really well for FGX. And in terms of, our ability to keep paying that dividend it's been the last 11 years, there's been a consistent dividend increase and the fact that there's still strong retained earnings, a strong profit reserve, so for the ability for the dividend to keep going. I think it's got 5 years of profit reserve there for the dividend to continue to be maintained at this level, or if the Directors see fit to continue to increase it. And still some franking on the balance sheet as well.

LEE HOPPERTON: Well thanks very much for that Geoff. I might give a quick update now on the portfolio just to remind everyone what our objective is with Future Generation Australia and that is to deliver market or better returns, but to really manage the volatility of the portfolio. And I think we've mentioned previously on webinars that our portfolio has a bit of a skew towards medium and smaller sized companies. So, you can see on the screen that we're a bit underweight, the top 20. The top 20 are a big chunk of the Aussie market, they're over half the value of the All Ords. We're a bit underweight the next 30 companies as well, and we've got this bias towards medium and smaller sized companies. That's where we think managers can add a lot of value.

But when you look at our volatility, you can see that we've actually managed to reduce, keep the volatility much lower than that of the market. So, the volatility of Future Generation Australia over its life has been about 15% or so lower than the All Ordinaries and about 30% lower than the Small Ordinaries, so the smaller company index. And over that time, as Geoff mentioned, the portfolio's actually done pretty well. We've beaten the index by about 1% over the last year, 3 years and since inception. So, the performance has been steady, strong, and the volatility's been low.

Now the way that we've achieved that, and we do talk about this quite a lot, is to make sure that the portfolio is appropriately diversified. Our model, as you may know, is to find great fund managers, we've got one of them here today, to ask them to work for us for free and for you for free. And because we and you are not paying them fees, we're able to give 1% of our assets each year to some great not-for-profits. So, we get those fund managers, we give some money to the not-for-profits, and we're able to give that money without having a negative impact on the returns that our shareholders receive. In fact, we actually save more from the fee savings that we have, than we donate. So that's the model. But the trick to the portfolio is to build diversification across the managers that we employ.

So, we've got on the screen, you can see the managers that we have there. They're what we think are the best active boutique fund managers in Australia. We are very grateful that they work for us. It's extremely generous. Now they're diversified, there's obviously a lot of them, there's 16 of them. They're diversified in the ways that they invest. So, we have long short managers, we have long only managers, small cap, large cap, activists, systematic managers all working for us and having different ways of investing. That's the diversification that we aim to achieve. You can see from the pie chart on the right that at the moment the portfolio has a skew towards absolute biased strategies. Maybe just a word on what absolute biased strategies are. So, the long equities that we've got there, they're managers who are looking to buy shares in the Aussie market that are going to go up more than the market itself. So they're trying to achieve performance which is relatively better than the benchmark. The absolute bias managers have a few more levers at their discretion. They can hold more cash, they can sometimes take short positions, or they are able to have a bit more flexibility in the way they invest. That gives them more opportunity to perform and importantly, it also gives them the opportunity to protect capital, if we do get a market wobble. And so, our current portfolio is roughly 2/3 in the absolute biased strategies and 1/3 in the long only strategies. If I look at how the portfolios position from a sector perspective, obviously our fund managers are selecting the companies in which we invest. Our portfolio is not through that diversification mirroring exactly what's going on in the index. It's taking some pretty active positions. As you can see there, our managers have had a fairly significant underweight to financials. So, as we said we've been underweight at the top 10 companies, the top 20 companies in Australia. We've been quite significantly underweight financials. And as you can see from the chart on the right, which is the 10 largest companies in the ASX, we have underweight positions in all of those. Not because we're taking a specific view on those companies, but we think the diversification that we can offer more broadly across the market gives us a better chance of meeting our objectives. So active positions are taken within the portfolio.

Now, as I said when I talked about the model, the real reason for doing this, aside from generating shareholder returns is to be able to make some impact and social good. Future Generation Australia supports vulnerable children and helps them to thrive. As you can see there's 11 not-for-profits that we actively support. Last year we donated $5.7 million to some of those charities, which is a pretty significant contribution. Now sometimes in these webinars, we've had our not-for-profit partners to come and talk to us. We're actually going to separate that out, so you'll be receiving an invite in the next few weeks about a webinar which my colleague Bonnie will host where she and Jennifer Westacott will interview some of those social impact partners to explain the kind of impact that we're having and where they see their challenges. So, we're supporting some pretty amazing causes and you can learn more about them either from our website or at that webinar. As I said, we are able to donate significant amounts of funds to some of these great social impact causes. Over the life of Future Generation, $100 million has been donated. Roughly $49 million worth of that has been donated from Future Generation Australia, and I think it was $5.7 million that we donated last year alone. So, we are significant contributors to those social impact causes. We donate to them on an untied multi-year way which gives them real flexibility and support, and we're very proud of that and our shareholders should be too. Now that's the portfolio update.

Tom I might turn to you now, as I said, one of our many generous fund managers working for free. Super grateful that you do that, so thank you. You've had a great year, would you mind, and actually you've had a great several years, but would you mind just explaining how you invest, how you look at the market, your process and your philosophy?

TOM RICHARDSON, PORTFOLIO MANAGER, PARADICE INVESTMENT MANAGEMENT: Absolutely. So unsurprisingly, our ambition is not dissimilar from Future Generation Australia. What we're trying to do is outperform the ASX 200 year in, year out, quite consistently and with low volatility. So that's what we're embarking to do. Now the one thing that is a little bit unique about the strategy that we're responsible for is that we are able to take short position. So, what that means is that we will short sell a little bit of our investors' money and reinvest those back into more longs. So, for $100 that you give us, we might have $150 exposed to the market. And that might be $125 long and $25 short. So, we're just creating a little bit more opportunity to hopefully make some money, which is important in a concentrated market like Australia. So ultimately what we're doing there is just trying to find some stocks that will underperform, reinvest those stocks that will outperform and hopefully outperform the market.

LEE HOPPERTON: And if you look back over the last year, maybe longer, what are some of the themes or the positions that you've taken that have helped you to navigate them? I mean, it's been a really volatile and difficult market, very narrow themes and in terms of the stock. How have you navigated that?

TOM RICHARDSON: Well, the last 12 months is very fresh in mind Lee, so I can take you through that, because we were going through that a couple of weeks ago and it's pretty remarkable. So, if you think about the top 100 companies in Australia, I think 14 out of the top 15 stocks were material stocks, commodity stocks. I think AMP was the only one that was not a commodity stock. And so, if you didn't own commodity stocks in the Australian market for the financial year to June, you had a tough year. It's pretty much as simple as that. Most of these stocks are up 60%. I think Pilbara Minerals (ASX: PLS) might have been the top performer at over 100%. And then on the flip side, we had Wisetech (ASX: WTC) down 70%, Xero (ASX: XRO) down 60%, Solaris (ASX: SET) down 60%, Cochlear (ASX: COH), CSL (ASX: CSL) down 50%, 60%. These are household names. And so, the divergence that we saw in the financial year to June was wild. And so fortunately, we were on the right side. We were a bit overweight the commodities sector, and they were definitely our winners. We avoided some of the big blow-ups. Unfortunately, we did have a couple of blow-ups, dragged on a bit of performance. But the reality is that over those 12 months, that was the key to our performance.

Interestingly enough, if we look at a 3 or a 5 year view, the sectors that have worked have clearly changed. And I think it's a really important feature of our market. The concentration is very large as we know with banks and resources, but it's also a very highly cyclical market. And so, it's, in our view, it's not a market where you can set and forget. You need to be active because what works one year does not work the next, and I think fortunately over the last 3 to 5 years we've been broadly on the right side of some of those trends, which is health performance.

LEE HOPPERTON: And if you look at just taking that one step further, if you look at banks and miners from here, there's obviously a lot going on with the banks, specifically housing being kind of front of mind for a lot of people with mortgages, particularly, but banks and miners, do you have any views now as to how, I think I was reading that you're probably a bit more cautious on banks, but how are you thinking about that from here?

TOM RICHARDSON: Well, yes, there does seem to be a little bit of divergence between the current housing market and CBA share price, which I think is $180 and nearly all-time highs today. So we think the risk reward is unattractive for the banks. I think that's a largely a consensus call, so we're happy to that position, so we're underweight at the banks and obviously saw the sector positioning earlier from Future Generation, sounds like we're aligned with a few of the other managers. So hopefully we're on the right side of that at some stage, but the results season will be interesting to see.

We've got a CBA result out in a couple of weeks and we'll get an update from the other banks. So broadly underweight the banks, we don't see them as good money making opportunities. The miners is a little bit interesting, so as we said last year we did well being overweight that sector. We've actually reduced that overweight and have a small underweight. And the reason there is the commodity market, we see commodity markets sort of broadly fair, we don't think they're breaking out from here. And the stocks have done very well, they've rerated into that and there's a bit of cost pressure, so the risk reward is a little bit less attractive than it was sitting here 12 months ago. So, we've reduced our exposure. So, ultimately, similarly to Future Generation Australia, we're looking outside those two sectors for where we think we'll make money going forward.

LEE HOPPERTON: And where is that? I mean, as you say outside of those, the classic growth stock that people went to. How do you think about getting outside of that, or where, where do you go? Is it just looking at sort of medium sized companies and different industries?

TOM RICHARDSON: So we're underweight at the top 20, we're actually overweight the next, the 20 to 50. Again, our benchmark is the ASX 200, so we want to be alert to that. But ultimately, we're looking at new in other sectors. Healthcare looks interesting for the first time in our opinion, in a long time. The fundamental valuations are attractive. Some of the companies are still working through issues and you can see that in the share prices trying to bottom, and we might touch on a couple of those later. Some of the growthy names, the tech companies have been hit with the AI trade very hard. We think there's opportunities in there. So, it's really a sector opportunity set rather than necessarily a size bias. It's just a manifestation of the top 20 is largely banks and resources.

LEE HOPPERTON: So when you look at the kind of concerns that are being raised in the press, inflation, growth, Budgets, all those things that are dragging on Australia, is it valuation then that's throwing up some of those opportunities? Is that where there are sectors now which have been punished sufficiently well or avoiding some of those headwinds but have been sufficiently attractive to?

TOM RICHARDSON: Absolutely Lee, I mean when we think about the aggregate market, we don't want to make forecasts, but it's not obviously a lot of upside in the top 20 while we're at, which is obviously why we're underweight as you are as well. But we do see a lot of opportunities in our portfolio. When we look at some of these stocks which are down 60% and we see good earnings growth, we do see opportunities to make money. So, it's less driven by the macro backdrop, which is fairly difficult at the moment, and ultimately the share price opportunities that we've been presented with.

LEE HOPPERTON: Our investors love to hear about specific companies. Are there any that you're prepared to share that we're not going to impose on your own intellectual kind of property.

TOM RICHARDSON: It would have been good if we had this yesterday and Rio was one of them. Well it's interesting though, I mean, I'm not trying to be too risqué in these webinars, but the healthcare sector does look interesting. So, it's interesting, everyone's familiar with the drawdown that we've seen in our healthcare names and the challenges that CSL's had. The challenges that Cochlear's had. And drawdowns for when the share price has fallen significantly. And there's clearly challenges with those companies, but you look at a company like ResMed which hasn't had the operational challenges, but their stock has also halved. And so it's actually been a global phenomenon. You know, we've filled it pretty hard here in Australia because some of our true champions are healthcare names, but this is a global story where this sector has been sold for the better part of 2 or 3 years. And there's a number of reasons, but one of the main ones in our opinion is really it's been a funding source.

And so the only game in town in terms of global investment is really the AI trade. And everything else is funding and investment into that. And so what we're seeing at the moment is the markets start to question some of those trades. Trying to get over our skis in terms of predicting what that will be in a 3 to 5 year view. But certainly in the short term, the market's starting to say, ok, well maybe we'll take a bit of money out of here and put it into something that's fallen a lot. And that's corresponded with, ultimately, valuations that fundamentally look attractive. So the healthcare sector more broadly looks interesting. Within that, we like Ramsay (ASX: RHC). It's a pretty boring name, don't fall asleep. I was going to come up with something, that's a sexy name. It was a really sexy name like Ramsay.

GEOFF WILSON: But I remember when Paradice started your business in the old days, 25, 26 years ago, it was Ramsay and I think it was trading at it could have been 80 cents, it was exciting then. Well, everyone thought it was boring then. Then what did what did it go to?

TOM RICHARDSON: I think Ramsay compounded at something like over 20%, maybe 25% for 20 years. CSL was the same. And then obviously had a big drawdown. The new management team's been on board for a year and a half, and sometimes these turnarounds can take longer than you expect and longer than we think. They were one of the first healthcare companies into the downturn if you think about the challenges post-COVID. So they're starting to merge, we're seeing some positive signs, a bit of margin accretion, really pulling back to their core. Management teams focused on, returns, which we think's the right thing, and we've seen in the past, these sorts of stories can give you a bit more upside than you might expect as you reinvigorate the core business. So we think Ramsay looks asymmetrical, because we like the name basically.

LEE HOPPERTON: Yeah, brilliant, well you mentioned sexy trades, the sexy one's AI - obviously more of an offshore thing and there's question marks over Capex and how overextended some of the cash flow of some of those companies are. Australia's probably a bit narrower in the opportunities for AI. Is it something that you actively try and invest in or see opportunities in Australia or any sort of views on how that might play out?

TOM RICHARDSON: I think the opportunity for us really is that there's been a lot of stocks in our market which have been hit very hard. On AI fears, the SAS apocalypse is the biggest trade and these stocks, some of the ones that I mentioned, Xero, are down 60 or 70%, a lot of it on fears around AI disruption now. We ultimately think that AI is a wonderful technology, but it may not disrupt these businesses in the speed that some of the market is starting to price. So ultimately as an Australian investor and we only really have the, the benefit of investing in the Australian subset, and so we don't have some of these wonderful opportunities as some of the international investors do, our opportunity is to really take advantage of the mispricing and some of the businesses are feared of being disrupted, so we think that's also where we can see some opportunity within Australia.

LEE HOPPERTON: Fantastic.

GEOFF WILSONL Well it is interesting because it's like when you when you're talking about that, it reminded me a little bit, for the older people, the tech rec, where, I know this is totally different but, some of the companies that were sold down just significantly after that which were good companies, businesses and ended up doing exceptionally well. But you know unfortunately there are these pay periods and the real challenge is trying to work out the ones that are going to bounce back, isn't it?

TOM RICHARDSON: Agree, and timing's always hard in these sort of things, it can be difficult, but when you look at the absolute evaluation of some of these businesses, they're starting to look attractive.

LEE HOPPERTON: There's quite a few investment related questions coming through which look quite tricky, so I'll be forwarding those to you in a second. But before we do you work for Future Generation for free, you have done for years, it always amazes me that people in our industry are prepared to do that. Could you sort of explain what drew you to Future Generation and why you're happy to support it?

TOM RICHARDSON: We've been involved for a long time, and you think about investing, it's like, idea generation and then execution. And in my view, as an outsider what Future Generation created, that's, what's happened. The idea's obviously a great one, and Geoff, but the execution has been flawless, and we've seen that really, I've had the benefit of seeing that close up. And that's really the discipline with which the team goes about its diligence around picking social impact partners. And then the benefit of meeting a lot of these social impact partners who just are very clear in terms of the difference that money can make.

The longevity of the funding, what that means for them, and just the change and opportunity it can create. So, we feel that we're a small cog unit and ultimately, frankly, we're very lucky to be a part of it because it is very impressive.

LEE HOPPERTON: We're really grateful that you have been. So I might turn to some questions from the people online. Thank you for those questions. If you could keep them coming, that would be great. We'll get through as many as we can and we'll follow up with those that we don't get to. The first one on my screen here, and you have to forgive me, I've got the wrong glasses on to really read this, but I think it's Paul, it's talking about the collapse in discretionary spending, loans, New Zealand residential property market crashing, Aussie residential property bubble also seems to be deflating. How does Future Generation deal with their portfolios and managers selection and cash holdings, and how are the underlying managers refining their investment strategy, what is the potential of negative performance over the next few years, given that backdrop?

I might just start with the Future Generation part of that question, Paul, is that we leave those sorts of decisions to the fund managers. We try, and I showed a slide before that showed that we've got 2/3 of the portfolio in absolute biased managers at the moment. The way that we try and manage risk is through diversification and making sure we've got what we think are the optimal mix of fund managers for the current market environment. And the fact that we've got some managers like Tom who are able to take a bit more defensive positions when the opportunities are there too. It sort of probably reflects the

Investment Committee's view around that. In terms of the risk of there being a negative return over the next few years of the Aussie market. I don't want to take that on. Do either of you?

What's the probability of a negative performance over the next few years? I mean, from a future generation perspective, we are built to manage volatility, to manage downside risk. Risk is the first thing that we think about, so we would hope that in a softer market, we would be relatively well placed to deal with that. But, I mean, Tom, is it something that you think about like broader, market type concerns,

TOM RICHARDSON: I mean, I'm not sure how old the person is who's asking the question.

GEOFF WILSON: Oh I'm probably the oldest in the room though?

LEE HOPPERTON: I'm 51.

GEOFF WILSON: I'm older than you. You tend to find the market tends to adjust. And the market looks forward. So, I mean we and I think in the question it talked about, you know, the consumer, uh, you know, what's happened the last couple of, you know, the last couple of months. I mean you saw the Myer result yesterday, and they said their sale, or the day before their sales were down, I think in May they were pretty much flat, in June I think they're down 5%, in July they're down 4.6%, so like that if you're a retailer, and your sales are down that much, particularly, they were probably having sales to get their sales volume up, that's pretty brutal. And with property, we know that Australian property's been overvalued. For years now the fact that the demand side's changed, where's the bottom, what you do find is markets tend to adjust reasonably quickly, and so, I wouldn't necessarily expect there could be one bad year, but you tend to find that.

Now, what is an equity market? It's made up of bull markets and bear markets, and a bull market lasts for, actually I haven't looked at the average recently, but for a number of years, where a bear market tends to go for a year and a half or a year and 3 quarters. So, to me, the pain, you sort of go up in the escalator and down on the lift. So if there is an adjustment in the market, it tends to be quite swift. And in terms of being professional investors, that just creates opportunities for you, and as Tom was saying, some of those tech names, the concern about AI, I mean they're fallen 50%, it's been quite brutal.

Do I expect there to be negative returns over the next two years in the Australian market? I actually don't, I don't see that. Do I see there to be enormous adjustment in the Australian market, and you talked about tax. Particularly over the next 12 months, I think people don't realise, don't fully understand the capital gains tax on Australian business and on Australian shares, how they're going to have to readjust their portfolios, and the asymmetry of having a portfolio of shares rather than having it in a pooled structure like a LIC or an ETF or a managed fund, it's effectively pushing everyone, the 7.7 million Australians that have shares outside of super. That's pushing them away from owning shares themselves, so that's a big adjustment. Also, in terms of companies how they pay out their earnings they make there's enormous change there because in the old system, before this, the new capital gains tax, which is effectively a doubling, but in real terms, it was capital, people wanted capital. If they wanted a return of say trying to get 10% to 12% over time, you'd want most of that as capital. Because if you're a student, or retired and didn't work, and you didn't pay any tax, your marginal tax rates zero, so you're paying half of zero, so, your capital gain was all in your pocket. If you're a maximum taxpayer, your capital gain was, you know, 23.5%. It is the highest capital gain you paid, so, your return you wanted most is capital. These days, and we'll probably come back to this a little later, where does Future Generation fit in this? And I think there was a question you were mentioning about that.

These days, if you're a zero taxpayer, and the company makes money and pays tax, and doesn't pay it out to shareholders, you're effectively paying a 51% tax rate, because you get double tax. The 30% on the money it makes and the 30% on the 70%, because it doesn't pay that out to you, so you get the capital gain and you've got to pay another 30% on that, so you're paying 51%, or if you're a maximum taxpayer, the 47%, you're paying 62.9%, because you're paying the 30%. If it doesn't pay out, you're paying 47% of the 70%. So capital is a dirty word, and so what it'll do for companies, companies need to pay out 100%, All the money they earn, the incentive will be to pay 100% to shareholders. Not invest back into the people that work there, not invest back into your business, because you pay 100% out to the shareholders, like the 30% tax rate, the 70% you pay out to shareholders, if you're a zero taxpayer, it's fully franked, you get the 30% back, so you pay no tax again, if you're a pensioner or a student, and if you're a maximum taxpayer, the maximum you pay is 47%, not 62.9%. So capital, like the whole, this will be, unfortunately, it is just such a mess that the government is creating. And this is going to play out, people will start, it doesn't come in till the first of July next year, so as people sit down with their financial planners, as companies look at all those numbers and read the research and understand how they've got to allocate the earnings, or the taxpayer earnings, there'll be a whole lot of adjustments.

What does that mean? It means it's probably good for larger stable companies that can pay out fully franked dividends. It's bad for the really small growth companies, but in a relative sense a small growth company can grow at, might only grow at 300% rather than 500%. To me it's like there's a real big puzzle that's going to be have to be sorted out. I know unfortunately, from the Australian economy's perspective or the Australian economy's perspective, it's not positive, So it’ll adjust and there's like to me the great thing about the market is there's always opportunities.

LEE HOPPERTON: We did a webinar, this is a slight tangent, we did a webinar with Phil Lowe and Jennifer Westacott in this room, not that long ago to talk about some of this stuff and you're obviously leading the voice in pointing out some of the weaknesses in the legislation, but they were also quite vocal about the impact on productivity, growth, entrepreneurship, all that kind of stuff. So it is obviously a major concern.

I imagine from a market perspective, are you thinking about how that might impact things like consumer discretionary stocks, I think that's probably what David was alluding to, consumer discretionary stocks, housing market prices, the wealth effect, credit growth, all that. Does that form part of your kind of thinking at the moment?

TOM RICHARDSON: Yeah, absolutely, I mean, we saw Myer's result, our feedback is retailers have had a pretty tough July, as you expected, the weather's compounded that as well. But it's also compounding a rates backdrop which is difficult. And when you think about some of the discretionary spending at least the discretionary stocks, they really peaked in October last year. And that's when we had that surprise inflation print and it realised that we were not in a rate cutting cycle, we're in a rate rise cycle. And so we've had three rate rises at the start of this year, and stocks like Harvey Norman, which is a bit of a bellwether, went from $7.50 to $4.50. Stockholm went from $6.50 this is October last year, um, pre-budget and pre-tax changes, to $4. EQ $28 to $14. So, the, the bellwether cyclicals within the Australian market had already suffered a lot. And so obviously the budget has compounded that and obviously working through that at the moment.

And the last thing I'll add, which Geoff already highlighted is the market is forward-looking. So, some of these changes may change the rates back drop, so it's not always as simple as we'd like it to be. Silver lining to every cloud imposed by politicians.

LEE HOPPERTON: There’s quite a few questions. Stuart's one is on my screen right now about the impact that the budget will have on discretionary trusts. Does that impact Future Generation Australia?

GEOFF WILSON: I think that the short answer is the headlines. No, it doesn't. Well, actually, the individual fund managers that we manage the money on our behalf, is, you know, there's no impact on them. In terms of Future Generation, the listed entity FGX is a company structure, if you're looking at a 10% to 12% return over time, the grossed up yields nearly 8%, so you're getting a significant amount of that as income, and ideally what you want as an investor, if you're going to get a say 10% to 12% return, you want the capital growth to be in line with inflation. So, you pay no tax and then you want the rest to be as a fully franked dividend. So, like Future Generation, we saw it with another WAM entity, we had a capital raising with WAM Income Maximiser yesterday and there's been a lot of demand for that, we were looking at raising about $150 million. We had over $200 million of demand, and we had to close it early, it was meant to go over 2 days, we closed at the end of the first day, and early on the first day, so there could have been a lot more demand and we've seen in ETFs, people looking for income. I think ETFs in June it was normally $800 and $860 million I think was the highest before, it was a billion. And it was inflows, and it was all into high yielding products. For people that are watching this, be careful about going to too much yield, because you've got to remember if it's too good to be true, it's too good to be true. And there have been some instances in Australia where people are going for yield and they don't quite understand how the company's giving them the yield and then the company doesn't exist eventually.

But in terms of FGX everything's positive. The managers are still where they are, their structures are outside this, the tax changes.

LEE HOPPERTON: So there's a few that have come through also on dividends and NTAs. So, Stuart's asked about why we don't publish weekly NTA reports?

That would be a great thing to do. Unfortunately, a number of our managers, they only report their performance and their numbers monthly, so we don't have the ability to do it more.

GEOFF WILSON: From a Wilson Asset Management perspective as well, we do monthly, but we've held off on weekly because in theory, you can pretty much guesstimate what the NTA is, if you look at the last NTA and adjust it by the index, depending on Australian or global, and I've seen other listed investment companies that do daily NTAs, I know some of the big ones, when they went to big discounts, they went from monthly to weekly NTA's, it actually doesn't help your discount at all and in theory, to me, we don't want to get traders in there, we don't necessarily want to encourage people to be trading for 1 cent or 2 cents. You know, if they're happy with the managers, to me that's your decision, it's like buying a company, isn't it? You're happy with the management, you think the company's cheap, you buy it, and we want them to take a medium to long-term view.

And just further to that on the dividend frequency. That's why we created WAM Income Maximiser which has sort of grown, triple in size since we started, so there's a lot of demand, for monthly, and that is an option for Future Gen. We haven't seen a reason to do it at this point in time. It is more costly. Now I actually do like the 6 month dividend and that dividend, with the monthly, the protocol is pretty much announce 3 at a time, and do rolling 3s. So it's just another protocol I think that's what you'd have to be doing.

LEE HOPPERTON: I think the second part of David's question is, how many more dividends will be paid for over the balance of the financial year 2027? We've just announced, the one that we've just announced a couple of weeks ago will get paid, it goes ex on the 9th of November, paid on the 20th of November, so they've been announced early to give people visibility sort of towards the end of the year and then the following dividend for the next half will be paid normally.

GEOFF WILSON: I mean if I had a choice, you'd always be cum dividend. You know, because you tend to find, you know, what we found years ago is, dividends fully franked and you're getting a reasonable yield and a lot of brokers, once a dividend's announced, everyone's confident that it's going to get paid, a lot of brokers used to, and I don't know if they still do, get close to say hey let's buy it, just cum dividend, so you get 3 dividends in 13 months, there's that all play, so you tend to find, once the dividends announced, and it's cum dividend, it tends to outperform. I know we found that with WAM Capital years ago when we did some analysis, so that's why it tends to be announcement. The banks go the other way, they announce and then they pay really quickly, and the logic is it's your money, so we'll give it to you quickly.

Now what we're balancing here is, we would like NTA we would like to reflect its assets, and for those that have been shareholders for a while, you go back a couple of years when we're trading, you know, 20% below the value of the assets, and now we're trading, around a little bit of a premium to the value of the assets. So in theory, you want that equilibrium, so you want to potentially drive buying, into it, so to me it's, it's a nice position. Would you logically, could I put my hand on my heart and try to convince the Board to go to monthly dividends, which would actually, probably be from an income perspective, you know, it would get another group of investors. You know, then we go to 10% premium or you know 15% premium, like I don't necessarily think that's in investors' interests. Well, and then when people buy like we've had it with WAM Capital when they bought at a 30% premium and then it comes back to NTA and they say what's happened, they say well, nothing's happened. They said, well I've lost so much of my money, I said well, I didn't make you buy at a premium.

LEE HOPPERTON: There’s actually a few of these questions about NTA. Well, in summary, from Ian and others, if you do the calculation that Geoff just mentioned and you take our last NTA, you gross it up for the performance of the index, over the last little while we're trading at, we are currently about 2 or 2.5% premium to NTA.

GEOFF WILSON AO: So a lot of the focus over the last year has been from narrowing that discount. And in terms of philosophically, I actually believe both Future Generation Australia and Future Generation Global should have an implied premium to NTA because you think about it and you mentioned it before. Tom and all the other fund managers, they are not charging the fees that they normally charge, and if you've been an investor, since FGX started, then what was it, the fees that Tom and the other managers haven't taken, and everyone else is valued at, it's $93 million. In terms of the money that's gone to the charities, it's $49 million. So, shareholders have actually pocketed $44 million. So effectively they're getting their money managed for half price, so in theory you could do a NPV of that. And that probably means, you know, that we probably should be at a 6% to 8% implied premium, because you're getting access to the best managers at half price. Anyway, we don't, we don't like to flag that too much in front of Tom, but he said earlier he's grateful.

But you've got to look at it also from the manager's perspective. That’s what a lot of people don't realise, in the finance industry, people are very generous, and I know talking to Tom, and his colleagues, David

Paradice, to me, and they were in from the very start. This is an opportunity for them to give back. That $100 million, that's gone to charity, the managers have given, is it $165 million? Is it in total, so $175 million. So the managers haven't taken fees of $175 million. So between the two vehicles, $75 million has gone to shareholders, and that's the generosity of the managers, it's an opportunity for them to give back. And it's an efficient way of doing it. Thanks for all the, the cash.

LEE HOPPERTON: There's a few more. I know we've, spoken a bit about AI. There's a question from Jill and others talking about how AI kind of influences the two sort of themes. One is how you're using AI in your process, if at all. And then secondly, how you really invest in that in Australia. You talked about some of the software companies, but are there other derivatives of AI? What are you seeing?

TOM RICHARDSON: Well from a process perspective we are using it, similarly to everyone, we've actually internally built a research hub which is AI driven.

GEOFF WILSON: Oh, what's it called? Has it got a, a trendy name?

TOM RICHARDSON: Well, we actually don't have as big as a marketing department as you Geoff, and so no.

GEOFF WILSON: Para or something like that?

TOM RICHARDSON: It's called Research Hub. And I said the same, I said, we've got to come up with a better name for this. So, we're a workshop, currently it's called Research Hub. Ultimately, what we're simplistically doing here, and you'd be the same, Geoff, you take so many meeting notes, we talk to so many companies and different consultants and the like, and we used to put it into one note. And it's very hard to get that information back out. It's in your head, you had the meeting. But what this tool does is all our meeting notes go in, and so when we type a stock or a company comes out with a release, it feeds all of our meeting notes, our proprietary meeting notes, and come out and we can read an assessment of the result, but littered with our own notes didn't align with this he told you this 6 months ago, the CEO told you this 6 months ago and now he's come out with this. And it's a very simple but efficient way of using AI. So nothing's changed from our process perspective, but we're finding it very valuable through reporting season.

This is probably the first reporting season where AI has been used by the industry at length, and you'd be more familiar than me, Geoff. Reporting seasons normally how the CEOs come through and then the same 10 questions asked by every investor at every meeting from 8 till 5. I think this is going to be a difficult reporting season for management teams because they're going to go, someone's going to come up, so on page 153 of the annual report, I noticed the provision increased by $2 million. This is about an hour after the report's come out, normally you get through this. So, these poor management teams are going to have a bit of sweat coming through the level of detail that the question's going to come through they just say, hold it. Let me just put it into my eye, and that's the answer. I well, obviously that would be an AI team's job is to work out the list of questions, so it might just be AI talking to AI in these meetings and us and the CEOs just sitting there taking notes.

GEOFF WILSON: Do you think so it's made you more efficient?

TOM RICHARDSON: That's the intention.

GEOFF WILSON: Have you saved personnel?

TOM RICHARDSON: We have not, we've added personnel.

GEOFF WILSON: So initially add personnel, but then probably save medium long-term.

TOM RICHARDSON: And it's a very prescient question, Geoff, because everyone's trying to understand the ROI of AI and so that is a very simple tool that we're using ourselves. And our ROI I guess is measured in terms of alpha. And so, if we're having a good day, we go, this thing's working. And we're having a bad day, we're like, this thing's terrible, no ROI and AI fault. So that's how we're using it. I'm sure everyone's got stories about that as well.

In terms of the, the market more broadly, I think, as we touched on Australian market, it's hard to get exposure and we're actually sort of taking the other side where we think it's presenting some opportunities.

LEE HOPPERTON: And there's a few other questions on ESG which always divides kind of opinion and, and just to be clear, Future Generation Australia's impact is through the donations that we make. We love our investors to think about their social license and environmental impact and all that. Does it form part of your process and the way you think?

TOM RICHARDSON: Absolutely. So Paradice has been around for 25 years and it's largely an institutional business. So, we've been growing our retail presence but largely an institutional business and the benefit of that is that ESG is very important to our institutional investors and has been for a long time. And so, we have two investment professionals who all they do is analyse companies from an ESG perspective and then work with our investment teams in making our decisions. So, we don't have any exclusions, we are allowed to invest in any stock within the ASX 200 or even ASX 300, but it's a level of diligence and rigor that goes with our ESG tools and we have a lot of companies with management and boards around their processing plants and make investment decisions accordingly.

LEE HOPPERTON: Fantastic.

TOM RICHARDSON: So you don't necessarily say I won't invest in that company, but you'll go and meet management. And you'll say, hey, why are you doing that? We don't like what you're doing. Is that it's not so much about our view. It's like, what's your plan? So, emissions is obviously the easiest one. What's your plan to reduce emissions? And then we need to, ultimately, it's a checkpoint in the way it is any other business. You know, your rollout strategy for a retailer, what's your plan around emissions. And so within each of those, we understand, we rate management obviously on that ability, and then we make investment decisions based off of that as well. So, which at times obviously means selling a position because you're not happy with the way things are proceeding.

LEE HOPPERTON: Another question, are there any capital raisings in prospect? Is there an opportunity to increase assets under management to position the Company for more volatility? Do you want to talk about that?

GEOFF WILSON: Well, they're Board decisions, but you know, we would like to grow both Future Generation entities in a sort of controlled manner. I think when FGX started, I think we had about $200 million of funds under management. Now between both of them, we're about, what are we, $1.3 billion, and all the way along, fund managers like Tom said, hey look, we've got a little bit more capital, do you mind managing that for free as well?

For anyone who's a new shareholder, there are the charities, there is an Investment Committee, that holds the fund managers to account, and the fund managers, they present to the Investment Committee, Some of the fund managers they don't last, they're not there forever. I think it's 25 have been removed, over the life of both entities. What do we look for? We actually look for performance, variance from what we expect, and that's better performance and worse performance, it's management changes, with Tom, what his fund's doing in terms of going long, going short, etc. etc, change in style because we've invested, in Tom's fund because we want that type of exposure. And they don't all have to be doing well all at the same time, it's building out a complimentary suite of them.

LEE HOPPERTON: There has been actually a couple of questions on how we select fund managers, but I think Geoff kind of explained it, so we're constantly monitoring the fund managers, we review them all every month from a headline level. We meet the Investment Committee who I report to and Geoff is part of, meets every quarter and we review them in much more detail. And then when there are those outliers, we're quite proactive in having a chat. We have a bench of people that if someone in the team needs to be replaced, then we'll bring them on.

Now I think Geoff, I have exhausted most of the questions. If you're not replaced by AI and the bot you've created, we'd love to have you back, Tom, before too long. But thank you, genuinely thank you so much for taking the time and also for just being such a great supporter and such an important driver of our returns over the last long time. So, thanks very much for that. And Geoff also thanks for making time to come in to see us. Thank you all for, for joining us. There'll be a survey, that pops up on your screen after this, but we'd love you to just spend a few minutes filling that out because we're trying to improve our transparency in the way we communicate with our shareholders. So we're very grateful if you could spend some time on that.

And then the final thing is, as I said, in September, we'll be hosting, or rather my colleague Bonnie Ashton and Jennifer Westacott will be hosting some of our not-for-profit social impact partners for a discussion a bit like this one, but with slightly different content in that they'll be talking about the great work that they do. We'd love to have you online for that as well. But until then, thank you for your time. Thanks for joining