

Future Generation 'What's next for the Australian economy?' Q&A Webinar

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Lee Hopperton, Chief Investment Officer, Future Generation: Hello, everyone. Thank you for joining us. My name's Lee Hopperton. I'm the Chief Investment Officer of Future Generation. I'd like to start today by acknowledging the traditional owners of the land where we are, which is the Gadigal people of the Eora nation, and to pay my respects to elders past and present. I'd also like to introduce you to the two guests I have with me. We've got a very large audience for this webinar, and I suspect it's due to the quality of the guests who are sitting next to me. We have Jennifer Westacott AC. Jennifer is the Chair of Future Generation Global. She was formerly the CEO of the Business Council of Australia, a Director of Wesfarmers, and she's currently the Chancellor of the University of Western Sydney. She's also the Director of the Governance Board at the RBA. We've also got Dr Philip Lowe. He is the chair of Future Generation Australia. You probably know him as the former RBA governor. He's on the board of Barrenjoey and Victor Chang, and he's on the ASX Advisory Group of Corporate Governance for the ASX. So, this is a great opportunity to hear from both the Chairs.

We've had quite a lot of questions that have come through already and I've tried to categorise them, but, if you do have questions, please submit them as I can see many people are doing through the website and we will try and get to those. Before we start, I would just draw your attention to the disclaimer, which is on the screen, which essentially says that anything the three of us say today is general advice, it's general in nature, it's not personal advice.

I'll start with a quick update on Future Generation. As you know, the way that we operate is we operate a fund of funds. We have two listed investment companies, Future Generation Global and Future Generation Australia. They invest with what we think are the best fund managers we can find in Australia and from around the world. Those fund managers very generously work for us for free. Because they're working for free, we're able to save a significant amount of fees for our shareholders. We've saved \$175 million so far. That means we've been able to donate 1% of assets each year to some great causes. We've donated \$100 million so far. The difference between the saving and what we've donated of course remains within the listed investment companies. It's for the benefit of shareholders in terms of income and the capital growth that we achieve.

If you look at the fund managers that we invest with, as I said, we think these are some of the best fund

managers in Australia. They're also very diversified. What we're trying to achieve with Future Generation is great returns but with much lower volatility than the market, and the way we do that is through diversification. So, the managers on the screen, they are what we think are the best managers, but they're also highly diversified in the terms of the way that they invest. So, we have long short managers, long only managers, systematic managers, and our first layer of diversification is by manager. And that helps us to achieve the lower volatility returns that we've been able to achieve. If you look underneath the hood to what those fund managers are investing in, you can see that the portfolio is very diversified. We have a slight bias in Future Generation Australia towards small and medium sized companies, but we're significantly underweight, the larger companies in Australia. So, the top 10 companies in Australia make up nearly half the value of the index. And the best way for us to achieve lower volatility returns is to diversify away from those. So, you can see that we have a very nicely spread portfolio.

For Future Generation Global, it's a similar story. Global markets have become increasingly concentrated. The top 10 companies in the MSCI made up about 10% of its value 10 years ago. Now nearly a third, mostly tech companies. We're typically underweight, those large tech companies, our fund managers find opportunities elsewhere. So again, we're overweight at the small, medium sized companies and we have a bias a little bit less than the market in terms of our exposure to the US. We're a bit overweight, Europe. And the stability that those investment portfolios create enables the Boards to generate and announce a growing stream of fully franked dividends. So, in the case of Future Generation Australia, fully franked dividends have been increased every year for the last 10 years. The dividend yield, if you include franking credits for Future Generation Australia is over 7.5%. And we've got a strong profit reserve which gives us confidence in the sustainability of that dividend. Future Generation Global likewise has been increasing its dividends steadily. We announced a special dividend, 3.0 cents per share fully franked earlier this year, which gets paid tomorrow. Again, it's a very strong dividend yield of over 9% and strong profits reserve which gives us the confidence that dividend is sustainable as well.

So, our first objective to deliver low volatility returns to our shareholders and generate great income. We think we've been achieving that. But of course, our second objective is to make a significant contribution to society and in particular to support young Australians. And last year we cracked through \$100 million that we had donated to those great causes. We're very proud of that number and we're hoping that will continue to grow into the future. The not-for-profits that we support are very broad and there are more details on each of those on our website. Future Generation Australia supporting vulnerable children, Future Generation Global, particularly supporting mental health initiatives for young people. Final thing before we move on to the Q&A is that if you do decide to buy Future Generation shares and you do that through CommSec, they're good enough to rebate that brokerage, so it's a free transaction for you. So that's a quick update on the Future Generation investment portfolios.

There are some questions that we've had come through which I'll address in due course, but the bulk of the questions that we've had have focused around productivity. I read back over the last time you both did these webinars a couple of years ago. Jennifer, you made the comment that you feared Australia might sleepwalk into lower living standards, which is, I thought was a great comment. Before maybe we get an update from you on how you think about that, Phil, would you mind talking to us about productivity, why it's important and your perspective on where we are?

Dr Philip Lowe, Chair, Future Generation Australia: Thanks Lee and it's great to be with you. Productivity is the amount that on average we produce per hour of work in the country. So, it's a pretty fundamental concept and advances in productivity are the key to advances in living standards. Since around 2018, we've had no advance in productivity in Australia, so the amount on average that's produced per hour of work today is the same as it was in 2018. Since 2018, living standards in Australia have stagnated. Average real income per head is the same as it was back in 2018. And that's because we've had zero productivity growth. That follows a period of 25 years where productivity growth was almost 1.5% a year. So, if we'd had, say, 1% or 1.5% productivity growth since 2018, the economic pie in Australia would be 10% bigger than it is. That means people's real wages would be 10% bigger, profits would be 10% bigger, government revenue would be 10% bigger. Everything would be 10% bigger. And everything, if everything was 10% bigger, we wouldn't be talking about a cost-of-living crisis, we'd be talking about how to manage prosperity, as we were for much of the previous few decades. The fact that we're not getting any productivity growth today means our living standards are stagnated, and unless we can turn this around, we're going to continue to have a high standard of living in Australia, but it's not going to advance and we're stagnating. And really, this is why people are talking about productivity growth. We've entered into a world of stagnation in living standards, and we're on a path for that stagnation to continue. I don't think we're going to go backwards, but we're not going to go forward.

Lee Hopperton: Jennifer, Phil suggests that we haven't yet woken up. Is that your perspective as well?

Jennifer Westacott AC, Chair, Future Generation Global: I think so, I think, we might even be going a bit faster than sleepwalking. You think the last decade has been the lowest rate in the last 6 decades of GDP per capita growth, so that tells you our living standards are falling away, and we talk about the cost of living crisis where we're heading into a standard of living problem and to Phil's point, it's not that we're going to go backwards, it's just that we're not going to go forwards and we're certainly not going to travel at the same pace as countries like the US which is I think on average about four times more productive than we are. And so, you know, I think what we've got to remember is what does it mean, a lot of people I think want to misrepresent productivity. Is a claim by business to work harder for less versus we want to get more value out of the inputs we produce and that's about technology, machinery, skills, training, energy input costs and so on. But it ultimately results in higher wages and a bigger pie. And that means,

you know, more money for government to spend on things that people need, more money in people's pockets, and that's the best way of really alleviating the cost of living crisis over time is to actually kind of make those structural changes that make us more productive and actually put sustainable long-term money into people's pockets.

Lee Hopperton: So maybe just to sort of follow on from that point, what is that? What sort of reforms do you think would be the obvious ones?

Jennifer Westacott AC: Well I mean you've got to be on all fronts, but you we've got to really take the skilling of Australians more seriously, we've got to get our skill system up to date. Energy costs, which have really increased over the years is a major kind of contributor to a declining productivity. But if I had to pick one, Lee, I would pick tax reform, because productivity is a creature of investment and incentives and we do not have that climate in Australia at the moment. We have one of the highest corporate tax rates in the world, very high-income tax rates, taxes like stamp duty which I think I've not seen any economist, that says stamp duty isn't anything other than the worst tax in Australia from a productivity point of view. So, I would always nominate comprehensive tax reform, not piecemeal tax reform, and nobody's naive enough to say that's easy to do. And we've had economic opportunities where it would have been easier to do than now, but nevertheless, unless we're willing to confront the fact that our tax system is neither going to produce the revenues that we need and we can see that. Uh, coming out of the commentary on the budget, but more importantly, it's not going to create the incentives for businesses to invest in those bits of equipment and skilling and technology that allows them to be more productive, expand and grow and pay people more, then I just don't believe we can actually kind of turn the corner in the way that Phil's suggesting.

Lee Hopperton: And Phil, would you agree tax reform would be the most prominent lever to pull?

Dr Philip Lowe: There's no single thing that we can do here, but for me, to my mind, what we've got to do is to make Australia a great place to invest, expand, innovate and hire people. And that should be our mindset. At the moment, too much political discourse is focused on how we cut the pie rather than grow the pie, and we grow the pie by investing, innovating, building new businesses, and hiring people with good skills. So, if that's your mindset, then the approach should be to kind of tackle everything that feeds into that. So that would be industrial relations, I think, taxation. We tax innovation and entrepreneurship too heavily and consumption too lightly. And the way we tax land is all screwed up as Jennifer said. It's too hard to establish new businesses, there's too much kind of regulation, the cost of energy's too high, and our university system isn't working to the full advantage of the people. We've got to make Australia a great place to invest, innovate, expand and hire people. That would be my overarching thing, and if that's your frame of reference, then a lot of things fall into it, and we've covered some of those. And if we

don't do that, then we're stagnating. And it's good. I mean, the standard of living's good here. On average, and Australians are lucky enough to enjoy one of the highest standards of living in the world. It's in a way, it's fantastic. But we've stagnated, and I think we've rested on our laurels for too long. And we need to take some hard choices, otherwise our kids will not have a better standard of living than us. The Future Generation funds are very focused on our kids, and unless we do something on the economic front, our kids are not going to have a better standard of living than us and possibly worse, and as a parent, it's challenging.

Lee Hopperton: We'll come back to some of those topics, the sort of more recent news on the budget and a few other things, but, AI - there's a lot of questions that have come through on AI. Is AI a kind of silver bullet that could, support productivity growth and maybe be a competitive advantage for Australia to ease that problem?

Dr Philip Lowe: Well, possibly. I mean we don't know. It's a huge advance in technology and with unpredictable effects. I think we all know of examples where tasks are being made more effective, coding software, writing reports, preparing slide decks, those tasks are being made much more effective. And that's going to help, but that's not going to shift the dial. I think what could shift the dial is whole new business models that we can hardly even dream about at the moment, and one of the benefits of AI is it's reducing barriers to entry. You no longer need a kind of a big hardware and software stack, you can kind of use the AI tools. So, barriers to entry are lower, and we know when barriers to entry are lower and you've got the fundamentals right, new businesses emerge. So, I'm hopeful. I don't know what they are, but new business models will emerge that will help with productivity.

But there are some downsides as well, I worry a lot about the use of AI by bad actors and we've seen the Anthropic and kind of Mythos kind of discussion recently. So, we're going to have to invest more in cybersecurity and that's a dead weight loss. And I also worry about the income distribution effects of AI and the erosion of our tax base. So, there are positives but there are negatives and it's unpredictable, but we do know through the broad sweep of time that advances in technology make more things possible and human ingenuity takes advantage of those possibilities and builds.

Jennifer Westacott AC: I think the task change thing is kind of like the first sweep of AI and we're seeing that now, and there's no doubt that that's going to have a productivity dividend, I think, you know, you've got to see AI alongside other technologies, robotics, you know, digitisation, I think the challenge is how do we give Australians agency in AI because if we don't do that, we won't get those business model changes, and how do we get the regulatory environment, to allow that big innovation, particularly in that business model change, in that whole kind of creating new forms of value. If we don't do that, we won't get the big dividend, but we will need some guardrails.

The question is getting that balance right because my big nervousness is two things. One, that we haven't got enough equity in access to the skills to use it. And that we're not getting the skill system aligned enough, fast enough to give people those skills that they need to run, not just to survive in an AI world, but to take advantage of it. I mean this is all about critical thinking, computational analysis, otherwise AI just becomes, potentially just on the process side. I do worry about AI combined with social media, if those guardrails aren't there because of the extraterritorial nature of those technologies and sort of this whole question of how people are going to get information un-curated.

Where I see businesses going with this, I think most businesses are looking at it from three lenses. The first is everything around the customer. You know, what can we do to improve our customer service, to know more about our customers, to get more stickiness with our customers, to extend our value proposition to our customers, to give them new services that create greater value. The second thing though that's the more complex bit but actually the bit that you can create tremendous value is the business model bit. And what are we thinking about in our business model, how does this allow us to kind of rethink our business model? And the third is process, which I think everyone's kind of very comfortable to start on process data, analytics, those repetitive tasks. But I think the bit that is harder is the customer bit because of all of the things people are concerned about, but that's where tremendous value will be created.

My big nervousness though, Lee, is I just don't think we're paying enough attention to pockets of the economy where people are not going to have the agency. So, I'm very concerned about the SME sector. to assume everybody is going to have the same level of capability, I think is naive, and I think government needs to kind of really think through with business, not on its own. Some kind of sense in which, you know, what is the standard of agency that we want for all Australians or what are the particular pockets of agency like SMEs where we really need to make sure that people understand the technology, are using the technology, are confident with the technology and are able to do it in a way that improves their value.

Lee Hopperton: We've had a lot of questions coming in on the kind of portfolio aspect, well actually Richard's asked, will Future Generation use AI models? We're a smallish business, so the answer is yes, we are using AI. We're trying to figure out the best ways of using it. At the moment we're finding it's a great tool to do searches for us to aggregate information. We're not using it for our investment decisions but to create reports, to aggregate information, to search for investment opportunities, it's been great.

Several people, Pete, Casey, Paul, others have asked about essentially AI valuations, how invested the portfolios are in AI, and it's a really difficult question to answer. The sort of simple but not very good answer is that we're underweight those very large AI related technology companies because they have

become very expensive, these decisions are all taken by our fund managers, let's just say, not by the Investment Committee, but, the fund managers we've selected are typically underweight those large names, and the reason is valuations are quite high for some of those, and the markets are very concentrated so it's becoming more difficult to add value. But that's a very simplistic answer because where AI starts and finishes is really difficult to measure. So many of the fund managers are involved, are invested in, the second derivative, so for example, the data centres that are being built in Australia and elsewhere, the power transmission that's required, the adoption, that is going through corporates around the world. Then other opportunities that are coming up like you may have heard about the software as a service, the SAS apocalypse, that happened earlier in the year, presenting valuation opportunities as people figure out what the impact of AI is. So, the, the answer to all of those questions is, the fund managers who we speak to and are invested with are constantly looking at AI. I'd be very surprised if there's, any conversation they're having with a company that doesn't involve a discussion about how they're using AI and certainly when we're talking to fund managers, we're interested in what kind of exposures they're getting, but it's a very broad question to answer that.

Maybe now is a good time to come on to the sort of next step of productivity reform, the more immediate point around the budget. We've had a lot of questions on that as well. Matthew Cranston, who's a journalist at The Australian, very well-regarded, has asked one for you, Phil. What does Dr Lowe think about the major tax changes being legislated? Are they more likely to increase or decrease productivity, investment, and housing supply or not?

Dr Philip Lowe: Well, there's some good here and some bad. So let me start with the good. I support the changes to negative gearing and the capital gains tax treatment on residential property. And partly I say that because when the value of a property goes up, it's largely because the value of the land goes up. And you as the owner of the property, normally don't do things to make the value of the land goes up. It goes up because of inflation, or zoning, or kind of growth in the city. I could never understand why we taxed a concessionally increases in the value of land. So, removing that discount there and removing negative gearing, I 100% support that.

I think it's a mistake though to extend the changes to capital gains tax to risk-bearing assets, because as I said before, what we want to do is to make Australia a great place to invest, expand, innovate and hire people. And increasing capital gains taxes on assets whose value rises because of enterprise works against that. So, I was disappointed that the government extended the capital gains tax treatment to non-residential assets. And I think that will be to our detriment that they've done that. On the tax changes on housing, I don't think that's going to make a difference to supply, which is the fundamental issue. So, they need to work simultaneously on increasing supply, which the governments right across the country have fallen way, way short of those targets they announced. So, the first order of action I think is to achieve

the targets they set out before, but from a tax design perspective, I think the changes the negative gearing and the capital gains tax on resident residential property are sensible, but the other changes will end up hurting living standards here.

Lee Hopperton: Jennifer, would you, would you agree with that analysis?

Jennifer Wetsacott AC: I think that's correct. I think if you sort of want to take the housing question just as a specific, what I think we keep doing in Australia is forgetting that housing is a complex system, and so we try and do one thing. And then we find that oops, that's created, so we do a lot of stuff on the demand side. You know, first homeowners grants, stamp duty concessions, and there's nothing, you know, in and of themselves wrong with that if you're kind of corresponding on supply. But we haven't done enough on supply. And that's more than just zoning land. That's actually a lot of complexity now about reducing the cost of production. Which is why I'm a big supporter of modern manufactured construction methodology to see if we can reduce the cost of the actual construction of the house.

I mean at the moment in Sydney it's not feasible, particularly in Western Sydney, to build medium density housing because of the cost. So we've got to do something on the cost side, we've got to do something on the innovation side, we've got to do something on the stuff that other countries have done in Europe, particularly around what they call the third sector, the housing association sector, where people have long-term, secure rental through a sort of a build to rent model, where the housing association is not running necessarily public housing, but it's charging. You know, affordable rentals, in Canada they call it attainable housing, you've got to get the planning system right, which we haven't talked about where, you know, the time taken to get place approved or getting a major subdivision approved or a major residential facility or commercial building approved is just too long and this is where AI in my view could be very effective by taking the noise out of the planning system and really focusing on the things that are more contentious.

So I think the first mistake is always, and to be fair, there's a lot of stuff in the budget around some of these things, there's some money for fast tracking approvals, there's a lot of money in the budget, I think it's \$10.2 billion on productivity, and deregulation agendas, which is good. The question I think Lee is, when you look at all the budget figures, the figure I always look at is the growth figure. And I get nervous when I see a growth figure of 1.75%, so you sort of say, well what are going to be the tools that drive that bigger pie that Philip's talking about? And I think that's where the jury's out, are there enough kind of tools in that budget? And then if you go to the tax on enterprise, to drive productivity, you need dynamism in the economy, you need people taking risks, you need people starting businesses, selling businesses. You know that's where the US is an incredibly dynamic economy and it's more productive as a result. So, the question is, will these tax changes drive or stifle that level of dynamism. That to me is sort of

something we should be thinking about. We need a big growth agenda in Australia, and if we don't get that growth agenda, we're not going to see those living standards rise.

Lee Hopperton: Maybe we should turn to reasons to be optimistic about the Australian economy before we get too bearish about the sort of current politics and so on. Australia's got through a number of economic shocks over the last sort of couple of decades and navigated them much better than a lot of other countries. Are there some things that are specific to Australia that are a strength to us to navigate some of these changes that we're facing, notwithstanding sort of structural policy reform?

Dr Philip Lowe: I mean I've always been optimistic about our economic prospects and that optimism was really built on a certain set of fundamentals. They would include our fantastic resource, natural resources base. A growing population where people come from all around the world to want to live here and to prosper and to work and build better lives for themselves, good public policy institutions, we've got a credible central bank, we've got a decent fiscal setup, and we've got a flexible exchange rate, which means that when we get hit by external shocks, there's a lot of shock absorption there. We've got a talented industrial entrepreneurial workforce. And historically we had cheap and reliable energy. So, you know, there are a set of fundamentals there that not many other countries have. I think another of the positive fundamentals is our strong trade links with Asia. Most of our exports go to Asia, so we've got very strong trade links there. So, you put all that together, and we've got all the fundamentals to be successful.

My concern is that we're now resting on our laurels. We had 35 years of good economic growth, arguably the highest standard of living in the world, and we've lost the drive to keep innovating, to growing, to prosper, and we don't have a growth agenda. We now have a redistribution agenda. We've got a big pie and we're arguing over how we redistribute rather than make a bigger pie. And I feel like we're losing our way. We can find it again because we've got the good fundamentals.

I think the other source of optimism I have is really kind of a political one that over the long sweep of time, our politicians end up making the right decisions. We go through periods where we say this is not so good but the political system does tend to deliver ultimately politicians who make the right decisions. You think kind of both the Labor government under Howard, under Keating and then the coalition under Howard, so they made difficult decisions and somehow our political system can find a way to build on those fundamentals, even though at times you think, well that the future looks bleak and so I still think we can do that.

Jennifer Westacott AC: No, I agree, I still think the fundamentals are here, where would you rather be but here, right? You know, our incredible endowments, our resources, our people, our population. I think all of the things that that Phil raised, I think are crucial and they're a great comparative advantage. I think

two things I'd highlight, one is agility.

You know we have been a pretty agile country, we haven't had the same dynamism in the business community that the US has had, but we, we have been really agile, and I think Australians are very good at adjustment. You know, you sort of see people in COVID, we just did not have the same issues in COVID that many other countries had. A, because we had a strong budget position going in. B, because people are very cooperative, they understand the country comes first, and I think that agility to kind of change and adapt to circumstances that happen around us, I think is a real advantage.

I think the other thing is that our proximity to Southeast Asia, you know, our proximity to countries that are growing with fives in front of their GDP numbers is a real advantage. The challenge I think is to harness all of those advantages to drive that innovation and productivity, that diversification without subsidisation of the economy. And I agree, I think over the long-term, people have taken the right sets of decisions, we understand the decisions that need to be taken.

At the moment though, to Phil's point, I think the question is, are we pursuing the policy agendas that really drive that growth agenda. Some of them yes, some of them no, and that I think, you know, we've got to make sure we've always got that mind to the future generation. Because we don't want to leave future generations with either stagnating living standards or relative declining living standards. I don't want to be the first generation that left the next generation with lower living standards when we had all the policy tools in front of us that we could have used in a way that says to our grandchildren and our children, we've actually left things in better shape.

Lee Hopperton: You mentioned Australia's position. Within the world, I know you do work in Indonesia and Asia as well, are there, are there trends in that connectivity that you think, that Australia's well positioned to benefit from and corporate Australia's embracing?

Jennifer Westacott AC: I think there's no doubt that the world is going through a very, very substantial economic adjustment, a lot of countries wanting to re-industrialise their economies, focused on industrial self-sufficiency, a lot of trade, historic trade blocks or multilateral agreements I think are being challenged. So, Australia, I think if we want to carve out our own destiny, we have to kind of play to our strengths and play to the region that's growing very rapidly with this incredibly dynamic economy. So I spend, as the government's business champion to Indonesia, I spend a lot of time there, leading trade missions, driving awareness. It's a country that's got a lot of complexity to it, it's not without risk, but nor is kind of anywhere in the world really. My university set up a campus in Surabaya in Indonesia. It took us 2 years to do that campus from start to finish. If I tried to a whole university campus in Australia in 2 years, it just wouldn't happen. I mean that would be astonishing. So, Indonesia is not the Indonesia of the 1990s. It's a dynamic, modern, interesting economy growing with a 5 in front of its GDP. Experiencing some challenges now

around the stock markets, valuations, but government, to be fair, acting when they see problems, the way I think about Asia and Indonesia in particular is not to think about sort of Indonesia as a country with a market of 280 million people, but as a platform to reach markets of a billion people.

And I think there's the other final point is, when I sit down with the ministers in Indonesia, there is a real openness and willingness to have Australian investment coming into Indonesia and an interest in coming and investing here as well. The challenge is, can we get the regulatory settings right, can we get the licenses right, can we get the visas right, can we get the export quotas right, we're currently kind of reviewing the cooperation agreement. I think Asia's a tremendous opportunity, hence Nicholas Moore's reporting to Southeast Asia. And we're doing much better, but we cannot afford to not see that incredible market as a massive opportunity, and frankly, we cannot afford to allow non-benign competitors to come into those markets and crowd us out over the next 20 years.

Lee Hopperton: We've had a couple of questions from John Coombe, who's a big supporter of Future Generation. He's on all the Investment Committees. Thank you for the questions, John. John has asked about the energy sector and whether that we see that or you see that as a big positive into the future, solar, gas, and so on. Is that an advantage for Australia? I have a similar question from David and others.

Dr Philip Lowe: Potentially it is. I mean we're making huge investments here, but the direction of change is clear, we need to move to clean renewable energy and we're making investments to be able to do that. We're going through a period of adjustment, we're seeing the costs of that, but eventually, once we put in place all that infrastructure, we should be well placed to provide the clean energy that we need here and perhaps, countries in Southeast Asia need as well on the products that come from clean energy. It's another one of these things where we're going through a difficult transition. But if we get it right, I think we do have opportunity here. So, we've got to get the other things we talked about right as well, we've got to get taxation, industrial relations, planning, the skills right. If you don't get those fundamentals right, then this investment's going to be wasted, that's why I kind of was encouraging the government and others to think about what do we do to make Australia a great place to invest, expand, innovate and hire people, because if we don't do that, then this is all going to be for naught.

Jennifer Westacott AC: I think that's spot on. I would just add, I think we've got to get the conversation back to transition and what does an orderly transition look like, so that we can go to those new technologies, those new forms of energy, that new energy mix in a way that allows us to remain competitive, allows us to expand and grow and innovate. We also have to, I think, be willing to open the door to new technologies like nuclear. We've got to be energy agnostic, I think, in order to be really successful here. And so, I think part of the problem with our debate is that we've, we've sort of lost a little bit of focus on the goal here, which is to reduce emissions, decarbonise the economy in an orderly way.

And I think if we could get that conversation reset to what is that orderly transition looks like and what is the opportunity for us to become that kind of global energy superpower. Then I think that would be a kind of useful way of framing the debate.

Lee Hopperton: David's question was partly more about how the portfolio is looking at the energy required to power artificial intelligence and are we looking at energy opportunities such as uranium and others? Well, again, David, the portfolio managers are making the decisions about which companies they invest in, but I can tell you from the conversations we have from them and when we look through the portfolios to what they own, things like power transmission and power generation are where a lot of the opportunities have been emerging. So, whilst there are the big first derivative kind of opportunities in the chip makers and the large language model providers, it's those second derivative opportunities where a lot of the investment seems to be going, a lot of the opportunities seem to have been made.

Another question here, this will be for you, Phil, is expectations on the inflation outlook for Australia over the next year?

Dr Philip Lowe: Well, let's hope inflation starts coming down. I mean, I think it will. And the challenge facing the RBA is that underlying inflation has been too high for too long. It's been above the midpoint of the target range for roughly 5 years, so that's bordering on too long, so they need to be able to chart a credible path back to inflation of 2.5%. At the moment we're still not there, I fear. The underlying cost pressures that businesses are facing are probably, rising at more than 2.5% a year, and ultimately higher costs get fed through to higher prices.

The RBA's going to need to do, and I'm sure it will do what's necessary to bring inflation back down to 2.5%, but I think it's going to require a period of adjustment to get cost growth in the economy back to 2.5%, cause it's not at the moment.

If you look at growth in unit labour costs, which is, wage growth, less productivity, the last 4 or 5 years have been way too high. We've got the higher energy costs feeding through the system. You've got the higher cost of fuel feeding through the system. So there's still quite a lot of cost pressures to come through the system which I think unfortunately is going to keep inflation high, which means that the Reserve Bank, I think will have to keep interest rates high until we can get inflation back to 2.5% because it's not in our interest for inflation to stay high for too much longer, because otherwise people start believing inflation will stay high, and once they start doing that, they start behaving as if inflation's going to stay high, and that means they put up their prices more readily, so they're in a difficult position, but as we've seen this year, they've raised interest rates and they're doing what's necessary and it's going to take time, but it can't take too much time.

Lee Hopperton: Quite an interesting question I think for you, Jennifer, is obviously your exposure from the BCA and boards has been across corporate Australia. For those who don't know, BCA, the Business Council of Australia, effectively is the peak body for chief executives in Australia in terms of policy reform and so on. You've met a lot of companies, are there features of companies you think that make them likely to be more successful or areas that you've identified that sort of make those companies look like they will do well?

Jennifer Westacott AC: Look I think the companies that do really well are the companies that depending on what industry they're in, I think companies that do really well are the companies that are absolutely unrelentingly focused on their customer and focused on the innovation that is going to actually improve service levels, improve value. I think the companies that are successful are the companies that really drive innovation. And innovation is not, invention, innovation is a lot of process improvement, innovation is training new people differently so they can do things differently to create more value, sometimes using technology, sometimes not. So, I think those companies are the ones that if you look back in history, you know, they've succeeded.

If you look at our mining companies, we're sort of overweight as an economy in the mining and resources sector. But our companies are the most productive in the world because they've invested in that innovation, that technology, that capability building, and they've been globally phenomenally successful. As of our banks, you think about a lot of the innovations in banking have come from Australian banks driving that focus on customer, focus on service delivery. And I think finally the companies that succeed are the companies that focus on what matters. You know, the companies that don't get distracted, and they double down on their customers, double down on their value proposition, and think about that long-term, shareholder value creation that comes from a combination of things, including, good corporate citizenship, good reputation, good governance, solid governance. Those are the companies that when you look back at the last 20 or 30 years of companies that were incredibly successful and I was on the board of one of them, Wesfarmers, an incredible company, financially disciplined, totally focused on its customers, driving innovation, taking proportionate risks, a sense of sort of that logical incrementalism that they drive their portfolio. Those companies have added incredible value to their shareholders and incredible value to the economy.

Lee Hopperton: I might ask you both a little bit about Future Generation now because we're very fortunate to have both of you working with us and on a pro bono basis. Well, you've both been in the sort of hot seat now for a couple of years. I would be interested to know what you're kind of proud of over those couple of years that Future Generation has achieved and, and why you're good enough to help out.

Dr Philip Lowe: Well, what are we proud of? I think I'll start with the financial returns. Future Generation Australia has delivered a higher return than the ASX 200, and it's done that with less risk. And in finance, we like higher returns and less volatility, and that's what we've been able to deliver and we've also delivered a steady stream of rising dividends, which people value as well. So, from a purely investment product perspective, it's very attractive. I'm not allowed to give financial advice, but in finance we like higher return, less risk and steady predictable dividends. So that's good, I hope people think about that.

On the other side of the equation is the social impact. Last year we did a review of the not-for-profits we support. For the first 10 years of Future Generation Australia, we supported a group of not-for-profits. It's the whole model is we support them long-term and it's untied funding, because we think that the not-for-profits know how to use their money rather than us. But after 10 years, we thought it was appropriate that we review the portfolio of the not-for-profits we support, so we did that last year. We had more than 300 people apply. We went through all those applications, and we were very focused on finding not-for-profits to support kids at risk. Because one of the lessons from the kind of the research that I've been exposed to since I took this role is that, if you have an adverse event early in your life, maybe in the first 10 years, the effects of that can stay with you your whole life. I was struck by the unfairness of that. Something that happens to you before you're 10, maybe it's a period of homelessness or domestic abuse, or one of the parents goes to jail or he's going to disappears, or you have some adverse health. So you have absolutely no control over you. Stays with you for the rest of your life. It's wrong, isn't it? It's unfair.

And I grew up in a loving, caring family in regional New South Wales. We didn't have money, but we had everything else. And I thought I was so lucky. And I see these other kids who aren't so lucky, and it's so unfair. And so, the charities that we're supporting are helping kids at high risk of an adverse event or that have had an adverse event, so that doesn't follow them for the rest of their life. I'm really proud of the 11 charities that we've been able to support, cause they're really helping these kids, if for no fault of their own, had an adverse event or a high risk of an adverse event. I get a lot out of being involved in that and I know the funds managers who support us get a lot out of it as well.

I used to get frustrated at the RBA that people in the finance sector were viewed as these evil money hungry people who just take the money out of your pocket and that's not what I saw. What I saw were people who care a lot about the community in which they operate, and the fund managers that support Future Generation Australia are very much of that mindset. They understand we're helping these kids. And I hope the shareholders also get some value in addition to the higher returns, less risk and increasing dividends, from knowing that they're doing good, helping kids who are at risk, overcoming that inherent unfairness.

Lee Hopperton: I think that's such a good point, I'll ask the same question of you, Jennifer, in a second,

but you gave me an opportunity to give an unscripted plug, which is that the shareholder returns for both Future Generation funds over the last 12 months have been really strong because the discount to NTA has obviously narrowed, great dividends, and great franking credit, so Future Generation Australia's total shareholder return when you add all those up, is over 18% and for Future Generation Global is over 26%, I think it is. So, there's some pretty good returns.

And there is more information about all of the not for profits that we support on our website, and my colleague Bonnie has started filming and distributing a few short videos about some stories of what they're doing, and you're right, it's incredibly powerful and we're very fortunate to be sitting here.

Dr Philip Lowe: And you mentioned the discount because a year ago the Board of Future Generation Australia and I think Global as well really focused on this. We said, why is it, I kept on asking, why is it you can you buy a dollar's worth of assets for 85 cents, it's not right. And under Lee's leadership, we set about trying to narrow that discount and it's basically closed now. So that's the benefit of the shareholders, but it's a tribute to Lee and his team doing what's necessary to close that discount and our intention would be to continue doing those things that would keep the discount, narrow or non-existent.

Jennifer Wetsacott AC: I'm really proud of the work you and the team have done on narrowing, well, in our case, we're now trading at a premium, which is great. When I took over, we were very worried about the discount, and I know our shareholders were as well. So I think that hard work of patient, careful, balanced portfolio, a focus on sustainable increasing dividends, I think these things are all of the kind of great attributes of what the model we're trying to run, which is not a model of high volatility, high risk, super returns, it's a model of strong returns, better than market returns, predictable and increasing dividends, strong profit pool, and I was really proud that we were able to do that one-off capital allocation this year, that one-off extra dividend, which I think really gave a lot of our shareholders a lot of confidence in what we're doing. We're always really focused on making sure that the fund performs and that we're outperforming where we can.

On the kind of other side, what I call the double dividend, the kind of satisfactory returns to shareholders, but at the same time using those funds to deploy into important things. I mean our focus on mental health is super important, and I think people forget on youth mental health, and I chaired Mental Health Australia for many years. The data, the research shows that people can recover, that you can prevent it, and therefore, you know, the youth focus is absolutely critical. I think about Backtrack, one of the organisations that we support. So many kids, they get disengaged, they've got major mental health problems, some of them to do with the sort of life circumstances that Phil's talking about. They drop out of school, they can't get work, this is a practical kind of re-engaging young people, giving them life skills, teaching them how to look after a dog for example, which people kind of think, well, what's the value of

that, well it's about care, responsibility, and making sure that you've got this structure in your life to look after something. But also learning to drive, learning some of those technical skills and those people are going off into work, and work is still, in my view, the greatest advantage you can have to overcoming most of life's challenges is to have a good job.

And I think to Phil's point, I mean I didn't grow up in a loving and caring family, I grew up in a very difficult one, so I know what those very challenging circumstances mean for people. And unless someone comes along and kind of helps you out, as they did in my case, life is pretty difficult. And it's that great unfairness, why does someone's life in the circumstances depend on something that happened when they were growing up, that nobody in society seems capable of turning around. Well, I lived that. I had it turned around by relatives and going to university, and I want that for other kids. I want that for every kid in Australia, and that's why the kind of dual focus of what we're doing to me is what motivates me.

Lee Hopperton: I think that's what sets Future Generation apart is the dual dividend or however you want to put it.

Dr Philip Lowe: And just to kind of reinforce that point, we can do the good work because of the people in the finance sector support us, so the money that we save in management fees, some of that goes to help these not-for-profits, but some of it, as you said at the outset, stays in the funds, so the shareholders benefit from the generosity of the people in the finance sector as well, and that's part of the reason why we can outperform the market over long periods of time. So, it's a fantastic combination of good returns, low risk, and helping kids. That's why I'm involved in it, I think Jennifer's the same reason, that's it. And we can do it because people give up their time and their effort, and the fund managers, their expertise, to help kids, to make Australia a better place.

Lee Hopperton: That feels like a fantastic place to wind up. We're super fortunate because we obviously have the benefit of both the Boards who work on a pro bono basis, the Investment Committees, the fund managers, there's around 35 fund managers who work for us, a lot who would like to work with us. So, we're in this very fortunate position of accepting all that goodwill. I'd like to say thanks both of you for sharing your thoughts today. It's very much appreciated, fascinating to talk about.

If you do have questions, and I think there are probably a couple that came in a bit late which I couldn't quite manage to get into, but we will follow through with those. If you have other questions, please call through and ask us. There's a lot more information on our website, but please feel free to call any time and thank you for your attention. Thank you very much.