

Transcript

The Ideas Exchange

Episode 16: Impact investing - delivering financial and social returns

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[00:00:01] **Helen Chong** Welcome to the Ideas Exchange by ASX connecting you with market experts, investment updates and ideas. I'm Helen Chong, National Business Development Manager at ASX and this is our monthly podcast covering everything from investment trends through to different ways to invest using a variety of products.

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[00:00:46] **Helen Chong** Welcome to a new episode on the Ideas Exchange. I'm your host, Helen Chong. When we think about investing, we generally think about achieving our own goals and investing for our future. But have you ever wondered how you can invest and also have the potential to make a difference in the community? This has been quite an interesting topic that's gained attention over the last few years, and some of you might have come across this concept, and that's the idea of impact investing, which looks at how investment can generate a beneficial social impact alongside a financial return. Now the question is investment returns and social returns, can you have both? Joining us to explore this topic is Caroline Gurney, CEO of Future Generation, the first listed investment company in Australia with this focus. So let's get started.

[00:01:33] **Helen Chong** Caroline, welcome and thank you for joining us on the Ideas Exchange.

[00:01:37] **Caroline Gurney** Thank you, Helen. Lovely to be here.

[00:01:39] **Helen Chong** Very excited to have you here. So let's get started. Can you tell me about Future Generation and what's your role in the company?

[00:01:46] **Caroline Gurney** So Future Generation was set up in 2014 by Geoff Wilson, who obviously is one of those sort of gurus in investing in Australia. And it was set up because he saw a real need to make sure that we were helping charities and youth at risk and the youth mental ill health spectrum. He was he was in London. He saw a fund, a company that had been set up that was working incredibly well raising money, and everybody was working for it pro bono. So you had your service providers, you had your fund managers, and they all worked, you know, free of charge. And they raised a considerable amount of money that went to various causes. So he came back to Australia and he got together with another group of like-minded other fund managers who were willing to support this. And so it was really born in that sort of world of profit and passion, that social impact, but making sure you actually get investor

returns. So, Geoff has always been a real backer of making sure that when you invest money, you actually get a return and this way you get a return. But also the sort of the impact partners that we're with also are invested in for the long term as well, which is which is incredibly important. And I became CEO probably just over half a year ago. And before that I was on the Future Generation Australia board and I've been on that for three years and I just was amazed at the model of how it worked and how so many really significant fund managers, boutiques, you know, best in class and so many service providers came together with two great boards and two investment companies to actually make this a reality. So that's Future Generation Australia that was set up in 2014, which was investing in Australian equities. And then we had Future Generation Global, which was set up a year later, which was investing in global equities, and that one was the one that was faced looking at youth mental health and the Future Generation Australia was about youth at risk. So it's an amazing two companies and we all work together. We're very much supported by Wilson Asset Management in terms of them paying many of the bills, etc., and therefore we can give 1% to these really important not for profits which have become our impact partners to really do good. And for me that was really why I wanted to become more involved.

[00:04:27] **Helen Chong** Caroline, that's fascinating and thank you for the overview of the companies and also how you came about to become CEO of this company. Now, the word impact was raised quite a bit during that little bit of the intro that you've given. So maybe let's stay on that for a bit. What is impact investing? And you mentioned the 1% earlier, so 1%, how much of an impact can that make?

[00:04:52] **Caroline Gurney** So obviously, you know, 1% doesn't sound very much, but actually when you have more than a billion, in terms of your funds under management, you can give out a considerable amount of money over a number of years. So, for example, we supported 18 charity partners, our impact partners, last year and Future Generation in Australia, we gave \$5.3 million. And if you add it all up, we've given \$26.8 million since inception, which is an incredible amount of money and that can do so much good. But it also influences charities so that they can actually plan for the long term. But for Future Generation Global, we gave \$6.4 million last year and since inception it's \$26.2 million. So we've invested in that time, \$52.9 million into these partners that support children at risk and youth mental health. And the important thing about that, I think, is that the fund managers and the pro bono partners that have worked with us, they've actually foregone about \$100 million annualised fees since inception. And that's really incredible. So for me, impact investing, I mean, to make it quite simple, is the fact that we can actually make a real difference. And it's a win win also for the fund managers because they are doing what they do best and we are investing our money, the shareholders money, in their funds, that are actually managing large amounts of money anyway. So it's just a small percentage. So for them, they're managing their money and they're also managing ours as well, and they get to be part of that sort of charity initiative and to make an impact. And then shareholders also, which is what I love about this model, they can actually vote where they want their 1% to go to. So we have a number of charities across those spaces and we ask them to vote which charity they would like their 1% to go to. And I think that's a wonderful message for shareholders to then talk to their, you know, their children, their family, their friends about and they can talk about, do we invest in Mirabel? Do we invest in Black Dog? Do we invest in Youth on the Streets? And I think that's a gift, you know, the fact that you get a return and you get a good return, you get great dividends. But you can also make a direct impact.

[00:07:26] **Helen Chong** I think that's a really interesting model that you run. And, you know, just had a little bit about how that works, that shareholders are able to really

have a voice and choose where their money can go to. Now, you just touched on the calibre of the managers and it's a sizeable amount of fees to forgo on a pro-bono basis. So Caroline, can you tell us a little bit about how investors' money works for this particular listed investment company?

[00:07:53] **Caroline Gurney** So, in terms of the way the money works, you know, obviously the shareholders invest with us through the stock exchange or their planner etc. and when they invest with us, we manage the money. We have a fantastic investment committee. We have one for each. You know, they have members from Lonsec, they have members from JANA, they have fund managers. They have, you know, investment professionals actually helping us allocate the money to the various fund managers on the two different funds. And what we do there is we allocate funds to sort of market neutral, absolute bias managers, which gives investors a downside protection. And we also allocate funds to traditional long equity managers, so that shareholders can sort of reap returns when markets are strong. And that's really important because it's a blended portfolio and it's as you would it's a fund of funds. And within the fund of funds, you've got this sort of portfolio and they can spread the risk associated with specific sectors or markets. And I think in these volatile times, that's really important, especially when there's geopolitical uncertainty and market volatility. And our investment committee, you know, minimises the effect of the volatility to the shareholders and delivers them smoother, steadier returns over time. In terms of our fund managers, I mean, we have L1 Capital, we have TVG Capital, we have Wilson Asset Management, we have Tribeca, we have Coopers, we have Munroe, we have Paradise. I mean, there's some really amazing fund managers there that have been over the years huge supporters like Eley Griffiths. They've been there since inception and you know, they manage our money on the Future Generation Australia side and you know, the returns there have been really good, dividends are very strong, and that's really important I think to our shareholders. And then we can go back to them and we talk to them about, you know, the impact they've had on the charities as well. Because charities really want reliable multi-year funding as opposed to one off donations and working on a few not for profit boards in the past. And I'm still on one, which is, you know, it's about domestic violence. You know, for them to actually get this funding over those 3 to 5 years makes a huge difference. And I believe also our shareholders really like hearing those stories and seeing that impact for themselves.

[00:10:28] **Helen Chong** There's a few things there that I'd like to unpack. So, let's maybe start with a few definitions, shall we? So to be clear, the Future Generation is a listed investment company. So, what is a listed investment company?

[00:10:42] **Caroline Gurney** So maybe if I kick off with what are listed investment companies. So they're corporate entities which are the companies that we talk about, and they're established for the purpose of investing in a portfolio of securities. They're listed on the exchange. Obviously that's the Australian Securities Exchange, the ASX. And because LICs are traded on exchange, they can be bought and sold through stock brokers just like, you know, regular shares and other listed investment vehicles. And they're accessible, which I think is really important to all types of investors, regardless of how much they're investing. And you know, LICs can give investors, investing \$100 or \$1 million, access to amazing investment acumen and sophistication of fund managers, who might choose to manage their own funds normally. So, you know, that's really important. And I think that's what Future Generation really offers, it gives access to these fund managers through the companies that they normally couldn't get access to. I think one of the most important features for me, I mean, there's some great definitions and a lot of brilliant fund managers talks about the benefits of LICs, but is they have a fixed capital base, which is known as a closed end

structure, and that means that this fixed capital base, they're not generally subject to that sort of periodic cash flows from investor subscriptions or redemptions in the same way that mutual funds or ETFs are. And that capital base has a number of advantages and disadvantages. And we obviously think that, you know, it's a huge advantage if you want to invest for the long term and you want to have access to these sophisticated managers and you get that sort of dividend uptick as well. So for our investors, you know, they're looking for capital preservation and they're also looking for dividends and they're looking for that social impact.

[00:12:43] **Helen Chong** This is certainly something for investors to keep in mind. And you mentioned investing for the long term. And, you know, being aware of your goals such as capital preservation is another option to consider, certainly. And you've just dropped some pretty big names in our industry, Caroline, and probably a few of our listeners may or may not be aware of just how big these companies are, but you're telling me that they have foregone their management fees and, you know, and performance fees. Now, this is a really interesting point. I'm quite curious about it. What is really driving this motivation for our managers? A total rise of \$52.9 million, right? That's close to \$53 million over 6 to 7 years. Is that right?

[00:13:31] **Caroline Gurney** Yeah, it is.

[00:13:32] **Helen Chong** Yeah. And I'm just I'm just curious to hear your views. And, you know, you can speak on behalf of your partners and your other service providers. Why is it that they all are happy to work on this arrangement?

[00:13:43] **Caroline Gurney** I think they probably all have different motivations. I really believe that when you're really, really good at something, which they are in terms of managing money, the fact that they can manage the money that they do and they have skin in their own game because they're all pretty much boutiques. And I'd love to name every single one of them because I think that's really important as well as all of our pro-bono service providers, because they are just as important to us. But I think the reason why they do it is they're really good at something and this way they can actually give back to a really considered structure. So for example, our impact partners, our charity partners, they have really excellent track records for design and delivery of programmes across early intervention. So crisis response and treatment of mental ill health. And they're really good at what they do and I think the fund managers are really good at what they do. And so if we can invest some of our shareholders money in with these fund managers and the charities can benefit, I think that's really powerful. And they also, you know, they get to listen to the charities firsthand. They get to speak to them if they want to find out more about homelessness, they could speak to Lighthouse, which is an amazing charity with the work they are doing. And I think every single individual really wants to do good. They really want to have an impact, not just perhaps in their investments, which they do, but also on the social side as well. So I like to think that we're bringing them together and it's really them providing the profit and the passion to do that. And we really are, sort of, the enablers of that happening.

[00:15:27] **Helen Chong** It's very fascinating. And I think that just goes to show that there's many of us in the industry who believe in this cause and are willing to work in this arrangement and to help those charities who are in need. Let's just stay with the impact investing in action for a moment. So you mentioned quite a few different organisations in our chat. I'd just love to know, perhaps one example, that you'd like to share with us on a charity that's benefited from the \$53 million that's been raised?

[00:15:55] **Caroline Gurney** Oh, that is such a hard question. I was actually trying to think about, you know, which one, which one to talk about. But I think one that I would like to mention is sort of reachout.com. So, we have worked with them since inception with Future Generation Global and I recently went to a talk that they did, which was just absolutely fascinating, talking about what youth are really facing at the moment since the pandemic and how they've been impacted and what they're doing about it and where they actually get their advice. And I think a number of young people, you know, they really, really rely on the Internet. They get all their information from the Internet. I mean, we all do.

[00:16:39] **Helen Chong** I can attest to that.

[00:16:43] **Caroline Gurney** I think of Google and some of the others like, you know, if that's not one of the first things on your on your phone.

[00:16:48] **Helen Chong** Yeah I definitely.

[00:16:51] **Helen Chong** I always ask Google first.

[00:16:53] **Caroline Gurney** Even when we're playing a game, we go I'll just check with Google. So, you know, Future Generation Global has worked with Reach Out for five years and that's really been able to help them improve their sort of digital self-help to young people living in regional, rural and remote Australia. And they released last year a booklet talking about supported, educated and understood, and that was about their impact on the wellbeing of young people living in these parts of Australia. And it talked about the insights and what actually was happening to them over that sort of period of five years. And you know, there was definitely a trend there of worsening psychological distress for many young people in the past five years. But their attitudes towards mental health services in the use of online, had really, really improved. And that was very much related to Reach Out's work in those areas. There was a significant increase in young people rating their services favourably. It was up from 66% to 81% in that five years. And I think what was really important is it's actually quite hard in rural and regional Australia for people to use the internet and to sort of use it as a trusted source. And I think the willingness went up from 20% in year 1 to 53% in year five, and there was a huge increase in mental health literacy which increased from 19 to 30%. I mean these numbers don't sound a lot, but I think that it shows that there is a lot of work to be done and I think having really good resources and practical support tools and tips for young people to navigate everyday issues and tough challenges is really important. And I like that project because it was monitored all the way through and Reach Out just got \$30 million from the Federal Government towards their core work. So I think that hopefully they've leveraged the money that we've given them and that made it work so they can continue to improve their services. And that's really what we want to do. We want our impact partners, we want to add value with our resources, our expertise and our networks. But also, you know, how do we actually invest to help them for the future?

[00:19:14] **Helen Chong** It's absolutely fascinating. And, you know, I have to really disagree, I think those numbers are quite remarkable and I think every little bit helps. Don't you think?

[00:19:22] **Caroline Gurney** Without a doubt. I mean, when I say the numbers, they are remarkable. But when you sort of see an increase from just over 50%, you kind of like, I want it to be more, I want it to be more, and that's taken them five years. And I really want, you know, I really want to help young Australians as much as I possibly can. And

that's what drives all of the fund managers all of the service providers, all of Wilson Asset Management as well, who are very much behind this. And, you know, our boards directors, our investment committee, so many people are invested in making a real difference. And, you know, it's really exciting, but it's really hard work. And, you know, our impact partners, our charities, they have the really hard job of helping everyone. On a another note, which I really wanted to mention, is we've just done expressions of interest for Future Generation Global and we have basically shifted our work to prevention because we really want to work in that sort of mental health space that really prevents it actually happening because it's very, very underfunded. You know, there's numbers, I think it's sort of less than 1% of government funding is focussed on that. But obviously they do an awful lot of work in terms of intervention and treatments after that. So this is where we're going to be focussing. And what was really wonderful to see, was we got nearly 200 applications for our fund and every single one was amazing. Just then, you know, the fantastic, diverse nature of what we're doing in prevention across Australia was amazing to see, and it's just really hard for us because obviously we can only support a very small number, but the ones that I've seen so far, I have just been blown away with what they're doing. And if we can, you know, if we can really help these impact partners and we can bring them together and we can invest in their core organisations, I think that we can make a real difference to young people's mental health in that whole prevention field over the next 5 to 10 years.

[00:21:30] **Helen Chong** And I think it's a harsh reality that, you know, we've all gone through the last couple of years and one of us, or many of us who are listening, you know, might know somebody who has been impacted by these challenges. And to see that, you know, there are, you know, the 200 expressions of interest to participate in your programme. It's quite encouraging. There are a lot of charities and organisations out there who are developing programmes to help young Australians out there. And the prevention is very, very interesting that that's now your focus as an organisation and you know, I think the way that the Future Generation Funds work with the certainty of multi-year funding, I think that would actually be able to make an impact, albeit the 1%. And you know, I think this is just an illustration that 1% could make a difference and Reach Out as an example is the case in point.

[00:22:21] **Caroline Gurney** You're right. I think we can all make a difference. And we can talk about it. We can talk about what personal impact do we want to do? What is our dual purpose in life? What is our two folds, as as we like to say here, what are you trying to do to help? So for us, it's very much about getting those investment returns to our shareholders, but also making a really significant social impact to our partners in the youth space. And I and I really hope that we can grow the companies over time because therefore we can have more of an impact. And that's really, really important because as you say, everybody's been impacted through the pandemic. And in fact, I think that's going to go on for a long period of time as well as we all recover.

[00:23:09] **Helen Chong** So I think as an investor, if you've reviewed your portfolio and you've decided that this is an area that you'd like to be involved in, Caroline, where would you suggest investors go for more education?

[00:23:21] **Caroline Gurney** I think before you would ever invest in any company, you do your research exactly as you said. I mean, our Future Generation website is really very good and it sort of goes through exactly what we're about, what we're doing. And it also regularly updates where all the numbers are, where our portfolio performances are, where dividends are, how many years of dividend coverage we have so that we can continue to pay those dividends. So that's really important for a number of our

shareholders. And so we have a podcast and it's on every platform, called '2Fold', and that is giving updates from not only great Australians but also from the charities themselves and also some of the fund managers. And we've just sort of kicked that back off again. And our last one was with Natasha Stott Despoja and we're just about to release another one next week. And also if you subscribe to our newsletter, we run through exactly what's happening with our portfolios, what the fund managers are saying. We do look through all of the fund managers, we go through how many stocks we have, how we're investing and why we're investing, and what they actually focus on as well. So it's really, really good information. And if anybody wants anything else, they can contact us and we will definitely get back to them. The other area that I would suggest is to have a look at the Wilson Asset Management website, because that's got really good information on LICs, which is also really good background.

[00:24:58] **Helen Chong** Wonderful. Thank you so much for your time today, Caroline. I think it's fascinating to see that, you know, a fund like yourselves, the companies are really trying to make a difference in the industry and, you know, the calibre of managers also behind this cause. And it's been really interesting hearing about Reach Out as well as an example of a charity that's benefiting from the things that you're doing. So thank you very much for joining us to explain the concept of impact investing. And Caroline's also shared some great resources for you to have a look at. And, you know, listen to how the funds are actually helping other charities which have been participating in this programme. So thank you very much for listening and we'll see you next month.

[00:25:39] **Caroline Gurney** Thank you very much, Helen. I appreciate your time.

[00:25:43] **Caroline Gurney** And that's a wrap with Caroline leading the charge in impact investing, working to achieve the dual purpose of investment and social returns. It was really interesting to hear about the investment model that they have, fund managers, service providers working pro-bono and the charity partners which have also benefited from this. It really goes to show that as an industry, professionals who are doing this day in, day out, can come together to make an impact on our community, as well as strive to deliver investment returns. And as investors, we can also tap into the expertise of a range of managers providing this access. The key takeaway from our conversation that there are certainly a few ways to invest with this focus and social impact investing will certainly be one to watch. To learn more, visit the Future Generation website and the ASX website for resources on listed investment companies and learn more about how you can think of using these in your investing journey. We'll see you next time.

[00:26:36] **Voiceover** Visit the ASX website, ASX.com.au, and register for the next Investor Day, our premier education event providing timely market insights and ideas from a range of industry experts.