

Transcript

The Ideas Exchange

Episode 41: Philanthropic investing: it's paying dividends

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Rory Cunningham (00:01):

Welcome to the Ideas Exchange by ASX, connecting you with investment experts, market updates and ideas. I'm Rory Cunningham, senior manager of investment products at ASX, and this is our regular podcast covering everything from investment trends through to different ways to invest using a variety of products.

Disclaimer (00:19):

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Rory Cunningham (00:47):

Welcome to the Ideas Exchange. I'm your host, Rory Cunningham, from ASX. Today, we welcome Caroline Gurney who is CEO at Future Generation.

(00:56):

Caroline, welcome to the Ideas Exchange.

Caroline Gurney (00:59):

Thank you so much for having me, Rory.

Rory Cunningham (01:02):

Future Generation is arguably one of the most unique investment companies in Australia. In a traditional sense, they manage money on behalf of investors and endeavour to provide those investors with investment returns in the form of capital growth and dividends. However, in a nontraditional sense, they also provide a social impact because 1% of all the money that is invested in their investment companies is donated to charity, primarily to children and youth-at-risk charities.

(01:33):

Caroline, I'm very excited to have you on the podcast today. This is the second time you've appeared on the Ideas Exchange podcast. For anyone that hasn't heard the previous episode, can you take us back to the start of Future

Gen? What was the beginning of the initiative and why was it set up in the first place?

Caroline Gurney (01:50):

Absolutely. Actually, you summed it up very well, but, realistically, Geoff Wilson, who is the founder of Wilson Asset Management and the founder of Future Generation, he was in London and he read an article in the Financial Times, and it basically talked about how a group of fund managers, private equity hedge fund guys, had come together and actually raised serious amount of money quickly for philanthropy. What they did was they got other like-minded individuals to basically manage shareholder money and they all decided to give a percentage of that to cancer.

(02:24):

Geoff read that and went, "Oh, that looks incredibly interesting. It'd be great to do that in Australia." That really was the genesis from that particular moment of reading the article. He came back to Australia and he spoke to David Paradise, the real Hall of Famers like Peter Cooper and a number of others and said, "Why don't we do this in Australia?" and they went, "Brilliant idea. You raise the money and we'll manage it pro bono," so there's no performance fees and no management fees.

(02:56):

We're incredibly lucky because the service providers also provide their services, so our lawyers, our corporate governance, et cetera. They work pro bono for us as well. That really nearly 10 years ago enabled them to set up Future Generation Australia. As you said, Future Generation Australia provides great dividends, but it also provides capital growth, but it gives that 1% of our total net assets to not-for-profits. Future Generation Australia gives to youth at risk, as you said, and then, a year and a half later, Future Generation Global was born because everybody said, "Okay, you've got the Australian equity offering. What about a global equity offering?" A number of fund managers once again came and said, "We'll manage this money pro bono." Basically, we're now giving to youth mental health and prevention as well not-for-profits and the dividends are good.

(03:52):

I think, for most people, everybody wants to do well, but they also want others to do well. I love the fact that it's unique, as you said. I mean, there's just a couple of others like it whereby you're getting dividends, you're getting that capital growth, but you're also managing to give to the future for all of these brilliant young people and give them the tools to deal with everyday life.

Rory Cunningham (04:17):

Yeah, fascinating story. I think, also, from my perspective, having the Australian equity option there and global equities is really important. One of

the cornerstones of everything that we do at the ASX from an education perspective is teaching about the benefits of diversification. I couldn't think of a better example than what you've just described there in terms of investment options for investors.

(04:41):

There's, I suppose, two elements that I'd love to pick your brain on today in the conversation. The first is about the charities and then also the underlying investment managers because, as you've already highlighted, there's some incredibly impressive underlying investment managers, but let's start with the charities first. If I've got my numbers correct, so far, you have donated more than \$70 million to charities that you support, if that's correct.

Caroline Gurney (05:07):

No. That is 75.8, but 75 is really good.

Rory Cunningham (05:11):

Over that time, that 10 years, can you reflect on the growth that you've seen over that period? I also noted that you have a target of \$100 million by 2030. It seems like as if you're well on track to hit that target, but do you want to reflect on what your ambitions are more broadly?

Caroline Gurney (05:30):

Look, we really, really hope to. I mean, I think having a target is something. I love a target. I like to strive towards something. We hope to get more than that. I mean, I think what is really amazing is the government has come out with the policy objective to double philanthropy by 2030 as well, and we want to be part of that. We really believe that these really unique investment philanthropic vehicles can play a part in making a real difference to Australia.

(06:00):

In terms of how we've grown, we originally raised 200 million when it first went. I think what we've done and I think what the board really has really concentrated on is making sure it's a really good investment opportunity. That's really important because you want people for the long term, but also you want people to feel really good about giving. They do, but they also want to make sure they do well.

(06:28):

In terms of the not-for-profits, I mean, the first one, which is Future Generation Australia, we've had 10 not-for-profits. There has been relatively little change in that period of time. We support youth-at-risk organizations like Mirabel that work with young people that have been infected when their parents are basically being impacted by drug overdose, suicide, et cetera. These young people really need help, but they also need help for the carers that look after them. Mirabel plays a really important role.

(06:59):

We have other not-for-profits like Raise, and they help a number of young people in schools, giving them the tools to deal with everyday life. They do a lot of mentoring and coaching through schools. All of them do something that is relatively unique to actually help young people. I mean, young people I think are incredibly strong, incredibly resilient, but if you give them the tools to do better, they will do. As you know, when we were children, you're really eager to learn, you really want to do the right thing, but sometimes circumstances dictate that you perhaps don't. I feel that, with this funding, we can make a real difference.

(07:39):

We're coming up to our 10-year anniversary with these not-for-profits, so I think it's important that we also measure their impact, which is something we're doing. Also, just in terms of our funding, when we actually give the money to the not-for-profits, we don't tie it. We don't say you need to use this for X, X, X. We say, "What do you need this money for?" and they will say to build an IT system to run a program for diabetes like DiaBuddies. We actually give them the money to do with what they need to do most because we don't dictate. We just don't want to. I would never tell you how to run this podcast just like I'd never tell a fund manager how to manage his money.

(08:22):

We really believe that we have best-in-class not-for-profits, charities as you said. We want to empower them to do work over the long term and they don't have to go out and fundraise every day. It gives them just a bit of time, a bit of leeway to really concentrate on their strategy.

Rory Cunningham (08:40):

Can you talk us through that selection process? How does a not-for-profit get selected by yourselves from a governance perspective? What are your expectations of them once they're reporting back to you, and what's your pipeline for future not-for-profits to be added to the list?

Caroline Gurney (08:58):

Maybe if I talk about Future Generation Global because, two and a half years ago, the board decided that they actually wanted to look at prevention in youth mental health rather than actually generic across the whole board, so we did a body of evidence working out where we could have the most impact in prevention of youth mental health and well-being, and then we basically went out with an expressions of interest to the whole of Australia. We advertised. We sent out editorial, et cetera, and we also emailed all of our shareholders and people that had expressed interest and we said, "Please put in an application." We had, I think, a really good form on the internet. We got back 176 applications. Every single one of them we could have funded. That is the really sad thing. They were all doing really quite amazing work. They'd all

spent time filling in the form, but we had to get that down to 10. We did that in stages.

(09:58):

We had some brilliant grant givers who also came to help us do that because we really wanted the process to have those strict guidelines and governance around it. We got down to 20, really hard to get it any further, but we finally got down to 14, and so we stayed with the 14. Also, what I think is really interesting, I think, in terms of funding youth mental health organizations, you need to make sure you have young people also going through the applications. We had a fantastic group of young people who went through all the applications and said, "That one doesn't work. That one does not," and it was in our considered group. "That one doesn't work because it doesn't actually look to the diversity of young people."

(10:45):

It was a really interesting process and we learned an awful lot, and now we have 14 not-for-profits. It's like a puzzle in the way we actually put them together. We needed to fit the pieces in together. We wanted fantastic not-for-profits that had that runway to growth, and we wanted them to be 30% regional. We wanted indigenous-led organizations, and we wanted to make sure in terms of how much government funding they had and they had that capacity to build, that was very important, and how they can leverage off each other so we weren't going to have three mentoring organizations. We just made sure that we're across the spectrum so we could then measure the impact that we actually have. That's something we're going to be talking about soon in terms of how many young people have we helped in prevention instead of going through to intervention and then, obviously, treatment.

Rory Cunningham (11:40):

Yeah, it's amazing. We have a lot of fund managers that appear on this podcast and they talk at length about their investment process much like you just have about your selection process.

Caroline Gurney (11:49):

Yeah. Well, we have both of that. We have that on our fund managers and on our social impact partners, our not-for-profits.

Rory Cunningham (11:55):

Now, one thing that we do like doing on the podcast is talking about a case study. Perhaps, you could give us a case study of a not-for-profit that you support. I'm sure there's many case studies, but if you could even just pick one and talk us through how you measure or ask them to report to you how they're having impact through the community.

Caroline Gurney (12:17):

I really struggle with this to give you one case study. We look at all of our not-for-profits on a very regular basis and, obviously, we're measuring their impact. There are so many case studies. The teams speak to a lot of the organizations to get a feel of the work they're doing. I mean like BackTrack, for instance, they're based in Armidale, an amazing organization. Basically, they'll get a call from the police station and it will be like, "I have a 12, 13-year-old child here. They're going to jail," and then the gentleman that runs it, Bernie Shakeshaft, absolutely amazing, he basically will drive there or one of his team will. He'll get that child and he'll bring them back to the farm and he will help them. No child is left. They're not unwanted. They are involved. They've got amazing stories whereby they bring a child in. He trains with the dogs. They win nearly every regional dog show in terms of the jumping or the horses. They learn skills as well. There's great stories of them getting a job, having a family, having children and really living to their full potential.

(13:36):

Then you have something like Youth Opportunities whereby you have two sisters, for instance, they're refugees, they've come here, and one of them is so traumatized and often isolates themselves, can't go out, causes trouble at school, argues with their parents because they've lost their culture, they've left their religion, so many things that would've happened to them in such a short period of time at a young time in life. Youth Opportunities run this amazing program where they teach them to become more confident to take control of their life so they can go back to school and they can get a job and they become part of society, and they're happy. I think it's incumbent on all of us to help young people to do that.

Rory Cunningham (14:26):

Yeah, those are incredible stories. I wish I could keep asking you just case studies on the charitable side, but I suppose, in the interest of time, we'll switch over to the investment side. Now, for any of our listeners that are new to investing, have not heard of what a list investment company is, can you give us a brief introduction to what a list investment company is?

Caroline Gurney (14:49):

I like to think of these list investment companies as something that you hold for a long period of time. For example, we look at the different features and their closed end structure, so there's no applications, there's no redemptions, and they're listed on the ASX. You can actually go to CommSec or any of your online brokers or your advisor and you can buy shares within the company. It's incredibly simple and straightforward. The governance is really good because it's a public company, so we adhere to all of those guidelines.

(15:24):

I think the big thing for our shareholders is that paid, fully streamed, fully franked dividends. That's really important for a lot of our shareholders because they want to know that income is coming in on a regular basis. We

pay dividends twice a year, which is really important. The other thing about listed investment companies is they do trade at a premium and a discount and, as Geoff Wilson would say, buy at a discount. That's a great opportunity. If you can get a dollar worth of assets for 80 cents, that's a good thing. Both of our vehicles are trading at a discount as well.

Rory Cunningham (16:00):

Okay. Yeah, for anyone that does want more information about listed investment companies, how they work, their structure, things like what Caroline was just touching on there in relation to trading at a premium or discount to NTA, I'd strongly encourage you to go to the ASX website. On there, we have education about listed investment companies. Some of that education features both Future Gen and Wilson Asset Management. Of course, the Future Gen or Wilson Asset Management websites have some great content to educate investors about how those particular vehicles work.

Caroline Gurney (16:35):

That will be updated soon.

Rory Cunningham (16:38):

Great. Now, you touched on it earlier. Obviously, you've got an Australian equity strategy, global equity strategy, and you touched on some of those underlying investment managers. In either strategy, how many underlying investment managers are there and what are the different types of investment strategies that they're looking to employ?

Caroline Gurney (16:57):

We have an investment committee, and they sit down on a regular basis to actually look at the portfolio construction of both companies. There are two separate investment committees for each company. They look at each fund manager. They look at the market, and they work out what kind of allocation they want to a particular fund managers. For example, let's take Future Generation Australia. We have 18 fund managers within that vehicle. That can go up and down and, generally, what we're doing there is we're basically making sure we've got long equities and absolute bias in terms of the styles. It's really important that they can actually work with those fund managers to dial up and down the exposure that we have to each fund manager. We tend to keep it in bands and we just make sure that we monitor that on a very regular basis.

(17:52):

We recently have decided that we don't want a particular strategy, so, at the moment, they're moving out of the portfolio because times have changed. I mean, the volatility, as we all know, has been incredibly strong in the markets. Both of our listed investment companies, we aim for them to perform with less volatility than the market, which they both do. I think one

of the important things is we do have a profits reserve so we can actually make sure that our shareholders do get that continuing income stream.

(18:24):

That's something the investment committee and the board are ever so focused on because you need to make sure it's a solid investment. In terms of the last 12 months, the performance has outperformed the all odds and the small odds. We're happy with the performance, but we need to make sure that we keep changing it around the edges just to make sure it's for that long term.

Rory Cunningham (18:46):

Okay. That's a lot of underlying investment managers to have to keep up to date with, select them in the first place, and you're good enough to take us through the process that you go through to select charities. Do you want to take us through that process as well to select the investment managers?

Caroline Gurney (19:02):

Maybe with Future Generation Global, there's been a lot of global volatility, a lot of uncertainty there, so, the investment committee, we've basically taken out some fund managers and we've put more fund managers in. For instance, we've just had five fund managers put in in the last 18 months. What we wanted there was to balance growth versus value. We've actually changed the skew of that listed investment company to make sure it reflects the times that we're in. We actually have a lot of data. We get Lonsec and we get [inaudible 00:19:39] for both of our list investment companies. They go through that to see exactly what is happening, what is happening with our fund managers.

(19:47):

Also, we bring the fund managers in on a very regular basis, and they will present to the investment committee. We basically have a watch list, and we have a long list of questions that we ask every single one of them every time. Plus, we will have had the research as well from various research organizations. It's one of those very time-consuming, very important ways, but, on the investment committee, we have JANA, Morningstar, Lonsec, so the founder of Zenith. They are really used to doing this. I mean, JANA manages super funds money. This is very much their day job which they're basically doing across over 30 funds.

Rory Cunningham (20:29):

Yeah, I think one of the benefits that we always talk, too, about list investment companies is being able to access investment strategies or asset classes that are quite hard to do as an individual retail investor. In the spirit of a case study, are there any particular underlying managers that are investing quite in a unique way that you find interesting or even asset classes or

strategies that a retail investor such as myself trying to do that myself would be hard to execute?

Caroline Gurney (21:01):

In terms of all of our fund managers, they're all slightly different. There's something about each of them that is different, but we are very much small cap and micro cap, and we do have some mid-caps as well. Say, for example, in the Future Generation Australia, we had Ben Griffiths the other day. He came in and he was talking about his portfolio, and his performance is incredibly good over the long period of time, and he was saying that, in terms of the way he is looking at the market, he's continually monitoring all of the corporates out there, looking for opportunities and then holding them and basically making sure that he's holding them through the dips and the troughs as it were, but then keeping them if he believes the long-term performance is going to be there. He said, with small caps, it's a really tough market, you've really got to be there to actually make sure you get that immediate growth that will happen over time.

Rory Cunningham (22:05):

Yeah, it's a challenging part of the market. There's a lot of small caps. Whether you're looking at the Australian market, the ASX market or global markets, there's thousands of companies out there, so to stay across them all is extremely difficult to do as a retail investor.

Caroline Gurney (22:20):

You're right. It is. I think that's why these curated listed investment companies like ours actually do work because you've got this investment committee doing a lot of the work for you. You can actually see in terms of how well each one is doing and you can actually adjust your portfolio that you might have accordingly. We have a large active share, like 60% active share, so you're getting that exposure not just to the ASX 50. You're also getting it to the ASX 300, and that's where they find a lot of the opportunities.

Rory Cunningham (22:57):

Okay. You mentioned earlier that both funds pay consistent and growing dividends. Are these funds more likely to suit investors looking for capital growth or for investors looking for income?

Caroline Gurney (23:09):

I mean, obviously, I'm going to say both, but, realistically, it is about income for these funds. I mean, because of the profits reserve you actually get, you know that you're going to get the dividends. They're going to be hopefully fully franked, yes, and you're going to get them twice a year. I think, for a lot of shareholders, especially those with self-managed super funds and for those that need to know exactly what their income's going to be, they really do suit that purpose.

Rory Cunningham (23:37):

Okay. Great. I wanted to switch just slightly and talk to you about your, I suppose, experience as a CEO for any of our listeners. Hopefully, they've understood that this is quite a unique business that you run in Australia. Can you reflect on your journey as a CEO building this business up, and what have been some of the wins that you've come across, some of the challenges running a business?

Caroline Gurney (24:02):

I mean, I've only been there two years. Obviously, Geoff Wilson, the fund managers or the pro bono, the not-for-profits, I mean, they really do all the hard yards. I think I feel really humbled that I am the CEO, but, realistically, it's making sure that our fund managers are talking to the investment committee, we know what they're doing, speaking to the not-for-profits, but I think a highlight really has been having two new chairs. Obviously, we have Philip, Phil Lowe, who has recently become chair of Future Generation Australia. This is the only board that he's going on for the moment. I don't know what it's going to be for the future, but he's investing an awful lot of time in this vehicle. We are sort of mini road shows talking to a lot of people.

(24:50):

I think something really like Phil Lowe who is obviously ex-RBA coming to be chair of a vehicle like this is really important because it shows how important these vehicles are. The fact that he wants to make sure that he's within the economic and the fund management industry, but also doing good for young people, I think that's really indicative of the man. That's been great. Then, on Future Generation Global, we have Jennifer Westacott who was the CEO of Business Council Australia, another great leader, a really fabulous leader. She led the BCA. She's worked in mental health. She's now on the board of Wesfarmers, and also she's chancellor of Western Sydney University, amazing person and a woman, which is great.

(25:35):

Both of them really believe in this double dividend whereby you're getting a dividend yourself, but you're giving a dividend to a young person. I really enjoy the fact that I'm going to be working with them for the long term. I think, with the boards, and obviously Wilson Asset Management is our lead supporter and one of our biggest supporters in terms of roadshows and everything, I think that's really exciting, and how we can tell the not-for-profit stories actually bring that alive and get more people interested in being part of this sort of investment philanthropic movement, and it is a movement.

Rory Cunningham (26:14):

Yeah, so, on that, I'm imagining there's going to be some young listeners out here that are thinking about their future career and particularly about their career in either investing philanthropic work or all of the above impact

investing. What would your guidance be to any young listeners that are thinking about their future career?

Caroline Gurney (26:39):

It's such a tough question. It really depends on what you want. I really believe you should do what you're passionate about. I mean, I remember back in the day how many applications I sent for jobs, some I didn't even get an interview for, and that's really demoralizing, but you just pick yourself up and you just apply again and you go to interviews and you get better at that. I think you just have to do something you really love because, otherwise, you're not going to be in the long term. You just need to be really aware of the opportunities that are out there. The opportunities now are very different to when I was looking for a job. I'm really happy with the fact that there are more opportunities. I just look at the graduate opportunities. I look at the fact there are a lot of jobs out there at the moment. I think you just do the job. You see if you enjoy it. If you don't, you try something else. Be bold. Ask for what you want. I think that's really important.

Rory Cunningham (27:42):

Right. Well, I think that's a great way to end. That's a wrap with Caroline.

(27:45):

Caroline, thank you very much for coming on the podcast.

(27:49):

For anyone that is looking to learn more, I please encourage you to visit the Future Generation website and, as I mentioned, the ASX website as well for resources on listed investment companies, but also all the great work that Future Generation is doing. Thank you for taking the time to listen, and we look forward to you tuning in next month on the Ideas Exchange.

ASX Sharemarket Game: (28:11):

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