Future Generation
INVESTMENT & SOCIAL RETURNS

Submission to the Productivity Commission's Review of Philanthropy 2023

Submitted by Caroline Gurney, CEO of the Future Generation Companies

1. Summary

The Future Generation companies are Australia's first listed investment companies to provide both investment and social returns. Through the pro bono contribution of more than thirty leading fund managers we can donate 1% of our net assets annually. The Companies have donated more than $65 million to Australian charities in only eight years.

Our annual donation has grown due to the growth of our funds under management. Growing the pool of invested capital leads to increased donations. Therefore, a policy intent that incentivises investors to choose dual-purpose structures over others, has high potential to substantially contribute to the double giving initiative of the Australian Government.

Our experience and understanding of the fund management industry suggests the following two tax incentives would *generate between $1.7 billion and $3.5 billion in annual donations to charity:*

- Removing capital gains tax for investors in dual purpose investment vehicles; and
- Making the pro bono contributions of fund managers' tax deductible, or partially tax-deductible

2. Introduction

We applaud the Australian Government's pledge to develop a strategy to double philanthropic giving by 2030. We also welcome the establishment of a Productivity Commission Review to analyse motivations for giving and to identify opportunities to grow it further.

The Australian Government rightly sees this strategy as a transformational opportunity to channel billions of additional dollars to Australians in need, address critical issues and build a more generous national culture - all of which will relieve pressure on public spending.

It is a timely and achievable goal to double giving by 2030. By coupling the nation's greatest intergenerational transfer of wealth with a policy environment geared towards encouraging giving, we can and should lift Australian philanthropy to be in line with our peer nations.

We appreciate the Government's commitment to work with the philanthropic, for-purpose and business sectors to develop this strategy and bring it to fruition. Collaborative governance arrangements between government, philanthropy, charities and business will enable us to work better together to address the pressing social and environmental issues of our time. We owe this to our future generations.

The Future Generation Companies are proud to be Australia's first listed investment companies to provide both investment and social returns. Since 2015, we have donated more than $65 million to Australian charities, putting us among the top 30 corporate donors in the country. The rate of growth of our giving – which is tied to Australians' increasing appetite for investing - makes our pioneering model incredibly high potential in terms of the double giving agenda.

We appreciate the opportunity to make a submission to the Productivity Commission's Review of Philanthropy. We do so to:

1) share information on our model, which is a successful and replicable example of corporate giving that meets many of the aspirations of the double giving agenda; and
2) provide suggestions of incentives to increase the number of dual-purpose investment vehicles on offer to Australian shareholders, which would unlock substantial capital for charities.

We recognise that the Productivity Commission is uniquely placed to identify and assess potential measures from both an economic and community-wide perspective. We offer policy suggestions as a starting point. We urge the Productivity Commission to look into incentivising dual-purpose investment vehicles as part of its Review. Future Generation welcomes any opportunity for discourse with the Commission, as is useful to its task in reviewing philanthropy.

2.1 The Future Generation Investment Companies

The Future Generation companies, Future Generation Australia (ASX: FGX) and Future Generation Global (ASX: FGG), established in 2014 and 2015 respectively, are Australia's first listed investment companies to provide both investment and social returns.

The Companies offer a unique opportunity to invest with leading fund managers, while supporting high impact Australian charities focused on youth at risk and youth mental health.

If someone invests in Future Generation, their capital is invested with more than thirty leading Australian and global fund managers, all of whom waive their usual management and performance fees. Their generosity allows the Companies to donate 1.0 per cent of their assets each year, without compromising shareholder returns.

Future Generation has donated more than $65 million to Australian charities since inception in 2014, making us one of Australia's Top 30[1] corporate philanthropists. The Companies now have more than 15,000 shareholders, $1.1 billion in assets and are on track to donate more than $140 million by 2030.

The Future Generation companies since inception have supported a variety of charities, including Act for Kids, Australian Children's Music Foundation, Australian Indigenous Education Foundation, BackTrack, Beyond Blue, Big hART, Black Dog Institute, Brain and Mind Centre, Butterfly Foundation, Debra, Diabetes Kids Fund, Giant Steps, Happy Paws Happy Hearts, Headspace, Human Nature, I CAN Network, Kids Helpline, Lighthouse Foundation, Mind Blank, Mirabel Foundation, Orygen, Prevention United, Project ROCKIT, Raise Foundation, ReachOut, Sane Australia, Smiling Mind, The Westerman Jilya Institute for Indigenous Mental Health, United Way, Variety, WANTA Aboriginal Corporation, Youth Focus, Youth Live4Life, Youth Off The Streets and Youth Opportunities.

The Future Generation Companies are enabled by leading fund managers including Antipodes, Bennelong Australian Equity Partners, Bennelong Long Short Equity, Caledonia, Centennial Asset Management, Clime, Cooper Investors, Eley Griffiths Group, Ellerston Capital, Firetrail Investments, Holowesko Partners, L1 Capital, Lanyon Asset Management, Magellan, Martin Currie, Morphic Asset Management, Munro Partners, Paradice Investment Management, Plato Investment Management, QVG Capital, Regal Funds Management, Sage Capital, Sandon Capital, Smallco Investment Manager, Tribeca Investment Partners, Vinva Investment Management, Wilson Asset Management, WCM Investment Management and Yarra Capital Management.

3. Growing the dual-purpose investment market holds high potential for the double giving strategy

Australia is a nation of investors. The consolidated funds management sector was sized by the Australian Bureau of Statistics at $3.5 billion in December 2022.[2]

In 2020, 46% of Australian adults held investments other than their primary residence and indications are that investing will continue to grow. There has been an increase in new investors, many of them young and female. Around one in four current investors began investing less than two years ago and 45% of new investors were female. Intending investors have an average age of just 34, with 27% under 25.

Of our 15,000 shareholders, approximately 70% are Self-Managed Super Funds and charitable organisations, which are both low or, no-tax structures. Incentivising other segments of investors toward dual-purpose investment vehicles will significantly grow philanthropic giving.

We are conscious that in the current climate, policy measures or tax concessions that reduce revenue are going to be challenging for the Government. We also note that about 70% of the capital invested in Future Generation vehicle are low or no tax structures as mentioned above. We also acknowledge that where taxation changes are made, adequate safeguards are required to ensure that any new measures do not create incentives for tax structuring that do not serve the policy intent.

[1] https://www.afr.com/work-and-careers/leaders/thankyou-group-donates-more-than-suncorp-brambles-qbe-and-mirvac-20211125-p59caf
[2] https://www.abs.gov.au/statistics/economy/finance/managed-funds-australia/latest-release

3.1 Proposed tax incentives

Our experience and understanding of the fund management industry suggests two high potential tax incentives designed to drive consumer/investor demand and market supply.

Incentive 1: Remove capital gains tax for investors in dual purpose investment vehicles to drive consumer/investor demand.

Our estimates are that this incentive would grow the pool of funds invested in dual-purpose vehicles to 1% to 2% of total funds under management[2], or $35 billion - $70billion. This would generate between $350 million and $700 million in donations annually, assuming a donation rate of 1% of assets.[3]

Incentive 2: Make pro bono contributions of fund managers and other service providers' tax deductible, or partially tax-deductible to drive product creation.

Our estimates are that adding this supply-side incentive to the above would grow the pool of funds invested in dual-purpose vehicles to 5% to 10% of funds under management[2], or $175 billion - $350 billion. This would generate between $1.7 billion and $3.5 billion in donations annually, assuming a donation of 1% of assets. Future Generation is often requested to create other funds in order to channel giving to other causes such as the environment or climate.

We believe that with these incentives, the conditions are ripe for investors to embrace such products at scale, and the capital deployed for giving will far out-weigh the costs.

4. Future Generation features and the double giving agenda

Our model is an example of corporate giving that meets many of the aspirations of the double giving agenda. It is scalable and adaptable.

The model blurs the traditional line between capitalism and philanthropy, by generating financial returns and social benefit. It is a practical and successful example of Treasurer Jim Chalmers' call for 'values-based capitalism,' drawing on the talents of Australia's financial services industry to drive capital into the hands of Australia's not-for-profit sector.

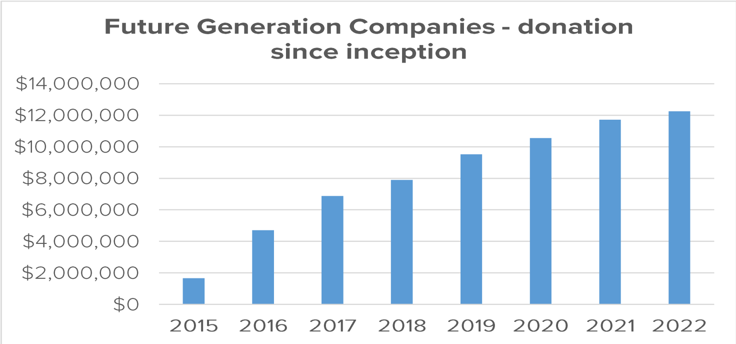
We believe that with the right incentives to drive demand from Australian shareholders, the dual-purpose investment market has the potential to grow substantially. These vehicles are of our time, meeting shareholders' increasing desire to 'give back' as well as 'get ahead'. Designing policies and tax concessions to tap into this driver has the potential to increase giving enormously, especially as $2.6 trillion passes to younger investors, who are renowned for their socially conscious decision-making.

We believe the double giving strategy should address both more and better giving, to use the terminology of peak body Philanthropy Australia. Below we have summarised the features of the Future Generation model that contribute to more giving and more impactful giving.

[3] Aligns with the Future Generation donation range of 1% of assets

4.1 Exponential growth in giving.

Since our first donation in 2015, our annual donation has increased seven-fold and we have quadrupled the number of shareholders invested.



In its first year, Future Generation had $200 million under management. By 2022, funds under management had grown to more than $1.2 billion, meaning we donated more than $12 million last year to charities.

This growth in funds under management and shareholder numbers indicates the interest Australians have in our dual-purpose. It is also key to the exponential growth of our annual donation. The rate at which this annual donation has grown makes Future Generation one of the fastest, if not the fastest, growing philanthropic model in Australia.

4.2 Democratising philanthropy.

For more than a century, philosophers and politicians have bemoaned philanthropy's anti-democratic nature. A few very wealthy people determining the best way to address a societal problem - without any requirement to seek input from society or even from the people who are meant to benefit - has been criticised as inherently anti-democratic. As wealth continues to concentrate in Australia, with wealth among the Top 200 increasing from $209 billion to $555 billion between 2016 and 2022,[4] these concerns will only deepen.

Models like Future Generation, which democratise the philanthropic process, are invaluable in involving a wider group of Australians in structured giving. There are no barriers to entry apart from being able to buy shares on the stock exchange. At Future Generation, a large proportion of our shareholder base are mum-and-dad, or retail, investors.

We've also gone a step further in the democratisation process. Each year, we run a donation voting scheme in which all our shareholders are invited to choose which of our not-for-profit partners they want to support. This determines how our annual donation is shared between our partners. From our shareholders, we understand that participation in donation voting, and exposure to our not-for-profit partners in general, encourages their own personal giving outside Future Generation.

4.3 Bringing the investment community together to give more and better.

Since inception, the Future Generation Companies have brought the funds management community together to make a meaningful contribution to society through the donation of their time and expertise. The model has generated a lot of money for charity, significantly faster than traditional philanthropy could, enabling more than $65 million to be invested in Australian charities in only eight years.

By providing a collective mechanism for structured and strategic giving, as detailed below, Future Generation reduces administration costs and allows for a more focused and impactful contribution than if each fund manager were to set up their own giving vehicle and disperse their funds among many causes.

[4] Rich List. Accessed May 2022: https://www.afr.com/rich-list

4.4 Replicable and scalable.

The model is easily replicated. A year after setting up Future Generation Australia, Future Generation Global was launched. Three years after that, Hearts and Minds Investment Limited was established, with our Founder Geoff Wilson joining their board. This is a very similar model that raises money for leading medical research institutes.

We believe that this is only the start. Future Generation and Hearts and Minds operate in the equities space. The model could easily be expanded to other asset classes – such as real estate, private equity or fixed income. Recently, the Community Capital Credit Fund has been set up, also with support and input from Future Generation. Future Generation is willing to share its Intellectual Property, most of which is publicly available already, and actively support others to establish similar funds as a mechanism to generate greater corporate giving.

4.5 Strategic approach to giving.

As private givers, to maximise the impact of our donations, we look to identify areas that, with our investment, have high potential to create social good but are overlooked or under-funded by others, particularly governments.

For example, Future Generation Global recently conducted a strategic review of its giving, and decided to support not-for-profits that work to promote wellbeing and prevent mental ill health in young Australians. This is an area that has been widely neglected by governments in Australia, accounting for only around 1% of their collective mental health budget. (The remainder is directed towards treatment services.) This is despite wellbeing and prevention being consistently identified as priorities in national and state policies since the early 1990s.

There are economic, social and moral arguments for prioritising mental ill health prevention. Prevention-focused approaches are more cost-effective than treatment approaches and, of course, we would all choose to spare a young person (and their loved ones) the experience of mental ill- health.

We aim to complement government efforts. As private funders, we are more able to take on risk to accelerate change. We see wellbeing and prevention as the next frontier, where philanthropy can make a real impact by supporting promising approaches and building the evidence base to make the case for greater investment to future governments.

Having decided on wellbeing and prevention as a focus area, we then set about building a portfolio of not-for-profit partners in much the same way that our fund managers amass a portfolio of companies. We set ourselves clear guidelines to ensure we were able to optimise the impact of our contributions. We invested in small-to-medium-sized organisations that did not yet have significant government funding. They had to have a proven track record, but still enough “runway” to significantly deepen their impact. Combined, they had to represent a national footprint, with at least 30 per cent based in regional areas. And they needed to sit across the wellbeing and prevention spectrum, with some organisations targeting all young people, and others targeting particular high-risk groups or those showing early signs of mental ill health. Just like an investment portfolio – we were aiming to balance risk and return through diversity.

4.6 Best practice - systematic and structured giving.

Australians are renowned for their generosity when it comes to responding to bush fire or flood appeals. Our giving tends to be emotional, spasmodic and reactive. But we're not as good when it comes to systematic, structured giving. Internationally, Australia's giving at 0.81 per cent of GDP, lags the USA at 2.1 percent and New Zealand at 1.84 per cent. Furthermore, giving trends in Australia are heading the wrong way, with only 29 per cent of the population giving and receiving tax concessions in 2019, down from 38 per cent in 2011.

Future Generation's systematic and structured approach to social investment is informed by best practice giving as well as our DNA as an investment manager, where we identify under-valued companies and invest in them to realise growth. Bringing this approach to our social investment, we are backing innovative and high potential not-for-profits and investing in the organisation to realise impact growth with young people.

Our carefully selected partners are provided multi-year funding commitments towards their core operational costs as well as additional funding for organisational development. We believe that you need to invest in not-for-profits for them to grow, just as you would invest in a business. While untied funding is considered best practice philanthropy, it remains quite unusual in Australia, with most donor making one-off gifts to a specific project. The consistency of a multi-year commitment that is untied, is incredibly impactful, as it means not-for-profits can plan. It also means they can focus and direct more resources to their core mission, instead of fundraising.

4.7 Tracking the impact of our portfolio.

The Future Generation Companies, along with our not-for-profit partners, are committed to making every effort to measure impact and share our learnings about the process. Accountability to our shareholders, our many contributors and the wider community, especially young Australians, is important to us. We have worked with impact measurement specialists to build a framework and tool to track each partners' reach and outcomes – as well as aggregate their impact. This is a goal not yet attempted by many philanthropic funders. We trust that this data will generate crucial evidence about impact, driving improvement and informing future investments.

5. Conclusion

In summary, we welcome the Commonwealth Government's initiative and commitment to double giving by 2030. We firmly believe it is achievable and timely, especially if the business sector is successfully galvanised to the task along with the for-purpose and philanthropic sectors.

Models like Future Generation, that create both investment and social returns, provide a practical bridge between the for-profit and not-for profit sectors, and bring to life the vision of 'values-based capitalism'. There is huge potential to generate substantial funding for charity by growing dual-purpose investment vehicles through specific tax incentives.

We urge the Productivity Commission to consider this as part of its Review.

Thank you for your consideration. Future Generation would welcome engagement with the Commission, as is beneficial to its Review of Philanthropy.