



GQG Partners

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TRANSCRIPT

Operator:

Thank you for standing by and welcome to the GQG Partners Inc 2026 Half Year Earnings Release conference call. All participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question you will need to press the star key followed by the number one on your telephone keypad.

This call will contain forward-looking statements, including statements of current intention, opinion and predictions regarding the Company's present and future operations, possible future events and future financial prospects.

While these statements reflect expectations at the date of this call, they are by their nature not certain and are susceptible to change. The Company makes no representation, assurance or guarantee as to the accuracy of or the likelihood of fulfilling any such forward-looking statement, whether express or implied, and except as required by applicable law or the ASX listing rules, disclaims any obligation or undertaking to publicly update such forward-looking statements.

Participants recording this call may use such recordings for their internal business purposes only and are prohibited from making any part of such recordings available to the public without the prior written permission of the Company. I would now like to hand the conference over to Mr Tim Carver, CEO. Please go ahead.

Tim Carver, Chief Executive Officer:

Thank you and thank you everyone for joining us for our half yearly results. We are joined here by my Partner and our Chairman, Rajiv Jain, our CFO, Charles Falck, and our Head of Distribution, Steve Ford.

So, let's dive right in. If we can go to slide 3, please, provide the financial highlights for the period. We ended the period with funds under management of US\$156 billion. That's US dollars. We had net outflows of the period of US\$15.1 billion. That was offset by about US\$7.2 billion in returns on our portfolios.

We had net revenue of US\$397.2 million for the period and net operating income of US\$301.8 million, each roughly 1.5% lower than the same period in the prior year. Our board has declared a second quarter dividend of US\$0.0362 per share, a 90% payout ratio of our distributable earnings, and a slight increase over our Q1 dividend.

If we go to slide 4, for anyone on this call who doesn't know who we are, we're a global equity boutique. We've been around for 10 years, and we've raised about \$150 billion in that period. We tend to run concentrated, highly active portfolios and our business is defined by a well-diversified distribution capability, well-diversified client assets by geography, client type, vehicle type and strategy.

If you look at the pie chart on the right-hand side here, you can see that we have a highly diversified book of business across four core strategies, where International Equity strategy represents just under 50% of the business – or of our assets, I should say. Our Emerging Markets and Global Equity strategies each just under 25% and our US Equity strategy just under 10%.

Our investment approach is to target high-single digit to low-double digit rates of return over a full market cycle with disciplined downside risk management and lower volatility relative to our benchmarks. We have historically been successful in delivering against this, and this is what our clients expect of us.

Now, for those of you who have been on calls with me before, you know that I say that this business begins and ends with performance. If we go to slide 5, I think it's no surprise to anyone that in the short term, our one-year performance has lagged the index.

That's in a market where we've seen sort of historically extreme market returns that is not atypical for the way we manage money. In other words, when markets run like this, we oftentimes will underperform on a relative basis. I think that that also defines the primary driver of why we've had net outflows for the period, because we have had clearly some investors who have chased performance coming in and now are reversing that as our relative performance has lagged over the one-year basis.

But I think it's very important to understand this contextually. So, if we go to slide 6, what you see is that our three-year returns across all strategies have compounded at double-digit rates of return. So right in line with what clients would expect of us, and frankly, maybe slightly better than we would expect of ourselves.

We've done this with substantially lower volatility. So, if you go to the next slide, you'll see that our downside capture ratio is significantly better than our peer group, and we have lower volatility than the market.

So, what this means is that for our core client base, over the past three years, they are experiencing exactly what we have set out to do, what our goals are, and what they would expect of us. Now, that doesn't mean that we won't continue to have outflows by more short-term oriented investors, but it does mean, I believe, that our core client base, our core consultants that support us, our core institutional clients, our core platforms, all recognise what we set out to do over the long run and are satisfied that we are accomplishing that goal.

Now, if we go to the next slide, you can see what this means to the business over the past three years. What we've tried to do here is show a bridge from where our assets were three years ago, adding or subtracting net flows, and then adding the total returns from our various portfolios. As you can see, that's led to a very robust, very resilient, very stable business. We'll get into a little bit more detail on this throughout the presentation, but before we go into any more depth on this, I want to hand over to Charles and ask him to go into detail on the financial results.

Charles Falck, Chief Financial Officer:

Thanks, Tim. I'll start on page 10 with the highlights. As Tim mentioned, we closed the half year at US\$156 billion. Average FUM actually increased a little bit for the first half over last year and was at US\$164.5 billion. I'll touch on how that drives management fees and overall revenues on the next page as we get into a little bit more of the details.

US\$397.2 million in net revenue resulted in net operating income of US\$301.8 million. You see the strong operating margin in the chart on the bottom left, the line indicating 76% profit margin for the first half. This resulted in US\$228.4 million net income to shareholders. We adjust net income for non-cash items when determining the dividend, and you'll see at the top right, distributable earnings were US\$234.9 million, resulting in a dividend declared for the first half of US\$211.8 million. On a per share basis, that equates to US\$0.0716 per share or US\$0.08 of earnings per share.

With that, I'll move on to the next page to comment on a little bit more detail on what's driving the income statement. So, as mentioned, the increase in average FUM resulted in higher management fees. Additionally, we were also able to increase the fee realisation to 48.6 basis points for the first half. Those improvements were, as Tim mentioned, offset by a reduction in performance-based fees, which were lower this year, resulting in US\$397.2 million in net revenues for the first half, a reduction of about US\$5.8 million in revenues or 1.4%.

Drilling down on the expenses, there are offsetting trends there. Compensation and benefits as well as IT and services increased. The former is a result of merit increases awarded to the staff and the latter of price increases from some of our data providers as well as the applications and services that we consume. Those increases in expenses were more than offset by a reduction in third-party distribution fees, as well as a reduction in general and administrative, resulting in total operating expenses of US\$95.4 million, US\$400,000, or 0.5%, lower than they were for the same period last year.

If we go down to the provision for income taxes, you see that that also improved, both on an absolute as well as a relative basis. That is due to the apportionment methodologies in some of the state and local taxes that we're subject to in the United States. So, a positive development there that resulted in US\$228.4 million of net income to shareholders for the first half.

With that, I'll move on to the next page, Balance Sheet. We continue to have a strong balance sheet, high liquidity with US\$168.9 million cash as of mid-year and no debt outstanding. Moving on to the cash flow statement on page 13, we continue to have strong cash flow as a result of operations, and the predominant use for that cash is dividends paid out as well as working capital.

You'll note on the bottom right—and Tim mentioned this as well—the Board declared a second quarter dividend of US\$0.0362 cents per share or US\$107.1 million in aggregate. That continues to represent a 90% payout ratio. The declaration date for the dividend is 21 August, the Ex-Dividend Date is 26 August, the Record Date is 27 August, and then the Payment Date will be 25 September. Before I hand it over to Steve, I wanted to just take a minute to zoom out.

If you look at page 14, you see our history. This chart illustrates in the blue bars, what our funds under management were starting at the end of 2020 prior to us going public and ending with the 30 June 2026 number that we just reported of US\$156 billion.

I think this, you know—further to the point that Tim made on our growth and our compound growth—I think this illustrates how much we've grown over this period of six years and how the flows and market performance have contributed to that growth and how they also compare in relative size to our overall asset size.

At US\$156 billion, we are within 10% of our maximum FUM over the course of our history. But with that, I'll hand it over to Steve Ford for comments on our distribution.

Steve Ford, Global Head of Distribution:

Thanks, Charles. Appreciate it and good to reconnect with everyone again. I want to spend just a few minutes thinking about our client base and what I believe is part of the underlying resiliency that exists, while fully acknowledging that we've had a challenging short-term period in terms of net flows. But our team has been very busy being very proactive and engaging our clients all around the world across all channels. You'll see that if you follow our written strategies and communications at all.

But I'd have you think about the core client here, which I think is probably more durable than the market appreciates through the lens of that long-term core client. So, you have to think about a client that's been with us, say, four or five years.

If you move to slide 16, and it's a very interesting way to look at it, we talk about this usually as basic pure performance. But this is actually client experience because this is rolling five-year periods in all of our strategies. So, look at the percentage of those experiences that are above the line or below the line. So, there's always going to be variations in performance. But as you start to zoom out and think about what's the long-term experience of the core client here, it's actually still quite positive overall.

Also, if you move to slide 17, you'll see that we continue to live up to our focus on downside risk management, which is a huge element of how we think about compounding capital over time. Tim alluded to it on the downside – or more than alluded to it, showed it in his downside protection numbers and as part of that overall three-year compounded return stream that you see.

Then if you move to slide 18, the long-term risk-adjusted return picture remains quite positive. So, you combine that with also I think an underappreciated element, is that call it two-thirds of our assets come through the wholesale channel.

That's through our own efforts and through sub-advised partnership efforts. Within that, there's a large percentage that's actually taxable. So, when you zoom out and you think about long-term experience still being generally quite positive, combined with very strong absolute returns, many of those investors also have created a taxable situation.

So that doesn't mean that we're immune to performance variation, but I think it does create an additional stickiness in that part of the client base that's probably underappreciated.

So, if we move to the next slide, slide 19, we've covered this before many times if you've been on with us. But all of what I just said is in fact then bolstered by the fact that we have a very diverse business for a manager of our type by strategy, by geography, by client type. There's no meaningful institutional investor concentration to speak of and there's literally thousands and thousands of clients that make up this overall diversity.

Slide 20, if you follow along with our monthly numbers, there are no surprises here. The new data is just how it breaks down by channel. What you see is actually a relatively consistent behaviour this year across channels, which I think speaks overall to the type of investors that we approach regardless of channel.

Then finally, slide 21, I want to spend just a little bit of time actually forward-looking to where I think there are perhaps some green shoots, especially as we expect our performance hopefully to mean revert. This is a view of our growth that we've experienced in retail managed accounts and also active ETFs. In particular, I want to spend a little bit of time on the active ETF. We launched our first fund in this category in the US roughly a year ago.

Despite having the most challenging one-year performance of our firm's history, we've seen this vehicle grow considerably. So, what we've done here is, I think, proved our operational capability, which requires an additional level of technical expertise to implement these vehicles in a tax-efficient way.

But in the US market in particular, there is a strong tailwind for platforms to add these vehicles, and I think now that we've built a solid operational base to move forward from, I think there's significant opportunity for product development that exists in active ETFs, and we're hopeful to see that as a future growth engine.

So, with that, I'm going to pause there. I'm going to turn it over to Rajiv Jain, our Chairman and Chief Investment Officer, and let him give you an update on current market outlook and portfolio positioning.

Rajiv Jain, Chief Investment Officer:

Thanks, Steve, and thanks, everybody, for joining. As you know, we've had a challenging performance over the last 18-odd months. I think some of the things we do need to keep in context is that the two types of market conditions that we generally don't tend to do well, one of them, markets are very cyclically oriented or very frothy and are coming out from a bear market.

So, this is not atypical. However, I think there have been some things that we have clearly underestimated. One is obviously demand for compute and the broadening out of industrial growth in almost all the larger countries in the world, maybe to the exception of China.

As the earnings system has continued to come through very, very robustly, in fact, if you look at last summer, NVIDIA was 35 times earnings, now it's 16, 17 times earnings. So, I mean I can go through a list of names which actually are selling at lower multiples today than they were last summer when we had sort of cut our exposure to these areas in a meaningful manner.

As you know, we do not have any philosophical issues owning these. We have owned some of these in a big way before, including deep cyclical, whether it's coming from energy. As you know, in '21, '22, we exited tech in '21, bought back in '23.

So, we have owned all of these historically. Now, as we reassessed our exposure and looking at the demand, some of the data points that began to shift in February, March or thereabouts in terms of GPU rentals, in terms of the pricing for compute in general, and some of the other demand indicators that we are looking at.

So, it turned in February, March, and as a consequence of that, we began to sort of change some of the names that we owned, and where we're seeing fairly strong outlook on a go-forward basis. So, as we speak today, we are actually overweight technology, we are overweight semiconductors.

The only portfolio that we are not overweight tech and semiconductors is actually emerging markets, where it is essentially South Korea and Taiwan, which is almost 40% of the index combined in tech. So, we are slightly underweight, but all of the other ones, we are actually overweight.

We cut back quite aggressively in utilities, healthcare, and staples. Some of them did not do as well as we had thought. While the earnings picture has been okay in utilities, et cetera, but clearly it could not keep up with the significant increase in estimates you've seen.

In fact, it's quite unprecedented, the estimates revisions you've seen in some of these areas. Our view is that the valuations today, if you believe these companies have studied longer duration, I think they could be reasonably attractive.

So, I think the portfolio looks meaningfully different today. I think that's not atypical of what we've done. This is not the first time I've underperformed this much. In fact, unfortunately or fortunately, I've been here before. I've underperformed far more than this and we recovered.

That is part of active management. Our core proposition is being adaptable. We talk about it all the time. But it does mean that from time to time, we would miss some of the trends. But the question is, do the fundamentals come back in those areas or new areas?

So, I think we feel quite excited in terms of how the portfolio is positioned and what the demand drivers are. We remain optimistic about our long-term performance outlook. Tim?

Tim Carver:

Thanks, Rajiv and thanks, everyone. I think we can open it up now for Q&A if anybody has questions.

Operator:

Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question.

Please limit your questions to two questions at a time. If you wish to ask a further question, please rejoin the queue. Your first question comes from Julian Braganza with Goldman Sachs. Please go ahead.

Julian Braganza (Goldman Sachs, Analyst):

Good morning, guys. Just the first question, I was wondering if you could provide some colour just around the gross flows and gross outflows. Just be interested. I know you don't provide the numbers but just be interested to see how that's been tracking more recently.

Tim Carver:

Hi, Julian. Yes, thanks for the question. I mean, as you note, we don't break that down. It's sort of hard for me to answer that in any generality without providing selective disclosure here. But what I say is that we continue to have positive inflows on a gross basis and obviously outflows on a gross basis. So, it's not completely one-sided.

Julian Braganza (Goldman Sachs, Analyst):

Okay. Then maybe just then in terms of the tax rate. The 25.3%, is that sustainable from here going forward?

Tim Carver:

Yes. So, I think that, as we've talked about before, the unique nature of US tax for a firm like ours is that we have many different states that we pay taxes in. So, we pay federal tax plus state taxes, and the state tax rates change all of the time, and it's obviously unpredictable to know exactly where tax rates will change state by state.

The best way to think about taxes has been just to take the current print and extrapolate that forward. I think that's the most accurate way to project taxes out in the future. We know, of course, that they will change, but there's no reason to believe that they should directionally change one way or the other. So, I think that the best thing to do is just extrapolate from the most recent tax rate and carry that forward.

Julian Braganza (Goldman Sachs, Analyst):

Okay, thanks so much for that.

Operator:

Thank you. Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. Your next question comes from Elizabeth Miliatis with Macquarie. Please go ahead.

Elizabeth Miliatis (Macquarie, Analyst):

Good morning and thanks for taking my question. I'm sorry if I missed it. I was just on another call. But just around portfolio positioning overall, we've been noticing a bit more of a lean into tech across the four funds. Just your view on what's shifted there.

Rajiv Jain:

Yes, so we have found better opportunities simply because some of the drivers on the compute side seem to be far more sustainable here versus even six months ago. I mean for example, if you look at GPU rentals late last year were actually declining, now they turned up a few months ago. If you look at the reseller price of GPUs, same thing. They were actually selling at meaningful discount late last year. That has begun to turn.

Second, the last part is the valuation of some of these hyperscalers had come off significantly. For example, NVIDIA, as I mentioned, was 35 times last summer, it's 16, 17 times now. Amazon was, again, high 20s or 30 times earnings, back to 20-odd times earnings. So, multiples have come off some of these names.

The second part is, in the sell-off in Korea and Taiwan, we thought that this is an excellent opportunity to actually go back in some of these names, simply because we do believe that the markets might remain tighter for longer, and the free cash regeneration is fairly strong.

So that's the other way we added. So, net-net, if you look at it today, the portfolio positioning seems to be fairly different from where it was March. So, we are actually overweight tech and semiconductors across all the books, marginally underweight emerging markets still.

But if you look at, for example, International, it's a few hundred basis points overweight. But I think the other big part is that the industrial CapEx numbers seem to be broadening out, whether you look at Europe, Asia, for the most part, but definitely North America. So that's the other area that we added. So, I think there's a lot less defensive posture in terms of our positioning as of now.

Elizabeth Miliatis (Macquarie, Analyst):

Okay, got it. Maybe just around on the financials, just costs going forward, how are you feeling around that cost-to-income ratio should flows continue to remain negative?

Tim Carver:

Yes, Liz, the way I'd answer that is we obviously are very careful about managing expenses. We obviously don't provide guidance, but there's no reason to believe that our aggregate expenses have to be meaningfully higher or are somehow abnormally low right now.

So, I think we'll just continue to be careful in managing expenses. As we've said before, obviously, the margin is driven by revenue, right? If you have market off by 10% or flows off by 10%, our margin would be impacted, of course.

Equally, if markets are up 10% or we had significant growth in revenue, our margins would expand. So, it's really the revenue line, and obviously, it's unpredictable what the revenue line would be. But all things being equal, there's no reason to believe that our margins would change materially from here.

Elizabeth Miliatis (Macquarie, Analyst):

Okay, got it. Thank you.

Operator:

Thank you. Your next question comes from Siddharth Parameswaran with J.P. Morgan. Please go ahead.

Siddharth Parameswaran (J.P. Morgan, Analyst):

Thank you for taking my question. Just a question for Rajiv. Rajiv, it seems like you've considerably changed your sector posturing and even some of the logic that you were previously giving around being defensive on tech.

Previously, you were talking about circular funding, et cetera.

Just curious, firstly, is that not an issue anymore? Secondly, it's such a rapid change in your assessment of this. How are the clients actually, how are your clients reacting to this? It seems like, having taken a very extreme stance leading to this, to some of the performance we've seen, to switch now, it seems like – it's probably the right thing to do, but have you had conversations? How are they taking this? Could you just give us some idea of exactly whether they're on board with this?

Rajiv Jain:

Yes, I think – Tim, you want to take that?

Tim Carver:

Rajiv, I was going to offer, let me take the client piece and then maybe you can talk about how you got to repositioning. Siddharth, it's important to understand that this is actually not atypical for us. We often – we don't have it in the slide deck this year, but if you go back and look at our historical earnings releases, you'll see that we move the portfolio around and often quite meaningfully and quite rapidly. That's part of what we're known for, is we talk about having a very adaptable approach, and we're following the data. It's bottom-up, stock by stock.

Clients expect that, and as long as it's rational and they understand that what we're seeing in our research is causing us to move portfolios, clients are on board for that. That's what they're expecting us to do. As we often say, if you want a dogmatic growth manager or dogmatic value manager, you can go find them, but what clients hire us to do is to move and be fairly aggressive in moving the portfolio, be adaptable, and follow the data very rigorously.

I don't think we have any risk with clients being upset about the portfolio moving. Now, what we have to do is make sure that we are communicating that clearly and that we're doing that for the right reasons. There may be some clients who have their own views, and they will sell our portfolios because our views are no longer in line with theirs, but it won't be because of the fact that we moved the portfolio. That is something that clients expect.

Rajiv Jain:

As Tim said, if you go back to 2021 second half, we cut back very aggressively in the last quarter of 2021, meaningful overweight tech to significant underweight tech, and we wrote about that extensively. In 2022, we entered 2022 with very little in tech and almost a high-teen exposure to energy. We exited 2022 with something similar, and by, in February, March, we were back overweight tech.

I think this is not atypical. I can go back over 25 years; we've done this again and again. But the question is, why are we doing this? The reason is that, whether the data points indicate if you're getting paid or not for the names that we would love to buy based on the valuation growth and obviously durability of that growth. It's the question of the conviction, and we did not have that high conviction, and obviously, the multiples are high.

As I said, where we have underestimated is the demand strength for compute and the pricing, so if the pricing changes, the GPU rental is \$1.50 or \$4 or whatever it is, that changes the economics for a lot of different things. Our job is to refresh the book literally on a daily basis. It is bottom-up, name by name.

We'll make mistakes, as we have done before, but I think in the long run, this adaptability has served us very well, because if, for example, things change again, it doesn't mean we are wedded to these names. As Tim said, most of the clients come here for, not saying, maybe we're going to be long the fastest-growing names forever, or we're going to be long energy forever. That depends on the bottom-up basis, expected returns.

Siddharth Parameswaran (J.P. Morgan, Analyst):

Okay, thank you, that makes sense. Just a second question, if I can. Fees. Average fees held up quite well. Just keen to understand if any conversations at all are being pursued by clients around fees. If you could just make some comments around the fee outlook.

Tim Carver:

No, there's nothing material on any – we have obviously thousands and thousands of clients, so I can't speak to every single client, but there's no material pushback on fees. I think our fees are very favourably priced in the marketplace. We started out the business that way. It's very consistent. So, no fee pressure of any substance there.

The one place that I would note is obviously, in this period, we did not have performance fees, and in prior periods, we have, so that's a significant contributor to the revenue line. But even still, the number of assets on which we have performance fees is single-digit percentage of our overall book, so that's not a huge driver to the business in any event.

Operator:

Thank you. There are no further questions at this time. I'll now hand back to Mr Carver for closing remarks.

Tim Carver:

Wonderful. Thanks again, everybody, for joining us, and thank you for the thoughtful questions. We'll look forward to seeing you on our roadshow here in a couple of weeks. Wishing everybody all the best.

ABOUT GQG PARTNERS INC.

GQG Partners Inc., a global investment boutique headquartered in the United States and listed on the Australian Securities Exchange (ASX Code: GQG), is focused on managing active equity portfolios for investors that include many large pension funds, sovereign funds, wealth management firms and other financial institutions around the world. Further information can be obtained from www.gqg.com.

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