



Investment update

As at 31 January 2018

Snapshot

Pre-tax net tangible assets

123.2C

Fully franked
dividend yield

3.7%

Gross assets

\$434.5m

Management and
performance fees

0%

futuregeninvest.com.au
ABN 97 063 935 553

Future Generation Investment Company Limited

ASX code	FGX
Date of listing	Sept 2014
Gross assets	\$434.5m
Market cap	\$415.4m
Share price	\$1.185
NTA before tax	\$1.23
Shares on issue	350,578,294
Management fees	0.0%
Performance fees	0.0%
Annual donation (% of NTA)	1.0%
Annualised fully franked dividends (FY2017)	4.4c
Fully franked dividend yield	3.7%

Investment objectives

- Provide an increasing stream of fully franked dividends.
- Achieve capital growth.
- Preserve shareholder capital.

Company overview

Future Generation Investment Company Limited (ASX: FGX) provides:

Shareholders with exposure to the best Australian fund managers without paying management or performance fees.

Charities focused on children and youth at risk with a stream of annual donations.

Fund managers with a unique opportunity to make a positive difference to Australia's future generations.

Chairman

Jonathan Trollip

Founder and Director

Geoff Wilson AO

Chief Executive Officer

Louise Walsh

Directors

David Leeton

David Paradice

Gabriel Radzysinski

Kate Thorley

Scott Malcolm

Investment Committee

Geoff Wilson AO, Chair

Bruce Tomlinson

David Smythe

Gabriel Radzysinski

Matthew Kidman

Company Secretary

Mark Licciardo

Net tangible asset (NTA) figures

NTA before tax	123.23c
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NTA after tax and before tax on unrealised gains	123.63c
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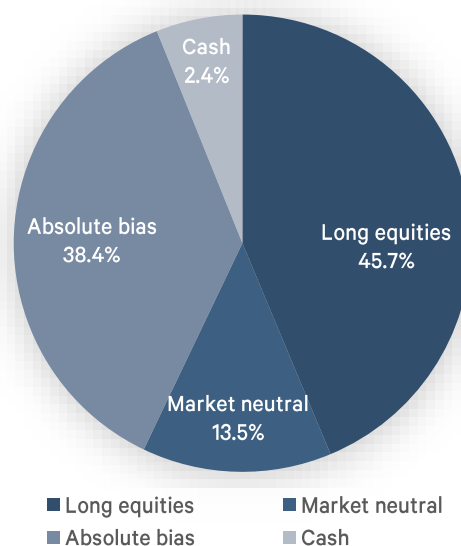
NTA after tax	120.98c
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Investment portfolio

In January, the FGX investment portfolio outperformed the S&P/ASX All Ordinaries Accumulation Index by 0.5%. The FGX portfolio increased 0.2% in the month while the Index fell by 0.3%.

Since inception, the investment portfolio has increased 10.4% per annum, outperforming the benchmark by 3.2%. The investment portfolio's outperformance has been achieved with less volatility as measured by standard deviation, 6.7% versus the market's 11.3%.

The spread between the three broad equities is 45.7% long equities, 38.4% absolute bias, 13.5% market neutral and 2.4% cash.



Long equities

Investing in a portfolio of equities based on the expectation that the underlying equities will increase in value within a certain time horizon. Each equity represents an ownership claim in an underlying company which is generally listed on a public stock exchange. The long equities portion of the portfolio includes exposure to large-cap, mid-cap and small-cap stocks.

Market neutral

An investment strategy that generally involves the simultaneous purchase and sale of equities, to generate returns that are not linked to the performance of underlying equity markets.

Absolute bias

An investment strategy that seeks to generate returns, irrespective of the performance of traditional asset classes. These strategies use innovative investment techniques (including but not limited to short selling and leveraging) to profit from rising and falling markets, providing portfolio protection in the event an equity market experiences a significant fall.

Fund manager	Investment	Strategy	% of portfolio
	Large/Mid Cap Funds (split out below)		11.6%
Paradice Investment	Paradice Mid Cap Fund – B Class	Long equities	6.5%
	Paradice Large Cap Fund	Long equities	5.1%
Bennelong Australian Equities Partners	Bennelong Australian Equities Fund	Long equities	10.8%
Regal Funds Management	Regal Australian Long Short Equity Fund	Absolute bias	10.0%
Wilson Asset Management	Wilson Asset Management Equity Fund	Absolute bias	8.8%
Watermark Funds Management	Watermark Market Neutral Trust	Market neutral	7.1%
Tribeca Investment Partners	Tribeca Alpha Plus Fund	Absolute bias	7.1%
	Small/Emerging Companies Funds (split out below)		6.8%
Eley Griffiths Group	Eley Griffiths Group Small Companies Fund	Long equities	5.8%
	Eley Griffiths Group Emerging Companies Fund	Long equities	1.0%
	Long Short/Aus Equities Funds (split out below)		5.9%
L1 Capital	L1 Capital Long Short Fund – Retail Class	Absolute bias	3.4%
	L1 Capital Australian Equities Fund	Long equities	2.5%
Cooper Investors	Cooper Investors Australian Equities Fund	Long equities	5.3%
Sandon Capital	Sandon Capital Activist Fund	Absolute bias	4.4%
Bennelong Long Short Equity Management	Bennelong Long Short Equity Fund	Market neutral	3.4%
ARCO Investment Management	ARCO Investment Management (Optimal Australia) Absolute Trust	Market neutral	3.0%
CBG Asset Management	CBG Asset Australian Equities Fund	Long equities	2.5%
Vinva Investment Management Limited	Vinva Australian Equities Fund	Long equities	2.5%
Discovery Asset Management	Discovery Australian Small Companies Fund	Long equities	2.2%
LHC Capital	LHC Capital Australia High Conviction Fund	Absolute bias	1.8%
Centennial Asset Management	The Level 18 Fund	Absolute bias	1.7%
Smallco Investment Manager	Smallco Broadcap Fund	Long equities	1.5%
Lanyon Asset Management	Lanyon Australian Value Fund	Absolute bias	1.2%
	Cash and Term Deposits		2.4%

Fund managers



Fund manager in focus: Regal Funds Management



Regal Funds Management is a specialist long/short equities investment manager with offices in Sydney and Singapore. Regal manages approximately \$1.5bn in funds under management across five key strategies:

Absolute return – a high conviction, highly leveraged long/short equities strategy;

Market Neutral – a variable beta strategy that seeks to provide investors with equity like returns without being correlated to equity markets;

Active extension market neutral strategy – a fixed beta strategy that utilises the market neutral research to move overweight and underweight the S&P/ASX 300;

Active extension small company's strategy – a strategy which aims to outperform the S&P/ASX Small Ordinaries Accumulation Index; and

Emerging Companies – a closed-end fund which targets unlisted and pre-IPO investment opportunities.

For more information, visit www.regalfm.com

Our investment style

Regal invests using a fundamental approach and tends to be style agnostic. Investments are made where the investment team see the greatest opportunities. As a result, this approach may cover a blend of styles including value and momentum. The investment process for the Fund focuses on a four-step stock-selection process which emphasises the bottom-up valuation of companies. It is important to note that the 'starting point' for all investments by the Fund is almost always bottom-up stock selection. As a result, the investment management team spends considerable time meeting with management of companies in which we invest and talking to their suppliers, customers and competitors.

Unlike many traditional long-short managers, our investment process does not stop with a bottom-up valuation. We seek to identify macro factors and trends affecting a company. This allows us to choose whether we hedge these risks away or to seek to benefit from them. We also seek to identify a catalyst that will change the market's perception of value. Minimising the time of investment greatly reduces risk. Finally, we ask ourselves the question, "What is our insight in this trade?" We admit we are fallible and identifying our edge in a trade helps us to minimise mistakes.

Regal constructs a portfolio with a conviction based weighting that seeks to give exposure to company-specific risk rather than systemic market risk.

Our market outlook

Equity markets have started 2018 strongly and the risk of a pullback has risen. High growth companies especially will face stronger valuation headwinds in 2018 as markets adjust to the proximity of higher interest rates and the prospect of lower liquidity. Notwithstanding this, we believe that quality companies with sustainable growth plans will continue to be rewarded with higher share prices. Accordingly, any short-term reduction in valuations are likely to represent good opportunities for profit taking on the Funds shorts and buying opportunities for our core alpha longs.

Performance as at 31 January 2018	3 mths	1 yr	3 yrs %pa	5 yrs %pa	Since inception %pa
Investment Portfolio	6.2%	17.1%	8.4%	12.4%	12.9%
S&P/ASX 300 Accumulation Index	3.2%	12.4%	7.5%	9.0%	7.8%
Outperformance	+3.0%	+4.7%	+0.9%	+3.4%	+5.1%

Charity in focus: Australian Children's Music Foundation



About Australian Children's Music Foundation

The Australian Children's Music Foundation (ACMF) is a not-for-profit organisation inspiring creativity and imagination by providing weekly music education classes and instruments to disadvantaged children and youth at risk throughout Australia. Music lessons can take place at schools, drop-in centres, Juvenile Justice Centres, PCYCs or children's hospitals – using existing local networks and infrastructure to identify and connect with those most at need.

ACMF and FGX

FGX funding for ACMF is directed to music programs at schools in Taree on the mid north coast of NSW and Sunshine in West Melbourne, Victoria. Children in the Taree schools are from diverse backgrounds, with over 30% of all students from an Indigenous background and many students from a very low socio-economic background. Children in the Sunshine schools are from enormously different cultural backgrounds, many of the students are refugees and come into schools with little or no English language skills, and over 40 different nationalities are represented in the community.

Over the past year, nine specialist music teachers were employed to deliver the program over 12 schools, with 1,716 children participating in free music lessons over the year. Through research conducted at the participating schools, we have found that the FGX-funded music programs not only directly improve attendance, self-confidence, creativity and teamwork but also indirectly result in improvements in general curriculum learning in areas such as literacy and numeracy through increased engagement with schooling.

For more information visit www.acmf.com.au



Q&A with founder and CEO Don Spencer OAM

What impact does the FGX funding have on your organisation?

It has a huge impact on our organisation. Sadly, in Australia, more and more children are suffering from emotional problems. Music is food for the soul, and our teachers tell us week after week that they see the effect of our programs. The funding we get from FGX allows us to run more music programs – and so reach more children.

What is the biggest challenge for the organisation?

Getting funding is our biggest issue – especially ongoing funding. We have so many requests for programs – we can't meet them all. The majority of funding sources that go to children deals with their physical needs, but the ACMF and our music programs deal with their emotional needs. I believe this is just as important – we give children in our programs hope and resilience to face their future.

What is a burning issue in the area in which you operate?

Too many children today, particularly the disadvantaged, feel disengaged and that they don't belong. Music, the universal language, re-engages them, inspires them, challenges them and makes them feel *part* of something. Children who study and play music perform better academically – the studies have been done over and over again – but most importantly it makes them feel happiness and joy. It makes them feel part of a team. It transcends all barriers of race and religion, money, upbringing – you're just making music together. It truly is magic.

Charities



Service providers

