



# Investment update

As at 30 June 2018

## Snapshot

Pre-tax net tangible assets

**\$1.28**

Fully franked  
dividend yield

**3.5%**

Gross assets

**\$453.4m**

Management and  
performance fees

**0%**

[futuregeninvest.com.au](http://futuregeninvest.com.au)  
ABN 97 063 935 553

## Future Generation Investment Company Limited

ASX code	FGX
Date of listing	Sept 2014
Gross assets	\$453.4m
Market cap	\$440.9m
Share price	\$1.255
NTA before tax	\$1.28
Shares on issue	351,351,497
Management fees	0.0%
Performance fees	0.0%
Annual donation (% of NTA)	1.0%
Fully franked dividends (FY2017)	4.4c
Fully franked dividend yield	3.5%

### 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 Paradise AO  
Gabriel Radzynimski  
Kate Thorley  
Scott Malcolm

#### Investment Committee

Geoff Wilson AO, Chair  
Bruce Tomlinson  
David Smythe  
Gabriel Radzynimski  
Matthew Kidman

#### Company Secretary

Mark Licciardo

## Performance

	6 mths	1 yr	3 yrs % pa	Since inception %pa (Sep-14)
<b>Performance at 30 June 2018</b>				
FGX Investment Portfolio*	6.4%	17.5%	12.9%	11.0%
S&P/ASX All Ordinaries Accumulation Index	4.0%	13.7%	9.5%	7.6%
<b>Outperformance</b>	<b>+2.4%</b>	<b>+3.8%</b>	<b>+3.4%</b>	<b>+3.4%</b>

\*Investment performance and Index returns are before expenses, fees and taxes.

## Investment portfolio

In June, the FGX investment portfolio increased 2.0%. The S&P/ASX All Ordinaries Accumulation Index rose 2.9% for the month. Since inception, the investment portfolio has increased 11.0% per annum, outperforming the benchmark by 3.4%. The investment portfolio's outperformance has been achieved with less volatility as measured by standard deviation, 6.5% versus the market's 11.1%.

The spread between the three broad equities is 56.1% long equities, 31.0% absolute bias, 11.2% market neutral and 1.7% cash.

## Net tangible asset (NTA) figures

NTA before tax	127.82c
NTA after tax and before tax on unrealised gains	127.20c
NTA after tax	123.51c

## Portfolio update

FGX is pleased to introduce Firetrail Investments and QVG Capital to the investment portfolio. FGX fully redeemed its holding in the Discovery Australian Small Companies Fund on 31 May 2018, and partially redeemed its position in the Watermark Market Neutral Trust on 15 June 2018. FGX deployed the additional capital and existing cash within the investment portfolio with the new investments in the Firetrail Absolute Return Fund and the QVG Opportunities Fund.

As at 30 June 2018, the investment portfolio is made up of 20 fund managers with investments in 23 funds.

## Defending the current dividend imputation system

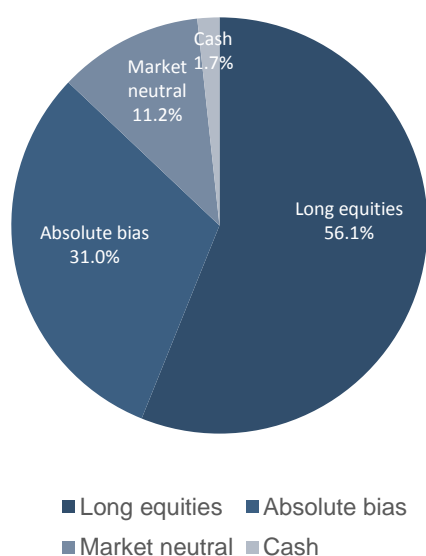
The Federal Opposition has proposed changes to the current dividend imputation system. We firmly oppose these changes and are supporting Wilson Asset Management's campaign to call on the Commonwealth Government and Federal Opposition to maintain the status quo. We believe it is unfair to change the rules for self-funded retirees, older workers and low income earners.

You can show your support for the current system by **signing the Wilson Asset Management petition** to maintain the momentum. Wilson Asset Management are currently consulting with shareholders and industry participants, and we will submit the petition along with a policy paper explaining the importance of the current system.

## Fund manager allocations

Fund manager	Investment	Strategy	% of portfolio
Bennelong Australian Equities Partners	Bennelong Australian Equities Fund	Long equities	12.0%
	Large/Mid Cap Funds (split out below)		11.9%
Paradice Investment	Paradice Mid Cap Fund – B Class	Long equities	6.6%
	Paradice Large Cap Fund	Long equities	5.3%
Regal Funds Management	Regal Australian Long Short Equity Fund	Long equities	10.5%
Wilson Asset Management	Wilson Asset Management Equity Fund	Absolute bias	8.6%
Tribeca Investment Partners	Tribeca Alpha Plus Fund	Absolute bias	7.4%
	Small/Emerging Companies Funds (split out below)		6.5%
Eley Griffiths Group	Eley Griffiths Group Small Companies Fund	Long equities	5.5%
	Eley Griffiths Group Emerging Companies Fund	Long equities	1.0%
	Long Short/Aus Equities Funds (split out below)		5.5%
L1 Capital	L1 Capital Long Short Fund – Retail Class	Absolute bias	3.0%
	L1 Capital Australian Equities Fund	Long equities	2.5%
Cooper Investors	Cooper Investors Australian Equities Fund	Long equities	5.4%
Watermark Funds Management	Watermark Market Neutral Trust	Market neutral	4.8%
Sandon Capital	Sandon Capital Activist Fund	Absolute bias	4.4%
Bennelong Long Short Equity Management	Bennelong Long Short Equity Fund	Market neutral	3.6%
Firetrail Investments	Firetrail Absolute Return Fund	Absolute bias	3.2%
ARCO Investment Management	ARCO Investment Management (Optimal Australia) Absolute Trust	Market neutral	2.8%
CBG Asset Management	CBG Asset Australian Equities Fund	Long equities	2.5%
Vinva Investment Management Limited	Vinva Australian Equities Fund	Long equities	2.4%
Centennial Asset Management	The Level 18 Fund	Absolute bias	1.7%
LHC Capital	LHC Capital Australia High Conviction Fund	Absolute bias	1.7%
Smallco Investment Manager	Smallco Broadcap Fund	Long equities	1.4%
Lanyon Asset Management	Lanyon Australian Value Fund	Absolute bias	1.0%
QVG Capital	QVG Opportunities Fund	Long equities	1.0%
	Cash and Term Deposits		1.7%

## Investment strategy allocation



### 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.

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## Pro bono fund managers

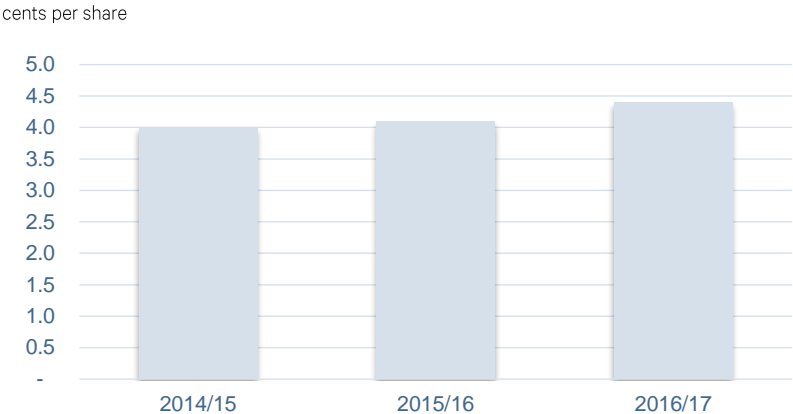


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# Fully franked dividends

The Board is committed to paying an increasing stream of fully franked dividends to shareholders, provided the Company has sufficient profit reserves, franking credits and it is within prudent business practices. Since inception, FGX has paid 12.5 cents per share in fully franked dividends to shareholders.

## Fully franked dividends since inception



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## Fund manager in focus: Firetrail Investments



Firetrail is an investment management boutique firm founded in 2018. The firm was established with a goal to align our people with our clients. Importantly, the firm is majority owned by our investment staff and the team is invested, alongside our clients, in the investment strategies.

Firetrail manages two high conviction investment strategies:

1. the Firetrail Australian High Conviction Fund – a concentrated portfolio of our best Australian equities ideas.
2. the Firetrail Absolute Return Fund – a market-neutral, fundamental equities strategy that is uncorrelated to Australian equities, global equities and bond markets.

For more information, visit [firetrailinvest.com](http://firetrailinvest.com)

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### The Firetrail history

Prior to establishing Firetrail, the portfolio management team including Patrick Hodgins, Blake Henricks and James Miller worked together at Macquarie for over a decade. The team were responsible for managing the highly successful Macquarie High Conviction Fund, which delivered 10.6% p.a. (after fees) from inception in November 2005 to October 2017.

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### Performance

Since inception in March 2018, the Firetrail Absolute Return Fund has returned 4.1% for investors.

Future Generation Investment Company Limited invested in the fund under its absolute bias strategy in June 2018.

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### Investment style

Firetrail are specialists in high conviction equities investing. Portfolios are built on the best available long and short opportunities, backed by deep fundamental research.

Our unconstrained, bottom-up investment approach is built on the key investment principle that 'every company has a price'.

Any company may be an investment opportunity if it is mispriced. In our experience, investment opportunities are not confined to a particular industry, company type or investment style (e.g. value or growth).

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### Market outlook

Key themes Firetrail are watching closely in the equities market include:

**Global growth acceleration** – Growth is picking up as a decade of low rates starts to impact activity. Capital expenditure is on the rise, particularly in mining. The US growth continues to accelerate, driven by US housing, despite headwinds from US/China trade wars.

**Raw material inflation** - Higher AUD oil prices is one of the key drivers of raw material inflation. Our channel checks indicate that pallet and packaging companies such as Brambles and Amcor are facing raw material inflation now. Consumer facing retailers are currently not seeing a lot of cost inflation pressure. However, we expect raw material cost push inflation to flow through the supply chain over time.

**Australian domestic economy** – Job advertisements growth has been strong, up 15% calendar year to date on the previous year, and wages are set to rise after years of stagnation. However, this is being offset by a peak in asset prices, particularly on Australia's east coast, driven by a credit crackdown. In our view, the domestic economy looks 'just okay'.

Despite uncertainty in the macroeconomic environment, opportunities in both long and short positions remain abundant. In our view, the key to uncovering the opportunities is to stay unconstrained and invest with conviction.

## Charity in focus: Lighthouse Foundation



### About Lighthouse Foundation

Lighthouse Foundation aims to work with the community towards ending youth homelessness.

FGX's funding of \$378,773 in 2017 has been used to deliver Lighthouse's Therapeutic Model of Care for homeless young people living in a supported environment with full-time carers in five of its 10 suburban family homes. Up to 20 young people benefit directly, with an average stay of 18 months, and a return to education a key focus. Lighthouse expects to see a permanent end to homelessness for these young people, who are aged from 15 years. This funding has enabled Lighthouse to extend its work to care for younger children in the past year.

Lighthouse returns \$12 of social value for every dollar invested in its programs. The cost to society ranges from \$350,000 to \$1.1 million if the cycle of homelessness is not broken.

### Lighthouse Foundation and FGX

The consistency of FGX's support enables Lighthouse to have a reliable and consistent source of funding. This underpins our care of homeless young people aged from 15 years and allows us to assist younger children who have had terrible experiences being moved from place to place. FGX plays an important role as our major supporter in our circle of community care and they set an inspiring example for others in business to follow. They are like the good corporate parent that makes sure the lights are kept on, there is food on the table, and the house is warm.

The collaboration with FGX brings extraordinary benefits to some of Australia's most severely abused and alienated children and youth. Young people present to Lighthouse after what is referred to as 'multiple placement breakdowns'. One young boy, under eight years of age, was moved 18 times in two years, and naturally expected that on every car trip, he would end up at another strange house, with another set of strangers to deal with. Another of our young people, who finished his schooling over two years at Lighthouse, had been in eight foster families before the age of 15 years. It took him a long while to trust that he could unpack his bag at Lighthouse.

We would like to thank each FGX shareholder and fund manager for their generous support and the extraordinary impact they are having on these children's lives.

For more information, visit [lighthousefoundation.org.au](http://lighthousefoundation.org.au)

### Q&A with Susan Barton AM, founder of Lighthouse Foundation

#### What is your driving motivation in your current role?

All children deserve safety and a loving family. I fight with every bit of my energy to change things for the better. We must continue to address the trauma of those young people who have been homeless and affected by family violence and neglect. We need to continue to demonstrate the unique Lighthouse Model of Therapeutic Care, which wraps them up in a loving family home, with a community committee of committed volunteers to help reconnect them with school and the wider community. I will always strive to speak up for these kids, and be as loud as possible, until everyone hears the message that we need to work on this together – as a community.

#### What is the most challenging aspect of your role?

The stories of the children's experiences are sometimes incredibly upsetting to hear. It is hard to imagine how adults can hurt a child so badly, or how they can neglect a child so cruelly. It is no wonder that so many homeless young people don't trust any adults and are hostile to those who try to help care for them. This can be heartbreaking work, but also wonderfully rewarding when we see a young person graduate to independent living with confidence and life skills.

## Charities



## Service providers

