

Investment update

As at 31 July 2018

Snapshot

Pre-tax net tangible assets

\$1.29

Fully franked
dividend yield

3.4%

Gross assets

\$456.5m

Management and
performance fees

0%

Future Generation Investment Company Limited

ASX code	FGX
Date of listing	Sept 2014
Gross assets	\$456.5m
Market cap	\$453.2m
Share price	\$1.29
NTA before tax	\$1.29
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	3.4%

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 Radzyninski
Kate Thorley
Scott Malcolm

Investment Committee

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

Company Secretary

Mark Licciardo

Performance

	6 mths	1 yr	3 yrs % pa	Since inception %pa (Sep-14)
Performance at 31 July 2018				
FGX Investment Portfolio*	6.9%	18.4%	11.5%	10.9%
S&P/ASX All Ordinaries Accumulation Index	5.7%	14.9%	8.4%	7.7%
Outperformance	+1.2%	+3.5%	+3.1%	+3.2%

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

Investment portfolio

In July, the FGX investment portfolio increased 0.8%. The S&P/ASX All Ordinaries Accumulation Index rose 1.2% for the month. Since inception, the investment portfolio has increased 10.9% per annum, outperforming the benchmark by 3.2%. The investment portfolio's outperformance has been achieved with less volatility as measured by standard deviation, 6.5% versus the market's 11.0%.

The spread between the three broad equities is 57.2% long equities, 31.2% absolute bias, 11.1% market neutral and 0.5% cash.

Net tangible asset (NTA) figures

NTA before tax	128.58c*
NTA after tax and before tax on unrealised gains	126.80c
NTA after tax	124.34c

*The NTA before tax figure is after the payment of \$404k (0.11 cents per share) in tax during the month.

Defending the current dividend imputation system

The Federal Opposition has proposed changes to the current dividend imputation system that would impact self-funded retirees, older workers and low-income earners. It is vital to encourage your family and friends to sign FGX fund manager Wilson Asset Management's [petition](#) to maintain the momentum. Wilson Asset Management continues to fight against the proposed changes to the current dividend imputation system. You can view the results of its recent poll in the Australian Financial Review's [coverage](#).

Investor conference call

We look forward to providing an update on Future Generation during our investor conference call on Tuesday, 4 September at 11.00am - 12.00pm (Sydney time). Founder and Director Geoff Wilson and CEO Louise Walsh will provide an update on Future Generation Investment Company (FGX) and Future Generation Global Investment Company (FGG). We will end the call with a Q&A so we encourage you to ask questions.

Dial-in number: 1300 254 410

Access code: 5276493#

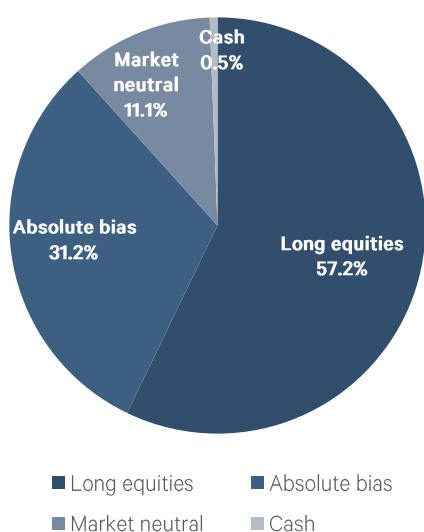
International dial-in number: +61 3 8687 0634

[Register now](#)

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	10.4%
Wilson Asset Management	Wilson Asset Management Equity Fund	Absolute bias	8.9%
Tribeca Investment Partners	Tribeca Alpha Plus Fund	Absolute bias	7.4%
	Small/Emerging Companies Funds (split out below)		7.2%
Eley Griffiths Group	Eley Griffiths Group Small Companies Fund	Long equities	6.2%
	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	5.5%
Watermark Funds Management	Watermark Market Neutral Trust	Market neutral	4.8%
Sandon Capital	Sandon Capital Activist Fund	Absolute bias	4.3%
Bennelong Long Short Equity Management	Bennelong Long Short Equity Fund	Market neutral	3.5%
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	2.5%
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	1.6%
QVG Capital	QVG Opportunities Fund	Long equities	1.1%
Lanyon Asset Management	Lanyon Australian Value Fund	Absolute bias	0.9%
	Cash and Term Deposits		0.5%

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.

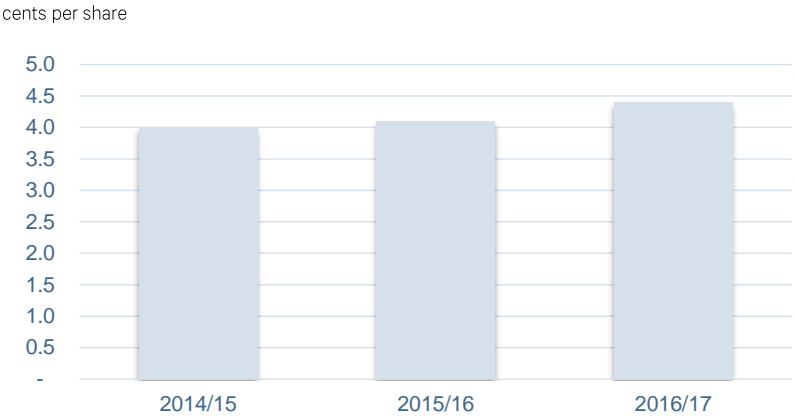
Pro bono fund managers



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



Fund manager in focus: Sandon Capital

SANDON CAPITAL

Sandon Capital was established in 2008 and is a deep-value fundamental investment manager that uses activism as a tool to preserve or enhance the value of its investments. Sandon Capital is the investment manager of Sandon Capital Activist Fund (SCAF) and Sandon Capital Investments Limited, an ASX listed investment company (ASX: SNC).

For more information, visit
www.sandoncapital.com.au

Investment style

Sandon Capital is a value investor, employing activist techniques to unlock and enhance the value of investments. Sandon Capital views activism as a critical tool to increase shareholder value. This is the process of seeking and investing in under-valued companies using traditional value investing criteria, and then using activism to unlock the value inherent in the company.

Rather than trying to passively predict future events, Sandon Capital seeks to actively play a role in determining a company's future. This is done by taking an active role in proposing changes in the areas of corporate governance, capital management, strategic and operational issues, management arrangements and other related activities. The Company's approach to activist investing is about ensuring companies operate in the best financial interests of the shareholder. The objective of Sandon Capital's investment strategy is to deliver positive absolute returns to investors. It aims to achieve this objective by seeking to invest in opportunities that they consider are trading below their intrinsic value and that offer the potential for active engagement to alter the status quo and improve or extract value.

Market outlook

Sandon Capital is a bottom up stock picker and does not focus on trying to predict where the market is heading. However, Sandon Capital is conscious of the environment it is operating in and has two inter-related concerns about equity markets currently:

Rising interest rates

Since the global financial crisis, the market has seen falling interest rates drive significant increases in equity markets, as investors have been willing to ascribe ever increasing valuations to listed companies. Some market analysts have said that rising interest rates do not matter because for the first time since the global financial crisis, we are seeing a synchronised global economic recovery. However, Sandon Capital believes the relationship between interest rates and share market valuations is a mathematical truism and expects equity markets to come under pressure as interest rates are raised around the world.

Valuations/Expanding multiples

Goldman Sachs strategists in the US recently put out a note highlighting that the median multiple of the S&P 500 is in the 99th percentile historically, indicating that there are few periods in history where the US equity market has appeared more overextended than it is now. Here in Australia, UBS equity strategists wrote a note highlighting that the recent sharp run-up in small cap stocks has been driven by multiple expansions with investors chasing the promise of earnings growth, which has yet to materialise. The key driver of any investment return is the price that is initially paid for an investment. With the valuations of many stocks currently at historically high levels, caution must be exercised regarding the returns that will be generated from buying at inflated prices.

Despite these concerns, Sandon Capital continues to identify attractive, undervalued investment opportunities where some persuasion can be applied to improve and extract shareholder value.

Performance

Performance at 31 July 2018	3 yrs % pa	5 yrs % pa	Since inception %pa (Sep-09)
Sandon Capital Activist Fund*	9.3%	11.9%	12.3%
S&P/ASX 200 Accumulation Index	8.0%	9.2%	8.6%
Outperformance	+1.3%	+2.7%	+3.7%

* Calculated net of all fees, assuming reinvestment of distributions and using unit mid-price. Indices are before fees.

Charity in focus: United Way Australia



About United Way Australia

United Way Australia works collaboratively with our partners and the community to improve early childhood outcomes and school to work transitions. One in five Australian children will start school developmentally vulnerable, while in some communities of disadvantage this can be as many as one in three. United Way understands the importance of improving early childhood outcomes for vulnerable children.

United Way Australia and FGX

Generous support from FGX has enabled United Way to reach more than 1,160 children and families in communities experiencing vulnerability in Doveton Victoria, Acacia Queensland, Mount Druitt NSW, and those living in out of home care. Through the Dolly Parton Imagination Library program, free monthly books are delivered to the child's home, building critical early learning skills, alongside literacy resources for parents and carers, and community reading events and workshops. Children who have a poor foundation or are behind in their language or reading capabilities are more likely to be unable to catch up to their peers, drop out of high school and not continue to tertiary education. The act of reading a storybook aloud to a child has been referred to as the single-most important thing adults can do to promote the emergent literacy skills of young children.

As our funding grows we hope to add many more vulnerable children to the program, as well as provide additional innovative tools and engagement strategies to support the parent/carers, who is the child's first and most important teacher.

For more information, visit www.unitedway.com.au

Q&A with Clayton Noble, CEO of United Way Australia

What is your driving motivation in your current role?

When I first started in this role I was keen to bring my knowledge, expertise and passion from the corporate world to the table and give back in the social purpose sector. What I found though, was the more I contributed, the more I grew as a person and a leader. I have had the opportunity to connect and learn from many incredible people from all walks of life. I remain highly motivated to play my part in bringing about social change, but I am now also humbled by the opportunity afforded to me to engage in something meaningful, to learn and to grow.

What is the most challenging aspect of your role?

The communities where we work love the Imagination Library. Once we start enrolling families in a new location and the word gets out, we receive countless calls from mums, dads and grandparents wanting to get their children signed up as well. Unfortunately, we often have to place limits on our enrolments due to restricted funds. Having to disappoint parents is hard on our passionate and caring staff who know how this program can impact a child's trajectory in life.

What does it mean to have the support of FGX?

Simply, hundreds of children have a better chance at life because they have access to early literacy materials which prepare them to read and learn. As the saying goes, it takes a village to raise a child. United Way may be the mobiliser, however, FGX pro bono fund managers and service providers are the architects and the shareholders are the enablers. Together, we are making a difference.

Charities



Service providers

