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BY ELECTRONIC LODGEMENT

VGI Partners Global Investments Limited: Speaker Notes for FY19 Results Conference Call

Presenter:

Mr. Robert Luciano (Director of VGI Partners Global Investments Limited; Executive Chairman and Portfolio Manager of VGI Partners Limited, The Manager)

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Presentation:

Good morning and welcome to the full year 2019 results conference call and webcast for VGI Partners Global Investments Limited.

With me in the room is Douglas Tynan and Ingrid Groer, VG1's Investor Relations Manager. David Jones, our Chairman of VG1, is on the phone from Canberra.

Thank you for joining us today. If you are a long-term shareholder, we thank you for your ongoing support. We also welcome any new shareholders who may have recently joined our register, whether through buying on-market, or participating in our Entitlement Offer in June.

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Now turning to page 2 of the presentation, we are pleased to report that VG1 reported an operating profit after tax of $50.6 million for the year to June, which equates to earnings after tax of 18 cents.

This means that VG1's portfolio generated a post-tax return of +10.2% (net of fees) for the financial year. NTA finished the year at $2.39 per share, and rose further to $2.45 at the end of July.

We have not declared a dividend and this is consistent with the messaging that we have provided since listing in 2017 – namely, that the portfolio is focused on capital growth. Furthermore, our long-term global investment strategy generates insufficient franking credits to pay a sustainable fully franked dividend for now.

As mentioned earlier, a key event during the period was the Entitlement Offer that we announced in May. This was a unique structure, with participants in the VG1 Offer entitled to participate in the IPO of VGI Partners (the

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Manager of VG1) and there was no other way to access the Manager IPO if you were not an investor in VGI Partners' funds, VG1 or purchased VG1 rights on market.

Now we very purposefully put in place a structure that would materially increase the alignment of interests between VGI Partners, VG1 and investors in VGI's funds and Individually Managed Accounts.

As many of you would know, the offer was oversubscribed and we raised our target of $300 million. We also welcomed many new shareholders onto the VG1 register, including a number of our largest fund investors and IMA investors.

VG1 shareholders who participated in the VGI IPO would be aware that VGI Partners shares have traded strongly since listing, and are currently up well over 100% from the $5.50 listing price. We are pleased that we have been able to share this share price performance with our investor base.

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Now please turn to page 4 for some background on VGI Partners, the Manager of VG1.

- VGI Partners is a specialist wealth manager, focusing on global equities. Post VGI's IPO in June, it is 80% owned by myself, Douglas Tynan and Robert Poiner, who manages our New York office. We did not sell down any shares in this process, and we remain fully committed to the business, with the vast majority of our shares escrowed for 5 years.
- We now have 28 professional staff across three offices in Sydney, New York and Tokyo. Over the last year we have grown the team in our Representative Office in Tokyo to four professionals and we continue to add to our professional staff base in Sydney and New York.
- VGI Partners currently deploys a single investment strategy across all our funds and managed accounts.
- Our unlisted funds are closed to new investors. So this means the only way to currently gain access to our strategy is by purchasing VG1 shares on market, or becoming a wholesale investor in our Charitable Foundation Class, which has extremely limited capacity.

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Turning to page 5 of the presentation.

VGI Partners invests primarily in global equities, comprising long investments, short positions and cash. Our investment philosophy reflects the following three key tenets:

Capital preservation – that is, do not lose money.

We are extremely focused on seeking to avoid any permanent loss of capital.

We aim to increase the likelihood of capital preservation through two means. First, by investing in high-quality businesses that are easy to understand and that trade at prices which we believe exhibit a sufficient 'margin of safety' – that is, trading at prices that are significantly below the intrinsic value of the business. And second, by using little or no leverage and keeping prudent cash buffers at all times.

Our second key tenet is **long-term compound growth**. We seek to deliver superior risk-adjusted returns over the long-term. Our target is to achieve compound returns of 10-15% per annum, after all fees and expenses, over the long term and through the investment cycle, which we deem to be 5 to 7 years.

We also aim to do this through **portfolio concentration**, and this is the third tenet. Portfolio concentration means concentrating capital in a relatively small number of high-quality investments. As a result, the top 5 investments will typically represent 40-50% of VG1's portfolio when it's fully invested.

Importantly, we are not afraid to hold cash when attractive opportunities fail to exist.

Well that sums up our three key investment tenets.

So at this point, I would like to talk about our philosophy on alignment of interests. As shown on slide 5, when we launched VG1 we sought to design a fund that would appeal to all investors. This included VGI Partners (the Manager) committing to pay VG1's upfront listing costs and permitted ongoing operating costs. VGI Partners also paid for VG1's transaction costs in the recent VG1 raising.

We also took a number of steps to make sure that key management of VGI Partners were aligned with VG1 shareholders. In particular, the founders of VGI Partners – being Doug Tynan, Rob Poiner and myself – committed to a performance fee reinvestment mechanism, and the importance of this should not be underestimated by VG1 shareholders.

As a result, in addition to our initial purchases of VG1 shares in the IPO process and ongoing purchases on market, the reinvestment mechanism has meant that Douglas Tynan, Rob Poiner and I collectively are among the largest shareholders of VG1.

Going forward, the reinvestment scheme means that when VGI pays a dividend, then we – the founders of VGI – will reinvest our pro-rata amount of performance fee (after tax) back into VG1 shares. As far as we're concerned, we don't believe that there is a greater system in place by any other Listed Investment Company to encourage and enhance the alignment of interest between the Manager and the shareholders of a Listed Investment Company.

We note that VGI Partners' result will be released next Tuesday, the 27th of August, so we're going to have more to say then about the mechanics of the reinvestment mechanism. However, what I can say: if VG1's share price is below the 30 June NTA of $2.39, the reinvestment mechanism that we have in place will require a material on-market purchase of VG1 shares over a 20 day trading period starting in September.

Please see Section 4 of VGI's prospectus, which is available on our website, for more detail of the reinvestment mechanism.

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Turning to page 6. The VGI Partners Master Fund portfolio has delivered compound annual returns of +15.0% after all fees since it was established in January 2009.

The table also demonstrates that VGI Partners has been successful in achieving its performance objectives every year since inception. It is important to note that this has been achieved with an average cash weighting of approximately 30%.

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On slides 6 and 7, you'll get a summary of the VGI Partners Master Fund returns and return profile and that gives you as a VG1 shareholder a sense of the return profile that the investment strategy delivers when it's fully invested. The VG1 portfolio at the moment has a larger proportion of cash, so its returns will vary from our fully invested Master Fund, but the reason why we're including these slides is as a point of reference to get a sense of how our strategy has performed and continues to perform.

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Now please turn to page 9 for a discussion on VG1's performance.

VG1's post-tax NTA increased +10.2% during the reporting period to $2.39 per share at the end of June. This rose further to $2.45 in July.

The VG1 share price rose 6.6% over the year to $2.37 as at 30th of June. Note that this performance has been adjusted for the impact of the rights issue, and this is consistent with the approach taken by Bloomberg and other professional market data providers.

While VG1 has traded at an average premium of approximately 4% since listing, this has not been maintained in the last couple of months and the stock is currently trading at a modest discount. Now we believe this is primarily due to investors rebalancing their holdings in VG1 post the recent Entitlement Offer (which may have resulted in some holders purchasing additional VG1 shares in order to access shares in VGI Partners, the Manager).

We do anticipate that this will be resolved over time, but we note that VGI Partners has the capacity to buy VG1 shares on-market, and we did this as recently as one week ago.

We also remind VG1 investors that the VG1 Board has committed not to issue any new equity in VG1 until June 2022, unless as part of a value-enhancing acquisition of another Listed Investment Company, or to satisfy the performance fee reinvestment mechanism.

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Now turning to page 10 of the presentation. VG1's long investments rose in value and contributed +6.2% to the performance during the period. Short positions contributed a positive +0.7% and the contribution from our long-term currency strategy was +3.3%.

CME, MasterCard and Amazon were the largest long contributors during the period.

The largest long detractor was Zillow Group. Zillow has now been fully exited from the portfolio.

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Regarding the short portfolio, we are pleased with its positive +0.7% contribution. We continue to believe that maintaining a short portfolio can generate positive returns over time, and that our shorting process helps us to scrutinise long investments more carefully. This is a competitive advantage that very few other funds have the capacity to offer.

Currency contributed +3.3% to VG1's net performance during the period. VG1 is denominated in Australian dollars but is very substantially exposed to the U.S. Dollar through both investments it owns, as well as its cash holdings, which we have decided to hold entirely in U.S. Dollars to date.

As you know, we made the conscious decision to not have any U.S. Dollar currency hedges in place at the time of the IPO. We will actively manage currency hedging as our analysis of the economic outlook for Australia evolves relative to the US, but also Europe, the United Kingdom and key countries in Asia, especially Japan.

We continue to believe the U.S. Dollar remains attractive relative to the Australian Dollar.

At some point in the future we will progressively hedge VG1's U.S. Dollar exposure. However, this will not happen until our fundamental analysis suggests that the Australian Dollar is more fairly valued.

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Now please turn to page 11 for an update on VG1's portfolio.

The table on the right here sets out the top five long investments as at 30 June. These collectively represent 33% of the VG1 portfolio.

As shown in the table, the portfolio had 52% net equity exposure at the end of June, with 70% long and 18% short. The cash weighting was 48%. This cash weighting partly reflects the recent $300 million capital raising. We have started to prudently deploy this additional capital. As discussed earlier, all cash is currently held in U.S. Dollars and this position is not hedged.

In terms of geographic split, 74% of the long portfolio investments were listed in North America, 18% in Asia, which includes Australia, and 8% in the UK and Europe. Many of our long investments which are listed in North America have material exposure to international growth. This is especially the case for Colgate Palmolive, Amazon, MasterCard and also Spotify. We are also seeing a range of opportunities in Asia, with most of our recent investments occurring in this region.

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Now please turn to page 12 for our view on markets.

In essence, due to the low interest rate environment, we feel that the vast majority of high-quality businesses continue to trade at valuations which imply unlikely levels of growth into perpetuity.

However, market volatility has returned and we believe there will continue to be good opportunities in the future to make purchases for the VG1 portfolio. Thus, the VG1 portfolio continues to maintain a relatively sizeable cash holding, and this will enhance our ability to execute in times of market uncertainty and extreme volatility.

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We remain confident that we will continue to generate acceptable risk-adjusted returns through the investment cycle, by concentrating our capital in a relatively small number of high-quality businesses that we believe are significantly undervalued, combined with selective short-selling and limited use of leverage.

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Now our shareholder engagement program is summarised on page 13. By now, many of you would be aware of the major events on our calendar and the independent research that's available on VG1.

What you might not know is how important it is to register your email address with our Investor Relations team if you are going to get the full benefits of being a VG1 shareholder.

We would like to be able to send you our meeting notes from the Berkshire Hathaway Annual Meeting and the Daily Journal Annual Meeting. There is also relevant material which we send to our investors in the funds and VG1 shareholders. So – if you haven't already done so – please sign up, or ask your financial adviser to add your details to our register.

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So that brings us to the end of the presentation and we will now move to questions.

Operator, could we please have the first question? Thanks very much.

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