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29 January 2020

ASX Market Announcements
ASX Limited
Level 6, Exchange Centre
20 Bridge Street
Sydney NSW 2000

BY ELECTRONIC LODGEMENT

Investor Letter from VGI Partners Limited

VGI Partners Global Investments Limited (ASX:VG1) is pleased to make available the enclosed Investor Letter prepared by VGI Partners Limited in relation to the performance of VG1 for the twelve months ended 31 December 2019.

Ian Cameron
Company Secretary

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VGI
PARTNERS

29th January 2020

Investor Letter

"Rational people don't risk what they have and need for what they don't have and don't need."

\- Warren Buffett

Dear Fellow Investors,

For the twelve months ended 31 December 2019 (CY19), **VGI Partners Global Investments Limited (ASX:VG1)** generated a post-tax return of **+8.0%** after all fees.

VG1's average monthly net exposure in CY19 was 56% (81% Long Investments less 25% Short Positions), with an average monthly gross exposure of 106%. This means that on average for every $100,000 you had invested with VG1 during CY19, we owned $81,000 of equities and sold short $25,000 of equities for a net equity exposure of $56,000.

Our overall net return was below our long-term objective to deliver average compound annual net returns of 10% to 15% per annum through the cycle. It also lagged our VGI Partners Master Fund return of +10.5%. While VG1 seeks to replicate the Master Fund over the long term, we have been wrong to date in being too conservative in deploying capital from the $300 million capital raising undertaken by VG1 during the year. We have maintained a relatively high cash balance in VG1 while making the error of not buying some of our positions more aggressively at lower prices, so they were not at full target weights.

For example, MasterCard (NYSE: MA), which rallied 58% in CY19, currently represents 12% of our Master Fund but only 8% of VG1. Clearly if VG1 had been closer to our target weighting during CY19 then this would have aided our VG1 performance. In hindsight, we should have held more in VG1, but we were waiting for a better entry price which never came. Mea culpa!

To the extent that our decisions have been sub-optimal, you can be assured that it is not due to a lack of alignment between the Manager and shareholders. Robert Luciano, Douglas Tynan and their respective families, as well as VGI Partners, continue to buy shares on-market and currently own just over 11 million shares in VG1, which is an investment of $27.5 million at the current Net Asset Value. Our primary focus is on delivering attractive risk-adjusted returns for all shareholders. We are extremely focused on avoiding any permanent loss of capital and will not change our processes during ‘hot markets’.

At times this approach can be very challenging. When we recently met with some long-term VGI Partners investors we compared the current investment environment to being invited to a great party and being the designated driver – watching happy party-goers have plenty of fun while we sit sipping mineral water.

Looking back, we were extremely well-positioned in late 2018 going into a period of rising US interest rates, which culminated in a global market sell-off in the fourth quarter of that year. As a result, VG1 achieved a 10.8% return in CY18, and materially outperformed on a relative basis.

The sell-off towards the end of 2018 should not be quickly forgotten, as it provides a reminder of what happens to asset prices when global markets no longer assume interest rates will stay at historical lows forever.

Reflecting on CY19, the Fed’s move to drop US rates in January 2019 was a modest surprise but not completely unexpected given the sell-off in markets and worries regarding an economic slowdown. However, not all companies benefited equally when markets embraced a renewed low rate environment, pushing earnings multiples even higher than we had seen before. In particular, our largest investment position, CME Group, saw its business buffeted by the headwinds of lower interest rate expectations with the result that it made only a modest positive contribution to returns for the year. CME tends to not perform as well in lower interest rate environments due to reduced levels of interest rate trading activity. We firmly believe that CME’s long-term outlook remains favourable and, as long-term investors, we expect that even the best investments with the greatest long-term potential will have periods of relative underperformance.

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As long-term VGI investors know, we like to begin our investor letters with an instructive quote that reflects our thinking at the time of writing. We decided to begin this letter with Warren Buffett's observation: ***"Rational people don't risk what they have and need for what they don't have and don't need."***

Buffett's remark is top of mind at present as we are currently experiencing a situation where the intoxicating spell of low rates seems to have infected financial markets to a level which, in our view, is without precedent.

Extraordinarily low rates have left their mark across every layer of society and the positive and negative effects leave a very long shadow. At the upper end, wealth has been turbo-charged, especially for those who have aggressively leveraged to buy equities, fixed income and property. For the less wealthy – which includes young people aspiring to enter the property market and the elderly with pension accounts and cash savings – it has been devastating. Thus the disparity between the top and the bottom tiers of wealth have been exacerbated and looks set to worsen. This can only have negative long-term consequences for western societies. The impact is starting to be felt through the shift towards political extremes and, in a number of European countries, a nationalistic fervour which feels uncomfortably similar in tone to dark times in history.

At the time of writing we feel that risk is rising sharply across all asset classes and markets are failing to price this heightened level of risk. At VGI Partners the risk of permanent loss of capital is what we focus on and our portfolios are built accordingly. We are on high-alert and believe the current investment landscape is not normal. With asset valuations artificially inflated by the elixir of non-existent risk-free rates we are seeing a consequential desperation by investors to chase any remaining skerrick of return.

We do not know what the catalyst for the party to end will be, or when, but no doubt it will be obvious to us all in hindsight. Our guess is the absence of central banks' firepower to deal with the next downturn will slowly undermine confidence that all of the world's ills can be solved with the one-trick wonder of lowering rates to zero and beyond.

Applying Buffett's thinking to today's conditions, the importance of capital preservation is clear. We believe this is best achieved by avoiding the temptation to increase our exposure to a frothy market, instead staying true to the proven investment approach that we have followed since the inception of VGI Partners in 2008. There are two key elements to this approach. First, we invest 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 our assessment of the intrinsic value of the business. And second, we use little or no leverage and keep prudent cash buffers.

As always, we remain confident that we will continue to generate superior risk-adjusted returns over the long-term and through investment cycles by concentrating our capital in a relatively small number of high-quality businesses that we believe are significantly undervalued and by avoiding the use of leverage.

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VG1's **+8.0%** net return for CY19 consisted of a **+11.9%** positive return from the Long Portfolio, a **-3.7%** detraction from the Short Portfolio and a **-0.2%** detraction from our long-term strategic currency positioning. We will discuss our Short Portfolio as well as our active currency management approach in detail later in this letter.

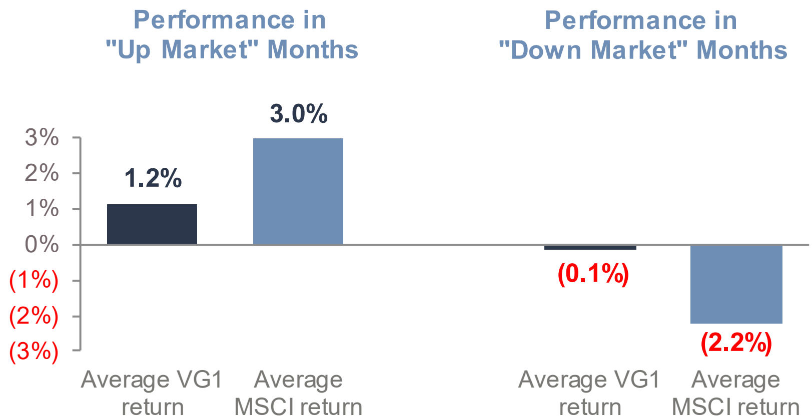
Since inception in September 2017, VG1 has generated a net return of **+20.8%** after all fees. This represents a compound annual net return to investors of **+8.8%** over this period.

Put another way, AUD100,000 invested in VG1 in September 2017 grew to circa AUD120,800 at 31 December 2019 after all fees and charges.

In addition, VG1 investors who participated in our raising in June 2019 were given exclusive access to the VGI Partners IPO. We are pleased to note that VGI Partners' shares have traded strongly since listing and closed at $12.40 on 28 January 2020, up 125% from the $5.50 listing price.

We remain highly disciplined in our approach and believe we should be well positioned for when the inevitable market correction occurs. As shown in the following chart, since inception, VG1 has tended to outperform in periods of market weakness. The VG1 portfolio fell an average of just -0.1% in down market months, when the Index fell by -2.2% on average.

VG1: Performance and Capital Preservation in Up / Down Months



Source: Citco Fund Administration and Bloomberg.
Note: The performance period includes 27 months since inception (18 "up market" months and 9 "down market" months).
MSCI = MSCI World Total Return Index (AUD).

Our investment philosophy of concentrating capital in our best ideas, complemented by selective Short selling and holding strategic cash reserves when valuations are not attractive, has been effective since VGI Partners' inception twelve years ago.

This is seen in the track record of our VGI Partners Masters Fund, which has delivered compound annual returns of 14.3% after all fees. We remain highly focussed on ensuring our process is adhered to at all times. We will not change our process to chase a 'hot' market, or to chase yield as discussed earlier.

Looking to the future, we believe that consistent application of our investment process, coupled with ongoing scepticism and hard work by our highly focussed Investment Team, will deliver superior risk-adjusted returns on our collective capital over a multi-year period.

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Performance Attribution for the Year to 31 December 2019

The following table lists the most significant stock contributors to the performance of our Long Portfolio for the twelve months to 31 December 2019.

Top Long Contributors to Returns in CY19	Contribution
MasterCard Inc.	3.2%
Linde plc	2.0%
Amazon.com Inc.	1.9%
Spotify Technology SA	1.6%
General Electric Co	1.6%
Total Contribution of Above	**10.3%**

Source: VGI Partners.

MasterCard (NYSE: MA) contributed **+3.2%** to performance for the twelve months to 31 December 2019, with the share price increasing **58.3%** over the course of the year.

MasterCard is the world's second largest global payments processor, behind Visa. The industry is a duopoly with MasterCard and Visa controlling the majority of the world's electronic payments. We believe that a strong secular trend toward electronic payments over cash and cheques will continue to drive both the revenue and earnings of MasterCard. Significant growth opportunities exist in developing countries as well as in new payment technologies (such as PayPass) that enable the more frequent use of electronic payments. We also view MasterCard as an attractive hedge against inflation – a higher cost of goods purchased will benefit the company's bottom line as it charges an ad valorem fee and has significant pricing power.

At the time of MasterCard's IPO in 2006, 85% of the world's consumer payments by value were transacted in cash. Today, despite the widespread adoption of electronic payments in developed markets, the global share of cash transactions still stands at 85%. This has occurred as emerging market transaction growth has outpaced that of developed markets. In emerging markets, 92% of transactions are still carried out in cash. This dynamic provides MasterCard with an incredibly long runway of growth.

On top of the secular tailwinds, attractive industry structure and inflation protection, MasterCard also has a high-quality management team that has maintained a debt-free balance sheet despite investing heavily in future growth projects.

Linde plc (NYSE: LIN) contributed **+2.0%** to performance for the twelve months to 31 December 2019, with the share price increasing **36.4%** over the course of the year.

Linde plc is the result of a merger between two of the big four industrial gas providers, Praxair Inc. and Linde AG. The merger closed in March 2019 and the combined business, Linde plc, is now the largest industrial gas player in the world, further consolidating an already highly concentrated industry.

We believe several factors make the industrial gas industry an attractive place to invest. The product is a small proportion of their customers' total cost base but an essential input; coupled with the industry structure this provides substantial pricing power. Industrial gas facilities require substantial initial capital requirements and often it will take three years to see any return on this investment. The industry has very long-term contracts with 'Take or Pay' provisions, improving earnings visibility. In addition, the industry has a highly consolidated market structure, with the top three players holding ~80% of the global market. Finally, the industry tends to form regional monopolies, as production must occur within 200km of the end customer.

We have been Praxair shareholders for many years as, in addition to the above factors, Praxair has a very high-quality, long term focused management team who are aligned with shareholders as a result of their substantial shareholding.

This former Praxair management team have been in control of the merged business since March 2019 and we believe their best-in-class execution combined with Linde AG's assets will result in significant pricing opportunities and margin improvement over the coming years.

Amazon.com (NASDAQ: AMZN) contributed **+1.9%** to performance for the twelve months to 31 December 2019, with the share price increasing **23.0%** over the course of the year.

We believe that Amazon has built a non-replicable global logistics network, providing it with a very wide and expanding economic moat in the rapidly growing online retail space. Incredibly, Amazon has built this business over the past twenty-five years without raising material equity or net debt. This shows us that Amazon has been able to fund its growth through a highly cash generative core business. We remain confident that Amazon's retail and logistics business will enjoy many years of impressive revenue growth and margin expansion.

In addition, Amazon is the leading global cloud computing provider through Amazon Web Services (AWS). This fast-growing market was effectively founded by Amazon, and as a result AWS benefits from significant first-mover and scale advantages. Amazon is also rapidly growing its advertising business, another additional source of high-margin revenues.

Amazon is a core position for us and while we do expect there to be significant share price volatility from time to time, as we have seen at times in the past, we expect that over the long-term we will continue to generate strong returns on our investment.

Spotify Technology SA (NYSE: SPOT) contributed **+1.6%** to performance for the twelve months to 31 December 2019, with the share price increasing **31.8%** over the course of the year.

Spotify is the global market leader in the music streaming industry with a c.40% market share. Music streaming continues to grow rapidly and now accounts for more than 50% of the global music market, up from just 10% five years ago. This is in contrast to other forms of recorded music, such as physical sales, which continue to decline.

We believe the addressable market for music streaming is enormous. There are more than 1.5 billion smartphones in the 80 countries (and growing) that Spotify currently operates in. With roughly 100 million paying subscribers, Spotify's customer penetration is well below 10%. This compares to penetration of greater than 40% in the Nordics, where streaming has been around the longest.

Spotify has been able to achieve this market dominance by creating a superior user experience. Spotify's systems automatically suggest songs for users, based on what they have previously listened to. This means the more a customer uses the product, the better the suggestions become. The quality of this technology is highlighted by its level of user adoption, with more than one-third of all Spotify listening hours being music that has been suggested by Spotify for the individual user. This is up from less than 20% only two years ago. As consumers create their own individual profiles within Spotify, they become increasingly reliant on Spotify for music through personalised playlists. We believe this significantly increases the customer lock-in.

We expect margins in these early years to be volatile as a result of record label renegotiations, however we believe Spotify will be able to leverage their market-leading position and scale over time to negotiate increasingly favourable terms. As Spotify's size and dominance grows, having access to their distribution platform will become vitally important to the record labels.

The value of Spotify's data to the record labels is increasing over time as Spotify knows what the consumer listens to, and more importantly is choosing what the consumer listens to more than one-third of the time. We believe Spotify will be able to extract significant economics by charging fees for promotion, data and analytics and further down the line, ticketing. This is still in the very early stages however we saw an initial launch of their paid promotion product in 2019 and expect these efforts to accelerate throughout this year. As you would imagine, this revenue has a very high incremental gross margin.

We believe the music streaming industry and Spotify's business evolution are still in the early stages and we expect this investment to be a multi-year winner.

General Electric Co (NYSE: GE) contributed **+1.6%** to performance for the twelve months to 31 December 2019, with the share price increasing **53.4%** over the course of the year.

General Electric consists of a number of industrial businesses that are critical to their global end markets. GE's largest and most valuable business, Aviation, is the global market leader in the manufacturing of aircraft engines and has an installed base of approximately 35,000 engines globally, powering two thirds of all the world's large aircraft. In fact, every two seconds an aircraft with a GE engine takes flight!

GE's Healthcare business is also a global market leader with its manufactured machines performing 16,000 scans per minute. GE Power, while currently being impacted from cyclical headwinds, generates more than 30% of the world's electricity with a highly valuable installed base globally.

In October 2018 the Board of GE appointed Mr Lawrence "Larry" Culp Jr. as CEO. In Mr Culp's prior role as CEO of Danaher Corporation (a highly successful globally diversified conglomerate) he oversaw total shareholder returns of 443% (or 14% annualised), from 2001 to 2014. This compares to an annualised return for the S&P 500 of just 5%. It is important to note that this is the first time the Company has appointed a CEO from outside GE since Thomas Edison founded the Company 126 years ago, thus bringing a fresh perspective.

Mr Culp has already taken a number of very important steps to release shareholder value, including quickly shrinking the troublesome GE Capital operations and selling part of the GE Healthcare business to significantly deleverage the balance sheet. Over the long-term, and under Mr Culp's stewardship, we believe that the fundamentals and underlying value of GE's core assets will be reflected in a higher share price.

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In this section of our letter we usually set out any individual positions that detracted from the performance of our Long Portfolio by more than 1.0% over the last twelve months. We do this in an endeavour to learn from our mistakes and not make the same ones in the future.

Fortunately, over the past twelve months none of our Long Investments detracted more than 1.0%. We have, however, made a number of mistakes. One mistake in the past twelve months was initiating an investment in Grubhub.

Grubhub Inc. (NYSE: GRUB) detracted **-0.8%** from the return for the twelve months to 31 December 2019, with the share price decreasing **-30.6%** between the initiation of our position in June 2019 and the end of the year. Fortunately, the situation has recovered somewhat in the early weeks of 2020.

GRUB is one of the largest food delivery networks in the United States, with almost 22 million customers purchasing over 450,000 meals per day from 140,000 restaurants across the country. VGI Partners previously held a position in GRUB in 2014 and it is a company that we have been following for many years.

GRUB's value proposition for the consumer is obvious, with a wide range of food options delivered to your door at the click of a button. For the restaurant, GRUB provides access to a large customer base and generates high-margin incremental takeaway orders for which the restaurant pays a fee to GRUB.

The business model is reliant on local two-sided network effects. Within each zip code, GRUB has to simultaneously attract new customers to the platform while convincing restaurants to join. As both sides of the network grow, the network increases in value and becomes harder to displace. This takes a lot of time, a lot of hard work and a lot of capital.

One of the attractions of GRUB is its dominant position in New York City, where it has a more than 70% market share. This is a highly profitable market which provides the cash to invest into earlier stage growth markets. While this provides a structural advantage for GRUB in competing against other platforms across the rest of the country, this advantage needs to be weighed against concerns over the impact of venture capital flowing into the food delivery industry.

The decision to exit our GRUB investment at a small profit in 2014 was a response to highly aggressive and irrational competitor behavior through promotions and discounts. Since then, the market has consolidated around several large players – Grubhub, Doordash, Uber Eats and, to a lesser extent, Postmates and Amazon.

In June 2019, Amazon announced that they would shut down their food delivery platform in the United States. We viewed this as an early sign of industry rationalisation. Over the ensuing months, we saw what we thought were further signs of rationalisation – in August Doordash acquired a smaller player Caviar; listed competitor Waitr put itself up for sale; Uber was increasingly focusing on profitability following its IPO and we saw increased pressure on Softbank-funded Doordash which was reportedly losing more than US$50m a month! We added to our position on the back of these events, which appeared to be the beginnings of a normalisation in the highly competitive food delivery sector. Unfortunately, our analysis of this situation was entirely incorrect, and in hindsight we suffered from confirmation bias. In other words, we interpreted new data as confirmation of our existing investment thesis, rather than spending enough time examining where we could be wrong. Amazon's exit from the industry was not a sign that competition was easing – it was an early signal of intensifying industry rivalry.

In October, GRUB announced that to remain competitive against Doordash and Uber they would reinvest significant levels of profit to acquire new diners (read promotions for diners) and add new restaurants to the platform that they do not have a paying relationship with (read free delivery for restaurants). While we were carefully monitoring GRUB's customer acquisition activity in the lead-up to this announcement, what we missed was that while they were continuing to acquire new customers at what seemed like an attractive return on investment, the quality of these new consumers was much lower. The new diners were switching between platforms with lower repeat rates and spending less on the GRUB platform. While we always questioned the size of the total addressable market, the existing players have clearly run into each other earlier than we thought.

The GRUB share price fell 43% on the day of the earnings downgrade, although it has subsequently clawed back more than half of those losses. We did not sell any shares after this earnings downgrade at significantly depressed prices. We believe GRUB continues to have a structural advantage from the New York profit pool that will allow them to effectively compete against Doordash and Uber. Additionally, we believe that GRUB is a highly attractive takeout candidate for a larger technology company. We currently have a 2.5% weighting in GRUB and we continue to closely monitor industry competition and dynamics relevant to this investment thesis.

The key lessons we have learned are to remain vigilant against confirmation bias and avoid owning businesses in industries with irrational competition.

To be sure, while we will most certainly make mistakes in the future, we will endeavour not to repeat the same ones!

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Short Portfolio

Collectively our Short Portfolio detracted -3.7% from performance for the twelve months to 31 December 2019 after contributing 3.8% to returns in the twelve months to 31 December 2018. The Short Portfolio averaged 25% of total portfolio capital throughout CY19 and increased in value by 15%. That is to say that on a weighted average basis the stocks that we were short throughout the year increased in price by 15% and consequently dragged our overall net returns by 3.7% in CY19. Of course, individual stocks in our Short Portfolio continue to make strong contributions, with one example being Corporate Travel Management (ASX: CTD). CTD has contributed c.1% to fund returns in the period since we released our detailed thoughts on the company to wholesale investors in October 2018 and this ongoing position is following a familiar trajectory.

With the benefit of hindsight, it would be easy to argue that we should not have had any Short Positions through CY19 and instead simply let the Long Portfolio do its job, which would have resulted in a further 3.7% in return for the year. However, at VGI Partners we do not manage money for any particular twelve-month period and this recent year has been characterised by most stock prices performing strongly, regardless of the quality or performance of the underlying business.

While our Short Portfolio in CY19 increased 13% less than the MSCI World USD total return index (which increased by a total of 28%), this does little to please us. The vast majority of our Short Portfolio losses this year are still active positions in the portfolio. We believe that our thesis on each of these stocks is intact and will eventually play out. If this occurs, we believe that we will not only earn our capital back on these Short Positions but also generate a positive net return for the portfolio. In the past, some of our best performing Shorts have gone against us 30% or more before eventually generating a significant total return for the portfolio.

In the current environment, in which many investors are throwing caution to the wind as markets grind upwards, it is perhaps no surprise to see those management teams which are prepared to stretch on their tip-toes to meet or beat market expectations being rewarded by an increased share price. We observed a litany of examples from within our Short Portfolio over the course of 2019.

One company trumpeted earnings at “the top end of guidance” after beating expectations by less than 0.01%. Left unsaid in the press release was that the headline earnings beat exactly matched the dollar value of an executive bonus voluntarily foregone by the Chief Executive Officer. Another company from our Short Portfolio reported 7% growth in earnings per share, but it was only when we reviewed the footnotes at the very back of the accounts that it became clear there were real question-marks over the quality of these earnings – more than 80% of the improvement in profitability related to an increase in “non-trade receivables”, including a landlords’ contribution to the new corporate head office, which is a non-recurring benefit. In more sober times the market would see this egregious conduct for what it is.

We believe our Short Positions, which are focussed on structurally flawed businesses, fads and accounting irregularities, will generate positive returns for VG1 over the long term.

An added benefit of looking for potential Short candidates is that everyone on the VGI Partners Investment Team is constantly on the lookout for what we call ‘red flags’. Red flags can come in many forms, including key insiders selling stock, accounting issues or the competitive landscape of an industry shifting. The VGI Partners Investment Team analyses this data with a sceptical eye, a key skill which we believe adds value to our analysis of the Long Portfolio by helping us identify any early emerging red flags in our Long Investments.

Finally, and importantly, our approach to Short Positions also enables us to reduce our overall market exposures and profit from falling equity markets during periods of uncertainty and heightened volatility. This is valuable insurance, providing us with a tool with which to cushion VG1's returns during a downward trending market.

Portfolio Update and Current Positioning

The following table details our current Top 5 Long Investments and clearly demonstrates that we continue to concentrate VG1's capital in our best ideas. Today, our Top 5 Long Investments represent 44% of total portfolio value. We do not diversify for diversification's sake – we believe that carefully concentrating investments remains the best strategy for preserving and growing our collective capital.

Top 5 Long Investments	% of VG1
1. CME Group Inc.	12%
2. Amazon.com Inc.	10%
3. Mastercard Inc.	8%
4. Colgate-Palmolive Co	7%
5. Spotify Technology SA	7%
Total	**44%**

Source: VGI Partners.

Our Long Portfolio is complemented by a forensically selected group of stocks we have sold short. The combination of the two, over time, works in unison to reduce equity market exposure while at the same time contributing to our portfolio returns.

VG1 currently has 67% net equity exposure, with 92% Long and 25% Short.

We mentioned earlier in this letter that a number of the high-quality businesses that we follow, and would like to own, are currently trading at valuations that we are not comfortable with. Nonetheless short-term volatility sometimes provides us with opportunities and in CY19 we added two new Long Investments to the portfolio.

One of these investments was La Française des Jeux:

La Française des Jeux (EPA: FDJ): In November 2019, we participated in the IPO of French monopoly lottery operator, La Française des Jeux. This was VGI Partners' first participation in an IPO since 2014.

Members of the VGI Partners Investment Team travelled to London and Paris (from Sydney and New York) on two occasions to meet with FDJ management and representatives of the French government in the lead-up to the IPO. Our efforts to thoroughly research the opportunity and present our credentials as investors were well-rewarded as we were allocated the fifth largest institutional allocation in the offering and the largest of any foreign institution (the top four were all French institutions).

FDJ has the exclusive license to operate lottery games in France, from traditional draw-based lotteries (EuroMillions, Lotto) to instant win games and scratch-cards. In addition, FDJ has the exclusive license to operate physical sports betting terminals (similar to Tabcorp in certain Australian states) and owns an online sports betting bookmaker. Importantly, the sports betting business, which we believe is of inferior quality compared to lotteries, only accounts for 15% of FDJ's earnings.

Historically, FDJ has been owned by the French government. As part of President Emmanuel Macron's privatisation drive, FDJ was the first asset to be privatized by the French government. In conjunction with the IPO, FDJ was granted a 25-year exclusive license to operate lottery games in France.

We view FDJ as an attractive asset because it has many of the characteristics we look for in high-quality businesses: an attractive industry structure (FDJ has a lottery monopoly), pricing power, acyclicality, cash-flow generation, a strong balance sheet and the potential to steadily grow earnings.

We are encouraged by the fact that France has one of the lowest levels of gambling spend per capita in Europe. We believe that this, combined with the low penetration of online gambling in France, will support future growth.

In addition, as we have seen with other government privatisations, we expect FDJ to be run more efficiently as a private enterprise and therefore anticipate cost-out opportunities.

Because the 25-year concession creates the risk of a “cliff-hang” (under the scenario where FDJ loses its license in 2044), we have not attributed any value to the business beyond the 25-year concession period. We believe FDJ is best placed to renew its concession and in the event FDJ is successful, it will represent pure upside to our investment.

The FDJ share price increased +14% on the day of the IPO and finished CY19 up +20%, contributing +0.4% to the return for the year.

As a highly cash-generative business, we expect FDJ to initiate meaningful shareholder return policies. In addition, there has been speculation that the company may look to bid for other lottery licenses, which we believe would be a wise use of capital, as this would diversify FDJ’s license risk in France.

VG1’s Performance as a Listed Company

At VGI Partners our primary focus will always be the long-term performance of the investment portfolio. While we expect that over the long-term the performance of VG1 as a listed security will closely track the performance of the portfolio, we are mindful that short-term factors may impact secondary trading of securities in a fashion that is counter to the interests of investors. Where appropriate we will take steps to address this.

In this context, we note that VG1 generally traded at a premium to its Net Tangible Assets (NTA) for the first 19 months post listing. As shown in the chart below, this has moved to a discount more recently. While a temporary discount may be viewed favourably by some new investors, we believe it is in the interests of all investors if VG1 generally trades at or around NTA.

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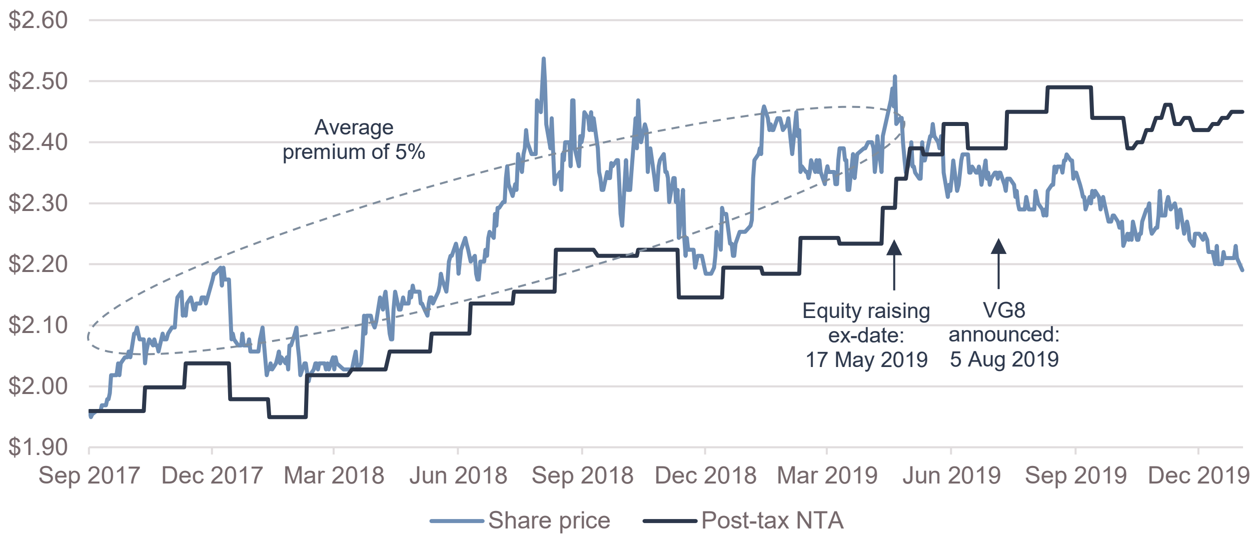
VG1 Share Price and Post-Tax NTA ($ per share)



Source: VGI Partners, Citco Fund Services and Bloomberg. Performance is shown after all applicable fees and charges. Post-tax NTA is calculated after tax on realised gains/losses, deferred tax assets and deferred tax liabilities, but before allowing for deferred tax liabilities/deferred tax assets on unrealised gains/losses. Weekly NTA values from November 2019 onwards are unaudited and based on estimates by VGI Partners. Share price and post-tax NTA data has been adjusted for VG1's capital raising in CY19 (applying an adjustment factor for data pre-rights issue).

A combination of industry factors and VG1-specific dynamics appear to have contributed to the emergence of the current discount to NTA. When we review the full selection of Australian listed investment companies (LICs) that focus on global equities, it is clear that during the course of 2019 premiums across the sector generally shrank and discounts increased.

In general, we believe the relationship between the trading price of a LIC and its NTA is driven by factors including the fund's performance, size, and perceived scarcity of opportunity to access the investment strategy.

While industry trends are likely a factor in VG1 moving to trade at a discount to NTA, a more significant contributor appears to have been the VG1 equity raising completed in May-June 2019. The capital raising may have temporarily reduced on-market demand for VG1 and we understand some investors participated in the VG1 raising to gain access to the VGI Partners IPO (which was restricted to VG1 raising participants) and have subsequently reduced their VG1 holding. This approach generated strong returns for these investors (when aggregating their combined VGI Partners and VG1 holdings) but has contributed to short-term underperformance for VG1.

We are also aware that the launch of VGI Partners' Asian fund (VG8) in the second half of CY19 contributed to some investors selling VG1 shares as they freed up capital for investment in VG8.

While we believe that it is likely that the current discount to NTA is a temporary phenomenon that will self-correct with time, the VG1 Board and VGI Partners' management team have announced a series of initiatives intended to address the discount in the shortest possible timeframe. These initiatives are primarily designed to maximize ongoing secondary market demand for VG1 shares and include:

1. Establishing on-market acquisition of shares in VG1 as the only means for new investors to access VGI Partners' global strategy. This is the case as VGI Partners' unlisted wholesale funds are closed to new investment.

2. Committing not to raise additional capital into VG1 until at least May 2022.

3. Robert Luciano, Douglas Tynan and Robert Poiner have committed to reinvest their pro-rata VG1 performance fees into VG1 shares. For so long as VG1 shares continue to trade at a discount these shares will be purchased on market.

4. VGI Partners has been an active purchaser of VG1 shares, acquiring 2.4 million shares between 25 June 2019 and 14 January 2020 for a total outlay of $5.5 million.

5. Commencing in November 2019, VG1 began releasing weekly NTA updates to the ASX (in addition to the monthly NTA statement that is required under the ASX Listing Rules). VG1 introduced weekly reporting in response to feedback that some financial advisers were uncomfortable buying VG1 shares for their clients at times in the monthly cycle where they felt they may not have full visibility regarding the impact of market movements on VG1's NTA.

6. Introducing a dividend program. VG1 has announced an intention to pay two fully franked dividends, each approximately 1 cent per share, after its 1H20 and FY20 results (which are released in January 2020 and August 2020 respectively). VG1 hopes to maintain this level over the longer term.

7. Expanding the VGI Partners investor relations team to increase engagement with shareholders and potential shareholders. This is a particularly important initiative as we have not previously had resources dedicated to working with and educating financial advisers and investors who are new to VG1. We understand that there is a substantial universe of advisers who may be interested in the VG1 opportunity provided only that we are resourced to engage with them appropriately.

As we mentioned earlier, Robert Luciano, Douglas Tynan and their respective families, as well as VGI Partners, currently own just over 11 million shares in VG1, which is an investment of $27.5 million at the current Net Asset Value. As a consequence, the Manager is highly aligned with all shareholders in seeking to close this discount.

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Alignment of Interests

As we have discussed in previous letters, we take alignment of interest between ourselves and you, our valued Investment Partners, very seriously.

VGI Partners' investment staff have the vast proportion of their net worth invested in our two Funds, our ASX listed investment companies (VGI Partners Global Investments Limited (VG1), VGI Partners Asian Investments Limited (VG8)) and VGI Partners itself. All staff are prohibited from purchasing securities outside the Funds, the listed investment companies and VGI Partners. We subscribe to the view that a manager should eat his or her own cooking and at VGI Partners that's exactly what we do. As a result, we and our families and close friends are the first ones to know if the cooking is not up to scratch!

"In the building practices of ancient Rome, when scaffolding was removed from a completed Roman arch, the Roman engineer who built the arch stood beneath. If the arch came crashing down, he was the first to know! His concern for the quality of the arch was intensely personal, and it is not surprising that so many Roman arches have survived."

- Seth Klarman, 'Margin of Safety'

Over the past twelve years (since inception of VGI Partners), all members of the VGI Partners Investment Team have consistently added to their investment in the Funds managed by VGI Partners. We all view these investments as our primary capital growth vehicle and thus our most important financial investment.

As a result of the above, you should be confident that our Investment Team's energy and effort is focussed on a singular outcome – to maximize returns while preserving capital for our collective portfolio.

At VGI Partners we focus all of our time and energy on managing your money.

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Currency

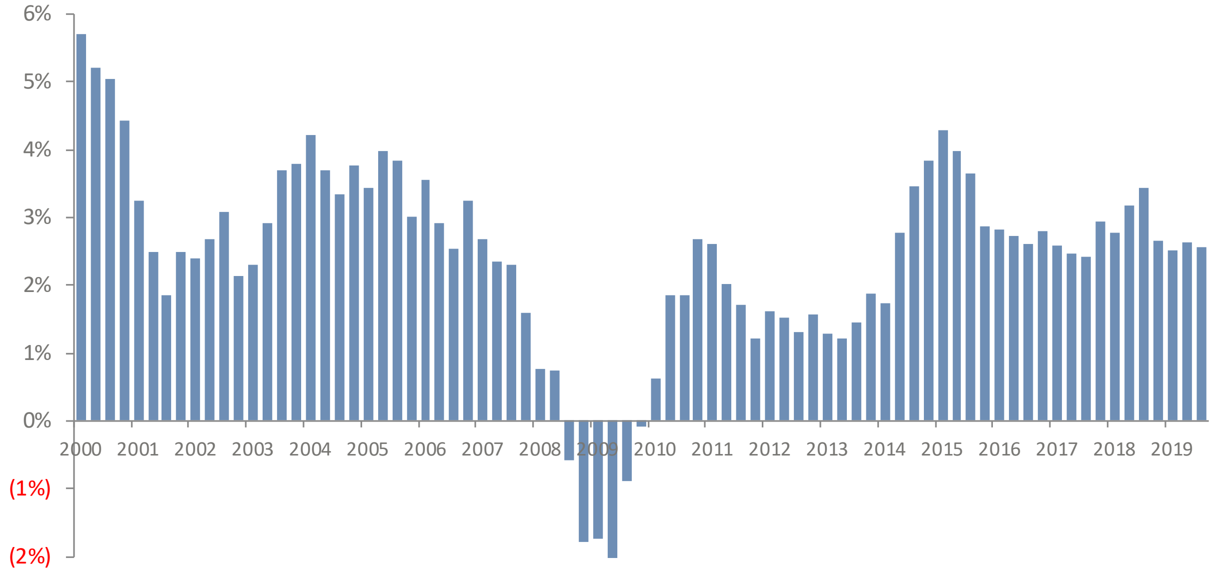
VG1 is denominated in Australian Dollars (AUD). We actively manage our currency exposure as our analysis of the economic outlook for Australia evolves relative to the US, Europe, the UK and Asia.

As background, our purposeful and active management of the currency has enhanced the VGI Partners Master Fund's total return by 20.7% since its inception in 2009. At inception, we were fully hedged against the USD when the AUD was 63 US Cents. We then progressively reduced this currency hedge as the AUD strengthened toward parity with the USD. We made the decision to fully remove our partial currency hedge in mid-2013 at just under parity with the USD. As a result, the VGI Partners Master Fund has benefited from being unhedged against the US Dollar since then.

In CY19, VG1's strategic currency positioning, which is based on our proprietary fundamental analysis, detracted **-0.2%** from returns. We continue to believe that the US Dollar remains attractive relative to the Australian Dollar.

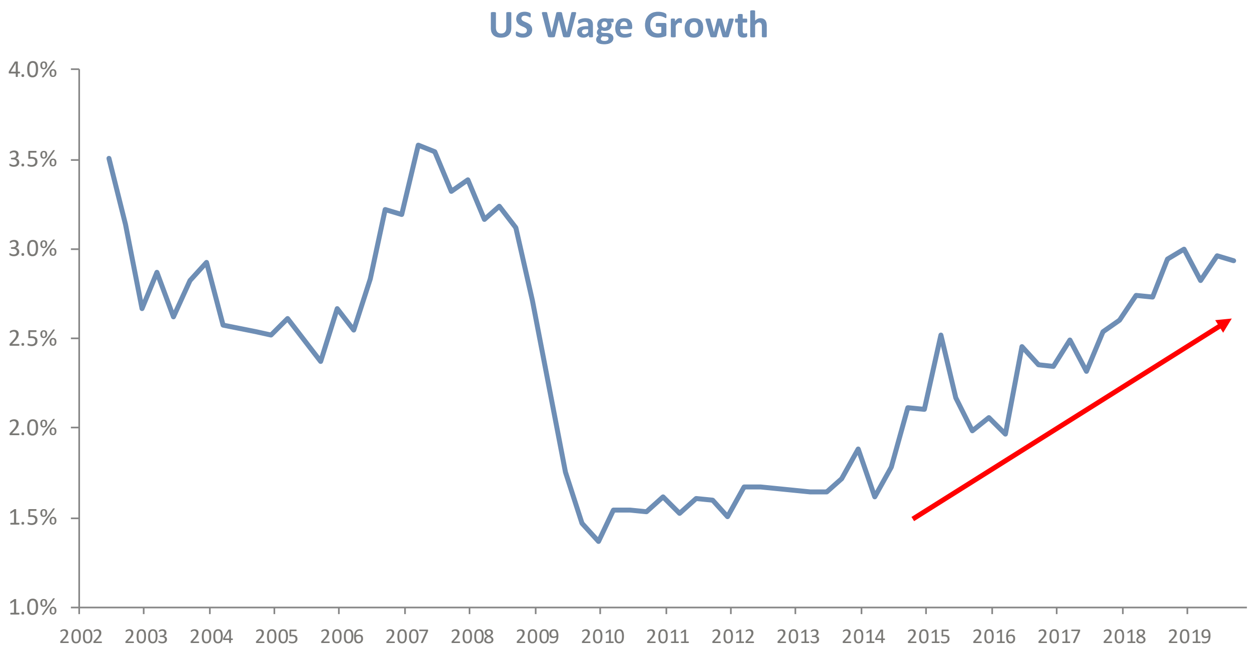
The US economy continues to outperform, driven by a strong US consumer sector.

US Real Household Consumption Growth



Source: US Bureau of Economic Analysis & VGI Partners analysis.

US household consumption is being supported by accelerating US wage growth. With the US unemployment rate at 50-year lows of 3.5%, and job growth remaining strong, we expect US wage growth acceleration to continue.



Source: US Bureau of Labor Statistics & VGI Partners analysis.

In our letter dated 29th January 2019, we went against consensus in highlighting our view that the Reserve Bank of Australia (RBA) would cut interest rates. Since this time, the RBA has cut the Cash Rate three times, to just 0.75%.

Over the year ahead, we believe that the RBA is likely to provide further monetary stimulus. As we have highlighted in prior letters, Australia's economic statistics have been flattered by an unsustainable debt binge over recent years.

We believe we are now at the start of an unwind of this period of excess. Australian household consumption growth has decelerated as consumers have focussed on repaying debt, despite stimulus from both lower interest rates and tax cuts.

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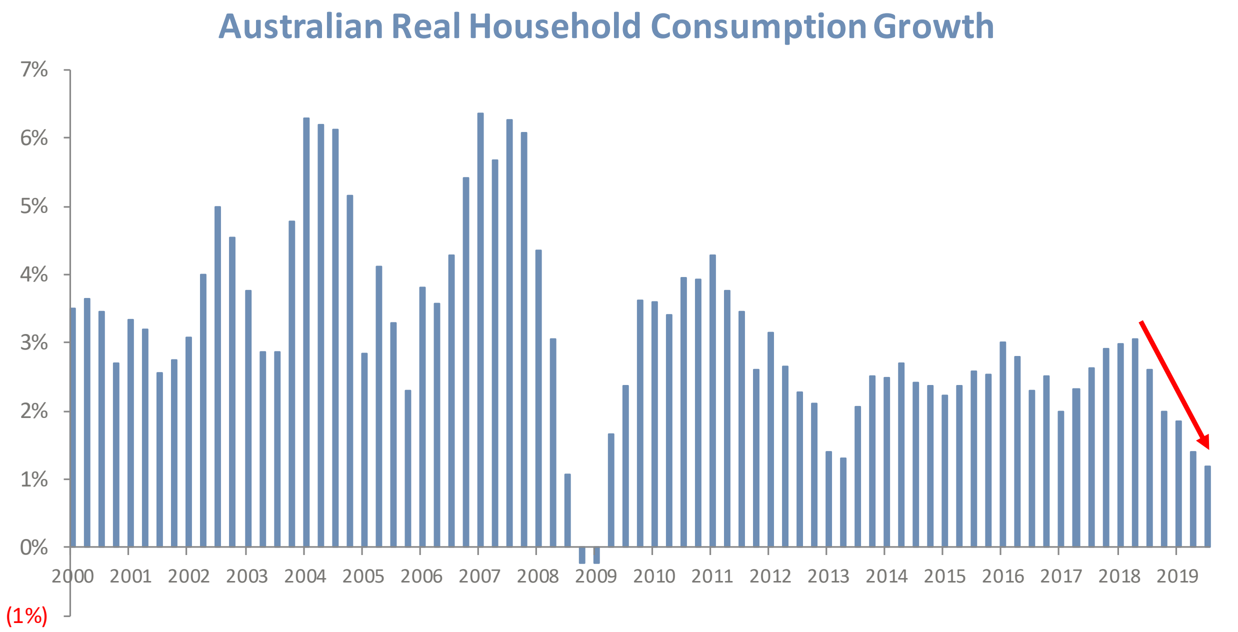
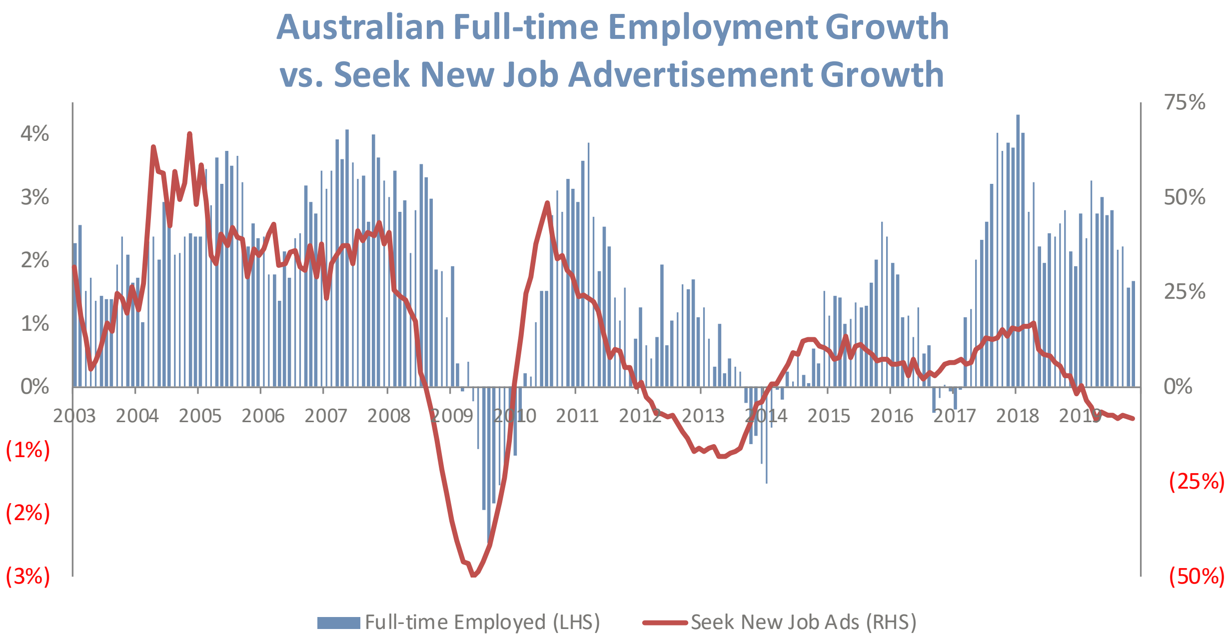


Source: Australian Bureau of Statistics & VGI Partners analysis.

Both the RBA and Wall Street consensus forecasts anticipate that Australian household consumption growth will accelerate over the coming years. However, the lead indicators we track for Australia suggest that the opposite is true. In particular, the red line in the following chart shows that growth in Seek New Job Advertisements is now negative. Typically, this occurs prior to a slowdown in Australian job growth.



Source: Australian Bureau of Statistics, Seek & VGI Partners analysis.

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

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Company Meetings

Over the past twelve months the VGI Partners' sixteen-person Investment Team conducted over 700 meetings and conference calls (a new VGI Partners record) with company management teams and industry experts around the world. Our travels took us to the UK, France, Japan, Singapore, Vietnam, Taiwan, Thailand and across the United States. We met with companies such as Ferrari, Nike, Swatch, Pinterest, Sony, Yamaha, China Resources Beer and Vietnam Airlines, and spoke with a wide variety of industry experts.

We believe that our in-depth research provides us with a competitive advantage in an environment of declining investment research budgets globally. In fact, sell-side equity research headcount remains in secular decline, down 10% over the past year and down 17% over the past four years according to Coalition Development, a research firm majority owned by Standard & Poor's. This provides increased opportunities to profit from our long-term, fundamental investment research.

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Operational Update

The VGI Partners team now consists of 29 people across Sydney, New York and Tokyo. We will continue to selectively recruit outstanding people to join the team.

Our Tokyo office continues to expand its reach and build its localised fundamental research capabilities and infrastructure in Asia.

Thomas Davies, a Senior Analyst on our Investment Team, relocated to New York during the year to further bolster our capabilities on the ground there.

The VGI Partners Team now includes nine CFA Charterholders. **Claudia Cole** successfully completed Level III of the CFA Program in New York and has now been awarded the CFA Charter. **Marco Anselmi**, having already completed the three CFA exams, was awarded the CFA Charter in November 2019. **Bryan Oh** and **Kanta Matsuo** in our Tokyo office are undertaking CFA Level II and Level I respectively this year and **Christopher Morris** will sit for the Level I exam in June. The CFA Charter is one of the most highly regarded qualifications an investment professional can earn, requiring completion of a six-hour exam for each of the three levels (pass rates for each of these exams are typically well below 60%).

Our Operations Team continues to build both in numbers and capabilities in all areas, spearheaded by **Adam Philippe** (Chief Operating Officer) and **Ian Cameron** (Chief Financial Officer). Maintaining the highest standards across IT infrastructure and security, risk management capabilities, back office processing and investor relations remains an ongoing priority. We continue to invest heavily in our systems and infrastructure to ensure that we remain well ahead of the curve and we continue to carefully select and partner with best in class experts and advisors in all operational areas.

VGI Partners has now been established for twelve years. We are fortunate that a number of our key team members have been with us for a substantial part of this journey. Robert Luciano, Douglas Tynan, Robert Poiner and Adam Philippe each have in excess of ten years of service. Special mention should also be made of Thomas Davies, Justin Hardwick and Elizabeth Bruce who have been with us for more than seven years.

VGI Partners will be hosting its annual Advisory Council meeting in Tokyo in May 2020. The VGI Partners' Advisory Council is an external and independent group of experienced investment management, finance and industry professionals.

Last year we were delighted to welcome the following special guests to our Advisory Council meeting in Washington DC:

- **The Hon Joe Hockey,** Australian Ambassador to the USA
- **Mr John Brennan,** Former Director of the Central Intelligence Agency (2013-2017)
- **Mr Ian Cook,** Executive Chairman, Colgate-Palmolive Co
- **Mr Benjamin Krasna,** Deputy Head of Mission, Embassy of Israel to the US

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This meeting provided the VGI Partners Advisory Council and Investment Team with a great opportunity to discuss investment ideas as well as important themes in financial markets and the US political landscape.

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The VGI Partners Foundation

We are delighted by the continued success of The VGI Partners Foundation. The VGI Partners Foundation seeks to make a sustainable difference to the health and wellbeing of Australian children and provide support to the families of people who have made a significant personal sacrifice while contributing to Australian society.

VGI Partners has experience in leading and providing critical mass to philanthropic initiatives that have not previously received the attention they deserve. We have established The VGI Partners Foundation in order to continue this tradition in a more structured fashion.

We look forward to reporting to you in the future on the activities of The VGI Partners Foundation as we continue to collaborate on initiatives with community and philanthropic partners to catalyse positive change, with an emphasis on research and education.

In order to support the activities of The VGI Partners Foundation, in 2018 we established a new Charitable Foundation Class of investment in the existing VGI Partners Master Fund. The Charitable Foundation Class mirrors the terms of the existing Fund classes, with the exception that 100% of management fees and performance fees on this class will be received by The VGI Partners Foundation in perpetuity.

Since inception in 2008, VGI Partners has made in excess of $5 million in charitable contributions.

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In Closing

At VGI Partners we are entirely focussed on managing our portfolio, which contains our best investment ideas from around the world. We are highly selective about what we include in our portfolio and unemotional about when we should divest an investment.

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Our unwavering commitment is to preserve your capital over the long term, regardless of the market environment, by owning high-quality assets which have been purchased with a margin of safety. We cannot eliminate short-term volatility from our returns however we are confident our process and investment philosophy positions our portfolio to produce acceptable returns over the long-term and through the cycle.

We remain optimistic about our existing portfolio and will continue to take advantage of opportunities that present themselves, particularly when times of fear and panic make their eventual return. We are very grateful that we have long-term oriented investors who entrust us with their capital.

Since listing in September 2017, VG1 has generated a compound annual return, net of all fees, of **+8.8%** with a monthly average net equity exposure of 45%.

Once again, we thank you for your investment with VGI Partners.

Yours faithfully,

VGI Partners

"The big profits go to the intelligent, careful and patient investor, not to the reckless and overeager speculator."

- J Paul Getty

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