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ASX Market Announcements
ASX Limited
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. The letter provides details on the performance of VG1 for the twelve months ended 31 December 2020 and commentary on current positioning.

Authorised for release by:

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21st January 2021

Investor Letter

"There are decades where nothing happens, and there are weeks where decades happen."

- Vladimir I. Lenin

Dear Fellow Investors,

For the twelve months ended 31 December 2020 (CY20), **VGI Partners Global Investments Limited (ASX:VG1)** generated a net return of **+8.4%** after all fees. VG1's post-tax Net Tangible Assets (NTA) per share stood at **$2.57** at 31 December 2020.[1]

The last twelve months brought with it one of the most extraordinary investing environments witnessed in modern times. Balancing on one side of the proverbial see-saw is COVID-19, which has wreaked havoc globally, leading to unprecedented shutdowns of entire economies and resulting in the highest US unemployment rate since the Great Depression. On the other side sit governments and central banks around the world who have together taken an incredibly accommodative posture through wage replacement schemes, rental and loan deferrals, historically low interest rates, and collectively supplying unprecedented liquidity through seemingly limitless central bank money-printing.

Moreover, the polarisation of political beliefs that drove the election of Donald Trump in 2016 and the United Kingdom's decision to leave the European Union continues unabated. This partisan environment, which is unlike anything seen since WWII, appears to be symptomatic of a broader, deeper issue of growing wealth inequality and the ongoing erosion of the middle class in Western countries.

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[1] 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.

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As technology continues to advance, we have seen both job losses and a collapse in the inflation-adjusted earning power of labour around the world. This starkly contrasts with the rising fortunes of the wealthiest owners of real assets and intellectual property. Intensifying this wealth disparity is modern monetary policy theory of zero interest rates which is crushing the average person's ability to earn income on their savings and we can only be left to feel uneasy when we start to ponder the potential ramifications in the years ahead.

Despite all of this, Government and central bank actions have driven market indices around the world to new highs. Against this backdrop we are seeing clear pockets of frenzied speculation. The SPAC market, or 'blank-cheque' companies that raise capital from investors to acquire an unknown target, reached almost $80bn in proceeds last year. This was a sixfold increase from the year before and more than the total IPO proceeds of 2018 and 2019 combined. In fact, there was more than one new SPAC raised per day from July through December, and activity has only accelerated in 2021 with more than 75 SPACs to launch in January alone!

According to the Federal Reserve, US households have a 41% allocation to equities, just shy of the 47% record we saw during the tech bubble. We have also seen a surge in retail option trading. Total equity call option volumes increased more than 60% in 2020, accelerating into the final months of the year when option activity was more than double the prior year, including the largest call option trading day in history.

Compounding this situation is global debt sitting at record levels, an ambiguous vaccine rollout schedule, a virus that can rapidly mutate, signs of emerging inflation and an uncertain timeline around the opening of economies, with the associated employment stapled to it.

As Charlie Munger likes to say *"[anybody] who is not confused doesn't understand the situation very well. If you find it puzzling, your brain is working."*

We don't make these observations in an attempt to forecast markets or make bold predictions, nor do we recommend you listen to anyone who endeavours to – 2020 being the ultimate proof case! Rather, amidst this uncertainty, we aim to be both patient and prudent with the allocation of our collective capital whilst moving aggressively as we see new investment opportunities present themselves. At the time of writing, VG1's net equity exposure is 76% which provides us with a valuable cash asset that is ready to be deployed as new opportunities arise.

Over the past twelve months, we have also seen a meaningful acceleration in several structural trends that have been taking place over the past ten years – whether that be online marketplaces, electronic payments, gaming, the accelerated shift of corporations to the cloud or the application of artificial intelligence.

Perhaps the best datapoint to help illustrate the magnitude of these trends is ecommerce penetration in the US: over the ten years prior to COVID-19, ecommerce penetration increased from 5% of US retail spend to 15%. Through the initial shutdown period in the US we saw that same level of increase in ecommerce penetration happen over a period of roughly three months. So, essentially we saw ten years of ecommerce penetration happen over a twelve-week period!

Whilst some will argue that as economies open up again consumers will return to brick-and-mortar retail, the fact that a whole new cohort of (likely older) users has been introduced to the convenience of ecommerce, combined with scientific evidence that habits are typically formed over a roughly eight week period, bodes very well for the stickiness of these trends.

We have always been highly focused on ensuring that the portfolio is exposed to structural growth and we believe this will be increasingly important in the coming years. We have accordingly redoubled our efforts to ensure the companies we own are beneficiaries of these accelerated secular changes that are taking place globally.

This environment has conversely driven an acceleration in the creative destruction of business models. Short selling in recent market conditions has been arduous as the market has been both far less discerning of questionable accounting and more willing to look through short-term business performance, even if it may be a strong indicator of long-term issues. However, our best performing shorts over the past ten years have been structurally challenged businesses susceptible to this creative destruction and this is where we have been diligently focusing and more recently re-engaging.

The current environment of elevated valuations and heightened risk-taking also reiterates to us that a rigorous research process is more important than ever. Our sole focus at VGI Partners is to identify attractive long-term investment opportunities through unique insights that can only be acquired through high-quality fundamental research and a deep understanding of the companies that we own, and the industries in which they operate. Over the past six months we have refortified our core investment processes as a team and continue to relentlessly focus on testing our existing investment theses whilst searching tirelessly for new investment opportunities.

As aforementioned, for the twelve months ended 31 December 2020 (CY20), VG1 generated a net return of **+8.4%** after all fees which was disappointingly below our targeted range of +10-15% p.a. This result consisted of a **-4.6%** return in the first half of CY20. As we previously reported, this was the result of our conservative positioning going into the crisis, and underperformance as we remained cautious for too long as the market rebounded on the back of accommodative monetary and fiscal policies.

As we recalibrated the portfolio and took the opportunity from our learnings to invest in a number of new positions, we returned **+13.7%** in the second half of the year, with strong contributions from these newer additions to the portfolio. Far more importantly though, we believe that these new additions will be multi-year structural winners for our investors.

Whilst we strongly believe returns need to be viewed over longer time periods, we highlight the above as we are deeply encouraged by the many changes we have made to the way we function as an investment team. We believe over the past six months we have strengthened our investment process with a more collaborative approach, which only increases our probability of long-term success. This resulted in one of the most prolific periods in terms of new ideas we have had in recent years, a number of which we discuss below.

As long-term investors know, we take alignment of interest between ourselves and our investors seriously. We have the vast proportion of our net worth invested in our Funds and VGI Partners itself, and continue to add to our investments. Board members, staff and their families have $40m invested in VG1.[2] As a result, you should be confident that our investment team's energy and effort

[2] Based on post-tax NTA of $2.53 as of 15 January 2021 (per the latest Weekly NTA Update to the ASX). Includes look-through interest in shareholdings in VG1 owned by VGI Partners (given VGI Partners is over 77% owned by VGI Partners' Board, staff and their families). Board members include those from VGI Partners Limited, VGI Partners Global Investments Limited and VGI Partners Asian Investments Limited.

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is focused on a singular outcome – to maximise returns over the long term while preserving capital for our collective portfolio.

Since inception in September 2017, VG1 has generated a net return of **+31.0%** after all fees. This represents a compound annual net return to investors of **+8.7%** over this period.[3]

Put another way, $100,000 invested in VG1 in September 2017 grew to circa $131,000 at 31 December 2020 after all fees and charges.

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 thirteen years ago. This is seen in the track record of our VGI Partners Master Fund, which has delivered compound returns of +13.6% after all fees.

[3] Returns have been adjusted for VG1's capital raising in 2019.

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Performance Attribution for the Year to 31 December 2020

Below we discuss the most significant stock contributors to the performance of our Long Portfolio for the twelve months to 31 December 2020.

Amazon.com (NASDAQ: AMZN) – the share price increased **+76%** over the course of the year and it remains our largest portfolio position.

The recent global health crisis has acted as an accelerant to the secular trends that Amazon was already enjoying through its core businesses of online retail and cloud-computing services. As highlighted earlier, we saw ecommerce penetration vault forward ten years as lockdowns took place around the world. Additionally, as employees are increasingly working from home, we have seen an acceleration in the shift from using on-premise data-centres to using cloud-computing solutions such as those offered by Amazon Web Services.

Pinterest (NYSE: PINS) – the share price increased **+173%** since we first initiated a position in June and is up **+130%** on our average purchase price. We discuss our Pinterest position in detail in the Portfolio Update section of this letter.

Palantir Technologies Inc. (NASDAQ: PLTR) – the share price increased **+132%** since we first purchased our position and is up **+115%** on our average purchase price.

Palantir is a software company that specialises in big data analytics and we believe is well placed to directly benefit from the long-term structural trend of growing volumes and variability in data generated by commercial and government organisations. We believe the company has built a highly unique platform that is vertically integrated, allowing it to be used by operational decision-makers rather than IT specialists. The company has also achieved a level of trust with ‘three-letter organisations’, used by some of the most advanced intelligence agencies on the planet.

The company's largest competitors on the commercial side are the customers themselves, given the desire to create solutions in-house. The company's software platform, Apollo, has significantly decreased the time required to install software, providing a competitive solution to traditional consultants, which are generally more time-intensive and costly. We believe early debates surrounding the company, which largely focused on its nature as a 'consulting' business, underestimated the company's transition. We spent many hours with both the company and industry experts to better understand this transition which provided us with a variant perception to the market, and thus an opportunity.

La Française des Jeux (EPA: FDJ) – was the fourth largest contributor to performance for the twelve months to 31 December 2020, with the share price increasing **+57%** during the year.

FDJ has the exclusive licence 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 licence to operate physical sports betting terminals (similar to Tabcorp in certain Australian states) and owns an online sports betting bookmaker.

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, a resilient revenue stream, high cash-flow generation, a strong balance sheet and the potential to steadily grow earnings.

After the sharp decline in wagering activity following the lockdown in France, lottery and sports betting activity resumed to 2019 levels by June 2020 and returned to positive growth by the third quarter. More importantly, COVID-19 accelerated online penetration particularly for lottery and scratch games, which provides a meaningful margin benefit due to the removal of retailer commissions. We believe the company is in a stronger position following COVID-19 and that online penetration in France remains at the early stages with gambling per capita still low relative to most other markets.

Mastercard (NYSE: MA) – the share price increased **+20%** over the course of the year.

During 2020 we increasingly saw merchants shift consumer purchasing behaviour away from cash transactions due to health concerns associated with the handling of physical currency. While our long-term view on Mastercard is not dependent upon this phenomenon, we do believe it may provide a meaningful catalyst for the business over the medium-term, particularly in the US, which is at the very early stages of adopting contactless 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.

Portfolio Update and Current Positioning

We continue to concentrate VG1's capital in our best ideas. Today, our Top 5 Long Investments represent 43% of VG1's total portfolio value. VG1 currently has 76% net equity exposure, with 89% Long and 13% Short.

Below we discuss two of our newer core positions in more detail, **Pinterest** and **Richemont.**

Pinterest (NYSE: PINS)

We believe **Pinterest** is not well understood. The business is often described as a digital pinboard or a visual search engine and characterised as a social media business. While these descriptions go some way to describing Pinterest, we do not think they fully capture the breadth and unique positioning of Pinterest's platform. At its core, Pinterest is an online platform where users look for inspiration on a project, collect and store what they find in a logical format, share their research with other users and ultimately utilise this information in the real world whether that be hosting an event, booking a holiday or furnishing a home.

This more holistic description of Pinterest's core functionality shows that while there are social aspects to Pinterest, in particular the sharing of content with other users, it is quite different from the social media peers it is often grouped with. Social media is often used as a distraction or to 'kill time', whereas Pinterest is a discovery and research tool. The difference may be subtle but for a potential advertiser on the Pinterest platform it is significant.

Pinterest monetises its platform by selling advertising space, which is embedded amongst the images or videos that a user sees when they are searching on Pinterest. The reason the use case is so important for Pinterest relative to social media is that Pinterest has users with very high intent. These users are utilising Pinterest as a research tool and in almost all cases at the end of the planning process there is going to be a purchase decision. An advertiser on the Pinterest platform can target specific users that are searching for their product category knowing they are capturing a consumer with very high purchase intent while they are still in the decision-making process.

If you compare this to social media you have a user with very low purchase intent and comparing this to product search, you primarily have a user that has made up their mind and is merely reviewing prices or buying options. We believe this makes Pinterest's advertising inventory particularly scarce and valuable.

It is also worth noting another feature that makes Pinterest's platform unique. Pinterest have taken a firm stance against content that is explicit, offensive, violent, dangerous or misleading. They actively moderate their site, minimising polarising content and have banned all political ads. In the current environment of heightened political discourse this is another unique feature of Pinterest which resonates with advertisers.

We do not believe the value of Pinterest's advertising inventory is reflected in the current financials of the business. The primary reason for this has been the methodical approach of its founder and CEO, Ben Silbermann. In our view, Ben meets the definition of a fanatical CEO who has a singular focus on executing at Pinterest. He does not fit the mould of the typical Silicon Valley CEO, making limited public appearances, and refraining from making bold predictions about his business or the industry. As a fanatic, Ben is highly focused on the granular detail of the user experience. Optimising this experience, as well as ensuring Pinterest was operationally equipped for high growth, was the core focus for Ben and his team for many years, with monetisation being a secondary consideration. While user experience will always be at the core of Pinterest, we believe the focus has more recently shifted toward monetisation of the advertising inventory.

The first step in the path to improved monetisation was building out the advertiser-facing technology. Advertising space today is sold in real time on a digital exchange under an auction-based model. Large advertisers need tools to manage this process at scale; for example, they use an automated bidding tool that maximises impressions for a set budget or a tool to enhance ad-targeting by using their proprietary data set. Over the past three years, Pinterest has been investing heavily to build out their catalogue of advertising tools.

This investment has been accompanied by increased investment in the sales team. In 2020 we believe we started to see early signs that these investments were leading to increased traction with large advertisers. Further, our channel checks suggest that through 2020 we began to see advertisers reallocate their Pinterest advertising spend from experimental to a core allocation of the marketing strategy. This is exciting as Pinterest is still a low single digit percentage allocation of advertiser budgets for most large customers, with significant room for growth.

We think Pinterest is still at the very early stages of monetising their advertising inventory. Over the next few years, we believe existing customers will continue to shift their budget allocation towards Pinterest, for the reasons explained above. We also believe the continued investment in the sales team will lead more advertisers to join the platform and begin allocating their budget to Pinterest.

We see the greatest greenfield opportunity in international markets. Outside of North America, Pinterest is primarily focused on Western Europe. However, our research shows they have recently started hiring in Latin America and management have mentioned their roadmap for building a sales team in Asia. These markets represent a very large opportunity for the business which will be entirely incremental to revenue and earnings.

Beyond the core business Pinterest also has some promising initiatives which we believe provide a valuable option to shareholders. One of these is the shopping function. Pinterest has an automated tool that allows ecommerce businesses to upload their inventory to the platform allowing consumers to click through an image and purchase the item. They have expanded this business by partnering with Shopify, allowing its merchants to automatically list their products on Pinterest. This business is not material to the group at present. However, if Pinterest can prove to be a valuable lead generation channel for ecommerce merchants, we believe this could be a very valuable business, potentially with the opportunity to augment the revenue model and charge a fee based on the value of products sold through Pinterest. This is just one example of some of the hidden option value in Pinterest.

We believe that Pinterest is significantly under-monetising its unique advertising inventory today and there is a long runway of growth ahead as monetisation continues to improve, driving revenue growth. Due to the relatively fixed-cost nature of the technology platform we also believe there will be a high degree of operating leverage in the business model which will result in earnings growing at a faster rate than revenue. Further, we think there are embedded options within Pinterest that are being overlooked by the market. We believe Pinterest remains an attractive investment.

Cie Financière Richemont (SWX: CFR)

Looking at **Richemont's** portfolio of luxury brands, you may at first glance think that this is a holding company with lots of moving parts. However, digging deeper into the financial statements, it becomes clear that the key driver of earnings and valuation for Richemont is its jewellery division. Prior to COVID-19, jewellery was c.90% of Richemont's earnings, with the contribution now almost 100% in the COVID-19-affected world.

The jewellery division at Richemont consists of two brands, Cartier and Van Cleef & Arpels. Cartier, founded over 170 years ago, has unrivalled heritage in luxury jewellery. Cartier has a long history of designing pieces for generations of royalty, famously earning it the title *"the jeweller of kings and the king of jewellers"*. Although perhaps the brand's greatest claim to fame is manufacturing the first ever wristwatch, which was a request from Alberto Santos-Dumont who had the piece firmly strapped to his wrist in the first filmed airplane flight in 1906.

Similarly, Van Cleef has over 110 years of rich history, a distinctive style and a customer list only rivalled by Cartier, making pieces for Grace Kelly, Elizabeth Taylor, Jackie Kennedy and the Duchess of Windsor. All of this is to say, Cartier and Van Cleef have one of the key elements of true luxury brands – heritage. We believe this brand heritage, coupled with a laser focus on the other key components of a luxury brand, quality and innovation, make Cartier and Van Cleef two of the strongest luxury brands in the world.

There are also more tangible ways to verify brand health. One of the key indicators that we track closely is resale value. Looking at Sotheby's and Christie's auction results you will note that Cartier and Van Cleef pieces are consistently ranked in the list of the most expensive jewellery sales. For example, in May 2020, Sotheby's sold a Cartier bracelet for c.$1.7m in an online auction; at the time, this was the highest price ever achieved for an online jewellery sale. Van Cleef pieces have been involved in several high-profile sales, including a pink diamond ring selling for c.$10m and the Rockefeller Emerald, which sold for c.$7m. But it is not just at the high end where these brands continue to shine. The RealReal, an online luxury consignment store, ranked Van Cleef and Cartier number one and two, respectively, for a jewellery brand's ability to hold their resale value based on transactions on their platform. These are just a few of the many qualitative and quantitative data points which provide us with confidence that Cartier and Van Cleef are the two most valuable brands in luxury jewellery.

The luxury jewellery market also benefits from secular trends that we believe will drive growth over the long term. The first of these trends is the ongoing increase in instances of self-purchasing. Research has shown that self-purchasing continues to grow as a percentage of the total luxury market, a trend that is underpinned by growth in women's spending power, which we believe will continue to increase both in developed and developing markets.

In addition, branded jewellery is still only around one third of the jewellery market; however, it continues to take share from unbranded jewellery, providing another tailwind. As a result of these secular trends combined with the strength of Richemont's brands, their luxury jewellery business has grown at 10% p.a. on average over the past ten years. We believe the drivers are firmly in place for this growth to continue over the next ten years.

Despite the strong recent share price performance, we still see a lot of upside looking only at the earnings potential of the jewellery division and excluding all Richemont's other brands and divisions. At the current share price, we think you are receiving a leading luxury ecommerce platform, a multi-billion-dollar luxury watch business and a high-quality accessories business for free. Let's take a look at each of these businesses in more detail.

Richemont owns YOOX Net-a-Porter (YNAP), a luxury ecommerce platform, which is comparable in scale only to Farfetch. Under the Net-a-Porter, Mr Porter, Yoox and Outnet ecommerce brands, YNAP generated €2.5bn in revenue in 2019 and has grown an average of 16% p.a. over the past five years. The platform partners with the largest luxury groups globally, and in the first half of 2020 alone 165 exclusive brand capsules were launched on YNAP, demonstrating YNAP's importance as a key distribution partner as luxury retail increasingly shifts online. As an indication of YNAP's brand recognition, when Alibaba first sought a partner for luxury ecommerce in China, they signed an agreement with YNAP, an acknowledgement of the brand's position in the market. This has provided Richemont with a valuable beachhead into the online luxury market in China.

However, YNAP's profitability has been disappointing over the past two years. The key driver of this has been the shift to a singular logistics and inventory management system for the YNAP Group; previously, each brand was run on a different system as a result of historic mergers and acquisitions. The re-platforming to a single system is essential to the smooth and efficient future operation of the business, and we believe it was the correct long-term decision to undertake this significant investment. We believe much of the heavy lifting has now been completed, and with a medium-term view, we expect this business to return to profitability, and benefit from the accelerated shift to ecommerce that we have seen across the retail landscape due to COVID-19.

Currently, we believe the market is ascribing zero to negative value to YNAP, capitalising its current losses. We believe this is flawed analysis that ignores the long-term profitability and the strategic value of this business. Richemont bought the remaining 50% of YNAP it did not own in 2018 in a transaction which valued the busines at €5.1bn, and since then, revenues have increased 30% on an organic basis. Mytheresa, a competitor to YNAP which is one fifth the size, is due to IPO today with a c.$2bn valuation. Farfetch, which generated sales in line with YNAP in 2019, currently has a $23bn market capitalisation. While these reference points have their limitations, they clearly demonstrate that YNAP is a very valuable asset, and one which we believe is being wholly overlooked by the market.

In addition to YNAP, we also believe you are getting the watches and accessories businesses for free. Combined, these businesses generate c.€3.5bn in revenue and are a collection of extremely high-quality luxury brands, including Mont Blanc, Piaget, Vacheron Constantin, IWC, Panerai, Jaeger-LeCoultre, Dunhill and Chloé, to name but a few. The luxury watch industry has had a very difficult period over the past five years, driven by a number of external factors – the crack-down on gifting in China, Hong Kong Protests (a large luxury watch market), and topped off by COVID-19. Through this tough environment, Richemont have proven their long-term focus, repurchasing almost €500m of watches from retailers and dismantling them to ensure they were not sold at a discount which would have impacted brand equity. It is uncommon to see tough, long-term decisions like this made in publicly listed companies, and we commend Richemont for their management of this situation. We believe these brands have been well managed, and as the external pressures alleviate, this business will return to growth, helping to drive group earnings, and shining a light on the significant value within these business divisions.

Despite the rise in Richemont's share price over the past few months, we still believe this is an attractive investment. The business is underpinned and driven by what we believe are the two best brands in the most attractive sector within the luxury industry. You are also receiving a highly strategic and valuable leading luxury ecommerce business, and a watches and accessories business generating €3.5bn in revenue, for free. We believe we are at a turning point for YNAP and for the watches division and expect to be rewarded for our patience as long-term shareholders when the market realises the huge amount of hidden value at Richemont.

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. Our purposeful and active management of the currency has enhanced VG1's total return by +12.1% since inception.

Whilst previously being unhedged to the US Dollar, we moved to a fully hedged position in mid-CY20. With the recent move in interest rates globally, as well as the high correlation of risk assets, we no longer believe the AUD is clearly mispriced and therefore we are fully hedged. In the future we may move back to an unhedged or partially hedged position – and take an active view on the currency – when we believe there is a clear mispricing based on our fundamental analysis.

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In Closing

At VGI Partners we are entirely focused on managing our portfolio. Our unwavering commitment is to preserve and grow 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 more confident than ever that our process and investment philosophy positions our portfolio to produce attractive 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. We are very grateful that we have long-term oriented investors who entrust us with their capital.

Since listing in September 2017, VG1 has increased its Net Tangible Assets per share from $2.00[4] to $2.57, plus paid fully franked dividends per share of 1c in April 2020 and 1.5c in September 2020. This performance has been achieved while holding an average cash balance of 48%. VG1's portfolio now closely replicates the VGI Partners Master Fund with a cash balance that stands at 24%.

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

Yours faithfully,

VGI Partners

[4] Prior to adjusting for VG1's capital raising in 2019.

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