AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

VGI Partners Global Investments Limited (expected ASX code: VG1)

August 2017

INDEPENDENT INVESTMENT RESEARCH

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VGI Partners Global Investments Limited (expected ASX code: VG1)

Note: This report is based on information provided by VGI Partners Pty Limited.

Rating

Key Investment Information	
Expected ASX Code	VG1
Offer Price ($)	2.00
Expected Offer Close	8 September 2017
Expected Listing Date	28 September 2017
Min/Max Shares on Offer (m), not including oversubscriptions	50/150
Proforma NAV ($) per Share (Min/Max Subscription)	2.00/2.00
Fees:	
Management Fee (p.a) ex GST*	1.5%
Performance Fee**	15.0%
Performance Hurdle	Previous high NTA

*The Manager will bear the majority of the operating costs of the company through the management fee, which are typically incurred by the company. This includes ASX listing and regulatory fees, accounting and auditing fees, insurance costs and legal and marketing costs.

**The Manager is eligible for a fee of 15% of the outperformance of the previous high NTA, after management fees, calculated on a six monthly basis.

Key Exposure	
Underlying Exposure	Long and short portfolio of global equities.
FX Exposure	The company will invest in stocks from around the world and as such will have direct foreign currency exposure, the largest of which will be USD exposure. The Manager will actively manage the currency exposure and will seek to take advantage of currency movements with the aim of adding value to the portfolio.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

1. PRODUCT SUMMARY

VGI Partners Global Investments Limited (expected ASX code: VG1) is a newly established investment company seeking to list on the ASX. The company is seeking to raise between $100m and $300m through the issue of 50m to 150m shares at $2.00 per share. The company has the ability to raise a further $100m in oversubscriptions. The company will provide exposure to an actively managed long/short portfolio of global equities. VGI Partners Pty Limited has been appointed as the Manager of the portfolio. The Manager will seek to generate superior long-term growth through a concentrated portfolio of global stocks with a focus on capital preservation. While the Manager will invest in both long and short positions, the portfolio is expected to have a long bias. The Manager was established in 2008 and has been managing portfolios for high net worth individuals and family offices using the investment strategy and process that will be used for the VG1 portfolio since its establishment. The Manager invests in the same stocks across all funds they manage and employs the same fee structure for all investors. The Manager will receive an annual management fee of 1.5% (ex GST) of the portfolio value, accrued monthly and paid in arrears. The Manager will be paying the majority of the company's operating and administrative costs through the management fee. These costs are typically incurred and paid by the company. In addition to this, the Manager will be absorbing the listing costs so the NTA at listing will be the same as the issue price of $2.00. The Manager will also be eligible for a performance fee of 15% (plus GST) of performance exceeding the high water mark (the previous high NTA). The owners of the Manager will reinvest any performance fees received from VG1, after tax, into shares of the company.

2. INVESTOR SUITABILITY

The Manager of the VG1 portfolio has a long-term investment horizon for its long positions and given the portfolio will have a long bias an investment in VG1 is suited to those who are looking for a long-term investment. The company will pay a dividend at the board's discretion, however, the company will be focused on capital returns as opposed to income and therefore an investment in the company is not suitable for someone seeking a regular income stream. One of the Manager's primary objectives is to preserve capital with the ability to move to cash in the event attractive investment opportunities cannot be identified. Investors should be comfortable with this investment philosophy and note that the Manager may underperform the market at times given a reduced exposure to the market. The company does employ risk management by limiting its position sizes, however the company will take short positions in stocks. Shorting stocks involves additional risks to that of investing long. Investors should be aware of and comfortable with the risks associated with shorting stocks before investing in the company.

3. RECOMMENDATION

Independent Investment Research (IIR) has assigned VGI Partners Global Investments Limited (expected ASX code: VG1) a **Recommended Plus** rating. VG1 provides retail investors access to an investment strategy and Manager that prior to the establishment of the company was only accessible to high net wealth individuals and family offices, with a minimum investment of $1m. The Manager has a disciplined investment process using a number of resources to make investment decisions. The VG1 portfolio is expected to largely replicate the portfolio of the VGI Partners Master Fund (Master Fund), which was established in January 2009. There are some positives regarding the structure of the company, including the Manager absorbing the listing costs so the NTA of the company on day one is the same as the issue price of $2.00, strong alignment of interest and the Manager has achieved its stated objective of capital preservation coupled with generating above market returns over the long-term using the investment strategy through its Master Fund. However, there are a few drawbacks associated with the structure of the company including the performance hurdle for the payment of performance fees and the Chairman of the Board being Executive. The company offers investors access to an investment strategy, which is offered by a limited number of LICs on the ASX. We believe the Manager will be able to continue to successfully implement its investment strategy and achieve its investment objectives of delivering outperformance of the market over the long-term while providing downside protection.

4. SWOT

Strengths

- The Manager will be absorbing the costs associated with the listing, meaning the NTA at the commencement of trading will be the same as the issue price of $2.00 per share. In addition to this, the Manager will pay a large majority of the operating and administrative costs from the management fee. This may equate to between 0.1% and 0.5% depending on the amount of capital raised.
- Through its Master Fund, the portfolio of which VG1 will largely replicate, the Manager has achieved its objective of returning an above market return over the long-term and has achieved this while providing downside protection.
- The Manager seeks to align its interest with that of investors. The Manager champions this by requiring all investment team members to invest a significant portion of their net wealth in funds managed by VGI Partners and not allowing the investment team to personally invest in stocks outside of VGI Partners funds. This ensures that the investment team are committed to the investment strategy and philosophy. With respect to VG1, the owners of the Manager will reinvest all performance fees earned, after tax, into VG1 shares with a 10-year voluntary escrow period.
- Key man risk is low with the Manager having sufficient resources and the three senior members of the investment team are significantly invested in funds managed by the Manager.
- The Manager has a detailed review process for both long and short investments, with all investment team members looking at both long and short positions and the Manager obtaining as much information as possible before a decision is made.

Weaknesses

- We do not view the performance hurdle of the high water mark as a suitable hurdle for the performance fee. While it is a positive that the Manager is only eligible for performance fees when generating a positive return, we do not view it as appropriate to reward the Manager in addition to the management fee for simply generating capital growth for investors.
- VG1 does not have a majority independent board with three of the six directors employees of the Investment Manager, and more importantly the Chairman is an Executive director. This structure does not reflect best corporate governance practices.

Opportunities

- VG1 provides retail investors access to an investment strategy and Manager that prior to the establishment of the company was only accessible to high net worth individuals and family offices.
- There are only a few LICs that provide an absolute return objective with a global market focus. VG1 provides investors with an additional opportunity to gain exposure to this investment strategy with ASX liquidity.
- The company may trade at a premium to pre-tax NTA, allowing investors to exit the company above the portfolio value.

Threats

- A number of the directors on the Board have not managed a LIC before. There are a number of differences in operating a LIC compared to an unlisted fund, including capital management to manage the potential discount to NTA and determining an appropriate dividend stream, as well as additional reporting requirements. We note that David Jones and Lawrence Myers have been and currently are on the board of listed companies. The company has also engaged Seed Partnerships to advise the Board on the above-mentioned matters.
- The company may trade at a discount to pre-tax NTA for a prolonged period of time which may result in shareholders not being able to exit the company at portfolio value.
- The company will have direct exposure to foreign currency movements, primarily the USD. The Manager will seek to actively manage the currency exposure, which may result in adding or detracting from the portfolio value in AUD. Historically, the Manager has added value of 1.5%p.a, on average, to the Master Fund portfolio through its foreign currency management.

5. STRUCTURE

PRODUCT OVERVIEW

VGI Partners Global Investments Limited (ASX: VG1) is a newly established listed investment company seeking to commence trading on the ASX on 28 September 2017. The company is seeking to raise between $100m and $300m through the issue of 50m to 150m shares at $2.00 per share. The company has the ability to raise an additional $100m in oversubscriptions. The Manager will be absorbing the costs of the listing so the NTA at listing will be the same as the issue price.

The company will offer investors exposure to an actively managed portfolio of global equities that is benchmark agnostic. The portfolio can hold both long and short positions and will be concentrated, typically consisting of 10 to 25 long positions and 10 to 35 opportunistic short selling positions. VGI Partners Pty Limited has been appointed as the Investment Manager for the portfolio. VGI Partners investment strategy is based on its investment philosophy of providing superior long-term growth through a concentrated portfolio with a strong bias to capital preservation.

With respect to long positions, the Manager seeks to identify strong businesses that are undervalued by the market and thus has a buy and hold approach. The company seeks to achieve an above market return, after fees and expenses, over the long-term (which the company deems as in excess of five-years). We note that the Manager has achieved these returns in the comparative funds they manage using the investment philosophy that will be used for the VG1 portfolio.

The company will have a focus on long-term capital growth and will pay dividends at the discretion of the Board. The Board intends to pay dividends, franked to the maximum extent possible, from dividends and realised capital gains from the underlying portfolio in the event it is within prudent business practices.

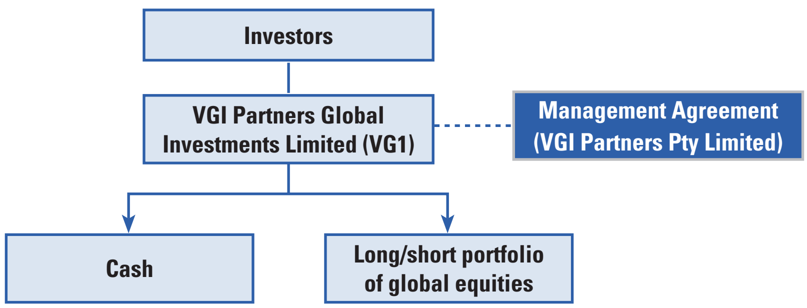
The Manager can have a 100% cash allocation in the event attractive investment opportunities cannot be identified, however cash holdings are expected to typically be below 50% of the portfolio. The Manager will typically retain a cash buffer to enable it to take advantage of opportunities if they arise as well as satisfy any short position requirements. The gross exposure of the portfolio is limited to 150% of the portfolio NTA, however it is expected to typically be between 80% and 120%.

The portfolio will be benchmark agnostic and will have no geographic or industry investment limitations, however, the Manager will generally invest in countries in developed markets that are transparent and have strong accounting and regulatory standards.

Given the company will invest in global equities, the portfolio will be subject to foreign currency movements. The Manager will actively manage the currency exposure to minimise the impact of currency movements on the value of the portfolio and enhance Australian dollar returns.

The Manager will be paid a management fee of 1.5% (plus GST), accrued monthly and paid in arrears. The Manager will be paying the majority of the company's operating and administrative costs through the management fee. The Manager will also be eligible for a performance fee of 15% of the outperformance of the high water mark (previous high NTA). The owners of the Manager will invest any performance fees received (after tax) into VG1 shares and enter a voluntary escrow period of 10 years. The Manager will purchase shares on market if the company is trading at a discount or the company will issue new shares at NTA if the company is trading at a premium to NTA or shares cannot be purchased on market.

INVESTMENT STRUCTURE



Product Leverage	
Used:	The company does not intend to use debt in the portfolio, however, the company will use derivatives and short selling which has a similar effect to leverage in that it can magnify gains and losses in the portfolio. The maximum gross exposure of the portfolio is limited to 150% of the portfolio value.
Cost (incl. Fees):	na
Capital Protection	na
Tax	
Disclaimer:	***Tax consequences depend on individual circumstances. Investors must seek their own taxation advice. The following comments show Independent Investment Research's expectation of tax for ordinary Australian taxpayers, but cannot be considered tax advice***.
Capital gains:	A capital gains tax (CGT) event will likely occur in the event the investor sells the shares on market for a higher price than it was purchased for. Investors will likely be eligible for the CGT discount if the shares are held for more than 12 months.
Dividends:	Dividends will likely be on income account in the year earned.
Legal Structure	
Wrapper:	Listed Investment Company
Investment Manager.:	VGI Partners Pty Limited
Investor Leverage	
Available:	No
Risks	***The below is not a full list of all risks associated with the company but highlights what IIR considers to be the more significant risks associated with the company. A detailed risk assessment can be obtained from the Prospectus.***
Short Selling Risk:	The company will participate in short selling. Shorting stocks exposes the portfolio to additional risks to taking long positions with short positions potentially having an unlimited loss. Short selling can magnify the gains and losses experienced by a position.
Concentration Risk:	The company will be exposed to a highly concentrated portfolio and as such losses in any individual position may have a significant impact on the portfolio.
Manager Risk:	The performance of the portfolio is largely dependent on the stock picking skills of the Manager, although there are some investment limitations to ensure a level of risk management with the portfolio. Successive incorrect valuations and decisions of underlying investments may result in the company not achieving its objectives.
Foreign Currency Risk:	The company will invest in stocks listed on international exchanges and as such the company will have direct exposure to movements in foreign currency, in particular the USD. Currency movements may positively or negatively impact the value of the portfolio. The Manager will actively manage the currency risk. This may result in a profit or loss for the company.

6. MANAGEMENT & CORPORATE GOVERNANCE

VG1 BOARD OF DIRECTORS

The Board will comprise six directors with equal representation of Executive and Independent directors. IIR classifies employees of the Manager as Executive directors. The directors have experience across the investment, advice and accounting sectors. The Chairman is an Executive director, which does not represent best corporate governance practices.

Board of Directors		
Name	**Position**	**Experience**
David Jones	Executive Chairman	Mr. Jones is the Executive Chairman of the VGI Partners Pty Limited. Mr. Jones has over 25 years experience in markets. Mr. Jones has been on the board of a number of private and public businesses in a range of sectors including the wealth management sector. Mr. Jones was previously the Managing Director of CHAMP Private Equity from 2002-2011, Executive Director and Country Head of UBS Capital (1999-2002) and a Division Director at Macquarie Direct Investment (1994-1999).
Robert Luciano	Executive Director	Mr. Luciano founded VGI Partners Pty Limited in 2008 and has over 20 years experience as a portfolio manager, equities analyst and accountant. Mr. Luciano commenced his career as an accountant with BDO Nelson Parkhill in 1993, was an equity analyst at BNP Paribas and a Portfolio Manager at Allianz Equity Management.
Douglas Tynan	Executive Director	Mr. Tynan has over 13 years experience as an equities analyst and accountant. Prior to joining VGI Partners in 2008, Mr. Tynan was a Manager and Analyst in the Corporate Finance and Audit Divisions of BDO Kendalls.
Noel Whittaker, AM	Independent Director	Mr. Whittaker was the Director of Whittaker Macnaught for over 30 years. Whittaker Macnaught is one of Australia's leading financial advisory companies with over $1b under advice, which is now known as Eureka Whittaker Macnaught after Eureka acquired a third of an interest in the company in 2013. Mr. Whittaker was made a Member of the Order of Australia for service to the community in raising awareness of personal finance. Mr. Whittaker is a member of the ASIC Consumer Liaison Committee and is currently an Executive in Residence and Adjunct Professor with the Faculty of Business at the Queensland University of Technology.
Lawrence Myers	Independent Director	Mr. Myers is the Founder and Managing Director of MBP Advisory Pty Limited, a Chartered Accounting firm in Sydney that was established in 1998. The firm specialises in advising high net worth individuals and families. Specialist areas include mergers and acquisitions, corporate and business advisory, tax consulting and advisory, succession planning and family office services. Mr. Myers has been a Non-Executive Director and Chairman of the Audit and Risk Committee of Breville Group Limited (ASX: BRG) since 2013.
Jaye Gardner	Independent Director	Ms. Gardner has more than 25 years experience in corporate finance. Ms. Gardner has been an executive director of Grant Samuel since 2001,where Ms. Gardner is responsible for the preparation of valuations and independent expert reports, primarily for ASX 200 companies. Ms. Gardner also advises on mergers, acquisitions and asset sales.

INVESTMENT MANAGER - VGI PARTNERS PTY LIMITED

VGI Partners Pty Limited (the Manager) has been appointed as the Manager of the VG1 portfolio. The Manager was founded in 2008 by Robert Luciano and at 30 June 2017 had in excess of AUD$1.1b FUM. Up until the VG1 offer, the Manager focused on managing the capital of ~250 high net worth individuals and family offices. The Manager employs a single strategy, being the investment strategy employed for the VG1 portfolio. The Manager has done this largely through two funds: (1) the VGI Partners Master Fund (an Australian based fund); and (2) the VGI Partners Offshore Fund (a Cayman Island based fund). Historically these funds have required a minimum investment of $1m.

The Manager is 100% owned by senior members of the Manager (Robert Luciano, Douglas Tynan, Robert Poiner and David Jones). The Manager seeks to align its interests with that of its investors by requiring the investment team to invest a material proportion of their net worth in funds managed by the Manager. The investment team are not allowed to personally invest in stocks outside of the Manager's funds and are encouraged to re-invest any bonuses in the Manager's funds. With respect to VG1, the owners of the Manager will be reinvesting any performance fees received from the company (after tax) into VG1 shares.

The investment team comprises nine members. Robert Luciano is the Portfolio Manager and is ultimately responsible for the investment decisions. Mr. Luciano is supported by two other senior members of the investment team in Douglas Tynan and Robert Poiner who have been with the Manager almost since inception, along with a further six analysts. The team is located in both Sydney and New York. The Manager typically employs analysts through an internship program to develop their skills.

Investment Team

Name	Position	Years Experience	Years as part of the investment team
Robert Luciano	Portfolio Manager	20	9
Douglas Tynan	Head of Research	13	9
Robert Poiner	Senior Analyst	9	8
Patrick Stadelhofer	Analyst	8	5
Justin Hardwick	Analyst	6	6
Thomas Davies	Analyst	5	5
Travis Owen	Analyst	5	5
Vincent Miceli	Analyst	5	1
Marco Anselmi	Analyst	2	2

7. INVESTMENT PROCESS

INVESTMENT OBJECTIVE

The Manager will invest in a long/short portfolio of global equities with the aim of generating an above market return over the long-term, which the Manager considers to be at least five years. While the Manager will seek to generate long-term growth for investors, the Manager's primary objective is capital preservation.

INVESTMENT PHILOSOPHY

The Manager's investment philosophy is built on three key tenets:

1) Capital Preservation: The Manager has a focus on capital preservation, placing a great deal of importance on assessing the downside risk of an investment. The Manager seeks to be as informed as possible about its investments, with the belief that knowledge reduces the risk of a material loss of capital.

2) Superior Long-term Compound Growth: The Manager believes that long-term investment in great businesses acquired with a sufficient margin of safety are best placed to provide superior long-term returns. As such, the Manager employs a buy and hold strategy for long positions in companies that it has identified to exhibit superior economic characteristics and that it considers to be undervalued by the market. For long positions, the Manager considers great businesses to be a dominant player in its industry with a sustainable competitive advantage, generate superior returns on capital, strong cashflow generation, strong balance sheet with little or no gearing, and quality management with a proven track record of success.

3) Portfolio Concentration: The Manager believes that investing in a concentrated portfolio of high quality companies is the best way to build wealth. As such, the Manager will invest in a highly concentrated portfolio, with the Manager typically holding 10 to 25 long positions and 10 to 35 short positions at any one time.

INVESTMENT PROCESS

The Manager has a fundamental bottom-up stock picking approach. The Manager's investment process can be broken down into four steps: (1) Idea generation; (2) Due diligence/Detailed analysis; (3) Portfolio construction; and (4) Portfolio monitoring.

1) Idea Generation

- The Manager uses a number of tools and sources to generate investment ideas.

- For **long positions**, the Manager uses a combination of quantitative and qualitative filters to identify potential investments. The quantitative filters include: average daily turnover in excess of USD$7.5m; low or no debt; high return on equity; high return on capital; and high return on incremental capital. The high level qualitative filters includes factors such as favourable industry structure, high barriers to entry; brand and sustainability of growth profile.
- These high level filters reduce the investment universe from ~25,000 stocks to 400 stocks.
- **Short positions** are largely identified via the Manager's proprietary screening process. The Manager has identified 90+ red flags that the system identifies. These include factors such as accounting irregularities, balance sheet weakness, management changes, and management selling of equity to name a few. The filter is run on a weekly basis and companies that have ten or more red flags warrant further attention.

2) Due Diligence/Detailed Analysis

- **Long positions:** For those stocks that result from the screening process, the Manager does a preliminary review to determine if the company complies with the Manager's investment requirements. For those stocks that do, the Manger will undertake a detailed analysis of the company. This includes speaking with management, competitors, suppliers, customers and creating a detailed financial model.
- Through the detailed analysis, the Manager is looking for what it determines are great companies.
- **Short positions:** For those companies that have raised a number of red flags, the Manager will look at these in greater detail. The Manager will undertake forensic analysis of those that have been identified as potentially under pressure. The Manager may use independent auditors to verify their thoughts on a stock.

3) Portfolio Construction

- From the detailed analysis, the Manager will select it's best ideas to include in the portfolio in line with the portfolio guidelines (tabled below). Investment decisions will be based on fundamental bottom-up analysis and is benchmark agnostic. The portfolio will be concentrated with the long portfolio typically comprising 10 to 25 positions and 10 to 35 short selling positions.
- The Manager will seek to invest in companies that have a sufficient margin of safety. There is no hard limit for this metric and will depend on the identified upside and downside risks of the investment.

Portfolio Guidelines	
Long Position Limit	A single long position cannot exceed 15% of the portfolio value at cost and cannot exceed 20% of the portfolio value at any stage.
Short Position Limit	A short position cannot exceed 5% of the portfolio value at cost and has a maximum value of 7.5% of the portfolio.
Net Equity Exposure	A maximum of 100% of portfolio value.
Gross Equity Exposure	A maximum of 150% of portfolio value.
Cash	Can hold up to 100% of the portfolio in cash.

4) Portfolio Monitoring

- The Manager will continuously monitor the portfolio and rebalance the portfolio when required. The Manager has a buy and hold approach for the long portfolio and as such will have low levels of turnover for long positions. Long positions will typically be exited in the event there is a material change in the company structure or management, the company has exceeded its fair value according to the Manager's model, or the Manager identifies a better investment opportunity.
- Short positions are made on a more opportunistic basis and as such there is typically a shorter timeframe for short positions.

8. PORTFOLIO

- The company is newly established and yet to list and therefore is yet to deploy any capital to create a portfolio. However, the VG1 portfolio is expected to replicate the VGI Partners Master Fund (Master Fund) managed by the Manager. We have provided some aspects of the portfolio of the Master Fund to provide investors with an insight into the likely portfolio characteristics.
- At 30 June 2017, the Master Fund comprised 32 long and short positions with a net exposure of 48.0%. Over the five years to 30 June 2017, the Master Fund has held between 19 and 36 positions.
- The Manager has a buy and hold strategy for long positions and as such has a low level of turnover.

VGI Partners Master Fund Top 5 Long Positions (30 June 2017)

Company	Code	Portfolio Weighting
CME Group Inc.	US: CME	12%
Medibank Private Limited	ASX: MPL	9%
MasterCard Inc.	US:MA	9%
Amazon.com Inc.	US: AMZN	9%
Mead Johnson Nutrition Co	US: MJN	6%
		45%

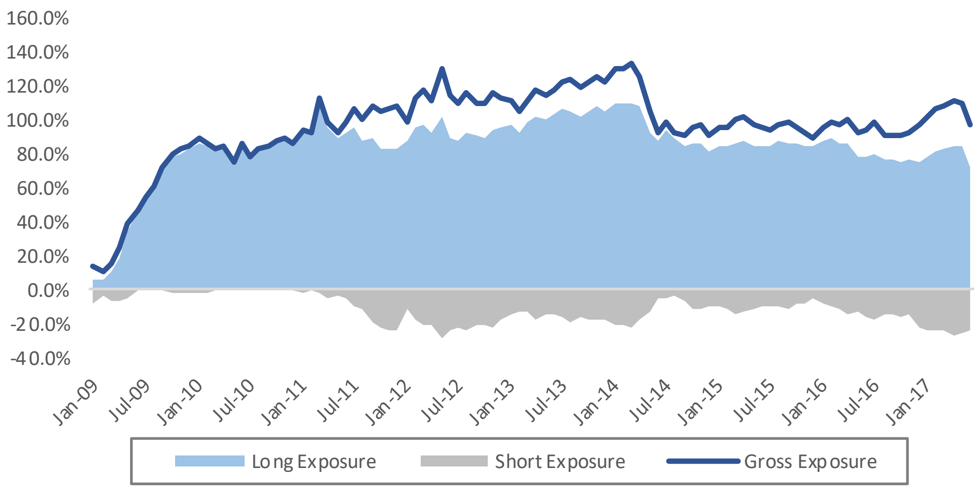
- While there are no geographic limitations for the portfolio, the Manager will focus on investing in developed markets that are transparent and have strong accounting and regulatory standards. The Master Fund portfolio has been heavily weighted to stocks listed in the US since inception.

VGI Partners Master Fund Country Allocation (Net Exposure) - 30 June 2017

Country	Portfolio Allocation
US	46.8%
Australia	3.6%
UK	4.1%
Hong Kong	-0.8%
Canada	-0.9%
Denmark	-1.6%
Ireland	-3.3%
	47.9%

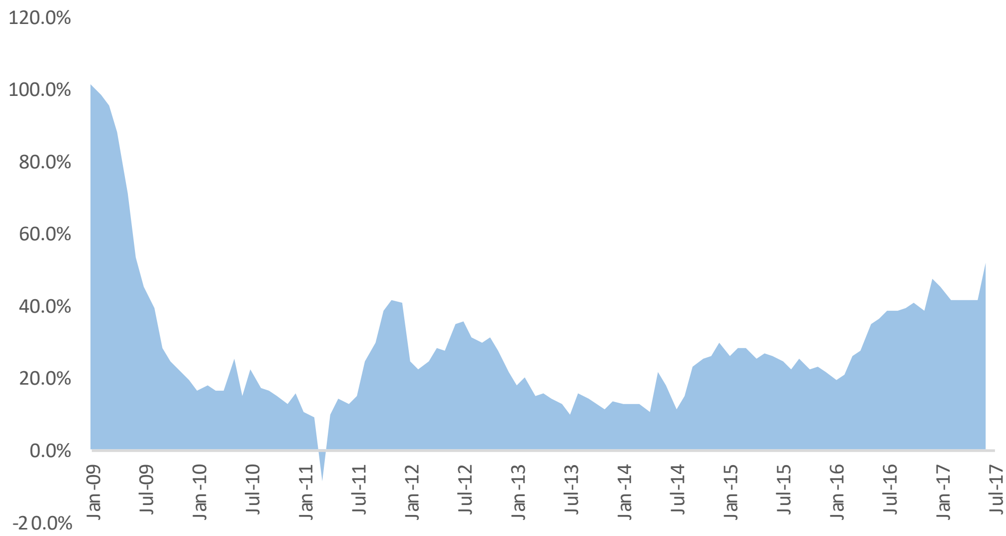
- Since inception of the Master Fund in January 2009, the portfolio has had an average gross portfolio exposure of 95.85%, with a maximum of 133.08%.
- The portfolio has predominantly been invested in long positions since inception to 30 June, with an average long exposure of 84.03%. This compares to the average short exposure of 11.80%.

Historical Portfolio Exposure



- The cash position of the Master Fund has varied throughout time. The Fund has had an average cash position of 27.8%, however this has fluctuated significantly on a monthly basis. The cash position has been on the rise since 2014.
- We note in March 2011 the Fund had a negative cash holding. The Manager has advised that this anomaly is a result of the Fund re-weighting the portfolio before it had received capital from a raising and was not a result of short position going against the Manager.
- Given the VG1 portfolio will largely replicate the Master Fund portfolio, the Manager expects to be largely invested within three months from listing.

Historical Cash Position



9. PERFORMANCE ANALYTICS

SUMMARY OF ANALYTICAL RESULTS

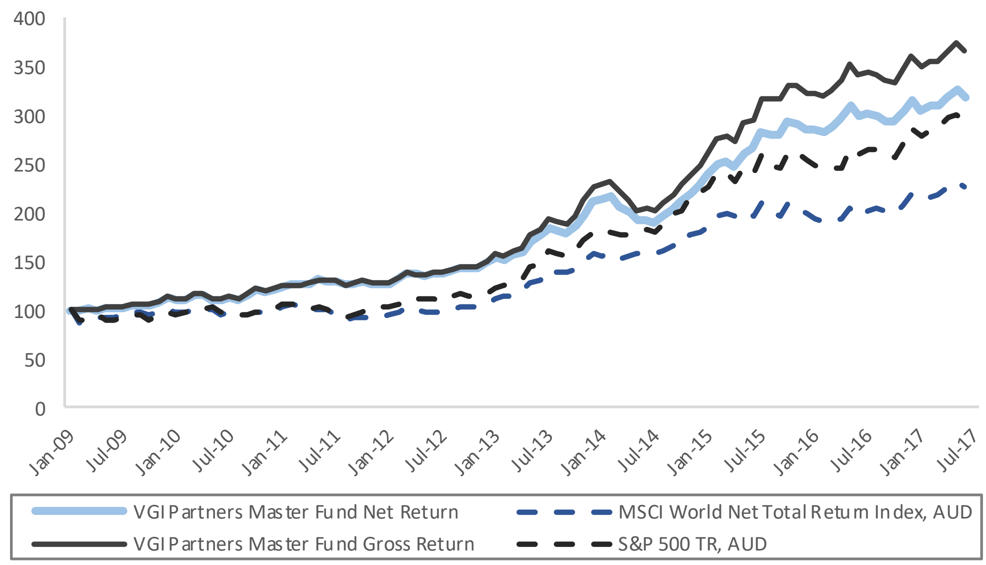
VG1 is yet to list and therefore has no performance history. However, the portfolio will largely replicate the portfolio of the VGI Partners Master Fund and be managed using the same investment process and strategy as the Master Fund, which was established in January 2009. Given this, we have looked at the historical performance of the Master Fund to determine the historical performance of the investment strategy and the stock picking abilities of the Manager. The key findings include:

- The Master Fund has achieved the objective of generating an above market return over the long-term. From 31 January 2009 to 30 June 2017, the Fund generated a net total return of 14.6% p.a compared to the benchmark (MSCI World Net Total Return Index, AUD) return of 10.1% p.a.
- The Fund has achieved consistent outperformance with an average rolling annual return of 16.1% compared to 12.2% for the benchmark index. The Fund has achieved the outperformance with less volatility.
- One of the key objectives of the Manager is to preserve capital. The Manager has offered downside protection through its Master Fund, with a downside market capture ratio of 35.2.
- There are a limited number of LICs on the ASX that have a long/short strategy, four of which offer exposure to a global portfolio. When compared to these LICs, the annual management fee for VG1 is above the average of 1.26% and the performance fee is at the low end of the peer group range.
- With respect to the performance fee hurdle, VG1 has the least attractive performance hurdle of the peer group, however the Manager of the VG1 portfolio is the only Manager that has committed to reinvest any performance fees (after tax) into VG1 shares with a long-term voluntary escrow period and is the only LIC that will have absorbed the listing costs so the NTA of the company at listing date is the same as the issue price.

PERFORMANCE HISTORY

- As shown in the below chart, the Master Fund has outperformed the benchmark index (MSCI World Net Total Return Index, AUD) since inception. From 31 January 2009 to 30 June 2017, the Fund has delivered a net return of 14.6% p.a compared to the benchmark index of 10.1%. We note that the Manager is benchmark agnostic when making its investment decisions but it's important that the Manager is generating long-term capital growth that is competitive with what the market provides given the predominantly long exposure of the portfolio.
- In addition to absolute performance, the Fund has outperformed the market on a risk-adjusted basis since inception, with a Sharpe Ratio of 1.31 compared to 0.70 for the market.
- Given the Manager has historically had a majority of long position exposure to the US, we have also compared the performance of the Fund to the S&P 500 TR, AUD. The Fund has also outperformed the S&P 500 index to 30 June 2017 and has done so with lower volatility.

Historical Performance of VGI Partners Master Fund (31 January 2009 - 30 June 2017)



- The Master Fund has outperformed the benchmark index since inception. We have provided the gross and net total return figures below to show the impact of the fees on investor returns.
- On a net return basis, the Master Fund has generated an average five-year rolling return of 17.4% p.a compared to the benchmark index return of 14.5% p.a, achieving its objective of generating above market returns over the long-term.
- The Master Fund has achieved this while providing downside protection to investors during those months when the benchmark index declined since inception to 30 June 2017. This is reflected in the Downside Market Capture Ratio of 35.2. While only falling 35.2% as much as the benchmark index during down months, the Master Fund has captured 85.1% of the upside in the market.
- Over the 12-months to 30 June 2017, the Fund has underperformed the market. We attribute this partially to the reduced exposure to the market, with the Fund having above average cash holdings at present.

VGI Partners Master Fund Performance to 30 June 2017				
	Master Fund Gross Return	**Master Fund Net Return**	**MSCI World Net Total Return Index, AUD**	**S&P 500 TR, AUD**
Return:				
1 year	7.0%	5.9%	14.6%	13.8%
3 year (p.a)	21.4%	18.2%	12.7%	17.3%
5 year (p.a)	21.4%	18.2%	18.0%	21.3%
Since Inception*	16.5%	14.6%	10.1%	13.5%
Average Annual Rolling	18.3%	16.1%	12.2%	16.5%
5 year Average Rolling (p.a)	19.8%	17.4%	14.5%	19.0%
Risk:				
Standard Deviation	10.3%	9.3%	11.0%	12.1%
Sharpe Ratio**	1.36	1.31	0.70	0.92
Upside Market Capture Ratio	94.3	85.1	na	na
Downside Market Capture Ratio	37.2	35.2	na	na

*Since inception figures are from the end of the first month of establishment - 31 January 2017.
**Based on returns and volatility since inception and uses the 10 year Australian government bond yield of 2.41% at 30 June 2017.

10. PEER COMPARISON

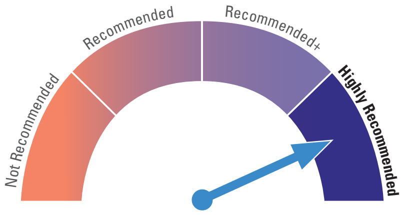
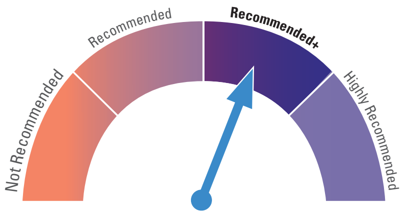
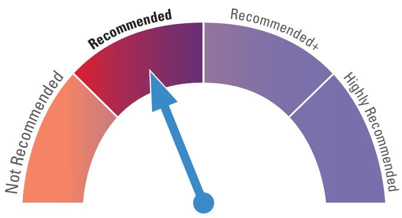
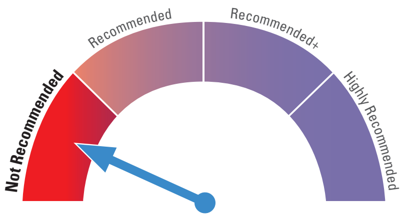
- There are currently six LICs on the ASX that provide exposure to a long/short portfolio of equities, four of which provide exposure to a global portfolio. The company has yet to list so we have provided a comparison of some of the key features of the peer group.
- The company's annual management fee is above the average of 1.26%, while the performance fee is at the lower end of the peer group. We note the Manager will be paying a large majority of the operating and administrative costs of the company through the management fee which are typically reimbursed to the Manager by LICs. This could equate to 0.1%-0.5% depending on the amount of capital raised.
- The four LICs that have global exposure have a range of performance hurdles. Three of the four have a MSCI Index as the performance hurdle while one has the RBA cash rate as the performance hurdle. All performance fees are subject to a high water mark.
- A differentiating factor of VG1 to its peer group is that the Manager has committed to reinvesting any performance fees received (after tax) into VG1 shares with a voluntary escrow period of 10 years to align the interests of the Manager with shareholders and the Manager is absorbing the listing costs so the company will have a NTA the same as the issue price at the listing date.

Peer Comparison						
LIC Name	**ASX Code**	**Investment Universe**	**Listing Date**	**Management Fee (%p.a, ex GST)**	**Performance Fee (%)**	**Performance Fee Hurdle**
Antipodes Global Investment Company Ltd	APL	Global	October 2016	1.10	15.0	MSCI All Country World Net Index, AUD
Morphic Ethical Equities Fund	MEC	Global	May 2017	1.25	15.0	MSCI All Countries Total Return Daily Index, AUD
Monash Absolute Investment Company Limited	MA1	Australia	April 2016	1.53	20.5	Previous high NTA
Australian Leaders Fund Limited	ALF	Australia	February 2004	1.0	20.0	All Ordinaries Accumulation Index
PM Capital Global Opportunities Fund	PGF	Global	December 2013	1.0	15.0	MSCI World Index, AUD
Naos Absolute Opportunities Company Limited	NAC	Australia	November 2014	1.75	20.0	RBA Cash Rate + 2.5%
Watermark Global Leaders Fund Limited	WGF	Global	December 2016	1.2	20.0	RBA Cash Rate
VGI Partners Global Investments Limited	**VG1**	**Global**	**na**	**1.5**	**15.0**	**Previous high NTA**

APPENDIX A – RATINGS PROCESS

INDEPENDENT INVESTMENT RESEARCH PTY LTD "IIR" RATING SYSTEM.

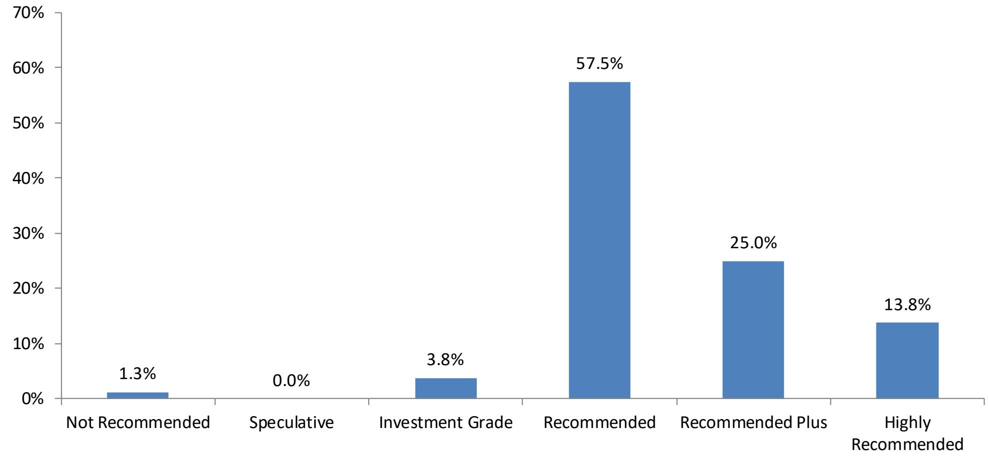
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	**83 and above**
	This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.
Recommended +	**79–82**
	This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.
Recommended	**60–78**
	This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.
Not Recommended	**<60**
	This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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