

AUSTRALIAN

# RESEARCH

INDEPENDENT INVESTMENT RESEARCH

## VGI Partners Asian Investments Limited (ASX: VG8)

August 2019

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Independent Investment Research, "IIR", is an independent investment research house based in Australia and the United States. IIR specialises in the analysis of high quality commissioned research for Brokers, Family Offices and Fund Managers. IIR distributes its research in Asia, United States and the Americas. IIR does not participate in any corporate or capital raising activity and therefore it does not have any inherent bias that may result from research that is linked to any corporate/ capital raising activity.

IIR was established in 2004 under Aegis Equities Research Group of companies to provide investment research to a select group of retail and wholesale clients. Since March 2010, IIR (the Aegis Equities business was sold to Morningstar) has operated independently from Aegis by former Aegis senior executives/shareholders to provide clients with unparalleled research that covers listed and unlisted managed investments, listed companies, structured products, and IPOs.

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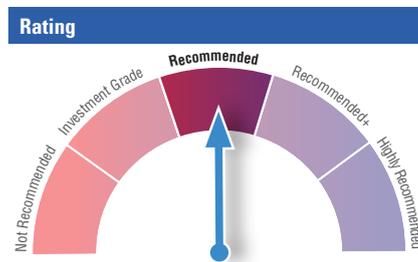
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- 1) The research process has complete editorial independence from the company and this is included in the contract with the company;
- 2) Our analyst has independence from the firm's management, as in, management/ sales team cannot influence the research in any way;
- 3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
- 4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.
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**Note:** This report is based on information provided by the company as at August 2019



Key Investment Information	
Name of LIC	VGI Asian Investments Limited
Investment Manager	VGI Partners Asian Investments Management Pty Ltd
Investment Type	LIC
ASX Code	VG8
ASX Listing Date	13 Nov 2019
Issue Price	\$2.50
Day One NAV	\$2.50
Min / Max Raise Units	100m/400m
Market Capitalisation	\$250m/\$1bn
Distribution Policy	Annual
Benchmark	None
Return Objective	10-15% p.a.
FX Exposure	Actively managed
MER	1.5% (plus GST)
Performance Fee	15% subject to HWM

Offer Timetable	
PDS Lodgement	2 Sept 2019
Offer Period	23 Sept-22 Oct 2019
Settlement	6 Nov 2019
Despatch of Statements	7 Nov 2019
ASX Listing Date	13 Nov 2019

**Fees Commentary**

The Manager is at the high end of the MER scale relative to its listed peer group. Furthermore, the absence of a performance fee hurdle is expected to lead to material fee leakage from investor returns.

Portfolio Characteristics *	
Number of Long Positions	15-30
Number of Short Positions	5-25
Cash holdings	0-50%
Typical Net Equity Exposure	50-100%
Typical Gross Exposure	70-120%

\* no strict mandate applies

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.

## OVERVIEW

VGI Partners Asian Investments Limited (ASX: VG8 or the 'Company') is a newly established listed investment company (LIC) seeking to commence trading on the ASX on 13 November 2019. The Company is seeking to raise between \$250m and \$800m through the issue of 100m to 320m shares at \$2.50 per share and has the ability to raise an additional \$200m in oversubscriptions. The Company will be managed by VGI Partners Asian Investments Management Pty Ltd (the 'Manager'), which is a wholly-owned subsidiary of VGI Partners Limited (ASX: VGI). The Manager will be absorbing the costs of the listing such that the NTA at listing will be the same as the issue price. Similar to VGI Partners Global Investments Limited, the Company will offer investors exposure to an actively managed long-short portfolio of international equities that is benchmark agnostic, but specifically targeting selective Asian markets. Geographically, the focus will be on companies listed in countries with a robust and reliable legal system, strong corporate governance and developed capital markets. In practice this means that, for several years at least, the portfolio will be heavily weighted towards investments in Japan, South Korea, Singapore, Hong Kong, Taiwan and Australia. The portfolio is expected to comprise 15-30 long positions, 5 to 25 opportunistic short positions and generally a substantial cash holding, with a gross exposure of typically 70% to 120%. The strategy is based on a philosophy of providing superior long-term growth through a concentrated portfolio with a strong bias to capital preservation. Long positions will be based on a continuation of the VGI Partners' tradition of investing only in companies that have a business model that is easy to understand and that operate in industries with attractive structures. This means a focus on companies that display monopoly, duopoly or oligopoly characteristics, or firms that own highly recognisable household brands. Opportunistic short selling will be in businesses the Manager considers to be of low quality and materially overvalued. The investment philosophy and process will be the same as that employed by VGI Partners for the last 11 years and will be managed by the existing VGI Partners investment team. The Company has a long term target net return of 10-15% p.a.

## INVESTOR SUITABILITY

The Manager has a long-term investment horizon for its long positions and given the portfolio will have a material long bias it is suited to those who are looking for a long-term investment with exposure to Asian markets. The Company will pay a dividend at the board's discretion, however, the Company will be focused on capital returns and therefore VG8 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. As a long-short mandate (typically 120/20), investors should note that gross market exposure may exceed 100% (maximum 150%), with the potential to magnify gains, losses, and volatility. VG8 is a high conviction, differentiated and benchmark unaware mandate. IIR expect returns to be fundamentally different to the broader Asian markets and, by definition, a function of Manager skill. IIR notes Asian markets typically exhibit relatively high volatility.

## RECOMMENDATION

IIR ascribes a **"RECOMMENDED"** rating to the Company. The investment team have a strong track record in managing its comparable global mandate over a 11-year period and over a full market and economic cycle. What IIR believes will distinguish the Manager's investment process is its efforts to establish an information advantage over the market in respect to each eligible investment in markets characterised by limited and decreasing research coverage and institutional investment. There is also a very strong alignment of interest with investors by way of the Manager's co-investment in the Company. Partly tempering IIR's positive view is the absence of a performance fee hurdle.

## SWOT ANALYSIS

### Strengths

- ◆ The PMs have >10 years experience co-managing capital through various market cycles. The longest running fund, the VGI Partners Master Fund, has produced an average compound annual return of 15.1% per annum, after fees, since it was established in January 2009, outperforming the MSCI World Total Return Index (AUD) by 3.6% p.a. This performance includes considerable success shorting in the region in the past, particularly in Australia, and during a period when markets have been increasing significantly. Risk and capital preservation measures have also been superior to the broader market.
- ◆ The Manager will absorb the costs associated with the listing, meaning the NTA at the start of trading will equal the issue price of \$2.50 per share and will also 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. Finally, by way of the Alignment Shares issue (see overleaf) investors gain the benefit of shares in the listed parent company of the Manager, VGI Partners Ltd (ASX: VGI), equivalent to a value of 4.2% and 7.0% for new and existing investors in VGI, respectively.
- ◆ The Manager seeks to align its interest with that of investors. The Manager will do 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 VG8, the key principals of the Manager will reinvest all performance fees earned, after tax, into VG8 shares with a 10-year voluntary escrow period.

### Weaknesses

- ◆ IIR takes a less than positive view on a performance fee hurdle other than the appropriate equities benchmark. We note that all VGI Partners funds do not have a hurdle. Investors in VGI Partners funds must recognise that while the Manager is top of class in its alignment with shareholder interests and generous with respect to equity participation in VGI (which IIR acknowledges is effectively a partial recompense of fees paid) that these benefits are offset by high fees and an unjustifiable absence of a hurdle rate for performance fees. IIR estimates that historically over the life of the VGI Partners Master Fund the average annualised rate of total fees (excl. GST) has equated to approximately 3.9% p.a.

### Opportunities

- ◆ There are only a few LICs that provide an absolute return objective with a global market focus and none that are Asia specific. Furthermore, VG8 is likely to have a highly differentiated investment portfolio on the long side, reflecting the philosophical focus of the companies it seeks to invest in.
- ◆ IIR would agree with the Manager that the launch of VG8 is timely, with the Japanese market in particular exhibiting instances of compelling value in strong companies, and which is in stark contrast to most developed market share markets currently. The retreat of some foreign investment mandates, capital outflows, and the retreat of research capabilities in the Japanese market has only served to elevate the degree of opportunity.

### Threats

- ◆ Asian equities markets generally exhibit twice the volatility of Australian, US, and European markets. Investors often regard countries in the Asian region as having higher sovereign, governance and systemic risk profiles relative to developed economies. Reasons may include: Asian markets are often momentum driven which contributes to volatility, some economies in Asia have experienced periods of currency volatility; some Asian economies have weaker legal, regulatory, governance and accounting quality standards; and regional and international political risks.
- ◆ The Company will have direct exposure to foreign currency movements. 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 VGI Partners Global Master Fund portfolio through its foreign currency management.

## PRODUCT OVERVIEW

The Company will offer investors exposure to an actively managed portfolio of Asian 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 5 to 25 opportunistic short selling positions.

The Manager will invest on the basis of VGI Partners' long standing investment philosophy and strategy, namely, on the long side, seeking to provide superior long-term growth through a focus on high quality low levered businesses with valuable brands, significant market share (often with monopoly / oligopoly characteristics), barriers to entry and sustainable growth profiles. The Manager will also apply additional Asian centric filters, specifically legal ownership, accounting transparency, corporate governance, and the ability to hedge currency.

Similarly, on the short side, the Manager will continue to seek businesses that the Manager considers to be of low quality and materially overvalued. Generally speaking, the Manager engages in short selling on the basis of three investment theses, specifically companies deemed to be 'fads', engaging in fraudulent or misleading accounting practices, and companies subject to negative industry structure dynamics. Short positions within the portfolio are expected to be substantially more diversified (and smaller in size) than the relatively concentrated long investments.

The Company will typically hold a net cash buffer that it may deploy quickly in any period of market or security specific volatility. In addition, the Company will hold cash or cash equivalents when attractively valued securities cannot be found. The gross exposure of the portfolio is limited to 150% of the portfolio NTA, however it is expected to typically be between 70% and 120%.

The inclusion of Australasia has been adopted for several reasons. On the long side, the Manager has sought to create the optionality of investing locally based on the opportunity to capitalise on potentially attractive valuations and the number of natural monopolies and duopolies in both Australia and New Zealand. On the short side, the Manager felt it important to include Australia because it believes it has competitive advantage in short investing in Australia. There are also countries in the Asia Pacific region the Manager will not short as such markets, for various reasons, are not conducive to shorting.

Relative to the VGI Partners Masters Fund and the comparable VGI Partners Global Investment Limited LIC, there are a number of key differences. Specifically, the upper end of the size of the short portfolio is generally not expected to exceed 20% (versus 30% in the global strategy) on account of certain countries in the Asia Pacific region not being conducive to shorting. Secondly, to counter the higher inherent volatility of the Asian equities markets (about twice that of Australia and the US), the Manager will on average have smaller position sizing and a greater number of holdings on the long side in addition to a higher expected cash holding.

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.

Given the Company will invest in Asian 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 three Principal Shareholders of VGI Partners Limited, who together currently own 80% of shares on issue in VGI Partners Limited, will commit to reinvesting (on an after tax basis) into shares their pro-rata share of any performance fees VGI Partners receives from the Company, to the extent that the performance fee is paid out as a dividend by VGI Partners Limited. The principal shareholders will enter into long-term voluntary escrow arrangements in respect of those shares. 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.

## OFFER RATIONALE AND DETAILS

The decision to establish the Company has been several years in the making and comes after an extended period of investment by VGI Partners in its investment and operational infrastructure, including the establishment of a Tokyo office a little over a year ago. The office in Tokyo now consists of a team of four full time employees with Asian language skills. Having a team located in Asia provides VGI Partners with a competitive advantage to undertake deep research that would otherwise be difficult, for example, in conducting due diligence interviews with an investment candidate, its competitors, customers, suppliers, management etc.

VGI Partners has demonstrated a long track record of investing in the Asian Region as part of Global Strategy since 2008, and these investments in the region have generally delivered strong returns. Over recent years, VGI Partners have identified an increasing number of Asian companies that have met its investment criteria.

This is due to a confluence of factors. First, the Manager observed meaningful commitments to improved governance standards in parts of Asia as well as signs that many higher quality companies were becoming more investor-friendly, particularly in relation to capital management strategies. This prompted VGI Partners to spend more time and energy focused on opportunities in Asia, which has included opening a VGI Partners Tokyo office which accommodates four team members with a range of Asian language skills. The result of this greater regional focus has been the identification of many more companies that met the VGI Partners' investment criteria and are now included on the VGI Partners "wishlist" for potential future investment.

However, many of these high-quality businesses are unlikely to ever be included in VGI Partners' global strategy. There are a number of reasons for this, including that the global strategy is focused on businesses with commanding positions in their industries globally, and some of the Asian companies that are on the VGI Partners wishlist in are regional rather than global leaders. Furthermore, the global mandate is subject to constraints around geographic concentration, while VGI Partners' liquidity screens for the global strategy preclude investment in some of the high-quality companies it has identified in Asia.

IIR agrees with the Manager that the launch of VG8 is timely given the structural market changes identified above, VGI Partners increased presence in the region, the partial retreat of foreign investment capital and resources (increasing the number of high quality businesses largely undiscovered by the institutional market), and the fact that is one of the few regions where VGI Partners is identifying compelling valuations.

VGI Partners has a long-standing commitment to aligning interests between itself and investors in the existing VGI Funds and has previously introduced a number of investor-friendly initiatives to the Australian market. In this regard, VGI Partners has made five commitments to the Company to support it both initially and on an ongoing basis:

1. VGI Partners will meet all of the Company's establishment costs, including the costs of the Offer. As a result, the Company is expected to list on the ASX with a net asset value per Share equal to the Offer Price of \$2.50 per Share).
2. VGI Partners will pay the majority of the Company's ongoing operating costs, including ASX and ASIC fees, audit costs, legal and tax advice costs and fees charged by the Company's fund administrator. The Company remains liable for some operational costs and expenses. For example, for corporate governance reasons, the Company remains liable for, and must pay, the costs and expenses of its Directors (including Director fees and insurance costs).
3. The three Principal Shareholders of VGI Partners Limited, who together currently own 80% of shares on issue in VGI Partners Limited, will commit to reinvesting (on an after tax basis) into shares their pro-rata share of any performance fees VGI Partners receives from the Company, to the extent that the performance fee is paid out as a dividend by VGI Partners Limited. The principal shareholders will enter into long-term voluntary escrow arrangements in respect of those shares.
4. VGI Partners has committed to invest \$20 million into the Offer which is expected to position it as one of the largest shareholders of the Company and will further align the interests of VGI Partners and the Company.

5. VGI Partners will not make the Asian strategy available through any fund other than through investment in the Company. This is different from many listed investment company offerings, where a similar or identical portfolio is able to be accessed through unlisted funds. Offering multiple channels to access the same strategy can lead to reduced secondary market demand for a listed investment company's shares.

The offer size, with a cap of \$1bn, is designed to strike a balance between being of sufficient size to facilitate secondary market liquidity yet small enough to facilitate long-term compounding growth. We note there are not imminent capacity constraints, which the Manager estimates at being the circa \$5 billion level.

Offer Timetable	
Record date for Priority Offer eligibility	2 August 2019
Lodgment of the Prospectus with ASIC	2 September 2019
Offer opens	23 September 2019
Broker Firm Offer Closing Date	15 October 2019
Priority Offer Closing Date	22 October 2019
General Offer Closing Date	22 October 2019
Settlement	4 November 2019
Issue of Shares under the Cornerstone Offer and Priority Offer	5 November 2019
Issue of Shares under the Broker Firm Offer and General Offer	6 November 2019
Expected date of dispatch of holding statements	7 November 2019
Expected date for issue of Alignment Shares	12 November 2019
Shares expected to commence trading on a normal settlement basis on ASX	13 November 2019

## Alignment Shares

In addition to the commitments to the Company noted above, VGI Partners is seeking to further align interests between participants in the offer and itself through the issue of valuable Alignment Shares in VGI Partners Limited at no additional cost to the recipients of the Alignment Shares.

The number of Alignment Shares to be issued to each applicant will be calculated based on the following ratios:

Alignment Share Offer		
VG8 IPO Offer	Alignment Share Ratio	Implied Value based on VGI Closing Price on 22 Aug 2019 (\$13.20)
Existing VGI Family	Alignment Share for every 75 VG8 Shares	\$1 in Alignment Shares for every \$14.20 invested in VG8
New Investors	Alignment Share for every 125 VG8 Shares	\$1 in Alignment Shares for every \$23.67 invested in VG8

## MANAGEMENT GROUP PROFILE

VGI Partners is a wealth manager specialising in global equities with funds under management of over \$2.7 billion as at 31 July 2019. VGI Partners has an 11 year history in global long/short equity investing, launching its first managed account in 2008 and its first ASX-listed investment company, VG1, in 2017.

VGI Partners was established in 2008 and listed on the ASX on 21 June 2019 (the VGI Partners IPO). It employs a team of 16 investment personnel and 12 operations professionals. The VGI Partners team is located in offices in Sydney, New York and Tokyo.

VGI Partners currently manages the existing VGI Funds, being the VGI Partners Master Fund, the VGI Partners Offshore Fund, VG1 and capital from high net worth individuals and family offices. The existing VGI Funds are managed under VGI Partners' global strategy where VGI Partners seeks out what it considers to be the best investment opportunities in any country with a legal system with which it feels comfortable.

VGI Partners has been researching and investing in companies in the Asian region since 2008. Historically a significant proportion of the VGI Partners' global strategy has been deployed in investments that would have also qualified for the Asian strategy. Broadly, as VGI Partners has dedicated more time and resources to opportunities which fit within its Asian strategy, its allocations to these opportunities within the existing VGI Funds have increased.

The Manager is 80% 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 VG8, the owners of the Manager will be reinvesting any performance fees received from the company (after tax) into VG8 shares.

Key Characteristics	VG8	VGI Partners Master Fund	VG1
Investment Philosophy	Key tenets of capital preservation, portfolio concentration, and long-term compound growth		
Investment Team	16 professionals located in Sydney, New York and Tokyo. Led by Robert Luciano, Douglas Tynan and Robert Poiner. Robert Luciano, as Portfolio Manager, holds ultimate responsibility for the implementation of the investment strategies		
Industry / Sector Limits	Industry/sector limitations do not apply - portfolios are diversified across a broad range of sectors and industry groups		
Geographical Focus	Asia Region	Global	
Currency	Base currency is AUD - currency exposure is actively managed		
Cash Range	0-100% (typically below 50%)		
Concentration of Long Investments	Typically 15 to 30 securities. Top ten on average represent 40-50% of NAV	Typically 10 to 25 securities. Top five investments on average represent 40-50% of NAV	
Number of Short Positions	Typically 5 to 25 securities	Typically 10 to 35 securities	
Fee Structure	Management fee: 1.50% per annum of the value of each portfolio, paid monthly. Performance fee: 15% of each portfolios' outperformance (if any) over each performance calculation period, subject to a high-water mark mechanism		

## BOARD OF DIRECTORS

The Board will comprise five directors with a majority of Independent directors. The directors have experience across the investment, advice and accounting sectors.

Board of Directors		
Name	Position	Experience
Lawrence Myers	Independent Chairman	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 ASX listed Breville Group Limited since 2013 and has been its lead independent director since August 2014. Mr Myers is a Director of VG1 and the Chairman of VG1's and VG8's Audit and Risk Committee.
Robert Luciano	Executive Director	See overleaf
Douglas Tynan	Executive Director	See overleaf
Adelaide McDonald	Independent Director	Ms McDonald has over 10 years' experience in corporate advisory and equity research. Most recently she was an Associate Director at KPMG in the Mergers and Acquisitions practice with previous roles at Wilson HTM and BDO Kendalls. Ms McDonald graduated from the University of Queensland with a Bachelor of Commerce, with majors in Accounting and Finance, and a Bachelor of Business Management, majoring in Business Economics. Ms McDonald has completed the CFA Program and has been awarded the CFA Charter and is a Director of VG1.
Bill Brown	Independent Director	William Brown has over 30 years of investment experience as a principal and advisor. Currently, Mr Brown is the Chief Investment Officer of Terrace Tower Group, a Sydney and New York based real estate and investment company started by John Saunders, one of two co-founders of Westfield Corporation. Mr Brown serves on the Limited Partner Advisory Committees for funds of Global Credit Investments Pty Ltd and 3L Capital. Mr Brown also has served as a Partner and member of the investment committee at AIM13, a multi-family investment office with more than US\$1bn invested in alternative assets. Previously, he was a Senior Portfolio Manager at Hartz Capital, a privately-owned multi-strategy hedge fund associated with the Leonard Stern family office. While at Hartz, Bill had direct oversight of approximately US\$1 billion of securities split between external and internal managed strategies.

## INVESTMENT TEAM

The investment team comprises 16 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 ten analysts. The team is located in Sydney, New York and Tokyo. The Manager typically employs analysts through an internship program to develop their skills.

With experience across a broad range of industry sectors and regions, as well as in the transactional requirements for undertaking long and short investments within the Asian region, IIR believes the Manager is well placed to manage the Company's portfolio using the Asian strategy.

New additions to the VGI Team over the past six months include Ingrid Groer, who joined as Investor Relations Manager for its three listed entities – VG1, VG8 and VGI Partners – after an extensive career as a research analyst at Goldman Sachs. Also in Sydney, David Symons is now an Investment Director having served on the VGI Partners Advisory Council for the preceding three years. David has twenty years' experience in investment banking, corporate strategy and corporate affairs. In New York, Claudia Cole joined as a senior trader while Nikolay Aleksiev brings more than ten years as a data scientist to his role as an Analyst – Data & Analytics.

Expansion in Tokyo has also been a feature of the last six months as two new Investment Analysts have joined the team. Kanta Matsuo joined from the research division of Goldman Sachs, while Bryan Oh is a recent graduate of Brown University, where he majored in Applied Mathematics and East Asian studies.

The profiles of the key members of the investment team are summarised below.

- ◆ **Robert M. P. Luciano, PM, Executive Chairman.** Mr Luciano has over twenty years' experience gained as a portfolio manager, equities analyst and accountant. Prior to founding VGI Partners in 2008, Mr Luciano spent five years as an executive director and investment manager with Caledonia Investments in Sydney. Prior to Caledonia, Mr Luciano held positions as a portfolio manager and an equities analyst at Allianz Equity Management and BNP Paribas (formerly Prudential-Bache Securities Australia). Mr Luciano commenced his career as an accountant with BDO Nelson Parkhill in 1993. Mr Luciano graduated from the University of New South Wales, with a Bachelor of Commerce, majoring in Accounting and Finance, where he later completed a Master of Commerce, majoring in Advanced Finance. He is a Fellow of the Financial Services Institute of Australasia. Mr Luciano has completed the Chartered Financial Analyst (CFA) Program and has been awarded the CFA Charter. Mr Luciano is a Director of VG1 and the Executive Chairman of VGI Partners Limited.
- ◆ **Douglas H. Tynan, Head of Research, Executive Director.** Mr Tynan has over fifteen years' experience as an equities analyst and accountant. Prior to joining VGI Partners in 2008, Mr Tynan was a manager and analyst within the Corporate Finance and Assurance divisions of BDO Kendalls. Mr Tynan graduated from the University of Queensland with a Bachelor of Commerce, majoring in Accounting and a Bachelor of Economics, majoring in Finance. He is a Fellow of the Financial Services Institute of Australasia. Mr Tynan has completed the CFA Program and has been awarded the CFA Charter. Mr Tynan is a Director of VG1 and VGI Partners Limited.
- ◆ **Robert J. Poiner, Head of US Research.** Mr Poiner has over ten years' experience as an analyst. Prior to joining VGI Partners in 2009, Mr Poiner was an analyst with J.P. Morgan in the Investment Banking Group. Mr Poiner studied at the University of Queensland and graduated with a Bachelor of Science majoring in Biomedical Science and a Master of Commerce (Dean's Honour Roll) with a major in Finance. Mr Poiner has completed the CFA Program and has been awarded the CFA Charter.

Investment Team				
Name	Position	Location	Years with VGI	Years in Industry
Robert Luciano	Portfolio Manager	Sydney	11	>20
Douglas Tynan	Head of Research	Sydney	11	>15
Robert Poiner	Senior Analyst	New York	10	>15
Andrew Chou	Senior Analyst / Head of Asian Research	Tokyo	1	8
David Symons	Special Projects (eg. Activist activity)	Sydney	4	4
Thomas Davies	Investment Analyst	Sydney	6	7
Justin Hardwick	Investment Analyst	Sydney	6	7
Marco Anselmi	Investment Analyst	Sydney	3	5
Patrick Stadelhofer	Senior Analyst	New York	5	11
Henry Hill	Investment Analyst	New York	1	6
Nikolay Aleksiev	Data Analyst	New York	1	10
Christopher Morris	Investment Analyst	Sydney	1	1
Kyoko Yoshikawa	Translator & Business Manager	Tokyo	1	1
Kanta Matsuo	Investment Analyst	Tokyo	1	2
Bryan Oh	Investment Analyst	Tokyo	1	1
Claudia Cole	Senior Trader	New York	1	6

## INVESTMENT PROCESS

### Investment Philosophy

The Manager's investment philosophy for VG8 rests on five 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) Short Investing Conservatism and Risk Aversion:** The For short positions, IIR considers the Manager as adopting a highly cautious and risk averse approach, with the degree of conviction and investment hurdles required to enter into such positions arguably materially higher than that of long positions. For 'fad' and 'fraud' related shorts, there needs to be a clearly identifiable catalyst on the short term horizon, or the catalyst may just have occurred, before the Manager implements such trades. Position sizing (starting at 0.5%, building to 1-2%) is significantly lower than long positions given the asymmetry of downside risks in short versus long investing. While the Manager does not employ systematic stop losses on shorts that are going against it (for justifiable reasons), the entire short portfolio is extremely closely monitored from a fundamental judgement perspective. Additionally, the Manager is acutely aware that shorting in Asian markets can be significantly more problematic than in, for example, Australia, the US or Europe. In many cases, there is insufficient borrower liquidity and, on account of 'deferential' cultures in general, companies that would be punished domestically for engaging in identified misleading accounting practices may not be in some Asian listed markets. The inclusion of Australiasia as an eligible geographic market is critical in addressing the consequent lesser shorting opportunity set.
- 4) 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 15 to 30 long positions and 5 to 25 short positions at any one time.

**5) Asian-centric Considerations:** The Manager will employ specific Asian-centric considerations to protect against permanent losses of capital. Considerations include: a) Legal ownership - the Manager will only invest in situations where the Company is the legal owner of shares and has a claim on the proportionate share of the underlying company; b) Accounting transparency – the Manager will only invest in companies where it can understand and trust the accounting; and c) Corporate governance – the Manager believes that good corporate governance is correlated with long-term shareholder return and this warrants particular focus when investing in Asia. As the Manager will typically invest in (or short) business which operate in countries with a robust and reliable legal system, strong corporate governance and developed capital markets, for several years at least, Shareholders can expect the Portfolio to be concentrated towards companies listed in Japan, South Korea, Singapore, Hong Kong, Taiwan and Australia.

## Investment Strategy

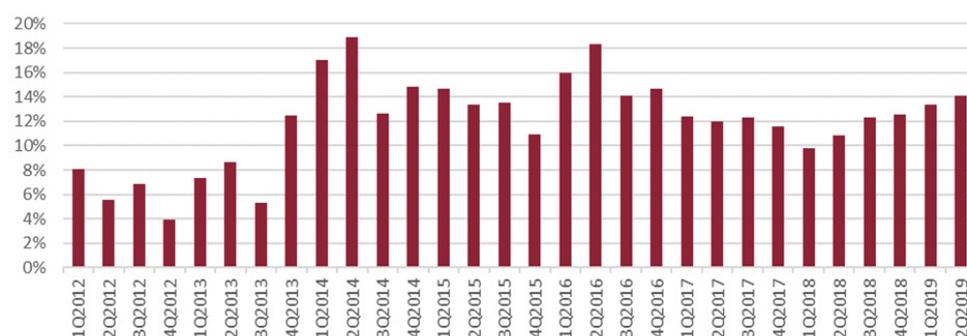
The Company's investment strategy is to create a concentrated portfolio, predominantly comprised of long and short positions in listed securities in the Asian region, actively managed with a focus on capital preservation.

The portfolio will be constructed by the investment team in accordance with VGI Partners' investment philosophy and process, which is based on the key tenets of capital preservation, attractive long-term compound growth and portfolio concentration in its best ideas. The Manager will seek to "buy and hold" long-term investments in what it considers to be great businesses that are not fully valued by the market. The Manager may also short sell securities which it considers to be of low quality and materially overvalued by the wider market.

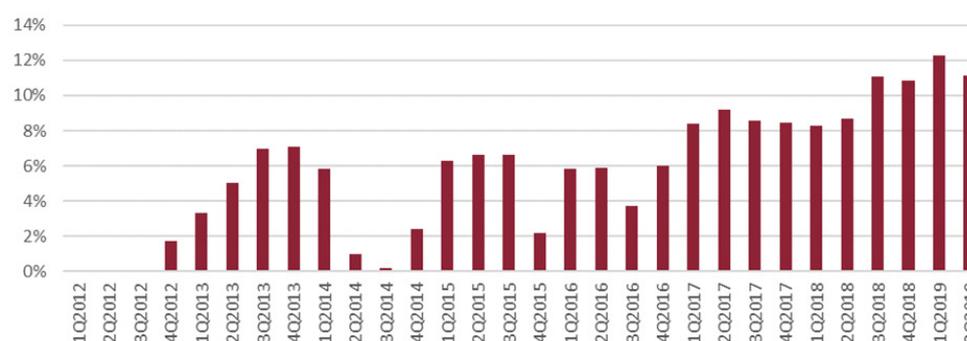
VGI Partners has been researching and investing in companies in the Asian region since 2008. Historically a significant proportion of VGI Partners' global strategy has been deployed in investments that would have also qualified for the Asian strategy, which predominantly includes companies listed in Japan, South Korea, Singapore, Hong Kong, Taiwan and Australia.

As of 31 July 2019, IIR notes that 18% of the long portfolio comprised Asian companies, a percentage that may naturally be higher if not for the geographic limitations that apply to the mandate. Broadly, as VGI Partners has dedicated more time and resources to opportunities which fit within the Asian Strategy, its allocations to these opportunities have increased as shown in the charts below.

**Allocation to Asian Long Positions in the VGI Partners Master Fund**



**Allocation to Asian Short Positions in the VGI Partners Master Fund**



## 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\$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 120 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 Manager 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:** Potential short positions tend to possess the opposite qualities to potential Long Investments. The following are some of the qualities that VGI Partners looks for in businesses it may short sell: a) accounting irregularities; b) structurally challenged; c) poorly managed; d) materially overvalued; and e) where VGI Partners can identify a trigger that it expects will lead to a downward re-rating of the business's share price. Predominantly, all of VGI Partners' gross short exposure arises from profit-seeking equity shorts based on "bottom up" individual company fundamental research. In addition, VGI Partners may short indices over time in order to manage portfolio exposures and to ensure timely reduction of market risk. 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 external experts to verify their thoughts on a stock.

### 3) Portfolio Construction

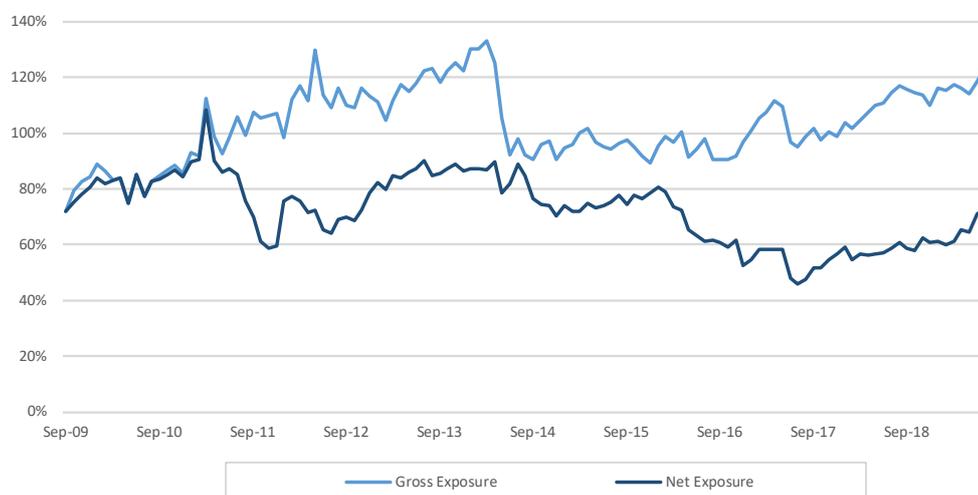
The Manager will deploy VGI Partners' portfolio construction approach by focusing on investment opportunities in countries or jurisdictions with developed markets that are transparent, and which have strong accounting and regulatory standards that the Investment Team understands and feels comfortable with. The Manager intends to weight the Portfolio to investments in companies listed in Japan, South Korea, Singapore, Hong Kong, Taiwan and Australia.

Notwithstanding this broad mandate, the majority of the portfolio is expected to comprise Long and Short Positions in listed securities in the Asian region. The Company will typically invest long term in 15 to 30 Long Investments that the Manager considers attractively valued, with the top ten Long Investments typically representing between 40% and 50% of the Portfolio's NAV.

There are no industry/sector limitations within the Company's investment strategy. This is because the fundamental thesis underpinning VGI Partners' portfolio construction approach, which the Manager will adopt in relation to the Company, is to focus on the value proposition of each security. The Manager will monitor and regularly review sector and thematic concentrations (i.e. exposures to particular industries and sectors) and will adjust the portfolio if necessary.

The maximum gross exposure within the portfolio (i.e. long investments plus short positions) is 150% of the portfolio's NAV. However, it is expected that the portfolio will typically have gross exposure of 70% to 120% of the portfolio's NAV and net equity exposure (that is, long investments minus short positions within the portfolio) of 50% to 100% of the portfolio's NAV. The chart below illustrates the historic net and gross exposure of the VGI Partners Master Fund.

#### Gross and Net Exposure VGI Partners Master Fund



The Company's portfolio will be subject to the following guidelines.

#### Investment Team

Name	Position																																													
Geographic exposure limits	VGI Partners' portfolio construction approach, as applied to the Company by the Manager, will be to focus on investment opportunities in countries or jurisdictions with developed markets that are transparent, and which have strong accounting and regulatory standards that the Manager understands and feels comfortable with. This will largely restrict investment to specific countries, as set out below:																																													
	<table border="1"> <thead> <tr> <th>Market</th> <th>Long</th> <th>Short</th> </tr> </thead> <tbody> <tr><td>China</td><td>Watching brief</td><td>Watching brief</td></tr> <tr><td>India</td><td>Watching brief</td><td>Watching brief</td></tr> <tr><td>Japan</td><td>Core</td><td>Yes</td></tr> <tr><td>South Korea</td><td>Core</td><td>Yes</td></tr> <tr><td>Singapore</td><td>Core</td><td>Yes</td></tr> <tr><td>Hong Kong</td><td>Core</td><td>Yes</td></tr> <tr><td>Taiwan</td><td>Core</td><td>Unlikely</td></tr> <tr><td>Thailand</td><td>Watching brief</td><td>No</td></tr> <tr><td>Vietnam</td><td>Opportunistic</td><td>No</td></tr> <tr><td>Malaysia</td><td>Opportunistic</td><td>No</td></tr> <tr><td>Indonesia</td><td>Watching brief</td><td>No</td></tr> <tr><td>Philippines</td><td>Watching brief</td><td>No</td></tr> <tr><td>Australia</td><td>Core</td><td>Yes</td></tr> <tr><td>New Zealand</td><td>Opportunistic</td><td>Unlikely</td></tr> </tbody> </table>	Market	Long	Short	China	Watching brief	Watching brief	India	Watching brief	Watching brief	Japan	Core	Yes	South Korea	Core	Yes	Singapore	Core	Yes	Hong Kong	Core	Yes	Taiwan	Core	Unlikely	Thailand	Watching brief	No	Vietnam	Opportunistic	No	Malaysia	Opportunistic	No	Indonesia	Watching brief	No	Philippines	Watching brief	No	Australia	Core	Yes	New Zealand	Opportunistic	Unlikely
Market	Long	Short																																												
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Philippines	Watching brief	No																																												
Australia	Core	Yes																																												
New Zealand	Opportunistic	Unlikely																																												
Average size of Long Investments	Individual position sizes are expected to start at 1% to 2% of the Portfolio's NAV and typically build as the Manager gains further conviction to between 4% and 8% of the Portfolio's NAV.																																													
Single security Long Investment limit	8% of the Portfolio's NAV at purchase; maximum of 20% of the Portfolio's NAV. In practice, it is expected that any individual Long Investment will be reduced before the hard limit is reached.																																													
Single security Short Position limit	Individual position sizes will generally start at 0.5%, and build to a typical 1% to 2% of the Portfolio's NAV.																																													
Net equity exposure limits	5% of the Portfolio's NAV at purchase; maximum of 7.5% of the Portfolio's NAV. In practice, it is expected that an individual Short Position will be reduced before the hard limit is reached.																																													
Gross exposure limits	Maximum of 150% of the Portfolio's NAV; typically, between 70% and 120%.																																													
Limits of cash and cash equivalents	Limited to 100% of the Portfolio's NAV; typically, below 50% of the Portfolio's NAV.																																													

## PERFORMANCE ANALYTICS

The VGI Partners Master Fund was launched in January 2009 and is VGI Partners longest running fund. VGI Partners considers the performance of the Master Fund to be representative of the historical performance of its investment philosophy and process as applied under the Global Strategy. Notwithstanding that the Company will comprise a regionally focused portfolio, the Manager will seek to replicate the proven and successful investment philosophy and process that has been deployed in respect of the Master Fund. That said, investors should be cognisant of the expected portfolio variations, both on the long and short side, and be mindful of the generally markedly higher volatility in the Asian markets.

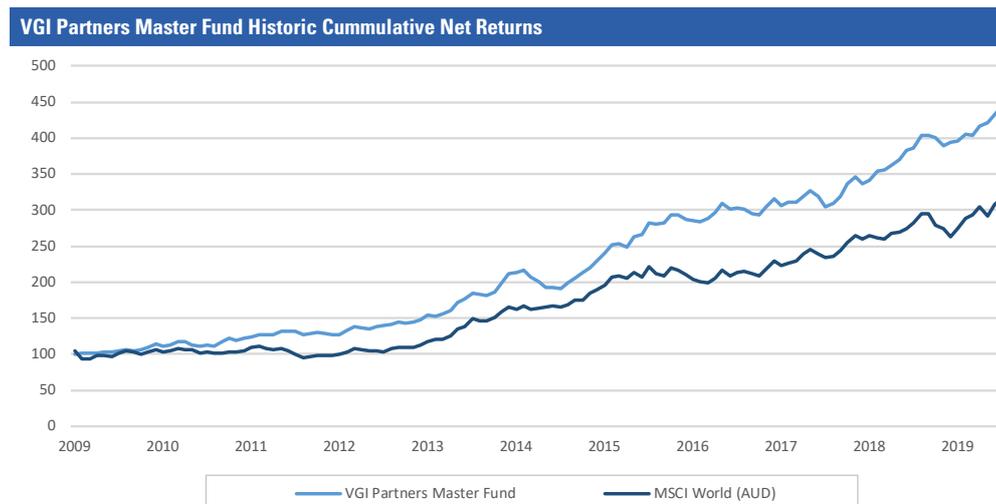
With this in mind, we would encourage investors to view the historic performance of the VGI Partners Master Fund as indicative of manager skill and performance style relative to the benchmark more so than being indicative of absolute risk and return metrics.

The performance of the VGI Partners Master Fund is tabled and diagrammatically presented below.

VGI Partners Master Fund Net Returns p.a. (as at 31 July 2019)			
	VGI Partners Masters Fund	MSCI World (AUD)	Alpha
1-year	14.8%	12.0%	2.8%
3-years	13.6%	14.1%	-0.5%
5-years	18.3%	13.7%	4.6%
10-years	15.6%	12.0%	3.6%
Since Inception	15.0%	11.4%	3.6%
Standard Deviation	9.0%	10.9%	n/a
Sharpe Ratio *	1.27	0.72	n/a
Max Drawdown / Time to Recover	11.6% / 4 months	13.7% / 16 months	n/a
Beta	0.53	n/a	n/a

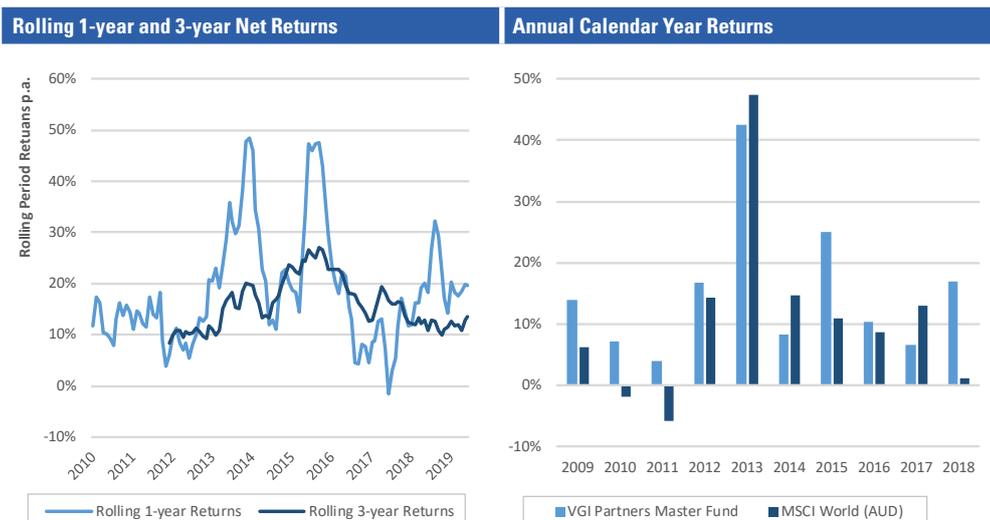
\* Assumes a normalised risk-free rate of 3.5%

- ◆ The Manager has generated annualised total returns net of fees of 15.0% since inception with an average net exposure of approximately 70%, outperforming the benchmark by 3.6% p.a. We note returns have been consistently at the upper end or above the target 10-15% p.a. returns of the Company. This outperformance has been achieved with a lower degree of risk (9.0% vs 10.9%) and a lower degree of capital risk, with a lower maximum drawdown and substantially shorter time to recover. These lower risk metrics are consistent with expectations given the material cash position and long-short investment strategy.

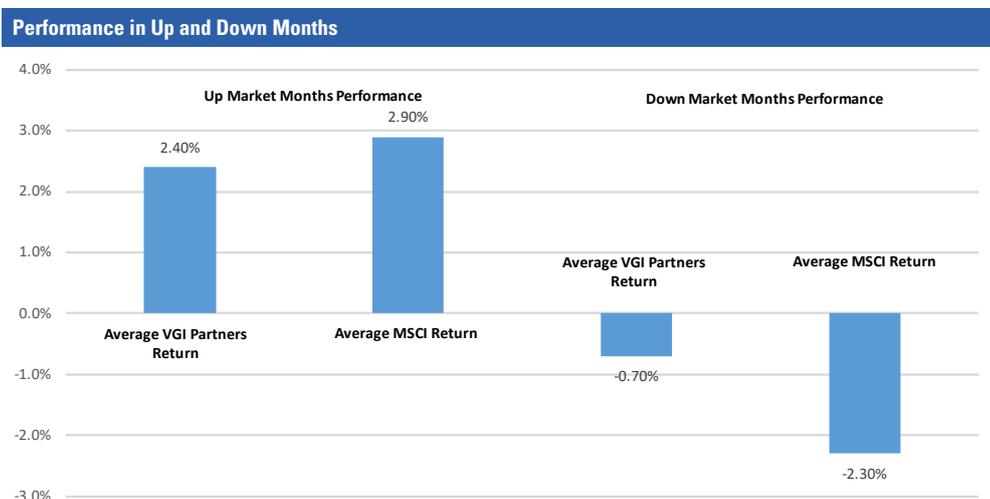


- ◆ Over the past five years, the short portfolio has contributed +3.0% to returns (meaning that on average the stocks that the Manager has shorted have fallen in price). This has been achieved in a period when the MSCI World Total Return Index (AUD) increased by 85.1%. The fact that the Manager has generated positive returns from the short portfolio over this period of rising equity markets demonstrates its ability to short-sell securities profitably over the long run. Additionally, what this performance does not show is the qualitative benefit a manager gains from a shorting process. Specifically, employing a long-short strategy means that every stock at any given time is a potential investment,

leading to a higher degree of stock monitoring and facilitating the recognition of a change in the investment merits of any given particular listed company.

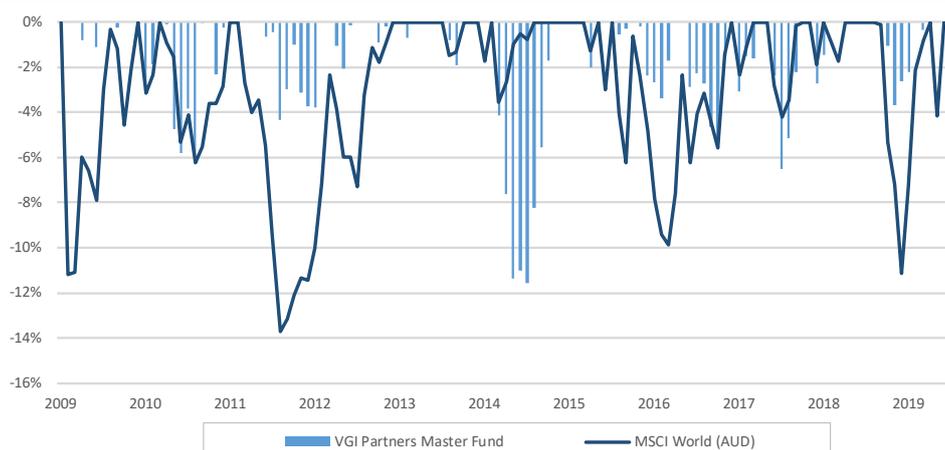


- ◆ In the period from inception to 31 July 2019 (a total of 127 months), there have been 79 up months and 48 down months. The chart below shows that in up months, the VGI Partners Master Fund has performed on average close to, but slightly below, the MSCI World (AUD) Index. However in down months, the VGI Partners Master Fund has performed considerably better than the MSCI World (AUD) Index. This performance is consistent with the Company’s core investment objective: to structure portfolios to perform adequately in positive periods, while at the same time seeking to protect capital from loss in falling markets. The combination of modest relative underperformance in up months and material relative outperformance in down months, has led to the VGI Partners Master Fund achieving a compound average annual return of 15.1%, compared to 11.5% achieved by the MSCI World (AUD) Index over the same period.



- ◆ Further to the above, it is reasonable to expect the Manager to underperform the market slightly in strong positive markets, and particularly when high growth, highly geared and more speculative companies are performing strong. This is for three key reasons: the Manager invests in high quality companies; it generally holds a material cash balance, and; the Manager short sells. The opposite but the same underlying dynamics lead to the Manager outperforming in down markets.
- ◆ The chart below provides a comparative drawdown analysis between the VGI Partners Master Fund and that of the benchmark MSCI World (AUD) Index. Again, for similar reasons discussed above, the capital risks have been less for the fund than the market as a whole.

### Drawdown Analysis



### Share Price to NTA Performance VG1



## PEER COMPARISON

There are currently 11 LICs/LITs 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.

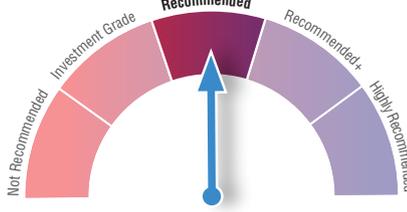
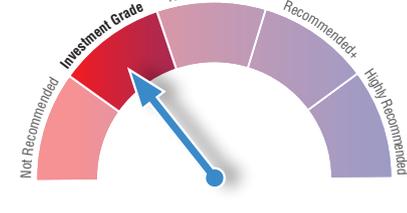
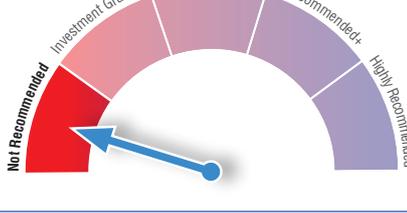
- ◆ The Company's annual management fee is above the average of 1.27%, while the performance fee is at the lower end of the peer group. We note the Manager will be paying a large majority of the operating and administrative costs of the Company through the management fee which are typically reimbursed to the Manager by LICs. This could equate to 0.1%-0.5% depending on the amount of capital raised.
- ◆ The twelve LICs/LITs have a range of performance hurdles, but IIR takes a less than positive view on a hurdle other than the appropriate equities benchmark. We note both VGI Partners funds do not have a hurdle. Investors in VGI Partners funds must recognise that while the Manager is top of class in its alignment with shareholder interests and generous with respect to equity participation in VGI, which IIR acknowledges is effectively a partial recompense of fees paid, that these benefits are offset by high fees and an unjustifiable absence of a hurdle rate for performance fees.
- ◆ A differentiating factor of VG8 to its peer group is that the Manager has committed to reinvesting any performance fees received (after tax) into VG8 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. Additionally, investors gain the benefit of the Alignment Shares offer, equivalent to a value of 4.2% and 7.0% for new and existing investors in VG8, respectively.

Fees Peer Comparison						
LIC Name	ASX Code	Investment Universe	Listing Date	MER (%p.a. ex GST)	Performance Fee (%)	Performance Fee Hurdle
Antipodes Global Investment Company Ltd	APL	Global	October 2016	1.1	15.0	MSCI All Country World Net Index, AUD
Cadence Capital Limited	CDM	Australia	Dec 2006	1.0	20.0	All Ords Acc Index
Contrarian Value Fund	CVF	Australia	Jan 2015	1.0	20.0	S&P/ASX 200 Acc. Index
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
L1 Long Short Fund	LSF	Global	April 2018	1.4	20.0	Previous high NTA
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%
Regal Investment Fund	RF1	Global	June 2019	1.5	20.0	RBA Cash Rate
VGI Partners Global Investments Limited	VGI	Global	September 2017	1.5	15.0	Previous high NTA
<b>VGI Partners Asian Investments Limited</b>	<b>VG8</b>	<b>Global</b>	<b>N/A</b>	<b>1.5</b>	<b>15.0</b>	<b>Previous high NTA</b>

## APPENDIX A – RATINGS PROCESS

### Independent Investment Research Pty Ltd “IIR” rating system

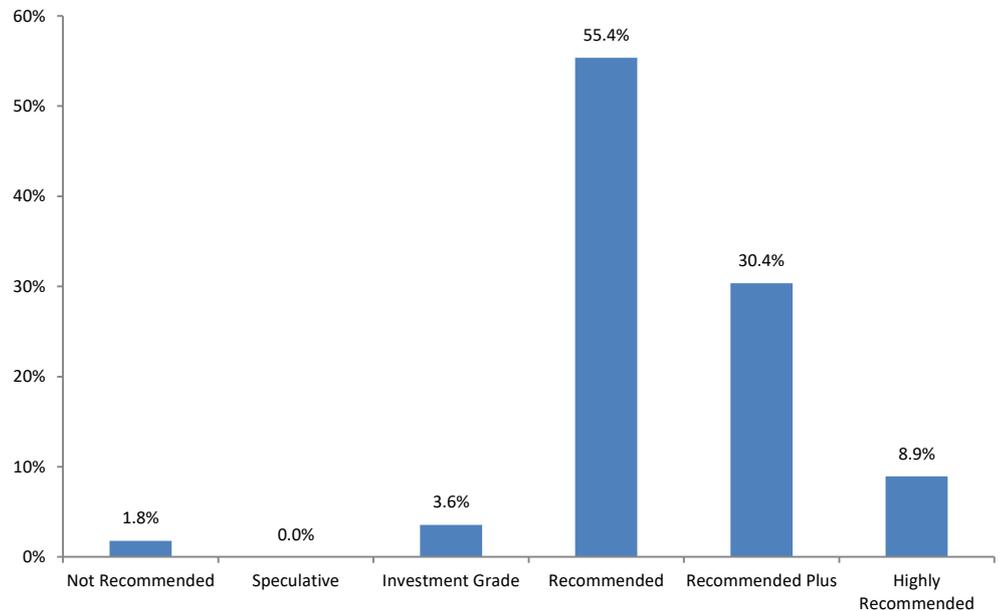
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction;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

LMI Ratings	SCORE
<p><b>Highly Recommended</b></p> 	<p><b>83 and above</b></p> <p>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.</p>
<p><b>Recommended +</b></p> 	<p><b>79–83</b></p> <p>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.</p>
<p><b>Recommended</b></p> 	<p><b>70–79</b></p> <p>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.</p>
<p><b>Investment Grade</b></p> 	<p><b>60–70</b></p> <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
<p><b>Not Recommended</b></p> 	<p><b>&lt;60</b></p> <p>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.</p>

## 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



# DISCLAIMER

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For further information, please contact IIR at: [client.services@independentresearch.com.au](mailto:client.services@independentresearch.com.au)



**Independent Investment Research (Aust.) Pty Limited**

**SYDNEY OFFICE**

Level 1, 350 George Street  
Sydney NSW 2000  
Phone: +61 2 8001 6693  
Main Fax: +61 2 8072 2170  
ABN 11 152 172 079

**MELBOURNE OFFICE**

Level 7, 20–22 Albert Road  
South Melbourne VIC 3205  
Phone: +61 3 8678 1766  
Main Fax: +61 3 8678 1826

**HONG KONG OFFICE**

1303 COFCO Tower  
262 Gloucester Road  
Causeway Bay, Hong Kong

**DENVER OFFICE**

200 Quebec Street  
300-111, Denver Colorado USA  
Phone: +1 161 412 444 724

**MAILING ADDRESS**

PO Box H297 Australia Square  
NSW 1215