

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

1H20 Investor Briefing – 6 February 2020

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## **Business Highlights**

### **Inception to 31 December 2019<sup>1</sup>**

- VG8 listed on 13 November 2019
- Net Tangible Assets (NTA) of A\$557 million at \$2.50 per share
- More than 80% contributed by investors in our existing global strategy
- VG8 IPO investors received free “Alignment Shares” in VGI Partners proportionate to their investment
- Patiently investing: net equity exposure now 23% (26% Long, 3% Short)
- Post-tax NTA fell 2.8% to \$2.43 from inception to December 2019<sup>2</sup> (after fees) due to forex
- Post-tax NTA rebounded to \$2.52 as at 31 January 2020<sup>3</sup>
- No dividend given primary objective is currently capital gains growth and limited franking credits

<sup>1</sup> VG8 was established on 31 July 2019 but listed on 13 November 2019.

<sup>2</sup> Post-tax Net Tangible Assets sourced from Citco Fund Services.

<sup>3</sup> Post-tax NTA estimated by VGI Partners.

## Illustration

### VG8 IPO Investor Returns – Priority Offer<sup>1,2,3</sup>

	Investment outlay	Current market value <sup>1</sup>	Current NTA value <sup>2</sup>
1 VG8 IPO	\$100,000 (40,000 shares at \$2.50)	\$91,200	\$100,800
2 Free VGI Shares	\$0 (533 shares at \$0)	\$6,556	\$6,556
<b>Total</b>	<b>\$100,000</b>	<b>\$97,756</b>	<b>\$107,356</b>
		Share price return: -2.2%	NTA return: +7.4%

<sup>1</sup> Share price returns are based on closing share prices as of 5 February 2020 (\$2.28 for VG8 and \$12.30 for VGI Partners).

<sup>2</sup> NTA returns incorporate VG8's last disclosed NTA (\$2.52 as at 31 January 2020). The NTA value is unaudited and has been estimated by VGI Partners.

<sup>3</sup> Using the above data, the Cornerstone Offer has generated a -0.7% share price return and +8.9% NTA return. The General Offer has generated a -4.9% share price return and +4.7% NTA return.  
Source: VGI Partners and Bloomberg.

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# **VGI Partners**

# **The Manager**

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## VGI Partners (The Manager) Overview

- Specialist manager focusing on global equities. Long biased, concentrated strategy with selective shorting. Minimal to no leverage utilised
- 29 staff in Sydney, New York and Tokyo
- FUM of A\$3.2 bn<sup>1</sup>
- One global investment strategy across two unlisted funds (AUD and USD), IMAs and VG1
- Second strategy (VG8), focused on Asia
- The Manager is closed to new investment into its unlisted funds and IMAs. VGI Partners' strategies are only accessible via investing in VG1, VG8 or the remaining capacity in the Charitable Foundation Class
- Strong track record of Master Fund performance



<sup>1</sup>FUM as at 10 Jan 2020. Data is per VGI Partners' latest ASX FUM release, unaudited and based on VGI Partners' estimates.

## VGI Partners (The Manager) Philosophy and Alignment of Interests

<b>Capital Preservation</b>	Do not lose money
<b>Long-Term Compound Growth</b>	10-15% p.a. net of fees
<b>Portfolio Concentration</b>	Invest in best ideas

### Alignment of Interests

- The Manager paid for VG8's upfront listing costs
- All VG8 operating costs (where permitted) paid by the Manager
- Founders of VGI Partners reinvest their pro-rata amount of VG8 performance fees (after tax) back into VG8 shares

### Staff

- Prohibited from buying securities outside of the Manager's funds and VGI Partners itself
- The entire investment team invests a material proportion of their net worth in VGI Partners and VGI Partners' funds
- Staff ownership of VGI and VG8
- Staff and their families own \$40m of VG8 shares (at NTA)<sup>1</sup>

Source: VGI Partners

<sup>1</sup> Based on VG8 post-tax NTA of \$2.52 as of 31 January 2020. Includes over \$26m owned by 100% of VGI Partners Limited. VGI Partners is 77% owned by VGI Partners staff and their families.

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**VGI Partners Asian  
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## VG8 Portfolio Update as at 31 Jan 2019

Portfolio Size \$561 mn

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### Month End Exposures

Long Equity Exposure	26%
Short Equity Exposure	(3)%
Gross Equity Exposure	29% (26% + 3%)
Net Equity Exposure	23% (26% - 3%)
Cash Weighting	77%

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### Net Currency Exposure

USD / JPY	93% / 7%
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Source: VGI Partners.

### Top Five Long Investments

**Kikkoman Corporation** – The world’s leading manufacturer of soy sauce, Kikkoman is based in Japan and also distributes Asian foods through a global wholesale network. Kikkoman Soy Sauce is shipped to over 100 countries from seven overseas factories in the US, Asia and Europe.

**Yakult Honsha Co. Ltd** – A pioneer in probiotic products, Yakult is listed in Japan with operations in 40 countries. Three quarters of earnings are generated outside of Japan.

**Cie Financiere Richemont SA** – A Switzerland-based luxury goods holding company with particular strengths in jewellery, watches and writing instruments. Through its prestigious Maisons, which include Cartier and Van Cleef & Arpels, Richemont has significant exposure to the Asian consumer with 45% of sales made in the Asia Pacific region.

**MTR Corporation** – Hong Kong’s monopoly operator of rail assets with roughly 50% market share of all public transportation in Hong Kong. It operates a “rail plus property” model where MTR Corporation benefits from foot traffic generated from its rail operations through the development and ownership of property assets.

**Unicharm Corporation** – Specialises in the manufacture of diapers (babies and adults) and feminine hygiene products. Listed in Japan, Unicharm has market leading positions in China, India, Indonesia, Japan, Vietnam and Thailand.

## Japan

### **KKR founders set sights on Japan conglomerates**

*Financial Times, April 2019*

Mr Roberts said the push for improved governance and transparency initiated by the administration of Shinzo Abe now had the momentum to survive beyond his time as prime minister...

"This [Japan] is our highest priority right now other than the US... this is the best value today. If you look at value to price of stock and cost of capital, it's here" (Henry Kravis, KKR).

### **Activist investor targets Kirin urging growth strategy overhaul**

*Financial Times, November 2019*

One of Kirin's largest shareholders has launched a campaign to persuade the Japanese brewer to focus on making beer.

The effort by UK-based Independent Franchise Partners (FP), which is poised to intensify in coming weeks, marks a new front in the effort by activist and long-only investors to shift management thinking at the top of corporate Japan.

### **Why global fund managers are missing on trick on Japan**

*Financial Times, October 2019*

Private equity and activist funds.. are eyeing a generational opportunity. The most fundamental change lies with Japan's ongoing corporate governance reforms. They have the potential to break long-held assumptions about the corporate sector's apathy toward shareholder interests.

Management teams are under increasing pressure. IR Japan, a service provider, estimates that the number of activist funds operating in Japanese equities has risen from 8 in 2014 to 31 this year.

### **Japanese brokerages shed aversion to hostile takeover bids**

*Nikkei Asian Review, January 2020*

Japanese securities houses are breaking a taboo over involvement in hostile takeover bids, as companies and investors become more aggressive about making unsolicited acquisitions to maximize corporate value.

One executive of a foreign securities company thinks 2019 was a real watershed. It will be remembered as the "dawning of a new era of hostile takeover bids" in Japan, the executive said. A factor behind the shift may be Japan's still-fresh Stewardship Code.

### **Toshiba launches tender offers for three listed subsidiaries**

*Financial Times, November 2019*

Toshiba launched its tender offers for Toshiba Plant Systems & Services, NuFlare Technology and Nishishiba Electric with hefty premiums of 42%, 50% and 60% respectively on the averages of their share prices over the past three months.

Analysts said the generous-looking offers were probably an effort to avoid confrontation with increasingly vocal activist investors camped out on the shareholder registers of the three companies expecting an offer before the end of the year.

### **Activists ponder the real returns on investment in Japan**

*Financial Times, January 2020*

2019 set a record with 75 activist campaigns initiated in Japan in public, 44 per cent higher than the previous year. But share buybacks last year — largely the fruits of pressure from shareholders — were over 100 per cent higher than in 2018, suggesting lots of behind-the-scenes activity taking effect. So as 2020 looks even more primed for activism, which is the higher yielding strategy: speaking softly or carrying a big stick?

## Asia

### **South Korea banks on Vietnam alliance after China chill**

*Nikkei Asian Review, May 2019*

For South Korean companies, which rushed to cash in on China's huge market and inexpensive labor in the 2000s, Vietnam offers even lower costs and ostensibly less political risk.

The average Vietnamese manufacturing worker earned \$3,812 last year, about a third of China's average of \$10,520, according to the Hyundai Research Institute.

### **China seeks to accelerate trade talks with Japan, South Korea, EU**

*Nikkei Asian Review, November 2019*

President Xi Jinping said China was willing to sign trade deals with more countries, as he pledged to further lower tariffs and transaction costs to boost imports into the world's second-largest economy.

Xi said China was ready to sign more "high-standard" free trade agreements and accelerate the negotiation process of free trade deals with the European Union, Japan and South Korea.

### **Wanna Bet \$1.3 Trillion on Chinese Regulators?**

*Bloomberg, July 2019*

If you hold shares in New York-listed Alibaba Group Holding Ltd., you don't own a stake in a Chinese internet powerhouse.

What you have are the American depository receipts of a Cayman Islands company that has a contract with the Chinese firm. This business structure, called a variable-interest entity, became common among Chinese companies because Beijing restricts foreign investment in certain sectors, such as the internet.

### **South Korean Inheritance Tax Threatens Family Business**

*Financial Times, January 2020*

Thanks to a 50 per cent rate that rises to 65 per cent if the beneficiary becomes the biggest shareholder of the family business, the heirs to the country's top 25 companies face a combined bill of \$21bn, according to data from research group CEO Score.

"Power transitions are under way in major chaebol groups," said Park Ju-geun, head of CEO Score.

### **South Korean activist investor turns up heat as chaebol face headwinds**

*Nikkei Asian Review, October 2019*

Scandals and transition challenges at South Korea's powerful family-run conglomerates are opening up opportunities for activist investors to move in, with the country's biggest local fund already turning up the heat.

Established only in 2018, KCGI (Korea Corporate Governance Improvement) is the most prominent homegrown player in a country where activist investors -- foreign or domestic -- are just starting to make their mark.

### **Taiwan Outperforms other Asian Tigers to Notch 2.7% Growth in 2019**

*Nikkei Asian Review, January 2020*

Taiwan's economy grew 2.73% in 2019 from the previous year, outperforming regional peers as the island reaped investments in the fallout of the U.S.-China trade war.

Key suppliers to Apple, Dell, and HP, such as Hon Hai Precision Industry (Foxconn), Pegatron, Quanta Computer, Compal Electronics and Inventec, were among the 169 companies that shifted some production back to Taiwan last year, according to the Economics Ministry. This created nearly 60,000 new jobs.

## Shareholder Engagement

**Please elect electronic  
communications to  
stay informed**

Investor Letter from  
the Manager in  
January and July  
each year

Half-year and  
full-year result  
conference calls

AGM in November  
each year

Annual national  
roadshow including  
briefings in Sydney,  
Melbourne, Adelaide,  
Perth and Brisbane

Independent Research

- Zenith
- Independent  
Investment  
Research (IIR)

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**New website: [www.vgipartners.com/lics/vg8](http://www.vgipartners.com/lics/vg8)**

Please visit our new website: [www.vgipartners.com/lics/vg8](http://www.vgipartners.com/lics/vg8)

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Share Price*	Post-Tax NTA*	Portfolio Size*
<b>\$2.30</b>	<b>\$2.52</b>	<b>\$561m</b>

[1 Latest Monthly NTA Statement](#)  
[1 Latest Weekly NTA Update](#)  
[1 Latest Investor Letter](#)  
[1 1H20 Financial Report](#)  
[1 IPO Prospectus](#)  
[1 Share Price Graph](#)

ASX: VG8 | Listing date: 13 November 2019

VG8 provides investors with access to a concentrated portfolio, predominantly comprised of long investments and short positions in Asian listed securities. It may also take positions in other companies with significant exposure to the Asian market. The fund is actively managed by VGI Partners (the Manager) with a focus on capital preservation. VG8 will typically invest in 15-30 long investments. The top ten long investments will usually represent between 40-50% of the portfolio's NAV.

Share price is delayed by 20 minutes. Net Tangible Assets (NTA) per share and portfolio size as at 31 Jan 2020. Weekly NTA Updates are available under ASX Releases.

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Board +

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Key Dates +

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Monthly NTA Statements +

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# Questions

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