29 January 2019

Dear Fellow Investors,

INVESTOR LETTER – VGI Partners Global Investments Limited (VG1)

"Investors should always keep in mind that the most important metric is not the returns achieved but the returns weighed against the risks incurred. Ultimately, nothing should be more important to investors than the ability to sleep soundly at night."

- Seth Klarman

For the twelve months ended 31 December 2018 (CY18), the **VGI Partners Global Investments Limited (ASX: VG1)** portfolio generated a post-tax return of **+10.8%** net of all fees.

VG1 is exposed to the U.S. Dollar (USD) through both the investments it owns as well as its cash holdings, which are currently held entirely in USD. We have made the conscious decision to not have any USD currency hedges in place at present. This means that if the USD weakens against the AUD, this will be a drag on performance for VG1. If the USD strengthens against the AUD, VG1's return will see a positive contribution from currency. We will discuss our active currency management approach later in this letter.

VG1's average monthly net exposure in CY18 was 42% (64% long investments less 22% short investments), with an average monthly gross exposure of 86%. This means that on average, for every $100,000 you had invested in VG1 in CY18, we owned $64,000 of equities and sold short $22,000 of equities for a net equity exposure of $42,000.

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We set out the above as we believe it is critical for our investors to recognise that VG1's recent returns have been generated with a very substantial cash buffer, much higher than what VGI Partners has historically held. This provides the portfolio with significant purchasing power when we see opportunities to buy high quality companies at prices that meet our valuation criteria.

When the VG1 Prospectus was prepared, it set-out an expectation that VG1 would replicate the proven and successful VGI Partners Master Fund portfolio within three months of listing on the ASX in late September 2017, subject to market conditions. In our first Investor Letter in January 2018, we noted that we were in a highly unusual investment environment, with most major global stock market indices reaching all-time highs. As a result, and given VGI's focus on preservation of investors' capital, we have been patient in making investments on behalf of VG1.

Recent market volatility has provided VG1 the opportunity to purchase securities at attractive prices, and as at 31 December 2018 the portfolio was, on average, approximately 85% of targeted individual stock weightings across the entire portfolio.

Where we have identified new Long and Short opportunities, the VG1 portfolio weighting has immediately mirrored the VGI Partners Master Fund weighting. However, it has been challenging to prudently replicate weightings in two key Long positions which have been held by the VGI Partners Master Fund for many years, Amazon and MasterCard. The current weightings are 8% for Amazon and 6% for MasterCard, which are below the VGI Partners Master Fund's weightings.

The share prices of these two businesses have continued to track higher after the listing of VG1. In our opinion, the share prices of Amazon and MasterCard have for most of the year traded where there has been only a narrow 'margin of safety'. In recent months, prices have come back a little which has provided us the opportunity to add to our holdings in both companies.

As outlined in the Prospectus, our focus is on seeking to generate superior risk-adjusted returns. As such we have a bias for preservation of capital, and we are comfortable holding cash when value is scarce.

We are long-term investors and the risk of relative underperformance in the short-term (through slow, careful deployment) is preferable in our view to the risk of a permanent loss of capital. Any further pullback in markets will likely provide buying opportunities and expedite deployment of cash.

VGI PARTNERS

We are pleased by the quality of the return generated by VG1 in its first full calendar year. By sticking to our investment process and philosophy, we are confident we will generate superior risk-adjusted returns over the long-term and through market cycles.

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VG1's **+10.8%** net return for CY18 consisted of stock contribution of **+3.3%** and a contribution from our long-term strategic currency positioning of **+7.5%**. We will discuss our active currency management approach in detail later in this letter.

2018 marked the first year since 2011 that most major global stock market indices recorded negative returns in their local currency.

	CY18 Performance (Stock Contribution)	CY18 Performance (AUD including currency contribution)
VGI Partners Global Investments Limited (VG1)	**3.3%**	**10.8%**

Total Return Index (including dividends reinvested)	CY18 Performance (Local Currency)	CY18 Performance (AUD)
S&P 500 Index	(4.4%)	6.1%
S&P/ASX 200 Index	(2.8%)	(2.8%)
MSCI World Index	(8.7%)	1.3%
Nikkei 225 Index	(10.3%)	1.5%
FTSE 100 Index	(8.7%)	(4.6%)
Hong Kong Hang Seng Index	(10.5%)	(1.0%)
Deutsche Boerse AG German Stock Index (DAX)	(18.3%)	(13.7%)

Source: Bloomberg

As long-term VGI investors know, we like to begin our Investor Letters with an instructive quote that reflects our thinking at the time of writing. We began our Investor Letter twelve months ago with the following quote from Howard Marks: ***"There is nothing riskier than the widespread perception that there is no risk."***

In our Investor Letters over the past twelve months, we included the following reasoning for holding more cash than usual:

> All time high stock prices combined with record low volatility signal that investors are confident and calm. This dynamic is remarkable when taken in the current context of stretched valuations, heightened geopolitical risk and tightening monetary policy around the world.

Source: VGI Partners Investor Letter dated 29 January 2018

> Today, the vast majority of high-quality businesses continue to trade at valuations which imply unlikely levels of growth into perpetuity, combined with an expectation that interest rates will remain low forever. These are assumptions we simply do not feel comfortable making. One thing we will not do is lower our thresholds in order to justify an investment for the sake of being more fully invested.
>
> In this environment we continue to view a high cash weighting as both a logical expression and sound proof of implementing our aforementioned investment philosophy. We will remain especially prudent in this environment, where it is particularly difficult to locate high-quality investments at attractive prices.

Source: VGI Partners Investor Letter dated 27 July 2018

To be clear, in neither of these letters were we calling the top of an investment cycle or suggesting that there would be any imminent correction. We simply believed at the time that the expectations being factored into valuations reflected overly optimistic assumptions, which left no 'margin of safety'. As Warren Buffett famously says "*it is wise to be fearful when others are greedy and greedy when others are fearful*."

Recent months have seen global equity markets sharply decline due to the fear of rising interest rates, global trade wars and slowing global growth. This volatility has provided us with opportunities to selectively deploy cash (we will discuss this later).

Even after the recent market sell-off, we feel the vast majority of high-quality businesses continue to trade at valuations which imply unlikely levels of growth into perpetuity.

Market volatility has returned and we believe there will continue to be good opportunities in the future. Thus, the VG1 portfolio continues to maintain a relatively sizable cash holding which enhances our ability to execute in times of market uncertainty. This strategic cash holding has come in handy in recent months, allowing us to slowly add to some of our existing positions at what we believe to be attractive prices.

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VGI Partners' investment process and philosophy is firmly based on the cornerstone principles of capital preservation and 'margin of safety'. We are extremely focussed on avoiding any permanent loss of capital.

We aim to increase the likelihood of capital preservation primarily through two means. First, by investing in high-quality businesses that are easy to understand and that trade at prices which we believe exhibit a sufficient 'margin of safety' – that is, trading at prices that are significantly below the intrinsic value of the business. And second, by using little or no leverage and keeping prudent cash buffers.

We remain confident that we will continue to generate superior risk-adjusted returns over the long term and through investment cycles by concentrating our capital in a relatively small number of high-quality businesses that we believe are significantly undervalued, and by using little or no leverage.

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The following table shows the returns of **VG1**, which is Australian Dollar (**AUD**) denominated, **after all applicable fees and charges.**

Year to 31 December	VG1	Index*	Relative	VG1 Net Exposure
2017 (3 months)	**1.0%**	5.9%	(4.9%)	19%
2018	**10.8%**	1.3%	9.5%	41%
Total Return Since Inception	**11.8%**	**7.2%**	**4.6%**	**37%**
Compound Annual Return	**9.4%**	**5.7%**	**3.7%**	

Performance is shown after all applicable management and performance fees charged
Source: Citco Fund Administration and Bloomberg
*MSCI World Total Return Index (AUD). The MSCI Index is 100% net invested at all times

When the VG1 Prospectus was prepared, we outlined the expectation that VG1 would replicate the proven and successful VGI Partners Master Fund portfolio over time. Given the relatively short performance period available for VG1 since inception, we believe that it is useful to include the following table showing the net returns of the VGI Partners Master Fund.

The following table shows the returns of the VGI Partners Master Fund, which is Australian Dollar (**AUD**) denominated, **after all applicable fees and charges.**

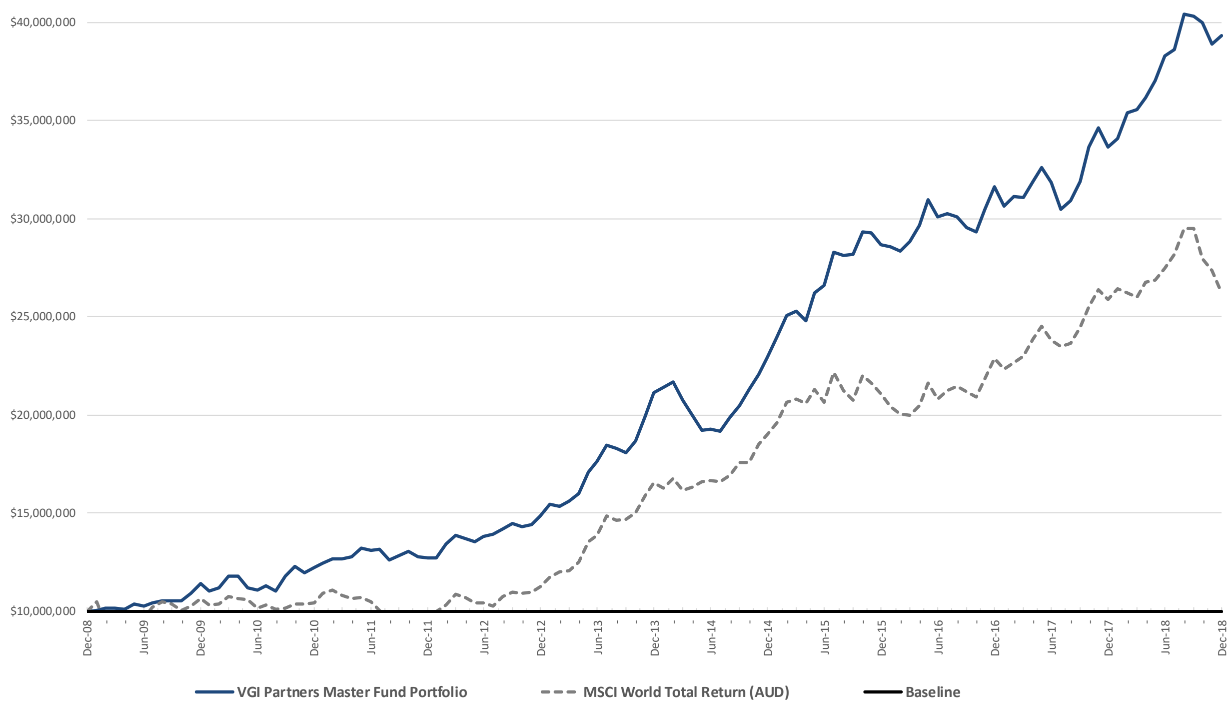
Year to 31 December	VGI Partners	Index*	Relative	VGI Partners Net Exposure
2009	**13.9%**	6.2%	7.7%	43%
2010	**7.2%**	(1.9%)	9.1%	83%
2011	**4.1%**	(5.8%)	9.9%	80%
2012	**16.8%**	14.4%	2.4%	72%
2013	**42.6%**	47.3%	(4.7%)	86%
2014	**8.3%**	14.7%	(6.4%)	82%
2015	**25.1%**	11.0%	14.1%	75%
2016	**10.3%**	8.6%	1.7%	66%
2017	**6.6%**	13.1%	(6.5%)	54%
2018	**16.9%**	1.3%	15.6%	58%
Total Return Since Inception	**293.5%**	**162.1%**	**131.4%**	**70%**
Compound Annual Return	**14.7%**	**10.1%**	**4.6%**	

Performance is shown after all applicable management and performance fees charged
Source: Citco Fund Administration and Bloomberg
*MSCI World Total Return Index (AUD). The MSCI Index is 100% net invested at all times

Since inception in 2009, the VGI Partners Master Fund has generated a total net return of **+293.5%** after all fees, compared to the return of the MSCI World Total Return Index (AUD) of **+162.1%** over the same period. This represents a total outperformance versus the MSCI World Total Return Index (AUD) of **+131.4%** since inception and a compound annual return of **+14.7%** over the period.

The VGI Partners Master Fund's performance since inception is shown graphically in the below chart compared to the MSCI World Total Return Index (AUD):

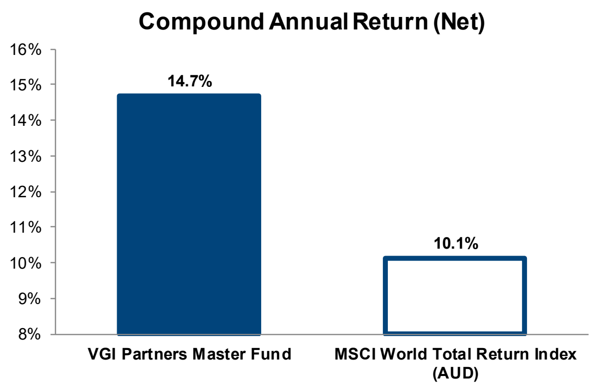
VGI Partners Master Fund Portfolio vs. MSCI World Total Return (AUD)

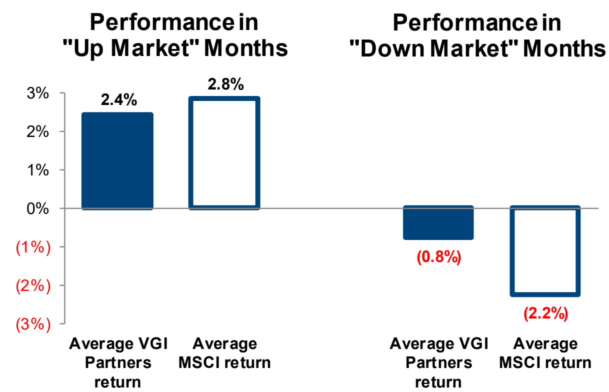


Source: Citco Fund Administration and Bloomberg

As you can see, the VGI Partners Master Fund has outperformed the Index (which is 100% invested and thus holds 0% cash) over time, despite the Portfolio holding a 30% cash weight on average. We believe this illustrates VGI Partners' ability to deliver a superior risk-adjusted return over time.

The below charts are an intuitive way to demonstrate VGI Partners' strong focus on capital preservation and our conservative portfolio positioning. Over the past ten years, the portfolio has delivered compound annual returns of **+14.7%** after all fees. This compares to **+10.1%** for the Index. The following chart shows that, since inception, the Portfolio has tended to outperform in periods of market weakness. In down market months the index fell **-2.2%** on average while the VGI Portfolio fell just **-0.8%** on average.





Source: Citco Fund Administration and Bloomberg

Note: The performance period includes 120 months since inception (73 up market months and 47 down market months)

MSCI = MSCI World Total Return Index (AUD)

Our investment philosophy of concentrating capital in our best ideas, complemented by selective short selling and holding strategic cash reserves when ideas are scarce, has been effective over the past ten years. We remain highly disciplined and focussed on ensuring our process is adhered to at all times. We will not change our process to chase a bull market in a 'hot' sector or region.

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

PERFORMANCE ATTRIBUTION FOR THE YEAR TO 31 DECEMBER 2018

The following table lists the most significant stock contributors to the performance of our Long Portfolio for the twelve months to 31 December 2018.

Top Long Contributors to VG1 Returns in CY18	Contribution
CME Group Inc.	2.8%
WD-40 Co.	1.2%
Amazon.com Inc.	0.9%
MasterCard Inc.	0.8%
Kikkoman Corp.	0.6%
Total Contribution of Above	**6.3%**

Source: VGI Partners

CME Group (NASDAQ: CME) is currently VG1's largest investment with a **12%** weighting. CME contributed **+2.8%** to performance for the twelve months to 31 December 2018, with the share price increasing **29%** over the course of the year. In addition, CME paid us five dividends totalling $4.55 per share, for a dividend yield of 3.1%.

CME is a derivatives exchange with an effective monopoly in the exchange trading of US interest rate derivatives and a dominant position in the trading of global commodities, foreign exchange, equity index and energy derivatives.

We believe that CME's interest rate volumes (which contribute approximately 30% of the company's revenues) are likely to substantially increase as the Federal Reserve continues to normalise interest rates. Furthermore, we believe the business model is extremely well-positioned for any pick-up in inflation.

CME has consistently demonstrated shareholder-friendly capital allocation policies, returning excess cash to shareholders in the form of increased dividends and share buybacks.

WD-40 Co. (NASDAQ: WDFC) contributed **+1.2%** to performance for the twelve months to 31 December 2018, with the share price increasing **55%** over the course of the year plus a dividend yield of 1.8% on top.

WD-40 is a global consumer products and brand management company. The vast majority of WD-40's revenue is generated from selling cans of the world famous WD-40 branded industrial lubricant (WD-40 stands for Water Displacement - 40th attempt, which was the laboratory name used by the chemist who developed the product in 1953).

The Company manufactures the WD-40 concentrate internally (thereby protecting its intellectual property and secret formula). WD-40 then ships this concentrate to external 'aerosol fillers' and thus outsources the majority of the manufacturing of its product to third parties. As a result, WD-40 has only two employees listed in its global manufacturing operations. This asset-light business model enables WD-40 to operate with very little capital and only 480 employees.

The VGI Partners Master Fund originally purchased WD-40 back in 2011. WD-40 is a core investment for VG1 as we believe the business has a long future of growth ahead of it and will benefit from carefully expanding its powerful and very valuable brand into adjacent categories and new geographies.

As Warren Buffett said in May last year, "some products have terrific moats. Probably Elmer's Glue does, you know, WD-40. There's just certain things that you are not much inclined to be dissatisfied with." We couldn't agree more and are certainly satisfied with our WD-40 investment!

Amazon.com (NASDAQ: AMZN) contributed **+0.9%** to performance for the twelve months to 31 December 2018, with the share price increasing **28%** over the course of the year. We believe that Amazon has built a non-replicable global logistics network, providing it with a very wide and expanding economic moat in the rapidly growing online retail space. Incredibly, Amazon has built this business over the past twenty years without raising material equity or net debt. This shows us that Amazon has been able to fund its growth through a highly cash generative core business. We remain confident that Amazon's retail and logistics business will enjoy many years of impressive revenue growth and margin expansion.

In addition, Amazon is the global number one cloud computing provider through Amazon Web Services (AWS). This fast-growing market was effectively founded by Amazon, and as a result AWS benefits from significant first-mover and scale advantages.

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

MasterCard (NYSE: MA) contributed **+0.8%** to performance for the twelve months to 31 December 2018, with the share price increasing **25%** over the course of the year.

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

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

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

Kikkoman Corp. (TYO: 2801) contributed **+0.6%** to performance for the year to 31 December 2018 with the share price increasing **30%** over the course of the year in addition to a Japanese Yen denominated dividend yield of 0.8%.

The Kikkoman Company traces its origins back to the early 17th century, and the Kikkoman brand is over 100 years old. Over the last century Kikkoman has developed a truly unique, globally-renowned consumer brand which is most easily recognized by its iconic trademarked bottle design with curved glass and a patented red lid with twin nozzles. As a result of many decades of investment in global distribution and marketing, Kikkoman has been able to build substantial market share of soy sauce outside of Japan.

Kikkoman's expansion outside of Japan began in the United States, where it first appeared on supermarket shelves and in cooking demonstrations in the 1950s. In 1973 Kikkoman became the first Japanese food company to open a factory in the United States. Today, Kikkoman generates 50% of its operating profit from North America, compared to c.30% from Japan.

Kikkoman is the number one soy sauce brand in the United States with almost 60% market share of home use soy sauce. Due to Kikkoman's premium positioning in the United States, it is able to charge substantially more for its products than it does in Japan.

Over time, we continue to expect Kikkoman's higher-margin international business to grow at a faster rate than its domestic Japanese business for two main reasons. Firstly, Japanese cuisine is experiencing secular growth in western markets. Secondly, Japan's declining population and the growth of western-style foods in Japan are likely to result in the Japanese segment declining as a proportion of the overall business.

Kikkoman continues to operate with a very conservative balance sheet with no net debt. In addition, the recent implementation of shareholder-friendly capital allocation policies (including a recent special dividend and share repurchases) provide us with confidence that management is operating the business in the best interests of shareholders.

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The following table lists the most significant stock detractors to the performance of our Long Portfolio for the twelve months to 31 December 2018.

Top Long Detractors from VG1's Returns in CY18	Contribution
General Electric Co.	(2.0%)
Spotify Technology SA	(1.5%)
Colgate-Palmolive Co.	(1.3%)
Medibank Private Ltd	(0.9%)
Total Contribution of Above	**(5.7%)**

All of the above detractors for CY18 remain investments in the Portfolio today. In each instance, we have actively managed the position and added to our investment throughout the year as share prices have declined. We will discuss each of these investments and why we like the underlying businesses below.

General Electric Company (NYSE: GE) detracted **-2.0%** from performance for the twelve months to 31 December 2018, with the share price declining **57%** over the course of the year as we were building our investment.

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

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

We believe that prior GE management teams have destroyed shareholder value through overly aggressive accounting and by unnecessarily increasing leverage through the GE Capital financing business.

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

We believe Mr Culp is already taking a number of important steps in the right direction, including quickly shrinking the troublesome GE Capital operations and spinning-off the GE Healthcare business, which we expect will release shareholder value.

In our view the current market perception of GE is overly pessimistic and ignores the quality of its globally-leading businesses. Over the long-term we believe the fundamentals and underlying value of the core assets will shine through, and will ultimately be recognised in a higher share price.

Spotify Technology (NYSE: SPOT) detracted **-1.5%** from performance for the twelve months to 31 December 2018, with the share price declining **14%** from the April 2018 stock market listing. We have been slowly building our investment in Spotify as the share price has been declining.

Spotify is the global market leader in the music streaming industry with a c.45% market share. Music streaming continues to grow rapidly and now accounts for more than 40% of the global music market, up from just 10% five years ago. This is in contrast to other forms of recorded music, such as physical sales, which continue to decline.

We believe the addressable market for music streaming is enormous. Of the 65 countries that Spotify currently operates in, there are 1.5 billion smartphones. With roughly 100 million paying subscribers, Spotify's customer penetration is less than 10%. This compares to penetration of 30-40% in more developed markets and greater than 80% in the Nordics, where streaming has been around the longest.

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

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

The value of Spotify's data to the record labels is increasing over time as Spotify knows what the consumer listens to, and more importantly is choosing what the consumer listens to more than one-third of the time. We believe Spotify will be able to extract significant economics by charging fees for promotion, management, data and analytics. This is still in the very early stages and Spotify is only scratching the surface of monetising this today. As you would imagine, this revenue has a very high incremental gross margin.

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

Colgate-Palmolive Company (NYSE: CL) detracted **-1.3%** from performance for the twelve months to 31 December 2018, with the share price declining **21%** over the course of the year.

We started CY18 with a c.4% weight in Colgate and have progressively added throughout the year on price weakness. In hindsight, we began buying too early, as the business experienced short-term headwinds from currency and supermarket destocking. However, we continue to believe in the long-term fundamentals of the business and think it is an attractive investment at these prices.

Colgate-Palmolive is one of the world's largest consumer products companies, with the majority of earnings coming from the Oral Care division. Colgate's global market share of toothpaste is a staggering 42%, up from 35% in 1995. Colgate's global market share is almost three times that of its nearest competitor. Market shares in toothpaste are generally quite stable as consumers show strong loyalty to the brand of toothpaste they grew up with.

In addition to its steadily compounding developed markets business, we believe Colgate's emerging market exposure will drive significant incremental returns over the long-term as growth in population and disposable income outpaces that of developed markets. Colgate generates 50% of its revenue from these high growth emerging markets.

Colgate follows a strategy of long-term premiumisation. Once it has established a leading market position, Colgate slowly but steadily introduces superior products at a higher price point and gross margin. This progression is almost too slow to be noticed by customers, but over many years has led to significant gross margin expansion for the business.

In addition to oral care products, Colgate owns the Hill's Pet Nutrition business, which is a global leader in specialty pet foods and sells under the Hill's Science Diet™ and Hill's Prescription Diet™ brands, among others. This is a terrific business that benefits from the secular trend of higher pet ownership and greater expenditure on 'companion animals' in developed markets.

Colgate generates extraordinary returns on both equity and capital without the use of any material leverage. Colgate is one of the most consistent dividend-paying stocks globally. In fact, Colgate has paid an uninterrupted dividend since 1895, even throughout the Great Depression; that's 123 years of consecutive dividends. On top of this it has increased its annual dividend payment in each of the past 55 years. Colgate is our kind of business!

Medibank Private (ASX: MPL) detracted **-0.9%** from performance for the twelve months to 31 December 2018, with the share price declining **22%** over the course of the year, only slightly offset by a fully franked dividend yield of 3.9%.

Medibank is Australia's largest private health insurer with 26% market share. There are a number of characteristics that we like about the Australian Private Health Insurance sector, including an aging population, Federal Government tax incentives to take up Private Health Insurance and a renewed focus on eliminating waste from the healthcare system.

Medibank was publicly listed on the ASX by the Australian Government in late 2014 after 37 years of government ownership. We take notice when there is a public offering of a unique asset owned by a developed world government. More often than not, we find that these companies can be run far more efficiently in private hands than under state ownership.

As a company transitions from government ownership to private ownership there tends to be significant cost reduction, with an increased focus on profitability. This is often driven by management incentive schemes that link compensation with shareholder returns. We believe Medibank is still in the early stages of its transition and will prove to be a multi-year winner.

When Medibank was listed on the ASX, the Medibank Private Sale Act prohibited any single investor from owning more than 15% of the company, thus prohibiting a takeover. This restriction expires in November 2019 and we believe there are a number of potential bidders that would covet the market share that Medibank has in Australian Private Health Insurance.

The recent share price pullback has been caused by a proposed Australian Labor Party policy to cap Private Health Insurance premium increases to 2% for two years should it win the next Federal election, which appears probable today. While this is likely to be a short-term headwind for the industry, we think it is manageable in the current low hospital claims growth environment. In addition, as the largest player, Medibank is best positioned to benefit over the long run from the industry consolidation that is likely to result from this policy.

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SHORT PORTFOLIO

Collectively, our short portfolio contributed **+3.8%** to performance for the twelve months to 31 December 2018. Over the year, the short portfolio averaged 22% of total portfolio capital and decreased in value by 17.3%. As a reminder, we make money on our short portfolio when share prices go down.

For comparison, the MSCI World Total Return Index (USD) declined 8.7% during the year to 31 December 2018. This means that our short portfolio not only made money over the past twelve months in absolute terms, but also fell more than the market by a significant margin.

With reference again to the VGI Partners Master Fund (as it has a longer track record), over the past five years, our short portfolio has contributed **+5.3%** to returns (meaning that on average the stocks we have shorted have fallen in price). This has been achieved in a period when the S&P 500 Total Return was +50.3%. The fact that we have generated positive returns from our short portfolio over this period of rising equity markets demonstrates our ability to short-sell securities profitably over the long run.

We will not always generate positive returns from our short portfolio. However, by focussing on structurally flawed businesses, fads and accounting irregularities, we believe our short positions will generate positive returns for VG1 over time.

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

Finally, these short positions also enable us to reduce market exposures and profit from falling equity markets during periods of uncertainty and heightened volatility. This provides us with a very valuable tool with which we can cushion VG1’s returns during a downward trending market.

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PORTFOLIO UPDATE AND CURRENT POSITIONING

The following table details our current Top 5 investments and clearly demonstrates that we continue to concentrate VG1's capital in our best ideas. Today, our Top 5 long investments represent 39% of total portfolio value. We do not diversify for diversification's sake – we believe that carefully concentrating investments remains the best strategy for preserving and growing our collective capital.

Top 5 Long Positions		% of Portfolio
1	CME Group Inc.	12%
2	Colgate Palmolive Co.	8%
3	Amazon.com Inc.	8%
4	Medibank Private Ltd	6%
5	MasterCard Inc.	6%
	Total	**39%**

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

As at Friday 25 January 2019, VG1 had 48% net equity exposure, with 76% long and 28% short.

We mentioned earlier in this letter that a number of the high-quality businesses that we follow, and would like to own, are currently trading at valuations that we are still not comfortable paying up for. Nonetheless we continue to find new investment opportunities and in CY18 we added three new long positions to the portfolio. Two of these, Spotify and GE, we have discussed above.

ALIGNMENT OF INTERESTS

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

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

In the building practices of ancient Rome, when scaffolding was removed from a completed Roman arch, the Roman engineer who built the arch stood beneath. If the arch came crashing down, he was the first to know! His concern for the quality of the arch was intensely personal, and it is not surprising that so many Roman arches have survived.[1]

Over the past eleven years, all members of the VGI Partners Investment Team have consistently added to their investment in the Funds managed by VGI Partners and more recently VG1. We all view these investments as our primary capital growth vehicle and thus our most important financial investment.

As set out in VG1's Prospectus, the owners of VGI Partners have committed to reinvesting (on an after-tax basis) all performance fees earned from VG1 into shares of VG1, and enter into long-term voluntary escrow arrangements for these shares. We were the first Australian fund manager to make such a strong commitment to alignment of interests with Investors, and we are pleased to note others have subsequently followed our lead.

In addition, VGI Partners as the Manager of VG1 has committed to absorbing all the upfront costs as well as the vast majority of VG1's ongoing operating costs, including ASX and ASIC fees, audit costs, legal and tax advice costs and any fees charged by VG1's fund administrator. The only operating costs that VG1 incurs are the three independent Directors' fees and Directors' insurance expense.

[1] Seth Klarman, 'Margin of Safety'

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

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

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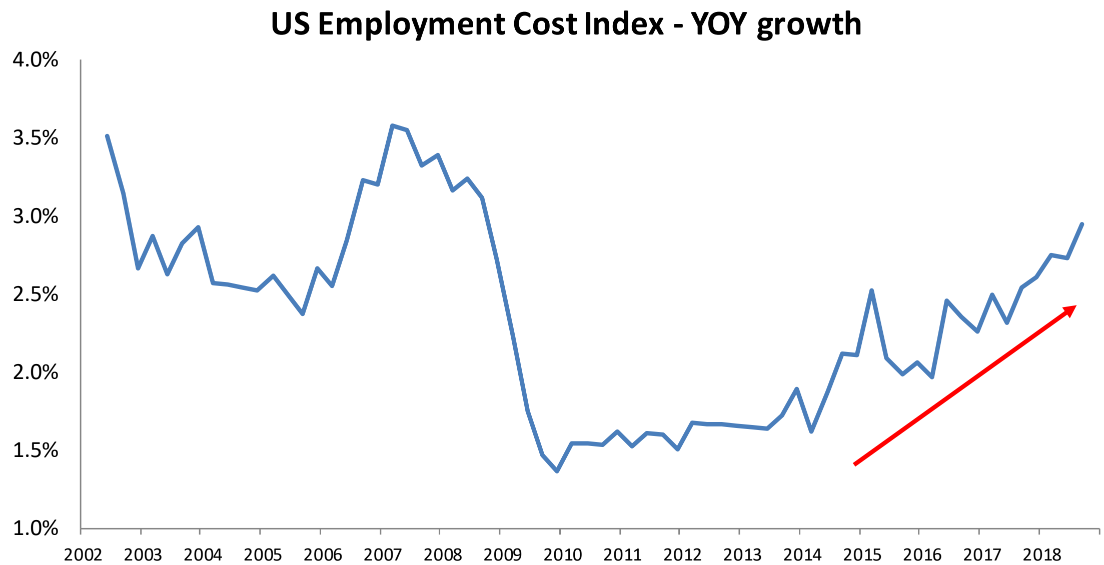
CURRENCY

VG1 is denominated in Australian Dollars (AUD). We actively manage currency hedging as our analysis of the economic outlook for Australia evolves relative to the US, Europe, the UK and Japan. Our purposeful and active management of the currency has the ability to generate meaningful returns for investors over time. Notably, currency movements have enhanced the VGI Partners Master Fund's returns by 20.4% since inception in 2009.

Over calendar 2018, the portfolio's strategic currency positioning, which is based on our proprietary fundamental analysis, contributed +7.5% to returns as the USD strengthened relative to the AUD.

We continue to believe that the US Dollar remains attractive relative to the Australian Dollar. The United States is seeing a sustained pickup in inflationary pressure. In response, we believe the US Federal Reserve (Fed) will continue to raise interest rates and gradually unwind the excess assets accumulated on its balance sheet through 'Quantitative Easing'.

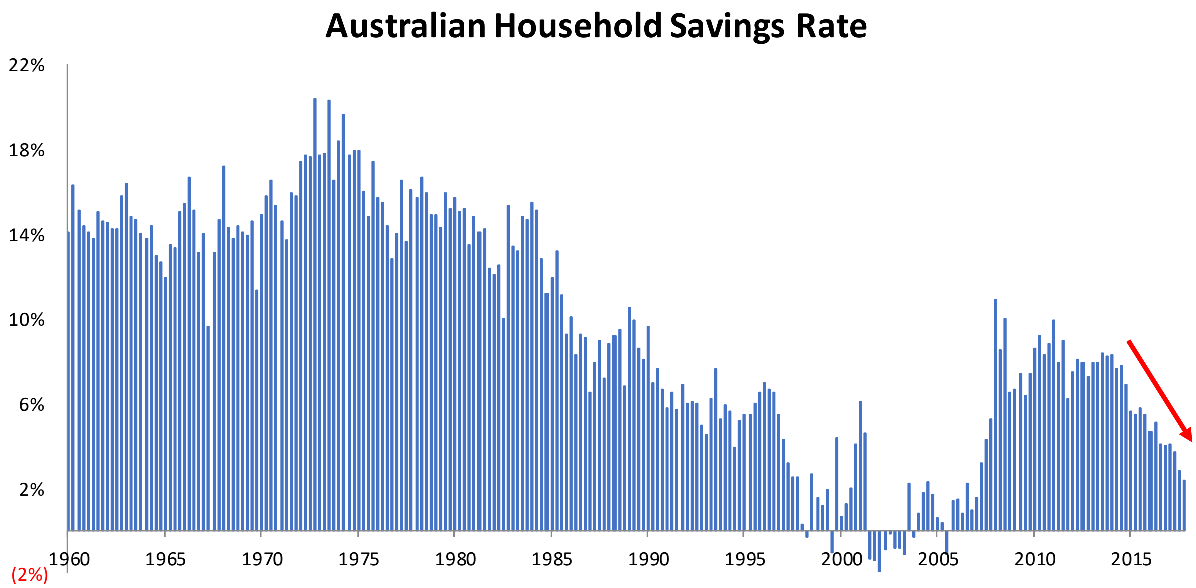
Most notably, the US is now seeing significant wage growth acceleration for the first time in over a decade. With the US unemployment rate approaching 50-year lows, at 3.9%, we expect this wage growth acceleration to continue.



Source: US Bureau of Labor Statistics & VGI Partners analysis

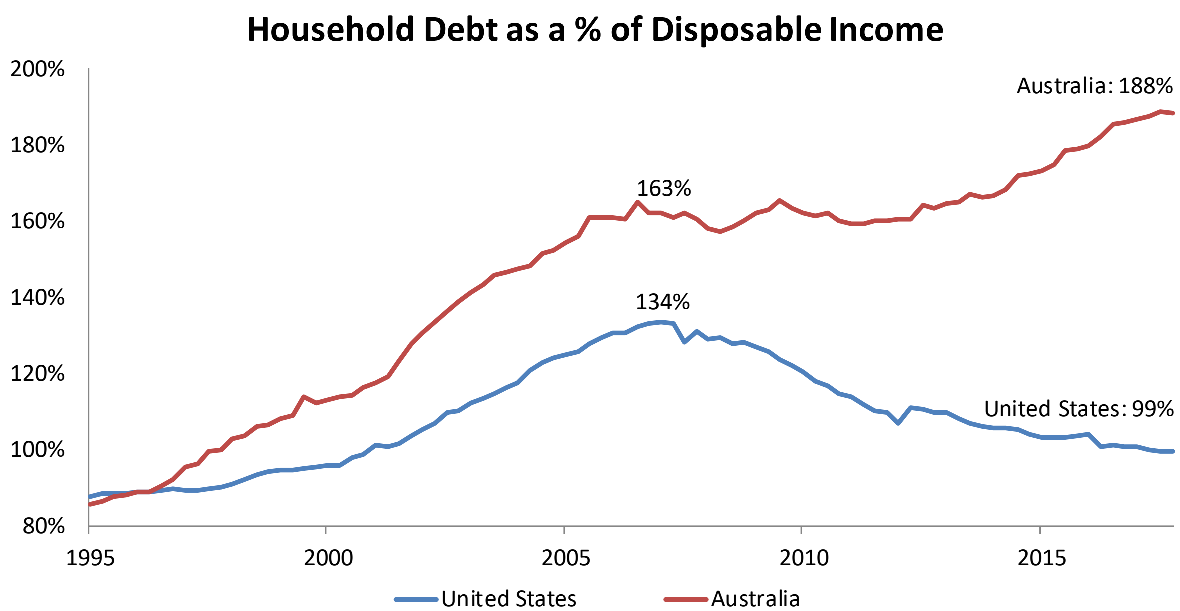
In contrast, the RBA is facing very little pressure to raise rates. In fact, with the recent housing slowdown, there is a possibility that the RBA will even need to decrease rates in the not-too-distant future.

In previous investor letters, we noted that Australian households have been on an unsustainable debt binge over recent years, which has flattered the economic statistics. This can be seen in the declining Australian household savings rate.



Source: Australian Bureau of Statistics & VGI Partners analysis

We believe a key driver of declining savings has been the "wealth effect" of rising home prices. Australian consumers have decided to increase their leverage against rising home values. Australian household debt has increased to 188% of household disposable income, up from 163% at the end of 2007. For comparison, US household debt peaked at 134% of disposable income in 2007 and has since fallen to 99% at present.



Source: Bloomberg, Australian Bureau of Statistics & VGI Partners analysis

We believe we are now at the start of an unwind of this period of excess. In particular, Sydney home prices have now fallen 11% from peak levels, while Melbourne home prices are down 7% from peak. This bodes poorly for Australian household confidence and spending. We do not think the RBA has the appetite to raise interest rates in this environment.

With a long-term view, we also believe Australia's high minimum wage undermines its long-term economic competitiveness. Australia now has a minimum wage of almost A$19 per hour. This is equivalent to US$14 per hour, or almost double the US Federal minimum wage of US$7.25. This fairly simplistic analysis actually understates the minimum wage gap. Under Australia's Award system, it has thousands of minimum wages across various industries, many higher than A$19. Australia also has a generous system of superannuation, casual loadings and weekend penalty rates on top of the minimum wage.

The Australian Government has recently put through unusually large increases to the minimum wage (+3.3% from 1 July 2017 and +3.5% from 1 July 2018). We believe this is providing a one-off boost to Australian wage growth. Nonetheless, wage growth remains at historically low levels. This is particularly problematic in light of Australia's huge household debt burden.

Partly as a result of high minimum wages, Australian wages remain globally uncompetitive at current exchange rates. In fact, the AUD/USD would need to fall to $0.52 (a fall of almost 30%) for overall Australian private sector wages to be at parity with the United States.

With falling home prices, stretched household balance sheets and weak wage growth, we believe the RBA will endeavour to maintain low interest rates for as long as possible.

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

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COMPANY MEETINGS

Over the past twelve months the VGI Partners Investment Team, consisting of eleven investment professionals, conducted close to 500 meetings and conference calls with company management teams and industry experts around the world. Our travels took us to the UK, Germany, Japan, Hong Kong, Korea and across the United States. We met companies ranging from **Unilever, Scout 24, Mitsubishi Pencil, Porsche AG** and **MTR Corporation** to **Corporate Travel Management**, as well as speaking to a wide variety of industry experts.

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OPERATIONAL UPDATE

At VGI Partners, it has been a firm commitment since inception in 2008 to close our funds to new investors once we reached US$1.25 billion of external capital. We reached this milestone a little over twelve months ago and are no longer accepting new investors into our funds or accepting any new uncommitted funds from existing investors.

We committed to closing to new capital because we are firm believers that fund size does affect investment performance. Substantial fund size eventually limits a manager's ability to make significant investments in great businesses that happen to have smaller market capitalisations or lower liquidity. We resolved to close the core strategy to new capital well before this became a concern. As Warren Buffett famously says, *"anyone who tells you that size does not hurt investment performance must be selling*." At VGI Partners, we are focussed on maximising returns on our collective capital over time and believe that remaining small and nimble is an important ingredient to achieving this goal.

In 2018, we established a Representative Office in Tokyo, to focus on Asian research. We look forward to growing our Investment Team in the Asian region in the not-too-distant future.

Our Operations Team continues to build both in number and its capabilities in all areas. Maintaining the highest standards across IT infrastructure, risk management capabilities, back office processing and investor relations is an ongoing priority. We continue to invest heavily in our systems and infrastructure to ensure that we remain well ahead of the curve. We have partnered with best in class experts and advisors with regards to information technology and cyber security.

The VGI Partners team now consists of twenty-one people across Sydney, New York and Tokyo. This includes twelve people on the Investment Team, seven of which hold the Chartered Financial Analyst (CFA) designation. The CFA Charter is one of the most highly regarded qualifications an investment professional can earn, requiring completion of a six-hour exam for each of the three levels (pass rates for each of these exams are typically well below 60%). As we grow, we will continue to selectively recruit outstanding people to join the VGI Partners team.

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THE VGI PARTNERS FOUNDATION

We were delighted by the successful launch of The VGI Partners Foundation at the beginning of October 2018. The VGI Partners Foundation will seek to make a sustainable difference to the health and wellbeing of Australian children and provide support to the families of people who have made a significant personal sacrifice while contributing to Australian society.

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

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

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

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IN CLOSING

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

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

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

Since inception, VG1 has generated a compound annual return, net of all fees, of **+9.4%** with a monthly average net equity exposure of 37%. We are pleased, but not satisfied!

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

Yours faithfully,

VGI Partners

"The intelligent investor is a realist who sells to optimists and buys from pessimists."

\- ***Benjamin Graham***

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