VGI PARTNERS

VGI Partners Limited
ABN 33 129 188 450
39 Phillip Street
Sydney NSW 2000 Australia
T. +61 2 9237 8900
www.vgipartners.com

AFSL No. 321789 | SEC Registered

27 August 2019

ASX Market Announcements
ASX Limited
Level 6, Exchange Centre
20 Bridge St
Sydney NSW 2000

BY ELECTRONIC LODGEMENT

VGI Partners Limited: Speaker Notes for 1H19 Results Conference Call

Presenter:

Mr. Robert Luciano (Executive Chairman and Portfolio Manager)

❖❖❖❖❖❖❖❖❖❖

Presentation:

Good morning and welcome to the half year 2019 results conference call and webcast for VGI Partners Limited. Thank you for joining us today and for your ongoing support.

With me in the room is Douglas Tynan and our CFO – Ian Cameron. We also have Ingrid Groer, our Investor Relations Manager.

❖❖❖❖❖❖❖❖❖❖

The purpose of today is to take your questions on the half year result that was lodged with the ASX this morning, and to provide an introduction to VGI Partners for those of you who are new to us.

Before we open the lines for questions, I will spend a few minutes explaining how we look at our business internally, and some of the key points arising from the result.

But first an important point – you may have seen our ASX release on 5 August 2019 discussing the proposed IPO of a new Listed Investment Company focused on Asia (which we have named VG8). Due to the restrictions on pre-prospectus publicity I am unable to provide any further commentary on that initiative today, other than to note the project remains firmly on track and that we expect to lodge the prospectus with ASIC next week.

❖❖❖❖❖❖❖❖❖❖

Now, turning to page 2, there is no question that the first half of the calendar year was a significant period for the company, with the VGI Partners' IPO completed in June.

We now have a very strong balance sheet, as well as the opportunity to use VGI Partners shares to drive greater alignment between our management company and investors in the VGI Funds.

VGI
PARTNERS

Despite the IPO, very little has changed for us. Key members of the management team own 80% of the company and we are committed for the long-term. In fact, the founders did not sell a single share into the IPO and the majority of our shares are escrowed for five years.

I said in the prospectus that the Directors of VGI Partners would measure the Company's success by the long-term returns that we deliver for our investors in the VGI Funds, and I would encourage all of you on this call not to lose sight of this. It is our view that if we deliver for our investors, shareholder returns will follow in due course.

Our culture internally also ensures our singular focus is on fund performance and not on fund raising. That is what makes us different from our listed peers.

It is also pleasing that we were able to structure the VGI IPO so that it was available only to existing VGI Partners investors, VG1 investors, or those investors who purchased entitlements sold by shareholders in our listed investment company VG1.

This was a very deliberate alignment initiative.

Now in terms of key financial performance metrics – we finished the half year with Funds under Management of $2.6 billion, including the $300 million raised in June via VG1.

Total operating revenue for the six months was $45.9 million.

With normalised costs (excluding depreciation and amortisation) totalling $10.5 million for the half year, this translated to normalised EBIT of $35.1 million and normalised NPAT of $24.6 million. As I will discuss later, we finished the end of July with run-rate annualised net management fees of approximately $38 million.

The Board has declared a fully franked dividend of 25.6 cents per share on normalised basic EPS of 36.6 cents per share. This implies a payout ratio of approximately 70%.

Now, I will discuss these financial metrics in greater detail in a moment.

❖❖❖❖❖❖❖❖❖❖

But first, please turn to page 4 for some background on VGI Partners.

- As you know, VGI Partners is a specialist wealth manager, focused on global equities.
- We now have 28 professional staff across three offices in Sydney, New York and Tokyo. Over the last year we have grown our team in our Representative Office in Tokyo to four professional staff.
- VGI Partners currently deploys a single investment strategy across all our Funds and managed accounts. This means we have 16 investment staff in Sydney, New York and Tokyo focused on a single strategy.
- Our investment strategy is closed to new investors and this means the only way to gain access to our strategy today is by investing in VG1 shares on market, or becoming a wholesale investor in our Charitable Foundation Class, which has limited capacity.

❖❖❖❖❖❖❖❖❖❖

VGI
PARTNERS

Turning to page 5 of the presentation.

VGI Partners invests primarily in global equities, comprising long investments, short positions and cash. Our investment philosophy reflects the following three key tenets:

Number one: **Capital preservation** – and that is, do not lose money.

We are extremely focused on seeking to avoid any permanent loss of capital.

We aim to increase the likelihood of capital preservation through two key 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' – and that is, trading at prices that are significantly below the intrinsic value of the business. And second, by using little or no leverage and also keeping prudent cash buffers.

Our second key tenet is **long-term compound growth**. We seek to deliver superior risk-adjusted returns over the long-term. Our target is to achieve compound returns of 10-15% per annum, after all fees and expenses, but over the long term and through the investment cycle, which we deem to be 5 to 7 years.

We aim to do this through **portfolio concentration**, and this is the third tenet. Portfolio concentration means concentrating capital in a relatively small number of high-quality investments. As a result, the top 5 investments will typically represent 40-50% of VGI's core fund portfolios when they are fully invested.

Importantly, we are not afraid to hold cash when attractive opportunities are not available. Our focus is on preserving capital.

That sums up our three key investment tenets and how we run our funds under management.

We are also focused on ensuring alignment between VGI Partners, our talented team and our investors.

This is reflected in numerous decisions that we have made since the inception of VGI Partners in 2008.

For example, when we established VG1, we committed to waive all management fees until the costs of establishing the company had been met. This was ground-breaking at the time, but it meant that VG1 listed with NTA equal to the issue price. In taking this approach, we established a new benchmark for the funds management industry in Australia.

Further, at the time of the VG1 IPO, I – along with Douglas Tynan and Robert Poiner – committed to reinvest our pro-rata amount of performance fees [after tax] from VG1 back into VG1 shares. We were the first Australian fund manager to make such a strong commitment to alignment of interest with our investors.

In addition, all our staff are prohibited from investing outside of VGI Partners and our Funds, and all of our investment team has the vast proportion of their net worth invested in VGI Partners and our Funds.

I also believe that one of the great benefits of the VGI Partners' IPO was that it provided us with a mechanism to efficiently broaden ownership of the firm amongst our staff. Options over 7% of VGI Partners are held by our team and these vest over five years. This has brought with it a tangible change throughout the team and enhanced alignment of interest.

And of course, 80% of shares currently on issue are held by the founders – with the majority subject to five year escrow.

❖❖❖❖❖❖❖❖❖❖❖

Now turning to page 6. This chart provides a snapshot of how we are doing at meeting our core objective of delivering long-term risk-adjusted returns for VGI Fund investors.

The VGI Partners Master Fund portfolio is one of our longest-established portfolios and has delivered compound annual returns of +15.0% after all fees since it was established in January 2009. This compares to +11.3% for the MSCI World Total Return Index in Australian dollars, and we believe this index is a reasonable benchmark to use as a point of reference. However, we do note that any index assumes 100% investment and the VGI funds are never 100% invested, so it is a rough proxy and not a perfect benchmark.

❖❖❖❖❖❖❖❖❖❖❖

Now, moving on to the right-hand chart on page 7. This chart shows that, since inception, the Portfolio has tended to outperform in periods of market weakness. In down market months, when the index fell 2.3% on average, the average decline for the VGI Portfolio was in comparison only 0.7%.

❖❖❖❖❖❖❖❖❖❖❖

Turning now to the normalised financials on page 9.

Let me start by explaining the approach that we have taken to "normalisation" of the figures.

For the purpose of calculating normalised NPAT, EBIT and EPS we have added back the one-off transaction costs associated with the IPO of VGI Partners and the costs of the capital raising undertaken by VG1. These were genuine one-offs and they do not reflect the ongoing operations of VGI Partners whatsoever.

The costs of these transactions that were expensed through the income statement totalled $5.7 million, before tax.

I note also that – for the purpose of calculating basic EPS – we have used the end of period shares on issue of 67.1 million.

The dividend per share of 25.6 cents declared today will be paid to all shareholders who are on the register as at the record date of 3 September.

❖❖❖❖❖❖❖❖❖❖❖

Turning to page 10. The chart on the right hand side of the page sets out growth in Funds Under Management since inception in 2009.

FUM grew 24% to $2.6 billion during the first half of 2019. $300 million of this growth was from the VG1 raising, while performance contributed $200 million.

Now turning to the drivers of revenues: gross management fees are 1.5% across all of our Funds Under Management, with the exception of a very small number of initial investors who supported the Company at its inception, and of course funds we manage for charitable causes.

VGI
PARTNERS

With the VG1 fee waiver having come to an end in late April – the most recent FUM figure should be used as the starting point for assessing VGI Partners' go-forward annualised management fee.

Based on VGI's FUM as at 31 July of approximately $2.6 billion, the go-forward annualised net management fee is now around $38 million for the entire VGI Partners group.

Across our funds, performance fees are 15%, and subject to a high watermark. So for every 10% of performance from today, we generate approximately $39 million in performance fees, assuming all funds are above high watermark. Today, all of our funds are either above, or roughly around, their high watermarks.

It is also important to highlight that there's some seasonality in performance fees due to the performance fee calculation periods of our various funds. VG1 has a semi-annual performance fee period, and this ends on 30 June and 31 December. However, the Master Fund and Individually Managed Accounts (IMAs) have an annual performance fee period ending 30 June, while the Offshore Fund has an annual performance fee period ending 31 December.

So due to the relative size of the Master Fund and IMAs, this results in our performance fees being skewed, for now, significantly to the June half.

Future FUM growth for the global strategy will largely be reliant on the performance of the strategy. Our unlisted funds are closed to new investment and the VG1 Board has committed not to conduct further capital raisings in VG1 until at least June 2022, or unless as that is part of a value-enhancing acquisition of another Listed Investment Company (LIC), or to satisfy the performance fee reinvestment mechanism to Doug Tynan, Rob Poiner and myself.

We have, however, announced our intention to establish a second investment strategy via a new Listed Investment Company – VGI Partners Asian Investments Limited or VG8 – in the current half year.

❖❖❖❖❖❖❖❖❖❖❖

So turning to page 11, this chart shows the bridge from the $12.5 million in management fees recorded during the June half to the go-forward annual net management fees of $38 million that I mentioned earlier.

As you can see, the end of the VG1 fee waiver – which means we are now receiving a management fee of 1.5% on VG1 – is the largest contributor to the increase.

❖❖❖❖❖❖❖❖❖❖❖

Turning to page 12 for the expenses side of the profit and loss.

Excluding the one-off capital raising costs of $5.7 million that we expensed during the half, the biggest cost in our business is personnel – up 31% on the prior corresponding period at $5.6 million, as we built out our team in Tokyo, and added to our Sydney and New York investment teams.

This figure includes staff bonuses, which are entirely discretionary and are not tied to performance fees.

To date, all staff bonuses have been paid in cash. However, this may change in the future. Alongside the grant of employee options that took place in advance of the IPO, we have also established a staff equity scheme, so we have the flexibility to introduce an equity component to future incentive arrangements if we think this would assist in establishing further alignment.

Looking to the future, we are resourced to manage substantially more FUM than we do today. I have made the observation before that it is hard to identify a fund manager that has a higher ratio of investment staff to funds under management.

And this means that we will not have to add materially to the cost base as the business grows. More specifically, we already have all of the resourcing in place to run an Asian Strategy alongside our existing Global Strategy.

That said, we are always on the lookout for talented people who will add to our capacity to deliver on our core objective of delivering long-term returns for investors in the VGI Funds. So don't be surprised if you see headcount increases in the next 6 to 12 months.

Before moving on from this slide – the Charitable Foundation Class fee donation is also worth mentioning. We currently have around $20 million invested in this class of the Master Fund, and limited capacity remains. The standard management and performance fees are payable to VGI Partners on the Foundation Class, but we then contractually donate all fees that are received to the VGI Partners Foundation.

So this resulted in just over $300,000 of "Donations" in the Income Statement in the first half of 2019. I'll talk more about this later in the presentation.

❖❖❖❖❖❖❖❖❖❖

Now turning now to page 13 for the balance sheet.

You would recall that balance date was only around two weeks after the IPO, and that's reflected here.

We finished the period with $76 million in cash and no debt.

The trade and other receivables line includes performance fees that crystallised as at 30 June of $33 million and approximately one month of management fees (given we receive these monthly).

The increase in trade and other payables primarily reflects the cost of the VGI Partners IPO and the VG1 capital raising – cash payments for professional fees and distribution costs were mostly made in July.

Employee entitlements includes an allowance for staff bonuses paid in July.

The increase in Other Liabilities mainly reflects tax payable (which we have since paid). It also includes a small lease liability, which we now need to show on balance sheet given a recent change to accounting standards.

This balance sheet strength gives us considerable flexibility, and sets us up well for the proposed IPO of VG8 and other initiatives.

We have earmarked $20 million for a potential long-term investment by VGI Partners in the new VG8 strategy, and we have also announced that the Manager will meet all costs of the offer. We will also be able to meet all costs of the offer in cash, and there will be no need therefore to replicate the fee waiver that we put in place for VG1.

VGI PARTNERS

❖❖❖❖❖❖❖❖❖❖❖

Turning to page 14, we would like to share with you some of the charities that VGI supports. Since VGI was formed in 2008, the Company has made $1.3 million of cash donations to select charities. In the last few years, VGI has also been managing funds for some foundations and charities pro bono. You can see the list of these funds in the box on the bottom right side. Fee rebates for these funds have totaled $3.6 million, bringing our total donations since VGI's formation to approximately $5 million.

In particular, I would like to highlight that in 2018 we formed the VGI Partners Foundation and established a new Charitable Foundation Class in the VGI Partners Master Fund. 100% of management and performance fees earned by VGI on the Foundation Class are donated to the VGI Partners Foundation. The Foundation Class as at 30 June 2019 had c.$20 million of FUM, with limited additional capacity. The current level of FUM equates to ~$300k of donations p.a. from management fees alone.

In terms of the focus of the VGI Partners Foundation, we aim to make a sustainable difference to the health and wellbeing of Australian children, and to provide support to families of people who have made a significant personal sacrifice while contributing to Australian society such as military personnel and first responders. For further information, please see the VGI Partners Foundation website.

❖❖❖❖❖❖❖❖❖❖❖

Now please turn to page 16, where we have set out some observations on the current market environment. I'm happy to discuss these in Q&A.

❖❖❖❖❖❖❖❖❖❖❖

On page 17, we have summarised our shareholder engagement program. The major events in the VGI Partners' calendar largely correspond with what you would be used to if you are also a VG1 shareholder.

What you might not know is how important it is to register your email address with our Investor Relations team if you are going to get the full benefits of being a VGI Partners shareholder.

This includes a variety of communications, and includes our meeting notes from the Berkshire Hathaway meetings and the Daily Journal Annual Meeting. So – if you haven't done so – please sign up, or ask your financial adviser to add your details to our register.

Given we have just announced our inaugural dividend, I would also encourage investors to register their banking details. This can be done by logging into InvestorServe (a website run by our share registry, Boardroom) or you could complete forms that are available on Boardroom's website. Now if you have any questions whatsoever, please feel free to contact Ingrid in our Investor Relations team.

❖❖❖❖❖❖❖❖❖❖❖

Now that brings us to the end of the presentation. Thank you.

❖❖❖❖❖❖❖❖❖❖❖

(END)

VGI PARTNERS

Disclaimer: A prospectus relating to the initial public offering of ordinary shares in VGI Partners Asian Investments Limited (VG8) will be lodged with ASIC and available for download at www.vg8offer.com (VG8 Prospectus). Invitations to apply for new fully paid ordinary shares in VG8 (VG8 Shares) will be made under the VG8 Prospectus in accordance with Chapter 6D of the Corporations Act 2001 (Cth). You should read and consider the VG8 Prospectus in deciding whether to apply for any VG8 Shares. Anyone who wants to acquire VG8 Shares will need to complete the application form that will be in or will accompany the VG8 Prospectus. A prospectus for the offer of new ordinary shares (Alignment Shares) in VGI Partners Limited to investors who are issued shares under the VG8 Prospectus (VGIP Prospectus) will also be made available at www.vg8offer.com. A person should consider the VGIP Prospectus in deciding whether to acquire Alignment Shares. Anyone who wants to acquire Alignment Shares will need to complete the application form that will be in or will accompany the VGIP Prospectus (which will be the same application form which accompanies or is in the VG8 Prospectus).

This document is not a prospectus or offering document under Australian law or under any other law. No action has been or will be taken to register, qualify or otherwise permit a public offering of the VG8 Shares or Alignment Shares in any jurisdiction outside Australia and New Zealand. This document is for information purposes only and does not constitute or form part of an offer, invitation, solicitation, advice or recommendation with respect to the issue, purchase or sale of any VG8 Shares or Alignment Shares. This document does not constitute an offer to sell, or the solicitation of an offer to buy, any securities in the United States. Neither the VG8 Shares nor the Alignment Shares have been or will be registered under the U.S. Securities Act of 1933 (the Securities Act) or the securities laws of any state or other jurisdiction of the United States. The provision of this document is not, and should not be considered as, financial product advice. The information in this document is general information only, and does not take into account your individual objectives, taxation position, financial situation or needs. If you are unsure of your position, please contact your accountant, tax advisor, stockbroker or other professional advisor.

This announcement contains certain "forward-looking statements" including statements regarding VGI Partners' intent, belief or current expectations. Forward-looking statements are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance or events. This document contains general information about the activities of VGI Partners which is current as at 26 August 2019. It is in summary form and does not purport to be complete. It presents financial information on both a statutory basis (prepared in accordance with Australian accounting standards which include Australian equivalent to International Financial Reporting Standards (IFRS)) as well as information provided on a non-IFRS basis. VGI Partners considers that the non-IFRS financial information is important to assist in evaluating VGI Partners' performance. The information is presented to assist in making appropriate comparisons with prior periods and to assess the operating performance of the business. For a reconciliation of the non-IFRS financial information contained in this document to IFRS-compliant comparative information, refer to slide 19 of VGI's 1H19 Investor Briefing presentation.

Indicative go-forward annualised net management fee

The indicative go-forward annualised net management fee calculation is based on VGI's FUM as at 31 July 2019 of approximately $2.6 billion. No account has been taken of potential future changes in the terms of associated investment management agreements, or future increases or decreases in the funds under management of existing investment portfolios, or the introduction of new funds post 31 July 2019.

Performance fee

The hypothetical performance fee scenario has been assessed on FUM as at 31 July 2019. This is not intended to be a forecast. Actual performance fees will depend on the investment performance of accounts and funds managed by VGI Partners Limited and its group companies, as well as increases or reductions in the funds under management of those accounts and funds, timing of the deployment of new funds and the introduction of any new investment funds.