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Asian Investments

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29 January 2020

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

BY ELECTRONIC LODGEMENT

Investor Letter from VGI Partners Limited

VGI Partners Asian Investments Limited (ASX:VG8) is pleased to make available the enclosed Investor Letter prepared by VGI Partners Limited discussing the initial deployment of the VG8 portfolio in the period from listing on 13 November 2019 to 31 December 2019.

Ian Cameron
Company Secretary

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29 January 2020
Investor Letter

"Rational people don't risk what they have and need for what they don't have and don't need."

- Warren Buffett

Dear Fellow Investors,

We are pleased to report to you on our early progress in deploying the **VGI Partners Asian Investments Limited (ASX:VG8**) portfolio. As investors would be aware, VG8 listed on the ASX on 13 November 2019 and is the only avenue through which VGI Partners' Asian Strategy can be accessed.

We were grateful for the support for the Asian Strategy that we received from existing VGI Partners investors. Of the $557 million raised in the VG8 IPO, more than 80% was contributed by investors in our existing global strategy. This included significant participation from VGI Partners, our Investment Team and their families who now own over 15.5 million shares in VG8, which is an investment of $39 million at the current Net Asset Value; if combined this would be the single largest shareholding in VG8. This reinforces our primary focus to deliver attractive risk-adjusted returns for all investors over the long-term.

Prior to the establishment of VG8 we developed a "target list" of companies for the Asian Strategy and were therefore well-placed to commence deployment of the portfolio when VG8 listed on the ASX. Over the subsequent period, we have taken the same careful approach to investing the VG8 capital as we have always taken to investing new client capital in a buoyant market. This involves slowly building holdings in those companies on our target list that are trading with an appropriate margin of safety.

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This strategy made logical sense in a year when global markets generally embraced a renewed low interest rate environment, with the result that earnings multiples expanded over the course of 2019. That said, at times during the year uncertainties arising from trade wars and mass street protests in Hong Kong caused ripples through Asian markets. However, conditions towards the end of the year were relatively benign and we have not experienced the level of volatility that would justify a faster-paced approach to portfolio deployment.

We have now been deploying your capital steadily and carefully for about 2½ months. As at 24 January 2020, VG8's net equity exposure is 21% (24% Long Investments less 3% Short Positions). This means that on average for every $100,000 you have invested in VG8, we own $24,000 of equities and have short sold $3,000 of equities. This results in a net equity exposure of $21,000 plus $79,000 of cash which we are steadily and carefully investing. Note that once the portfolio is fully deployed we generally expect to have a net equity exposure of between 50% and 100%.

The current high cash holding provides VG8 with significant purchasing power when we see opportunities to buy high-quality companies at prices that meet our valuation criteria. At the time of writing, we are closely monitoring developments in relation to the Wuhan coronavirus as historically virus-related market volatility has provided attractive entry points for long-term investors in high-quality companies. As we outlined in the VG8 Prospectus, our focus is on seeking to generate superior risk-adjusted returns. As such we have a bias to preservation of capital, and we are comfortable holding cash when value is scarce.

VG8 is exposed to the U.S. Dollar (USD) through its cash holdings and because our Asian currency equity investments are predominantly hedged to the USD. This is a conscious decision which means that if the USD strengthens against the AUD, VG8's return will see a positive contribution from currency. If the USD weakens against the AUD, this will result in a drag on performance for VG8. We will discuss our active currency management approach later in this letter.

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 pullback in markets will likely provide buying opportunities and expedite deployment.

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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 decided to begin each of our letters this January with Warren Buffett's observation: ***"Rational people don't risk what they have and need for what they don't have and don't need."***

Buffett's remark is top of mind at present as we are currently experiencing a situation where the intoxicating spell of low rates seems to have infected financial markets globally to a level which, in our view, is without precedent.

At the time of writing we feel that risk is rising sharply across all asset classes and markets are failing to price this heightened level of risk. At VGI Partners the risk of permanent loss of capital is what we focus on and our portfolios are built accordingly. We are on high-alert and believe the current investment landscape is not normal. With asset valuations artificially inflated by the elixir of non-existent risk-free rates we are seeing a consequential desperation by investors to chase any remaining skerrick of return.

We do not know what will cause this situation to change, only that, at some point, it will.

Applying Buffett's thinking to today's conditions, the importance of capital preservation is clear. For a portfolio such as VG8 that is not yet fully invested, we believe this is best achieved by avoiding the temptation to rapidly increase exposure to a frothy market, instead staying true to the proven investment approach that we have followed since the inception of VGI Partners. There are two key elements to this approach. First, we invest 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, we use little or no leverage and keep prudent cash buffers.

As always, we remain confident that we will continue to generate superior risk-adjusted returns <u>over the long-term and through investment cycles</u> by concentrating our capital in a relatively small number of high-quality businesses that we believe are significantly undervalued and by avoiding the use of leverage.

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Prior to the establishment of VG8, VGI Partners had previously managed a single, concentrated portfolio of global listed securities since 2008.

Within the global strategy, VGI Partners had a demonstrated track record of investing in the Asian Region and for the last several years we have been monitoring meaningful improvements in corporate governance standards in parts of developed Asia.

Alongside improved corporate governance, we have observed many high-quality companies becoming more investor friendly, particularly regarding capital management initiatives. Increased shareholder activism across the region, and particularly in Japan, has played a part in this trend.

This led to us spending more of our time and energy focused on opportunities in Asia, including establishing a Tokyo research office in 2018. VGI Partners' Tokyo office now accommodates four members of our Investment Team, with skills in a range of Asian languages.

With more focus on the region, we found that we were identifying more high-quality businesses that qualified for our target list for potential future investment. In addition, for some time many high-quality businesses in Asia have been trading at a significant discount to comparable companies in other developed economies. Therefore the decision to establish a dedicated Asian Strategy was a natural extension for VGI Partners and our Investment Team.

Because we are applying the established VGI Partners' investment approach to the Asian Strategy, the VG8 portfolio is likely to be quite different from most other Asian-region funds. Notably, we are focused on companies that are 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 alongside companies listed elsewhere with significant Asian exposure.

VG8 is also continuing 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 our focus is on companies that operate within an attractive industry structure (such as those that display monopoly, duopoly or oligopoly characteristics), or firms that own highly recognizable brands.

The current top five portfolio positions are set out later in this letter, and you will see that these major positions are entirely consistent with the proposed investment approach discussed in the Prospectus and summarized in this section.

Structure of the VG8 IPO

Later in this letter we discuss VGI Partners' long-standing commitment to alignment between ourselves and our investors.

The philosophy underpinning this commitment was reflected in five commitments that VGI Partners made to VG8 investors in conjunction with the IPO:

1. VGI Partners met all of VG8's establishment costs, including the costs of the IPO. As a result VG8 listed on the ASX with a net asset value per share equal to the offer price;

2. VGI Partners committed to 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;

3. The three principal shareholders of VGI Partners committed to reinvesting (on an after tax basis) into VG8 shares their pro-rata share of any performance fees received from the Company, to the extent that the performance fee is paid out as a dividend by VGI Partners. Any shares acquired through this reinvestment mechanism will be subject to long-term escrow;

4. VGI Partners invested $20 million into the IPO, making it VG8's second largest shareholder;

5. VGI Partners committed that it would not make the Asian Strategy available through any fund other than investment in the Company. This is different from many listed investment company offerings, where a similar or identical portfolio can 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.

In addition to these commitments, VGI Partners sought to further align interests between participants in the IPO and itself through the issue of valuable Alignment Shares in VGI Partners itself at no additional cost. Nobody had ever used this structure previously, and it meant that anyone who was already invested with us received free VGI Partners shares to the value of around 7.5% of their VG8 investment.

The offer of Alignment Shares was intended to provide all participants in the IPO with the opportunity to benefit, as owners, from VGI Partners' future growth. With hindsight, an unintended consequence of this approach was that it led to some participants in the IPO investing with an extremely short-term perspective, which saw them seek to crystalize value by selling out of VG8 shortly after listing.

Disappointingly, this has led to VG8 shares trading at a meaningful discount to their $2.50 issue price. Of course, any assessment of IPO investor returns must aggregate the value of VG8 shares and the attached Alignment Shares – and on this basis participants in the Priority Offer are around breakeven on their investment.

While we expect that over the long-term the performance of VG8 as a listed security will closely track the performance of the portfolio, we are aware that short-term factors may impact secondary trading of securities in a fashion that is counter to the interests of investors. Where appropriate we will take steps to address this.

We think the current discount to Net Tangible Assets represents an opportunity for new investors, and VGI Partners has been actively buying VG8 shares on-market to hold for the long term. Subsequent to listing, we have purchased in excess of $5 million worth of VG8 on-market to hold on the VGI Partners balance sheet, taking the manager's total investment in VG8 to more than $25 million. In addition, the Investment Team and their families invested almost $14 million in the VG8 IPO, with the result that eliminating the discount to Net Tangible Assets is a focus for all of us.

What is most important now is that the VGI Partners Investor Relations team invests the necessary time and effort into working with and educating financial advisers and investors who are new to VG8. We understand that there is a substantial universe of advisers who may be interested in the VG8 opportunity provided only that we are resourced to engage with them appropriately. We have not previously had anyone dedicated to this activity, but we are currently expanding the Investor Relations team so that we are well-placed to increase shareholder communications and engagement to eliminate the discount.

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Portfolio Update and Current Positioning

VG8 currently has 21% net equity exposure, with 24% Long and 3% Short. Once the VG8 portfolio is fully deployed, we will generally have a net equity exposure of 50 - 100% and a portfolio that includes 15 - 30 Long Investments and 5 - 25 Short Positions.

The Long Portfolio currently includes 11 investments, and the following table details our current Top 5 Long Investments.

Top 5 Long Investments	% of VG8
1. Kikkoman Corp	4%
2. Yakult Honsha	4%
3. Cie Financiere Richemont	4%
4. MTR Corp	3%
5. Unicharm Corp	2%
Total	**17%**

Source: VGI Partners.

Kikkoman Corp. (TYO: 2801) traces its origins back to the early 17th century with the Kikkoman brand itself being over 100 years old. Over the past century Kikkoman has become a truly unique, globally renowned consumer brand that is easily recognised by its iconic trademarked bottle design with curved glass and a patented red lid with twin nozzles.

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 around 50% of its operating profit from North America, compared to circa 30% from Japan.

Despite a domestic market subject to demographic headwinds, in recent years Kikkoman has successfully executed a premiumisation strategy through the introduction of its *Itsudemo Shinsen* line *(or Always Fresh*). These come in bottles that are one fifth the size of Kikkoman's traditional 1 litre bottles but with the same retail price, allowing Kikkoman to achieve a de facto price increase. Kikkoman's premium range has increased from circa 11% of Kikkoman's domestic volume 10 years ago to circa 21% today.

Kikkoman's domestic soy milk business continues to grow at a high single digit rate. This is another market where Kikkoman has maintained a dominant market position with roughly 53% market share. Soy milk should continue to do well for Kikkoman given rising health awareness and Japan's currently low levels of soy milk consumption.

Over time, we expect to see continued margin expansion for two reasons. First, Kikkoman's higher margin international business is growing at a faster rate compared to its domestic business. Secondly, premiumisation will continue to drive margins higher over time.

Yakult Honsha (TYO: 2267) is a global pioneer in probiotic products. Yakult currently operates in 40 countries with three quarters of earnings now derived from outside of Japan.

Yakult is seen by consumers as "*the category*" and competitor products are in turn seen by consumers as "*Yakult copycats*". Accordingly, Yakult prices its products at a significant premium to competitor products and maintains a policy of no discounting. It is one of the rare consumer staple businesses in Japan where we have observed price hikes accompanied by minimal adverse impact on volume.

Its Yakult Ladies channel (sometimes called the "Avon Ladies of fermented milk" and numbering 47,000 across Asia) provide Yakult with a unique proprietary distribution channel that is both sticky and recurring. Testament to the resilience of this channel, the recent boycott of Japanese goods in Korea did not extend to Yakult.

In China, Yakult's penetration remains low with 1.1% of population consuming Yakult daily (compared to 4% in the more mature Mexico). Even after 19 years in the country, Yakult's sales coverage is estimated at around 750 million (out of total population of 1.4 billion). Accordingly, Yakult China is singularly focused on capturing new consumers through the expansion of its sales and distribution.

Beyond China, the growth runway for Yakult across Asia remain vast and open. Its nascent Vietnamese business is currently experiencing volume growth of circa 43% YoY and last year Yakult established its first production facility in Myanmar giving it potential access to 53 million emerging Asian consumers.

With a proven track record of having successfully applied its formula and establishing dominant positions across the bulk of developed Asia (i.e. Hong Kong, Singapore, Taiwan, Korea, Thailand), we have good reasons to believe that Yakult will continue to grow and capture more and more emerging consumers across Asia.

Richemont (SWX: CFR) is a Switzerland-based luxury goods company with particular strengths in jewellery and watches. Richemont is often associated with its luxury watch brands which include: IWC Schaffhausen, Panerai, Vacheron Constantin and Jeager-LeCoultre. However, given the strong performance of Richemont's Jewellery Maisons over the past ten years, the vast majority of earnings are now derived from Cartier and Van Cleef & Arpels. A substantial portion of Richemont's profits and future growth come from the Asian region.

The global jewellery market is very large and exhibits strong growth. Industry estimates approximate the retail sales for jewellery at around €300 billion, with future growth expected to be a very healthy 6% per annum. Within this market around €250 billion of sales come from fine jewellery, which is where Richemont's brands operate. Despite there being a number of very well-known luxury brands in this market, combined they only make up circa 6% of sales. We believe that over time branded jewellery will increase its share as unbranded, high street jewellers underperform as a result of falling foot traffic and a lack of capability in digital marketing, which we view as key to attracting younger consumers.

We think Richemont's core jewellery brands of Cartier, Van Cleef and Piaget are three of the best brands in this global market and will leverage Richemont's manufacturing, digital marketing and retail expertise to take share from the smaller operators over time.

Outside of this core business Richemont is currently dealing with two short term headwinds which have allowed us to purchase shares at what we believe is an attractive valuation.

First, Hong Kong is a key market for Richemont and in particular for its luxury watch business which primarily sells to tourists visiting the city. The protests have not only resulted in the closure of a number of Richemont's stores at key shopping periods, but have also reduced the number of tourists by almost 40%. While we do not have a view on what the eventual outcome for Hong Kong watch sales will be, we believe most of the business lost in Hong Kong will over time migrate to alternate markets. We are already seeing this in Swiss watch export data with sales to Mainland China, South Korea and Singapore starting to offset declines in Hong Kong.

Second, Richemont owns a number of leading online luxury retailers; Net-a-Porter, Mr Porter, Yoox and The Outnet. A recent step-up in the level of discounting in this market has led to larger than expected losses in this relatively small business segment as Richemont invests to maintain its market share. We do not know how long it will take for this market to rationalise but we do not think Richemont's key peers, some of which are listed, can afford to generate the current level of losses for a multi-year period. Taking our usual long-term view we are comfortable that the market will improve and the business will return to break even. In the meantime, the losses are very small in relation to the group's overall earnings.

We believe the confluence of two short term headwinds has provided us with an opportunity to buy a very high-quality business, with long-term secular growth drivers, at an attractive valuation. We do not know when these issues will alleviate but we are comfortable they are temporary, and the core luxury jewellery business will continue to generate reasonable returns on capital over time.

MTR Corporation (HKG: 0066) is Hong Kong's monopoly operator of rail assets responsible for 49% share of all public transportation in Hong Kong, having increased from 43% share 10 years ago. The Hong Kong government maintains a 75% shareholding in MTR.

MTR operates a "rail plus property" model where MTR benefits from the significant foot traffic generated by its rail assets through the development and ownership of adjacent retail, residential and commercial property assets.

Over the past six months, MTR was caught up in an unenviable position where it has been targeted by both the protestors and the government – precisely because of the central role it plays in the functioning of the Special Administrative Region. While we cannot predict what will transpire in Hong Kong over the next six months, we believe that the environment will eventually normalise and the current upheaval presents an attractive entry opportunity into a high-quality monopoly asset with strong recurring cashflow and growth upside regulated by one of the most business-friendly governments in the region.

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A number of root causes to the recent unrest in Hong Kong have been identified and discussed by the media and the government. Chief amongst these is Hong Kong's unsustainably high housing costs caused by a structural shortage of housing stock. As such, we expect the government to look to address this by putting forward new measures and initiatives to increase land supply. New land banks will require the support of new transportation infrastructure and this should provide MTR with a good growth pipeline over the medium term.

Unicharm Corporation (TYO: 8113) is the leading manufacturer of disposable hygiene products in Asia specialising in baby diapers, adult diapers and feminine hygiene products. Since 1984, Unicharm has aggressively expanded its footprint beyond Japan and successfully replicated its domestic market-leading position across countries including China, India, Indonesia, Vietnam and Thailand.

An underappreciated jewel within Unicharm's product portfolio is its feminine hygiene business, which is a significant earnings driver and generates exceedingly high margins. Notably, Unicharm has no.1 market positions in feminine hygiene across Japan, Indonesia, Thailand and Vietnam (as well as a strong no.2 position in China).

Going forward, Unicharm should continue to benefit from the twin drivers of an aging population across developed Asia (through its adult diapers portfolio) as well as increasing penetration of disposable hygiene products across developing Asia (through its baby nappies and feminine hygiene portfolio).

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Short Portfolio

Opportunistic short selling of businesses which VGI Partners considers to be of low quality and materially overvalued is an integral component of the VG8 strategy.

The VG8 portfolio currently includes 6 Short Positions. We believe our Short Positions, which are focused on structurally flawed businesses, fads and accounting irregularities, will generate positive returns for VG8 over the long term. This has been our experience in VGI Partners' global strategy where, over the past five years, our Short Portfolio has contributed positive returns (meaning that on average the stocks we have shorted have fallen in price). This has been achieved in a period when the MSCI World Total Return Index (AUD) increased by **77%**. 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.

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, a key skill which we believe adds value to our analysis of the Long Portfolio by helping us identify early any emerging red flags in our Long Investments.

Finally, and importantly, our approach to Short Positions also positions us to reduce market exposures and profit from falling equity markets during periods of uncertainty and heightened volatility. This is valuable insurance, providing us with a tool with which to cushion VG8's returns during a downward trending market.

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Alignment of Interests

At VGI Partners, we take alignment of interest between ourselves and our investors very seriously.

VGI Partners' investment staff have the vast proportion of their net worth invested in our two Funds, our ASX listed investment companies (VGI Partners Global Investments Limited (VG1), VGI Partners Asian Investments Limited (VG8)) and VGI Partners itself. All staff are prohibited from purchasing securities outside the Funds, the listed investment companies and VGI Partners. 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 and 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."

- Seth Klarman, 'Margin of Safety'

Over the past twelve years (since inception of VGI Partners), all members of the VGI Partners Investment Team have consistently added to their investment in the Funds managed by VGI Partners. Further strengthening alignment, subsequent to the IPO of VGI Partners the manager itself has been investing in VG1 and VG8. We all view these investments, which includes $39 million invested in VG8 by VGI Partners and staff, as our primary capital growth vehicle and thus our most important financial investment.

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 maximise 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

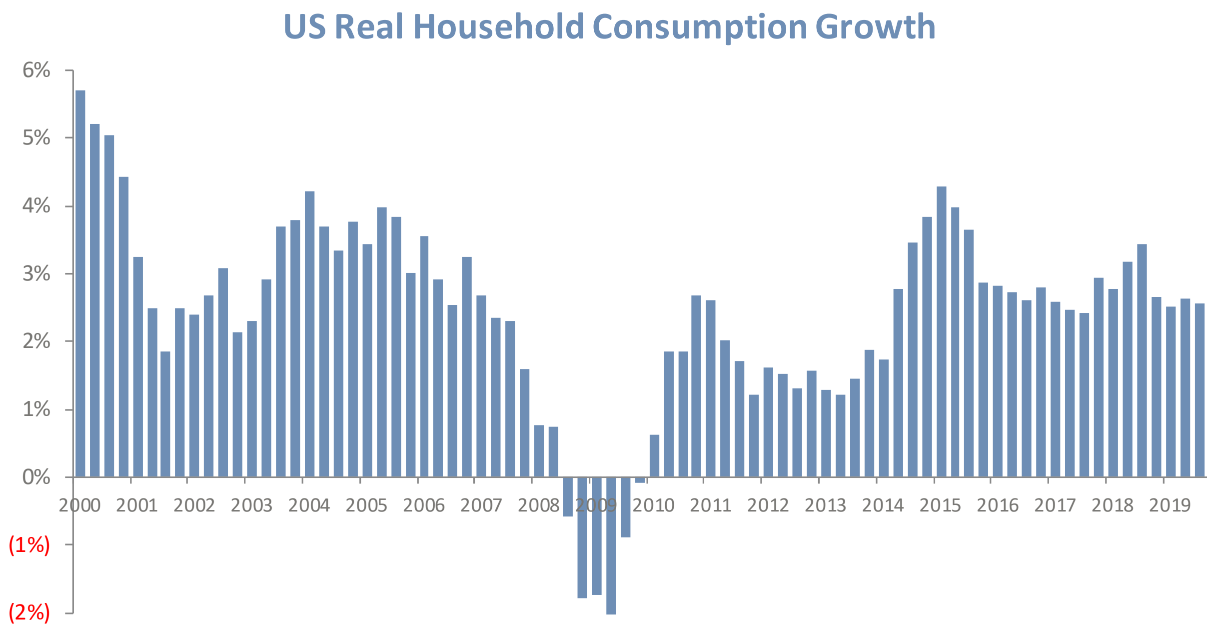
VGI Partners Asian Investments Limited is denominated in Australian Dollars (AUD). At VGI Partners we actively manage the currency exposure of each of our AUD denominated funds as our analysis of the economic outlook for Australia evolves relative to the US, Europe, the UK and Asia. As the AUD is a commodity currency prone to significant swings in relative value, we seek to generate meaningful returns for our investors over time through our currency exposures.

The success of our purposeful and active management of the currency is evident in the returns achieved by the VGI Partners Master Fund; currency movements have enhanced the Master Fund's total return by 20.7% since inception.

At the Master Fund's inception in 2009, we were fully hedged against the USD when the AUD was 63 US Cents. We then progressively reduced this currency hedge as the AUD strengthened toward parity with the USD. We made the decision to fully remove our partial currency hedge in mid-2013 at just under parity with the USD. As a result, the Master Fund has benefited from being unhedged against the US Dollar since then.

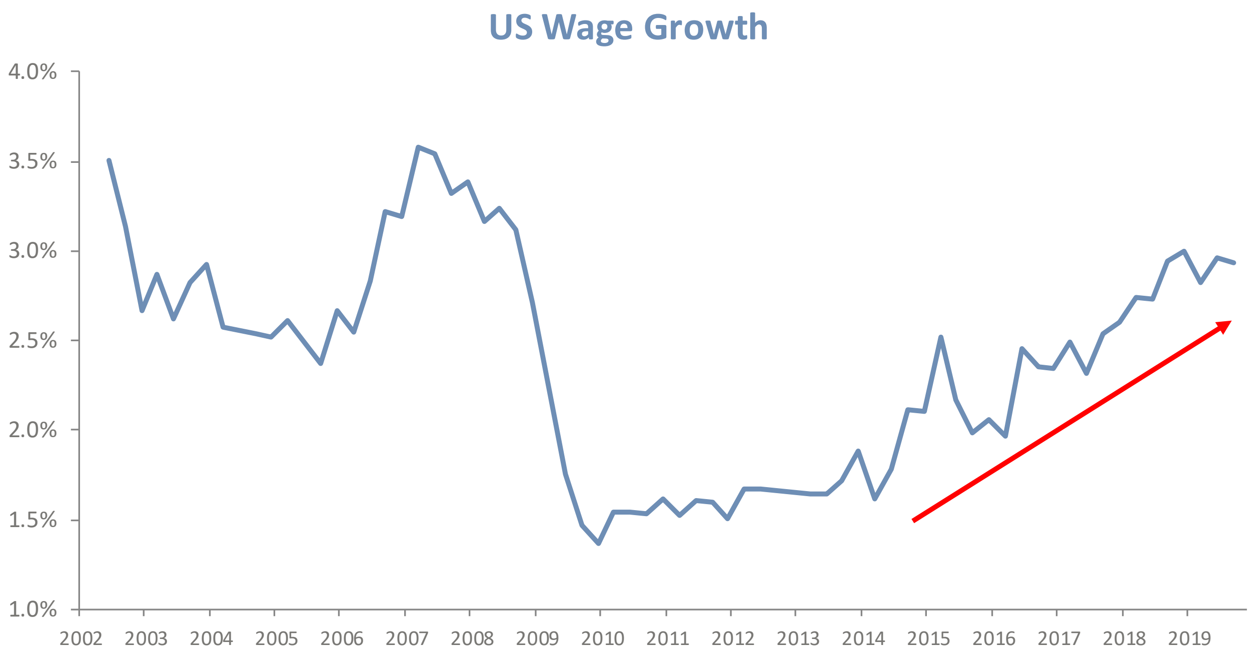
As we continue to believe that the US Dollar remains attractive relative to the Australian Dollar, VG8's non-Japanese equity positions are currently hedged to the US Dollar and all of VG8's net cash is in USD.

Let's look at the fundamentals behind our currency positioning. The US economy continues to outperform, driven by a strong US consumer sector.



Source: US Bureau of Economic Analysis & VGI Partners analysis

US household consumption is being supported by accelerating US wage growth. With the US unemployment rate at 50-year lows of 3.5%, and job growth remaining strong, we expect US wage growth acceleration to continue.

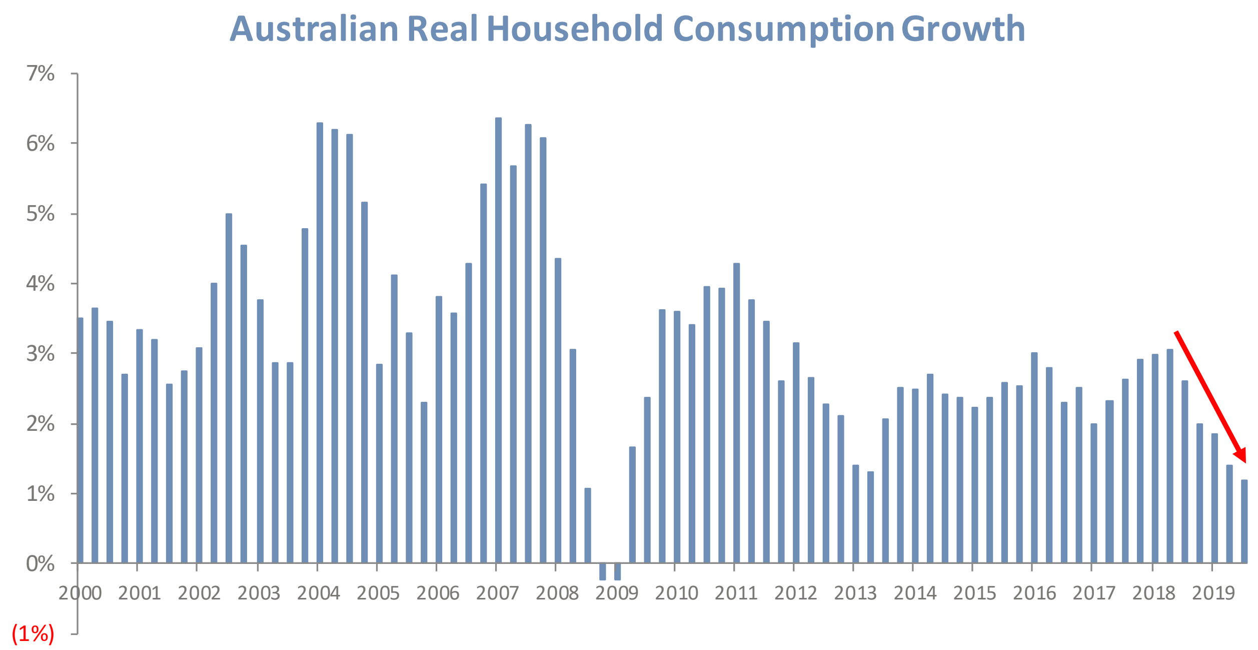


Source: US Bureau of Labor Statistics & VGI Partners analysis

Twelve months ago we went against consensus in our investor letters by highlighting our view that the Reserve Bank of Australia (RBA) would cut interest rates. Since this time, the RBA has cut the Cash Rate three times, to just 0.75%.

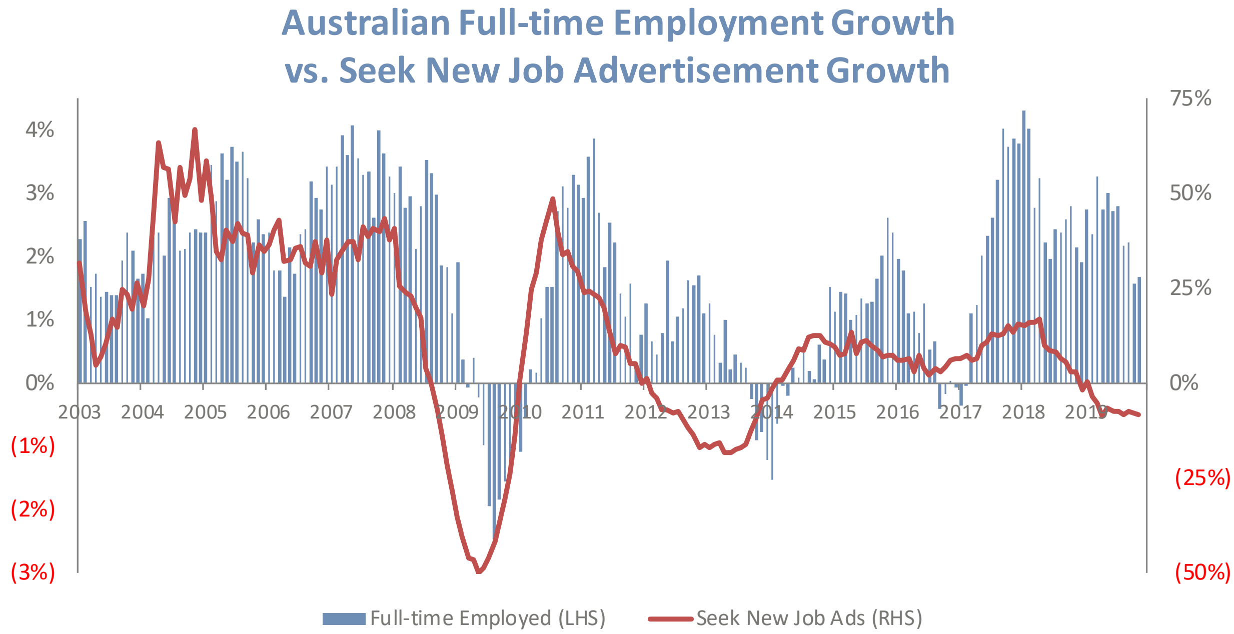
Over the year ahead, we believe that the RBA is likely to provide further monetary stimulus. As we have highlighted in prior letters, Australia's economic statistics have been flattered by an unsustainable debt binge over recent years.

We believe we are now at the start of an unwind of this period of excess. Australian household consumption growth has decelerated as consumers have focussed on repaying debt, despite stimulus from both lower interest rates and tax cuts.



Source: Australian Bureau of Statistics & VGI Partners analysis

Both the RBA and Wall Street consensus forecasts anticipate that Australian household consumption growth will accelerate over the coming years. However, the lead indicators we track for Australia suggest that the opposite is true. In particular, the red line in the below chart shows that growth in Seek New Job Advertisements is now negative. Typically, this occurs prior to a slowdown in Australian job growth.



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

At some point in the future, we will adjust VG8's foreign currency exposure to increase its weighting towards the AUD and possibly the Japanese Yen. However, any increase in weighting towards the AUD will not happen until our fundamental analysis suggests that the Australian currency is more fairly valued.

Company Meetings

Over the past twelve months the VGI Partners' sixteen-person Investment Team conducted over 700 meetings and conference calls (a new VGI Partners record) with company management teams and industry experts around the world. During this process we met with companies such as Ferrari, Nike, Swatch, Pinterest, Sony, Yamaha, China Resources Beer and Vietnam Airlines.

Just under half of our meetings were with companies that are based in the Asian region, with the team visiting 11 cities across Japan, South Korea, Hong Kong, Singapore, Vietnam, Thailand and Taiwan. We saw many candidates for the VG8 portfolio during these sessions. We also have many meetings and Asian company visits already planned for this year and, as discussed in the following section, we look forward to hosting our annual Advisory Council meeting in Tokyo this May.

A significant proportion of the companies that we met outside of Asia derive a substantial percentage of their revenue from the Asian region and could also be considered for VG8 on this basis. We have identified a number of opportunities as a result of our meetings in countries such as the UK, France and the United States.

We believe that our in-depth research provides us with a competitive advantage in an environment of declining investment research budgets globally. In fact, sell-side equity research headcount remains in secular decline, down 10% over the past year and down 17% over the past four years according to Coalition Development, a research firm majority owned by Standard & Poor's. This provides increased opportunities to profit from our long-term, fundamental investment research.

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Operational Update

The VGI Partners team now consists of 29 people across Sydney, New York and Tokyo. We will continue to selectively recruit outstanding people to join the team.

Our Tokyo office continues to expand its reach and build its localised fundamental research capabilities and infrastructure in Asia.

Thomas Davies, a Senior Analyst on our Investment Team, relocated to New York during the year to further bolster our capabilities on the ground there.

The VGI Partners Team now includes nine CFA Charterholders. **Claudia Cole** successfully completed Level III of the CFA Program in New York and has now been awarded the CFA Charter. **Marco Anselmi**, having already completed the three CFA exams, was awarded the CFA Charter in November 2019. **Bryan Oh** and **Kanta Matsuo** in our Tokyo office are undertaking CFA Level II and Level I respectively this year and **Christopher Morris** will sit for the Level I exam in June. 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%).

Our Operations Team continues to build both in numbers and capabilities in all areas, spearheaded by **Adam Philippe** (Chief Operating Officer) and **Ian Cameron** (Chief Financial Officer). Maintaining the highest standards across IT infrastructure and security, risk management capabilities, back office processing and investor relations remains an ongoing priority. We continue to invest heavily in our systems and infrastructure to ensure that we remain well ahead of the curve and we continue to carefully select and partner with best in class experts and advisors in all operational areas.

VGI Partners has now been established for twelve years. We are fortunate that a number of our key team members have been with us for a substantial part of this journey. Robert Luciano, Douglas Tynan, Robert Poiner and Adam Philippe each have in excess of ten years of service. Special mention should also be made of Thomas Davies, Justin Hardwick and Elizabeth Bruce who have been with us for more than seven years.

VGI Partners will be hosting its annual Advisory Council meeting in Tokyo in May 2020. This is the first time the Advisory Council has met in Asia and the decision to hold the event in Tokyo this year reflects the increased importance of Asia to VGI Partners.

The VGI Partners' Advisory Council is an external and independent group of experienced investment management, finance and industry professionals.

Last year we were delighted to welcome the following special guests to our Advisory Council meeting in Washington DC:

- **The Hon Joe Hockey,** Australian Ambassador to the USA
- **Mr John Brennan,** Former Director of the Central Intelligence Agency (2013-2017)
- **Mr Ian Cook,** Executive Chairman, Colgate-Palmolive Co
- **Mr Benjamin Krasna,** Deputy Head of Mission, Embassy of Israel to the US

This meeting provided the VGI Partners Advisory Council and Investment Team with a great opportunity to discuss investment ideas as well as important themes in financial markets and the US political landscape.

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The VGI Partners Foundation

We are delighted by the continued success of The VGI Partners Foundation. The VGI Partners Foundation seeks 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 continue to 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, in 2018 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 Fund classes, with the exception that 100% of management fees and performance fees on this class will be received by The VGI Partners Foundation in perpetuity.

Since inception in 2008, VGI Partners has made in excess of $5 million in charitable contributions.

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In Closing

At VGI Partners we are entirely focussed on managing our portfolios, which contain our best investment ideas. We are highly selective about what we include in our portfolios 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 however we are confident our process and investment philosophy positions our portfolio to produce acceptable returns even when global stock market indices are lacklustre.

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We remain optimistic about the long-term opportunity to apply the VGI Partners' investment philosophy to our Asian Strategy. It is early days, but we are very grateful that we have long-term oriented investors who entrust us with their capital.

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

Yours faithfully,

VGI Partners

"The big profits go to the intelligent, careful and patient investor, not to the reckless and overeager speculator."

- J Paul Getty

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This document contains certain "forward-looking statements" that are based on management's beliefs, assumptions and expectations and on information currently available to management. Forward-looking statements can generally be identified by the use of forward-looking words such as, “expect”, “anticipate”, “likely”, “intend”, “should”, “could”, “may”, “predict”, “plan”, “propose”, “will”, “believe”, “forecast”, “estimate”, “target” “outlook”, “guidance” and other similar expressions. Indications of, and guidance or outlook on, future earnings or financial performance are also forward-looking statements. You are cautioned not to place undue reliance on forward-looking statements. Any such statements, opinions and estimates in this document speak only as of the date of this document and are based on assumptions and contingencies and are subject to change without notice, as are statements about market and industry trends, projections, guidance and estimates. Forward-looking statements are provided as a general guide only. The forward-looking statements contained in this document are not indications, guarantees or predictions of future performance and involve known and unknown risks and uncertainties and other factors, many of which are beyond the control of VGI Partners, and may involve significant elements of subjective judgement and assumptions as to future events which may or may not be correct. There can be no assurance that actual outcomes will not differ materially from these forward-looking statements. No representation, warranty or assurance (express or implied) is given or made in relation to any forward-looking statement by any person (including VGI Partners or any of its directors, officers, employees, agents or advisers). In particular, no representation, warranty or assurance (express or implied) is given that the occurrence of the events expressed or implied in any forward-looking statements in this document will actually occur. Except as required by law or regulation, VGI Partners disclaims any obligation or undertaking to update forward-looking statements in this document to reflect any changes in expectations in relation to any forward-looking statement or change in events, circumstances or conditions on which any statement is based.