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29 July 2022

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ASX Limited
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BY ELECTRONIC LODGEMENT

VG8 Investor Letter – Year to June 2022

VGI Partners Asian Investments Limited (ASX:VG8) is pleased to make available the enclosed Investor Letter. The letter provides details on the performance of VG8 for the twelve months ended 30 June 2022 and commentary on current positioning.

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VG8 – Asian Investments

Investor Letter

29 July 2022

"If we were to unleash the abilities of every single person in Asia and let them fulfil their potential, the resulting force would be truly tremendous."

SHINZO ABE (FORMER PRIME MINISTER OF JAPAN)

Dear Fellow Investors,

For the twelve months ended 30 June 2022 (FY22), **VGI Partners Asian Investments Limited** (ASX:VG8) generated a net portfolio return of -19.3% after all fees.[1]

FY22 produced a challenging period for equity market returns in Asia. Over the last year, we have seen a significant decline in valuation multiples throughout the region, driven by global concerns of rising inflation and tightening monetary conditions, in addition to a series of regional-specific headwinds. Most notable of these has been the slowing of growth within China, the region's largest economy, as a result of heavily curtailed economic activity associated with the country's zero-COVID lockdown restrictions and a tightening in overall credit conditions. While we do not benchmark to any indices, we note the MSCI Asia Pacific All Country Index (AUD) returned -15.6% in the year to 30 June 2022.

While broader equity markets have been weaker, we have been disappointed with the returns delivered by the portfolio over the 12 months to 30 June 2022. We discuss the key detractors to performance later in this letter, in addition to some insights around the current shape of the portfolio and the opportunities that recent equity market volatility is providing investors in the region. While shorter-term volatility of performance is unpleasant, we are seeing an appealing investment opportunity set currently in the region and view the portfolio as well positioned to generate returns.

Merger with Regal Funds Management

Before we discuss the portfolio in detail, we would like to make a few comments about the recent merger of VGI Partners with Regal Funds Management.

At the end of March, we were pleased to inform investors and shareholders that VGI Partners and Regal Funds Management had entered into a Merger Implementation Deed, combining two well-established investment management businesses and creating a market leading manager of alternative investment strategies. Following receipt of the required regulatory and shareholder approvals in May, the merger completed on 3 June 2022, with the new combined entity renamed 'Regal Partners'.

We are pleased to report the merger has progressed well. The key expected benefits of the combination have quickly begun to materialise, including the opportunity to access Regal's institutional grade corporate platform and marketing and distribution capabilities, in addition to leveraging Regal's long track record in investing in the Asian region. As previously communicated, Regal Funds Management has extensive capabilities in investing in Asia, operating one of the largest fundamental investment teams in

[1] Past performance is not a reliable indicator of future performance and should not be relied upon as an indication of the future performance of any fund or strategy.

the region, complemented by highly experienced industry sector specialists working across offices in Sydney and Singapore.

On 15 June 2022, VG8 announced that it had entered into an investment advisory agreement whereby Regal Funds Management, led by Regal Chief Investment Officer Philip King, would assist the Manager with the investment of the Company's portfolio. Pleasingly, on 27 June 2022, VG8 announced that Philip King had moved to leading portfolio management responsibilities for VG8, with assistance from VGI Partners' CIO Rob Luciano and the broader VGI Partners and Regal Funds Management investment teams.

Both VGI Partners and Regal share very similar philosophies around alignment with our investors, with key investment staff retaining meaningful shareholdings in the merged entity and substantial personal investments in the underlying funds and listed investment vehicles.

The manager has also been supportive of recent initiatives taken by the VG8 Board and the VG8 Board's strong focus on capital management. This includes having a defined dividend policy and VG8's policy to target a fully franked dividend yield of 4% p.a. is a good example of this. VG8 has paid two fully franked dividends during FY22 (5.5c in September 2021 and 5.0c in April 2022).

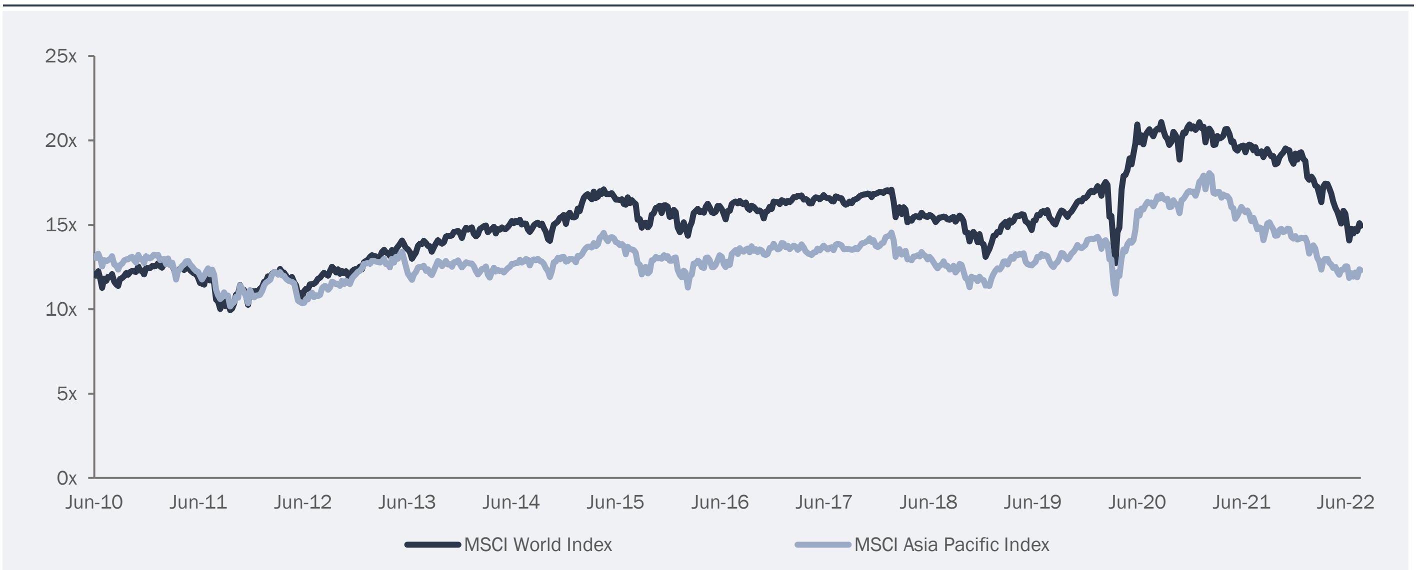
In addition, a second element of capital management includes the provision of an active on-market share buy-back program whenever shares are trading at a discount to Net Tangible Assets. This not only provides greater on-market liquidity but can also be highly accretive for shareholders. Many VG8 shareholders would be aware that VG8 began operating a buy-back program in May this year. Over 3m shares, or approximately 1.5% of VG1's shares, have already been bought back since the program began.

We thank investors and shareholders for their kind messages of support through the merger process and look forward to providing more updates through future briefings and letters.

Portfolio Update

As mentioned above, we continue to see a compelling investment opportunity set in the Asia Pacific region. From a valuation perspective, the MSCI Asia Pacific All Country Index is now trading near the lower end of its price-to-earnings (P/E) range and at an 18% discount to the MSCI World Index.

P/E Multiple (12 Months Forward Earnings Per Share Estimates)

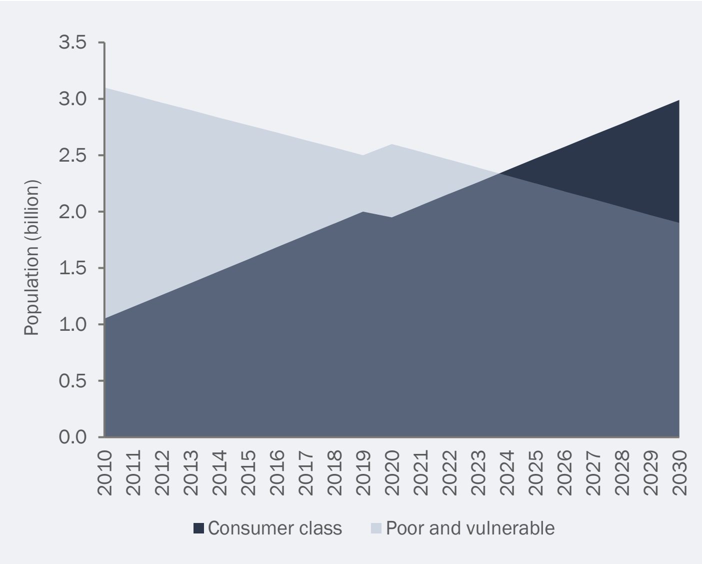


Source: Bloomberg.

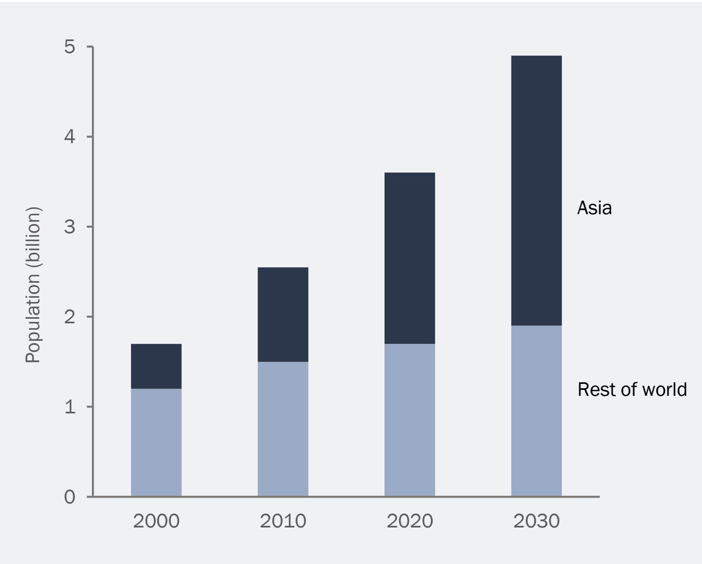
This valuation discount for the Asia Pacific market is particularly interesting given the higher economic growth forecast for the region. The OECD forecasts that real GDP will grow +4.7% CAGR in the Asia Pacific region this decade, nearly double the rate forecast for the rest of the world at +2.4% CAGR.

Propelling Asia's economic growth is the increasing percentage of its vast population entering the "consumer class". A rising number of sophisticated consumers in Asia is expected to create further demand for educated and trained labour, which lifts others from poverty and extends the cycle. Asia's "consumer class" is already larger than the rest of the world combined and is expected to be around 1.5x larger than the rest of the world combined by the end of this decade.

Asia's Rising Consumer Class



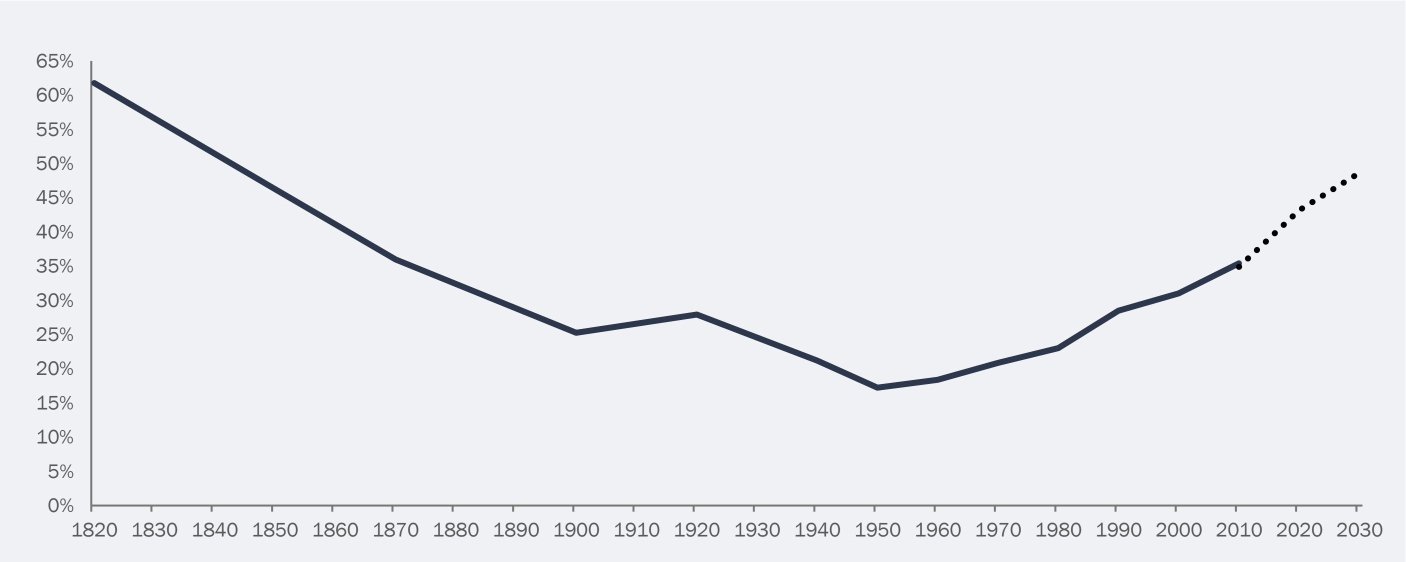
Global Distribution of the Consumer



Source: World Data Lab (as cited by the Brookings Institution).

The OECD forecasts that the Asia Pacific region will account for nearly half of global economy by the end of this decade. The Asia Pacific region will soon become too large for investors to ignore.

Asia Pacific's Share of Global GDP



Source: 1820-2010 Maddison Project Database, version 2020. Bolt, Jutta and Jan Luiten van Zanden (2020). 2010 onwards OECD.

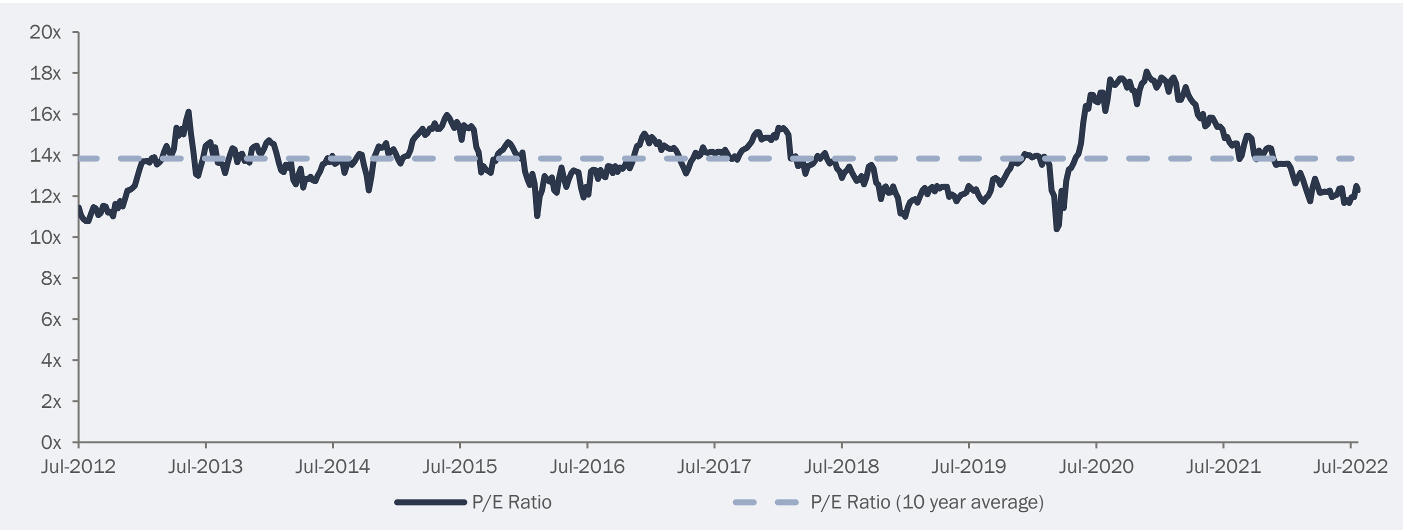
Portfolio Positioning

VG8's long portfolio currently contains a number of investments that are listed in either Japan or Australia but leveraged to broader Asian growth. The long portfolio also has what we consider a relatively small weighting to China-focused businesses listed in Hong Kong. Below we look at these three markets, with some examples of how the fund is currently positioned.

Japan

Japan continues to be the largest weighting in the long portfolio. The Japanese market is currently trading towards its lowest P/E multiple in a decade and at an 11% discount to its 10-year average P/E ratio.

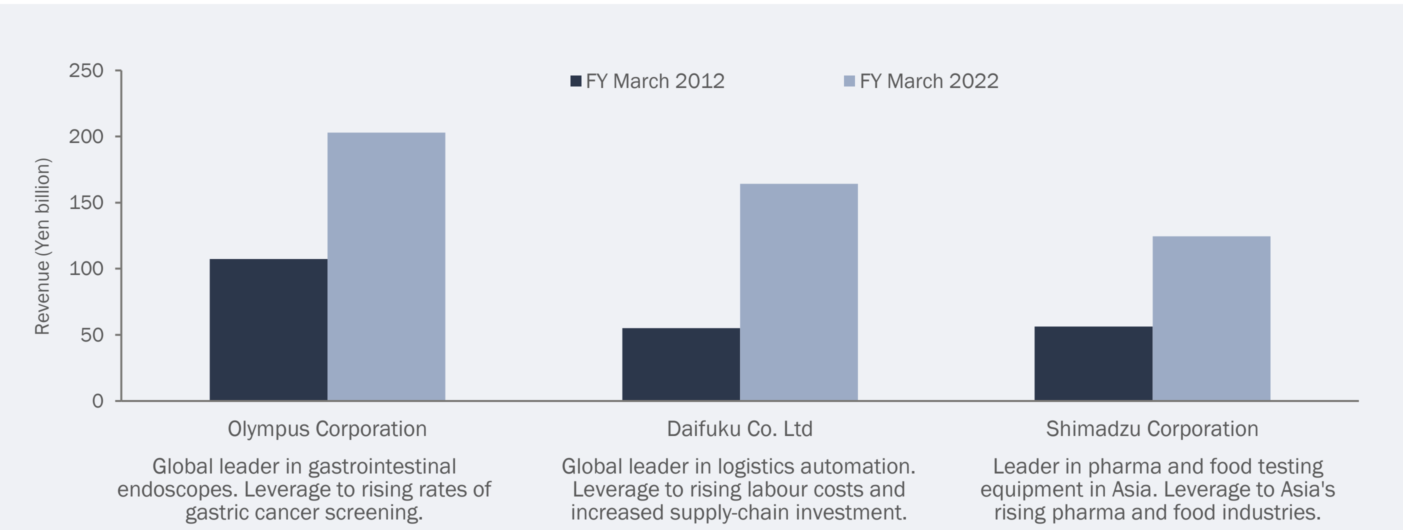
Japan's Topix Index – P/E History



Source: Bloomberg using consensus forecast earnings on a rolling 12 months forward basis.

Japan has a broad range of companies that have developed market-leading products and established extensive sales networks across other Asian nations. In the chart below we highlight the substantial sales growth seen by three of our portfolio companies into other Asian nations over the last decade.

Revenue from Asia Pacific Countries Excluding Japan



Source: Bloomberg.

For each of these three companies we believe there are long growth runways to come and sustainable competitive advantages, in part due to their high-quality production processes. Each of these companies also generate recurring revenues via after-sales service, parts and/or consumable products. Importantly, they also all have management teams that reflect an increasing trend in Japan of improved governance and focus on optimising returns for shareholders. Olympus is a position we have held for a number of years and was the largest contributor to returns over the past year, as discussed later. Daifuku and Shimadzu are positions we have been watching for some time and added this year after we felt the valuations had sufficiently corrected lower.

VG8's long positions in Japan are focused on companies that export from Japan and as such have seen significant benefit from the approximately 24% decline in the value of the Japanese Yen against the US Dollar over the last year. With much of the fixed production costs for these companies still based in Japan, the rise in export revenues when translated back into Yen terms can come with a significant improvement in margins.

Australia

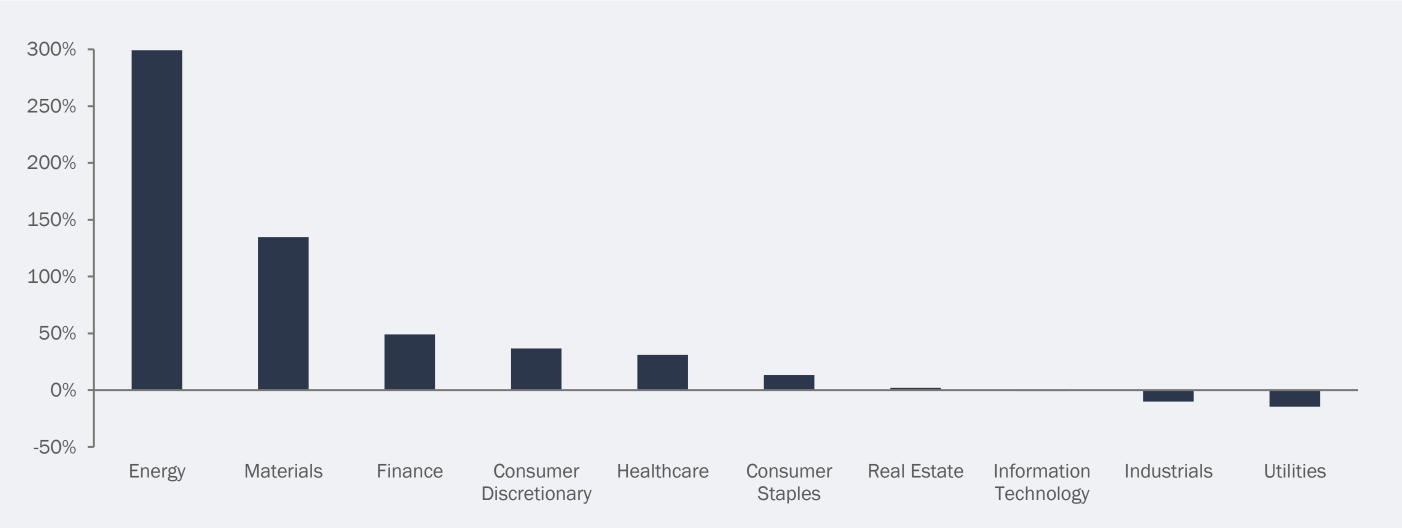
Like Japan, the Australian market is currently trading near its lowest P/E multiple in a decade but is at an even wider discount (of 15%) to its 10-year average P/E ratio. In recent months we have increased the long portfolio exposure to Australia, particularly companies exporting from Australia, and it is now the second largest weighting by market.

Australia's S&P/ASX 200 Index – P/E History

Source: Bloomberg using consensus forecast earnings on a rolling 12 months forward basis.

The sharp decline in P/E valuation in Australia this year has been driven not only by a decline in stock prices but also a rise in earnings expectations, particularly within the energy and materials sectors.

Australian S&P/ASX 200 – Change in EPS forecasts by Sector (Jun 2021 to Jun 2022)



Source: Bloomberg.

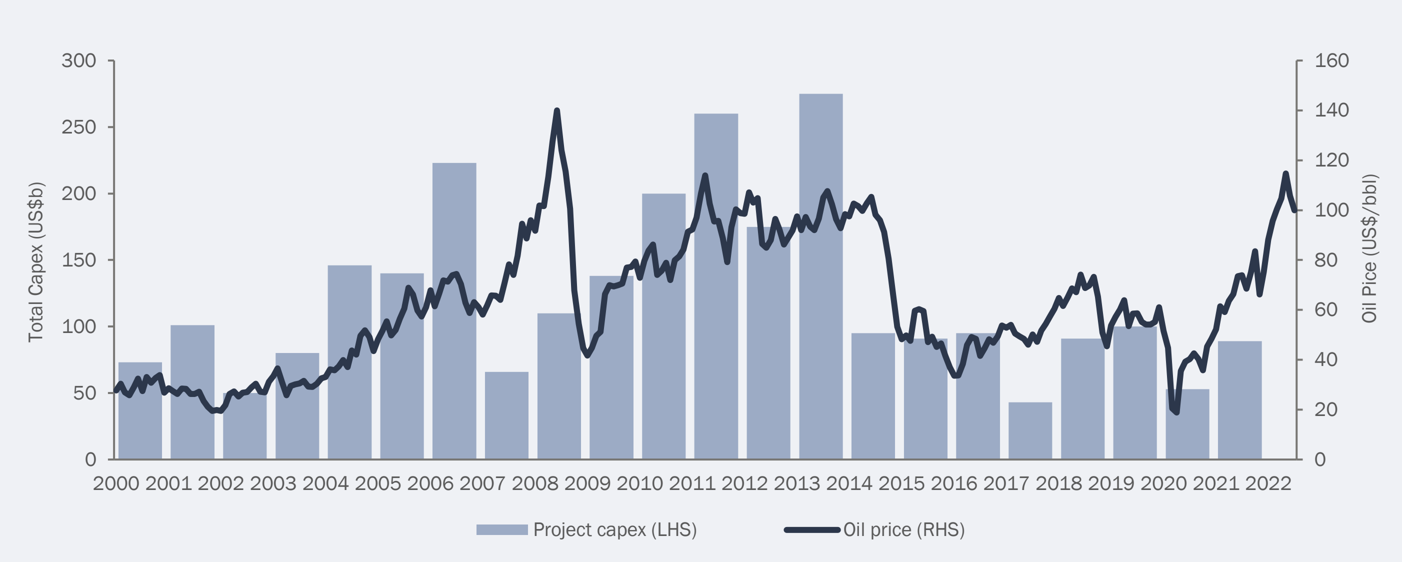
We have recently added long positions within both the Australian energy and materials sectors, in high-quality companies with strong market positions where we see the improvement in their operating environment as sustainable and underappreciated by the market. These companies hold high-quality assets that are directly leveraged to rising consumption in Asia.

Within the energy sector we added Woodside Energy Group. Woodside generated 86% of its revenues from customers in Asia last year and owns a range of high-quality Liquified Natural Gas (LNG) assets that Asian customers value for security-of-supply when signing long-term contracts. Broadly within the LNG sector there has been an improvement in industry structure in recent years with consolidation amongst some of the key suppliers and a lack of new entrants when considering the rise in demand.

Australia has overtaken Qatar as the world's largest exporter of LNG in recent years, benefiting from closer proximity to the larger Asian markets and lower transportation costs, as well as lower interruption risk than cargos from Qatar that transit through the Straits of Hormuz. Demand for security-of-supply, and Australian LNG, has become more pronounced following the Russian invasion of Ukraine.

We view the outlook for energy prices as favorable and feel the operating environment for the sector has improved from past cycles due to a long period of underinvestment in new supply.

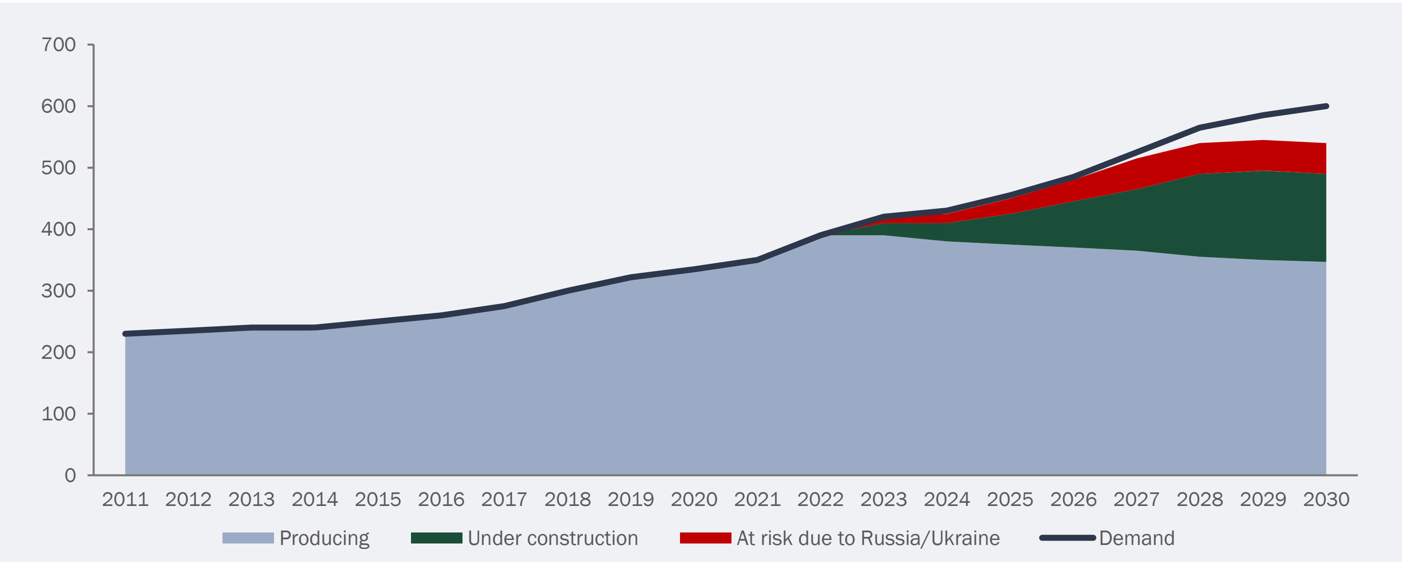
Total Oil & Gas Projects Capex Sanctioned by Year and Oil Price



Source: Bloomberg.

The LNG market has a particularly strong long-term demand outlook as many nations shift their electricity capacity towards gas as a cleaner source of energy to meet emissions targets. Demand is likely to be amplified by a shift in Europe away from Russian piped natural gas supplies to LNG. We also feel the supply environment is conducive for LNG pricing to remain favorable for an extended period.

Forecast LNG "Supply" and "Demand" Balance (mtpa)



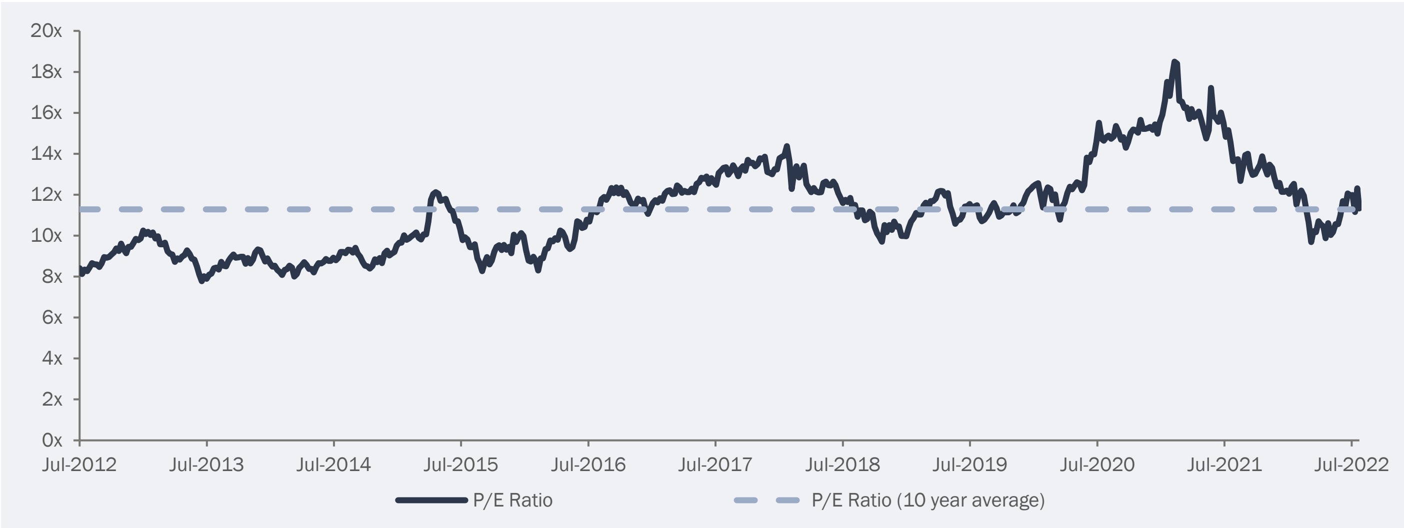
Source: Broker research, Bloomberg.

Within the materials sector, we recently added a long position in OZ Minerals, one of the largest independent copper producers in Asia, which generated 82% of its revenues from sales into Asia last year. The majority of OZ Minerals' sales are copper, which is benefiting from rising demand for electric vehicles that use 3.5x the amount of copper than traditional combustion engine vehicles. Copper demand is also benefiting from rising usage in wind and solar power applications. Like LNG, copper has seen an under-investment in supply capacity which will likely lead to an extended period of favourable pricing.

China

The MSCI China Index, which is largely made up of Hong Kong listed H Shares, currently trades around its 10-year average P/E ratio of 11x.

MSCI China Index – P/E History



Source: Bloomberg using consensus forecast earnings on a rolling 12 months forward basis.

VG8's long portfolio has what we consider a relatively low 12% weighting to Chinese companies, via positions in Alibaba Group and Tencent Holdings. We see these as high-quality businesses with significant competitive advantages. Both companies are also expanding their presence overseas with a view to becoming global leaders. As the Asia Pacific economy expands, to become larger than all other regions combined, and with the rising penetration of online services in much of the region, it is not hard to see future global tech leadership coming from Asian companies like Alibaba Group and Tencent Holdings.

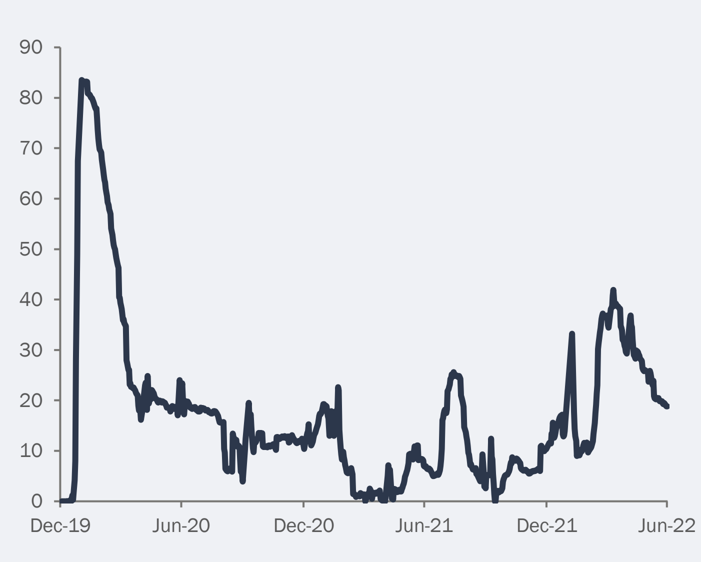
We acknowledge there are regulatory risks to consider in China. As outlined in prior investment letters, we initially exited our Alibaba Group and Tencent Holdings positions in late 2020, near their highs, as we felt they were not sufficiently pricing in the rising regulatory risk at the time. We then re-entered in mid-2021, after we felt the valuations had sufficiently corrected. Both stocks however went on to suffer further regulatory pressures as well as a range of economic headwinds with China.

The government in China has recently improved its messaging on the regulatory front. In April this year, Vice Premier Liu He announced *"the country should support the sustained and healthy development of the platform economy"*. More recently, an advisor to the State Council's anti-monopoly commission suggested *"it's time for China to return to normalized and predictable supervision in the platform economy"*. Both of these quotes were from the China Daily newspaper owned by Communist Party, in an article that starts with *"After a healthy correction, e-marketplaces, services set to ride new opportunities"*.

Importantly, along with government requests for more sustainable growth, there has been a broad shift within the Chinese tech companies themselves towards focusing on improving margins. We can particularly see this in Alibaba's communication following its Full Year results release in May.

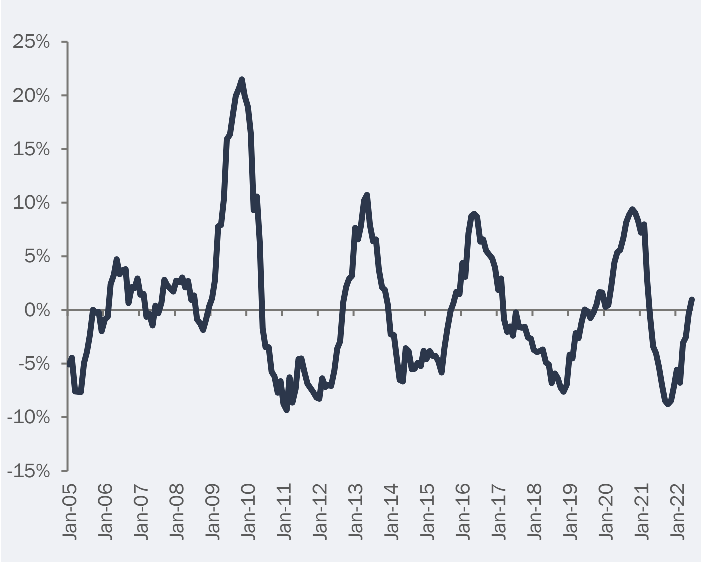
On the economic front, we are also seeing increasingly positive signs, including an easing in the Goldman Sachs China COVID Lockdown Index, shown on the following page below left. We are also seeing a rise in the China Credit Impulse, below right on the next page, as policy in China shifts from containing growth to stimulating growth.

GS China COVID Lockdown Index



Source: Goldman Sachs.

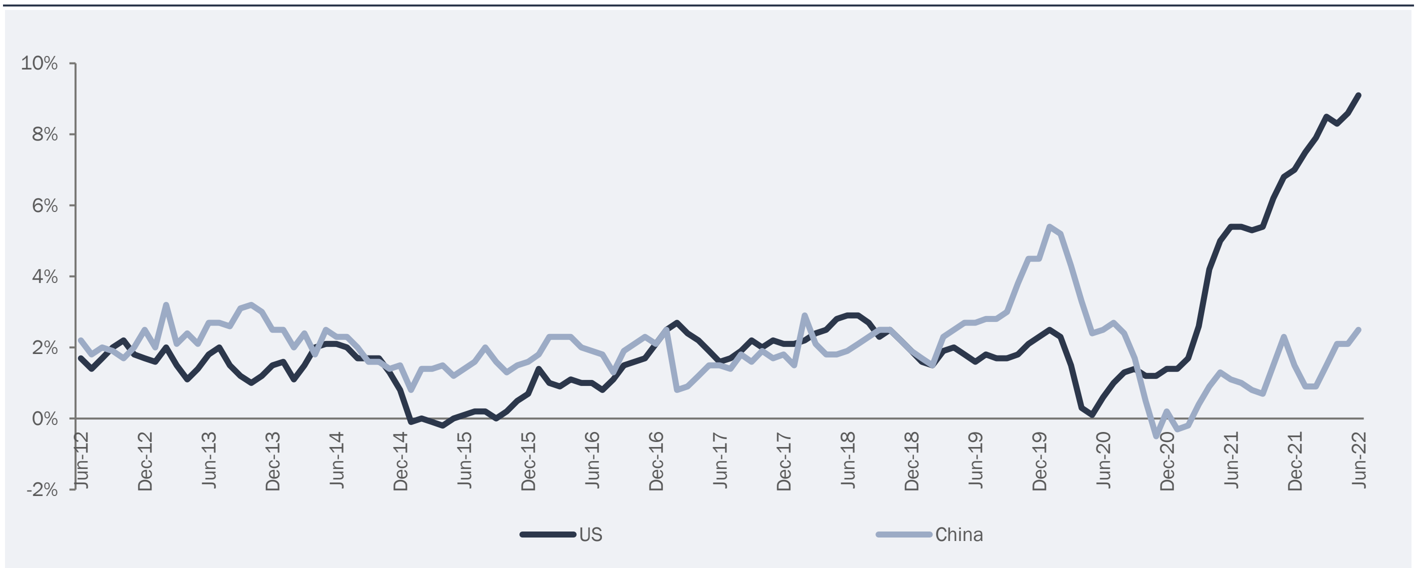
China Credit Impulse YoY Net Change



Source: Bloomberg.

China is at a different point in its cycle and now the only major economy where the central bank is easing policy. Charlie Munger sums up the differing policy approach in China: *"China is being smarter about handling booms than capitalist America ... (China) steps on a boom in the middle of it instead of waiting for the big bust"*. This contrast in approach is one reason why China is currently seeing relatively stable levels of inflation and stimulus, while the US is seeing painful inflation and contractionary policy.

Consumer Price Index (CPI) YoY



Source: Bloomberg.

Our low weighting to Chinese securities in recent years has proven to be the right decision, with the MSCI China Index underperforming MSCI Asia Pacific Index by around 24% over the last two years. Following this weakness, the Chinese market now has a number of high-quality businesses that are trading at appealing valuations amidst government, and monetary policies, that are increasingly supportive. While we continue to acknowledge the risks in China, including within the real estate market, we feel we may now see other sectors in China perform well, particularly within the e-commerce and internet sector in which we are currently focused.

Portfolio Update

The table below shows our Top 10 holdings as at 30 June 2022. Consistent with our concentrated approach, the Top 10 holdings account for 60% of our total capital.

Top 10 Long Investments as at 30 June 2022	% of Portfolio
Woodside Energy Group Ltd	7%
Daifuku Co. Ltd	7%
Alibaba Group Holding Ltd	7%
Japan Exchange Group Inc.	7%
Olympus Corporation	7%
Cie Financière Richemont SA	6%
Aurizon Holdings Ltd	5%
OZ Minerals Ltd	5%
Tencent Holdings Ltd	5%
Shimadzu Corporation	5%

Source: VGI Partners analysis.

Below we provide an update on some of the key contributors and detractors in FY22 that have not already been discussed earlier in this letter.

Olympus (TYO: 7733)

Olympus has circa 70% market share globally in gastrointestinal endoscopes, a dominant position it has captured as a result of many years of investment and in developing a well-entrenched distribution network, both of which provide a strong moat around its business.

Olympus is a position we have held since 2020 and was the largest long contributor during FY22. The strong share price performance has been due to a combination of a weak Yen, which is positive for Japanese exporters such as Olympus, coupled with ongoing strong earnings results from the company.

Olympus management has executed very well in recent years. They have continued to raise margins in the core business while simultaneously growing revenues. We believe earnings are set to benefit from the launch of a higher-priced next generation gastrointestinal platform in the US this year, followed by other markets in years to come. Further growth is being driven by the company expanding its sales into a broader range of related consumables, as well as new fields that leverage the existing technological expertise such as compact endoscopes used in urology.

Rakuten (TYO: 4755)

Rakuten is a leading e-commerce and fintech company in Japan; these core businesses continued to perform strongly over the last year. The fund's long position however was a key detractor to performance in FY22 as Rakuten's investment into building Japan's 4th mobile network has become a larger drag on earnings than we expected. In essence, Rakuten has faced two significant headwinds. Firstly, the government in Japan applied pressure on the incumbent mobile networks to reduce their mobile tariffs, which saw a 52% decline in mobile phone charges over the last two years according to national consumer price data. Secondly, the global semi-conductor chip shortage delayed the roll-out of Rakuten's base-station network which slowed its launch momentum. It is now difficult to predict the long-term outlook for Rakuten's mobile business and the drag on overall profitability. We have therefore exited this position.

Mercari (TYO: 4385)

Mercari is a leading consumer-to-consumer (C2C) online marketplace for used goods in Japan. The stock was a key detractor to performance in FY22. In addition to a general deterioration in market sentiment towards Japanese tech stocks, Mercari was subject to investor concerns over a deceleration in growth in its core C2C marketplace, coming out of elevated volumes during COVID. At its core, Mercari's Japan C2C marketplace remains highly profitable with a formidable lead over its competitors. We feel Mercari's growth will be augmented by the recent opening up of its C2C marketplace, with over 20m monthly active users, to business-to-consumer (B2C) sales. Mercari's current stock price equates to an Enterprise Value of only 15x the current core Japan C2C market-place EBIT. This makes the stock very appealing as it appears to ascribe zero value to the B2C, Fintech and US marketplace businesses. Importantly management has also begun to focus on raising profitability, which we think it can achieve and is likely to be rewarded for in the current market environment.

Short Selling

Our short portfolio contributed positively in FY22. From April 2020, when COVID stimulus began in earnest, until late 2021, conditions were difficult for short selling due to the speculative conditions that persisted and the general willingness in the market to ignore broken business models, accounting issues and industries with structural concerns.

However, since late 2021, the environment for shorting has improved and we have seen improved returns for short selling. In line with this, we have increased the weighting of the short portfolio to the current 29%. We continue to see active short selling as a very important part of the strategy.

The largest short contributor in FY22 was a custom basket of Australian discretionary consumer goods stocks that we viewed as overvalued. Many of these companies saw highly favourable demand conditions in the prior year as household spending shifted from services to goods due to COVID lockdowns. We felt that the sell-side analysts were being overly generous in extrapolating a continuation of elevated growth rates and that valuations were over-extended, particularly amidst an environment of rising interest rates in Australia, along with rising costs for food, petrol and utilities pinching households' pockets.

The second largest contributor was a manufacturer of power tools listed outside of Australia, with a global business that had clearly benefited from COVID-driven demand for home renovations. The company has already suffered significant multiple compression and some mild negative earnings downgrades, but we believe we are likely to continue to see further downgrades given the delay in how its accounting policies reflect cost pressures already being seen in some of its competitors' earnings.

We continue to hold one of the highest levels of aggregate short exposure in VG8's history as we still think there are a number of highly attractive short opportunities. While the Asia Pacific region is forecast to see outsized growth rates, it is a highly diverse region which allows us to also identify short opportunities despite favourable aggregate long-term trends.

Currency

VG8 is denominated in Australian Dollars (AUD). Since mid-CY20 currency exposures have been hedged. The portfolio's exposure to foreign currency risks may be naturally hedged to the extent the value of assets (long investments) offsets the value of liabilities (short positions) denominated in each foreign currency within the portfolio. If net exposure to a particular currency exceeds 5% of the Fund's NAV, we will seek to manage the foreign currency risk in respect of that currency by hedging to AUD.

In Closing

We are disappointed by the return we delivered over the last 12 months, with the long portfolio seeing both a combination of adverse market conditions as well as outsized losses in some single stock picks.

However, we see an appealing investment opportunity set ahead and VG8 continues to focus on accessing the outsized growth within the Asia Pacific region in the long portfolio, while also targeting shorts that we think will add to returns. We are excited by the merger of VGI Partners and Regal Funds Management, and have already begun to incorporate more input from the expanded investment team. We look forward to further engaging with investors in articulating our investment process and the favourable opportunity set we see going forward.

Once again, we thank you for your investment with VG8.

Yours faithfully,

Regal Partners

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