

Future Generation Investment Company Limited (FGX)

Listed Managed Investments

March 2018 Quarterly Review

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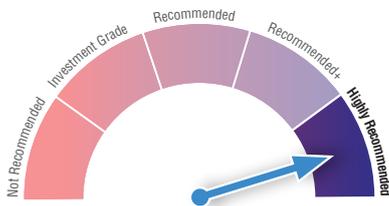
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Rating



LMI Type

Listed investment company

Investment Area

Australia

Investment Assets

Managed Funds

Investment Sectors

Diversified

Key Investment Information

Price (\$) as at 5 June 2018	1.23
Market cap (\$M)	432.2
Shares on issue (M)	351.4
Options on issue (M)	0.0
Shares traded (\$M p.a)	113.1
12-month L/H (\$)	1.07/1.265
Listing date	September 2014

Fees*

Management Fee (%)	0.0
Performance incentives (%)	0.0

*There are no management or performance fees associated with the company. All services from the underlying funds forgo management and performance fees.

Premium/Discount to Pre-tax NTA

As at 31 March 2018	-3.6%
3 year average	-2.4%

Dividend Yield

	%
CY14	na
CY15	1.72ff
CY16	3.42ff

Largest Shareholders

	%
HSBC Custody Nominees (Australia) Limited	10.1
Pineross Pty Ltd	2.6

As at 31 March 2018

COMPANY OVERVIEW

Future Generation Investment Company Limited (ASX:FGX) listed on the ASX in September 2014. The company invests in a portfolio of Australian equity fund managers who forego the management and performance fees in order to donate 1% of the average NTA in a financial year to a selection of charitable causes.

INVESTMENT OBJECTIVE

The company seeks to provide a stream of fully franked dividends, capital growth and preserve shareholder capital, as well as contribute to Australian charities with a focus on children at risk.

STYLE AND PROCESS

The company seeks to invest in a portfolio of between 15 and 25 Australian fund managers. No more than 10% of the portfolio will be allocated to an individual manager at the time of initial investment. The company will seek to be fully invested at all times with minimal cash holdings, however, this remains at the discretion of Investment Committee. The company seeks to diversify the portfolio by investment strategy, seeking to hold long only, absolute return and market neutral funds. The company has a buy and hold approach with respect to the underlying funds, with the Investment Committee selecting a portfolio of funds which they believe to be managed by good managers.

PORTFOLIO CHARACTERISTICS

The portfolio comprises 22 managed funds across 19 fund managers. The company invests in managers who have agreed to forgo their management and performance fees. The forgone fees will allow 1% of the average annual NTA to be donated to a variety of charities, with the difference between the foregone fees and donation amount flowing to shareholders. The portfolio has a bias to long only funds, with 45.5% of the invested portfolio allocated to this style of fund, with 38.2% in absolute return funds and 13.8% in market neutral funds. The largest exposure is to the Bennelong Australian Equities Fund with 10.9% of the portfolio allocated to this fund. The largest manager exposure is to Paradise Investment with 11.5% allocated to this manager across two funds. The portfolio is fully invested with a cash holding of 2.5% at 31 March 2018.

INDEPENDENT INVESTMENT RESEARCH COMMENTS

FGX provides investors an opportunity to invest in a diversified portfolio of Australian managed funds with the added benefit of contributing to charitable causes. The underlying funds will forego their management and performance fees, enabling investors to access these funds on a pre-fee basis. Any gap between the foregone fees and the annual donation will flow through to shareholders. In addition to the underlying managers not charging fees, the Directors, Investment Committee and some other service providers are providing their services free of charge. In 2017 the value of pro bono support to FGX was estimated at 1.7% of assets compared to the 1.0% donation. Since inception, total charitable donations of the fund amount to \$11.8m. The Board and Investment Committee receive a summary of underlying manager performance and contribution monthly and the Investment Committee meets formally on a quarterly basis to review managers and make changes as required. We note that some of the Board members are fund managers and have an allocation in the portfolio. The portfolio (pre-tax NTA plus dividends) outperformed the All Ordinaries Accumulation Index over the March quarter by 3.2%, falling less than the market. The portfolio has outperformed on a one and three-year basis, however is slightly lagging the market since establishment. FGX declared a final dividend of 2.2 cents per share taking FY2017 dividends to 4.4 cents per share, up from 4.1 cents per share, fully franked, in FY2016. FGX continues to trade at a discount to pre-tax NTA at March-end, although the discount narrowed over the quarter. This looks a reasonable entry point for investors seeking exposure to a well-diversified portfolio of Australian equities via a portfolio of fund managers.

STRATEGY BREAKDOWN

Strategy	%
Long only	45.5
Absolute return	38.2
Market neutral	13.8
Cash	2.5

Asset Weighting



Board of Directors

Jonathan Trollip	Chairman
Geoff Wilson	Founder and Director
Gabriel Radzysinski	Director
David Paradise	Director
David Leeton	Director
Scott Malcolm	Director
Kate Thorley	Director

Note: IIR classifies Directors that are employed by the appointed Investment Manager as Executive Directors.

Investment Committee

Geoff Wilson
Gabriel Radzysinski
Matthew Kidman
David Smythe
Bruce Tomlinson

PERFORMANCE ANALYTICS

Performance	Mar Quarter	1 year	3 year p.a	5 year p.a
Pre-tax NTA + Dividends (%)	-0.5	9.0	5.3	na
ASX All Ords Acc Index (%)	-3.7	3.6	4.4	na
Out/Under performance of index (%)	3.2	5.3	0.8	na
Share Price + Dividends (%)	0.9	5.2	5.4	na
Tracking Error (%)	2.2	3.4	6.1	na

Note: All pre-tax NTA figures are after tax on realised gains and before tax on unrealised gains.

OTHER DATA

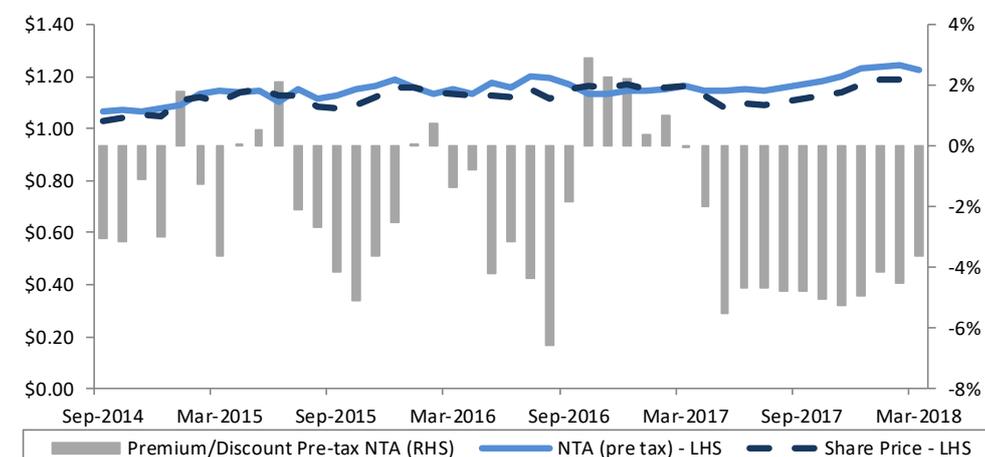
- ◆ **Dividend policy** – The company's objective is to pay fully franked dividends to shareholders provided the company has sufficient profit reserves and franking credits, and it is within prudent business practices. The company's current intention is to pay dividends semi-annually.
- ◆ **Capital management policy** – The company may undertake capital management initiatives which may involve the issue of other shares and/or the buy-back of its shares.
- ◆ **LIC tax concessions** – No.
- ◆ **DRP available** – Yes.

FGX's Portfolio Weighting

Fund	Portfolio (%)	Fund	Portfolio (%)
Bennelong Australian Equities Fund	10.9	ARCO Investment Management (Optimal Australia) Absolute Trust	3.0
Regal Australian Long Short Equity Fund	10.1	L1 Capital Australian Equities Fund	2.5
Wilson Asset Management Equity Fund	8.8	Vinva Australian Equities Fund	2.4
Tribeca Alpha Plus Fund	7.2	CBG Asset Australian Equities Fund	2.4
Watermark Market Neutral Trust	7.3	Discovery Australian Small Companies Fund	2.2
Paradise Mid Cap Fund – B Class	6.5	LHC Capital Australia High Conviction Fund	1.7
Eley Griffiths Group Small Companies Fund	5.9	The Level 18 Fund	1.7
Cooper Investors Australian Equities Fund	5.3	Smallco Broadcap Fund	1.5
Paradise Large Cap Fund	5.0	Lanyon Australian Value Fund	1.0
Sandon Capital Activist Fund	4.3	Eley Griffiths Group Emerging Companies Fund	0.9
Bennelong Long Short Equity Fund	3.5	Cash	2.5
L1 Capital Long Short Fund – Retail Class	3.4		

Source all figures: FGX/Independent Investment Research/IRESS.
All data as at 31 March 2018 unless otherwise specified.

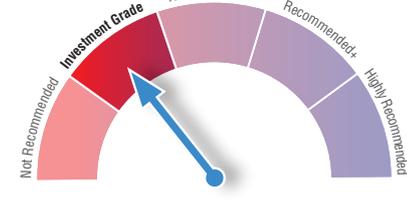
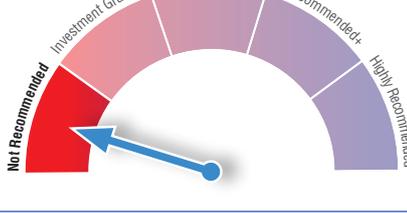
NTA & Share Price Performance



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

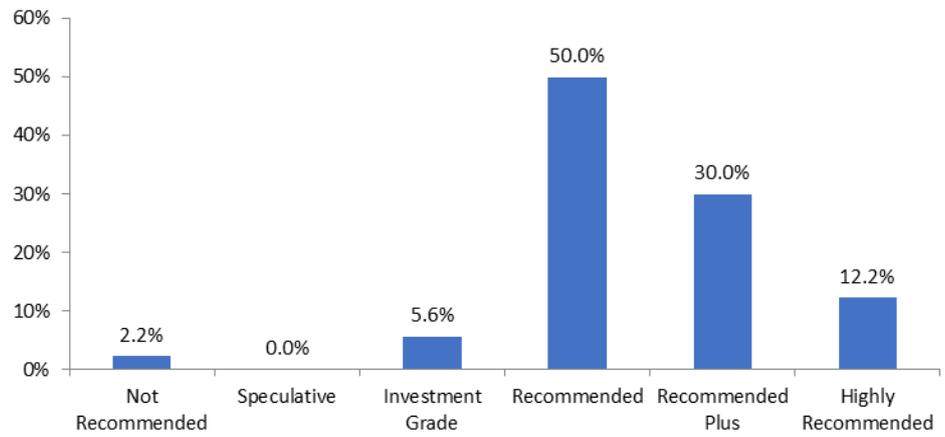
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p>Recommended +</p> 	<p>79–83</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p>Recommended</p> 	<p>70–79</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p>Investment Grade</p> 	<p>60–70</p> <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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