

# Investment Update & Net Tangible Assets Report

As at 30 September 2016



**FUTURE GENERATION**  
INVESTMENT COMPANY

## Net Tangible Assets (NTA) figures

NTA before tax	117.57c
NTA after tax and before tax on unrealised gains	117.17c
NTA after tax	116.37c

The exercising of 90,491,395 options during September reduced the pre-tax NTA by 2.54 cents per share

## Portfolio

In September, the portfolio increased 0.6% outperforming the S&P/ASX All Ordinaries Accumulation Index, which rose 0.4%. In the 12 months to 30 September 2016, FGX's investment portfolio has increased 15.2%, outperforming the benchmark with less volatility as measured by standard deviation, 8.0% versus the market's 13.5%.

The allocation to the managers has been structured to provide a spread between three broad equity strategies: long equities, absolute bias, market neutral and cash. The company is currently 37.4% long equities, 21.4% absolute bias, 13.8% market neutral and 27.4% cash. We are part-way through the process of allocating monies raised from the exercise of options.

## Key fully franked dividend dates

In July the Company announced a fully franked final dividend of 2.0 cents per share. This brought the full year fully franked dividend to 4.0 cents per share. The final dividend traded ex on 10 October and will be paid on 21 October 2016.

## Shareholder presentations

Beginning Wednesday 16 November in Adelaide, we will be holding nationwide shareholder presentations for the Future Generation companies. For full details and to RSVP, click [here](#) or visit our website.

## Annual donation

FGX has now paid its charitable donations for the 2016 financial year, which totalled \$2.29 million.

## Option Issue – Expired on 16 September 2016

The Company raised a total of \$179,768,729 through the option issue. These options expired on 16 September 2016 with 163,426,117 options (89.9%) exercised.

## Future Generation Investment Company Limited

ASX Code	FGX
Established	Sept 2014
Gross assets	\$412.1m
Market cap	\$400.0m
Share price	\$1.15
Net assets per share (before tax)	\$1.18
Shares on issue	347,806,308
Management fees	0.0%
Performance fees	0.0%
Annual donation (% of NTA)	1.0%
Fully franked dividends (FY2016)	4.0c
Fully franked dividend yield	3.5%

## Investment objectives

- Provide a stream of fully franked dividends
- Achieve capital growth
- Preserve shareholder capital

## Company overview

Future Generation Investment Company Limited gives investors the opportunity to gain unprecedented access to a group of prominent Australian fund managers in a single investment vehicle and also support Australian charities, with a focus on children and youth at risk.

## Chairman

Jonathan Trollip

## Founder and Director

Geoff Wilson

## Directors

Paul Jensen  
Gabriel Radzysinski  
Kate Thorley  
David Leeton  
Scott Malcolm  
David Paradise

## Investment Committee

Geoff Wilson, Gabriel Radzysinski, Matthew Kidman, Bruce Tomlinson, and David Smythe

## Chief Executive Officer

Louise Walsh

## Company Secretary

Mark Licciardo

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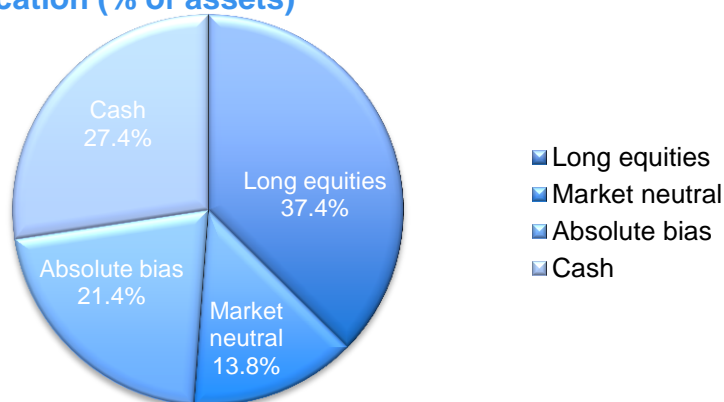
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Fund manager	Investment	Strategy	% of assets
Regal Funds Management	Regal Australian Long Short Equity Fund	Long equities	9.1%
Wilson Asset Management (International)	Wilson Asset Management Equity Fund	Absolute bias	8.3%
Watermark Funds Management	Watermark Absolute Return Fund	Market neutral	7.3%
Paradice Investment	Large/Mid Cap Funds (split out below)		6.9%
	Paradice Australian Equities Mid Cap Fund	Long equities	3.9%
	Paradice Large Cap Fund	Long equities	3.0%
Bennelong Australian Equities Partners	Bennelong Australian Equities Fund	Long equities	6.5%
Eley Griffiths Group	Eley Griffiths Group Small Companies Fund	Long equities	5.5%
Tribeca Investment Partners	Tribeca Alpha Plus Fund	Absolute bias	4.5%
Sandon Capital	Sandon Capital Activist Fund	Absolute bias	3.9%
Cooper Investors	Cooper Investors Australian Equities Fund	Long equities	3.3%
Bennelong Long Short Equity Management	Bennelong Long Short Equity Fund	Market neutral	3.1%
Optimal Fund Management Australia	Optimal Australia Absolute Trust	Market neutral	2.8%
CBG Asset Management	CBG Asset Australian Equities Fund	Long equities	2.3%
Discovery Asset Management	Discovery Australian Small Companies Fund	Long equities	2.2%
LHC Capital	LHC Capital Australia High Conviction Fund	Absolute bias	2.1%
Smallco Investment Manager	Smallco Broadcap Fund	Long equities	1.6%
Centennial Asset Management	The Level 18 Fund	Absolute bias	1.6%
Lanyon Asset Management	Lanyon Australian Value Fund	Absolute bias	1.0%
Qato Capital	Qato Capital Market Neutral L/S Fund	Market neutral	0.6%
	Cash and Term Deposits	Cash	27.4%

## Investment strategy allocation (% of assets)



**Long equities** – investing in a portfolio of equities based on the expectation that the underlying equities will increase in value within a certain time horizon. Each equity represents an ownership claim in an underlying company which is generally listed on a public stock exchange.

**Market neutral** – an investment strategy that generally involves the simultaneous purchase and sale of equities, to generate returns that are not linked to the performance of underlying equity markets.

**Absolute bias** – an investment strategy that seeks to generate returns, irrespective of the performance of traditional asset classes. These strategies use innovative investment techniques to profit from rising and falling markets, providing portfolio protection in the event an equity market experiences a significant fall.

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## Fund manager in focus: Bennelong Australian Equities Partners

### About Bennelong Australian Equities Partners



Bennelong Australian Equity Partners (BAEP) is a boutique fund manager focused on Australian equities. It was founded in 2008 in partnership with Bennelong Funds Management and is based in Sydney. Today, BAEP manages over \$5 billion on behalf of retail and institutional clients. This includes across four Australian equities funds: the Bennelong Australian Equities Fund, the Bennelong Concentrated Australian Equities Fund, the Bennelong ex-20 Australian Equities Fund, and the Bennelong Twenty20 Australian Equities Fund. BAEP is comprised of seven highly experienced investment professionals who have a combined 140 years of investment experience.

### Our investment style

BAEP is a long only, active fund manager. Its investment approach relies on fundamental analysis that seeks to identify ASX-listed stocks with the most favourable risk-return dynamics. BAEP focuses on high quality, strongly growing companies. The firm believes that stock prices are discounting mechanisms, meaning that share prices simply reflect the market's expectations of a company's future prospects, and in particular in relation to its earnings. Reflecting this, the firm believes that to achieve investment outperformance, one should aim to hold stocks whose earnings outperform the market's expectations. Thus, BAEP is particularly interested in companies that it believes have earnings momentum and growth prospects that are underappreciated by the market.

In order to derive a differentiated view necessary to identify these types of company, BAEP adopts a research-intensive investment process that goes beyond the traditional fundamental analysis. BAEP's process is based around an extensive program of company meetings and industry contact, as well as other proprietary field research. Research efforts at the individual stock level are also supported by macroeconomic and quantitative analysis and insights, with a particular aim of highlighting risks and opportunities, and the firm has dedicated expertise within the investment team to provide this.

BAEP builds its portfolios one stock at a time but with an appreciation of any macro or other risks at the broader portfolio level. The inclusion and weight of any particular stock within the portfolio will depend on the firm's view of its potential downside risk and upside return. This risk-return dynamic is assessed by reference to a number of factors, including importantly, the company's ability to deliver or outperform against earnings expectations. BAEP's portfolios tend to comprise of 25-35 high conviction ideas and deviate quite significantly from the benchmark.

### Our market outlook

Perhaps surprisingly, the Australian equity market has performed strongly over the last 12 months to 30 September 2016, returning 13.5%. One suspects these returns have benefited from some element of bring-forward from the future. Nevertheless, the equity market presents some attractive opportunities that are poised to offer decent returns over prudent holding periods. In the context of a low rate environment, the equity market appears to trade on relatively attractive valuation metrics. Specifically, the S&P/ASX 300 Index trades on a forward PE multiple of 16.5x and a grossed up yield of just under 6%. However, this is based on expectations of strong earnings growth of almost 11%. Delivery against these quite lofty expectations will be key, and at this stage appears quite challenging. Some companies will be able to deliver but many will not. Earnings momentum broadly across non-resources companies is weakening considerably. In our view, it will be necessary to remain selective, focusing on those companies that can deliver on or outperform expectations, whether that be because they are currently set low, or because the business quality or momentum will see them through.

### Returns to 30 September 2016

	1 Yr	3 Yrs % pa	5 years % pa	Since inception** %pa
Fund	15.6%	7.35%	14.42%	13.81%
Benchmark*	13.5%	6.03%	11.02%	10.61%
<b>Value added</b>	<b>+2.10%</b>	<b>+1.32</b>	<b>+3.4%</b>	<b>+3.2%</b>

Performance figures are net of fees and expenses. 'Value added' calculation does not use rounded performance figures.

\*S&P/ASX 300 Accumulation Index

\*\*Inception date is January 2009

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## Charity in focus: Giant Steps

### About Giant Steps

Established in 1995, Giant Steps operates an early intervention program, a school-aged program, a college for young adults with autism as well as outreach and training programs. It was established to offer much needed services to cater specifically for individuals with autism. Due to high demand, Giant Steps Melbourne was opened earlier this year. Giant Steps strives to be recognised as a centre of excellence for the creation, implementation and dissemination of innovative and effective programs and services for individuals with autism and their families. With financial support from FGX, Giant Steps is embarking on an innovative and exciting project to develop an expressive communication system for every student. Data is being collected on each student's current communication preferences and style. Goals for each student will be established using the Goal Attainment Scale and progress tracked against these goals.



All students in the school will use socially appropriate behaviour, including speech, exchanging pictures or objects, writing, pointing and using other gestures and functional signs, typing and using picture or text to speech output on high-tech devices to communicate their needs and wants with others. Students will have the ability to repair communication if it breaks down by drawing on a number of communication modalities, just like when we cannot get a message across because it is too loud, we might write it down or gesture instead. By providing students with a more meaningful and appropriate way of communicating, the need for students to use physical or self-injurious behaviour such as hitting, kicking and biting as a way of expressing frustration, saying 'no' or seeking attention should be significantly reduced.

In addition, the information and strategies we use to successfully implement this school wide project will be disseminated to other speech pathologists, teachers and special school environments across Australia in order to better support the needs of individuals with complex communication needs.

### Q&A with Kerrie Nelson, Principal

#### What is your driving motivation in your current role?

I believe that every child should be given an equal chance in life and the best possible opportunity to succeed. I am a passionate advocate for children and young adults with autism and their families and I want to ensure that Giant Steps is a world leading organisation, inspiring innovation and excellence in all that we do.

#### 2. What is the most challenging aspect of your role?

Giant Steps has a very high student to staff ratio and managing the complexities around staffing and training and compliance within our legislative framework is certainly very challenging.

#### 3. What does it mean to have the support of FGX?

The relationship Giant Steps has with FGX goes so much deeper than just a financial donation. Being aligned with such a highly regarded and professional organisation affirms the work that we do and the quality of our services. This partnership motivates us to continue to strive for excellence and achieve results that are above and beyond our expectations.



For further information, visit: <http://www.giantsteps.net.au>

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## Fund Managers



## Charities



## Service Providers

