

# Investment Update & Net Tangible Assets Report

As at 31 May 2017



**FUTURE GENERATION**  
INVESTMENT COMPANY

## Net Tangible Assets (NTA) figures

NTA before tax	114.29c
NTA after tax and before tax on unrealised gains	114.29c
NTA after tax	113.46c

## Portfolio

In May, the FGX portfolio performed solidly, outperforming the S&P/ASX All Ordinaries Accumulation Index by 2.2%. The FGX portfolio has outperformed the market cumulatively by 4.9% in the four negative months since July 2016. Since inception, the investment portfolio has increased 8.6% per annum, outperforming the benchmark by 3.0%. The investment portfolio's outperformance has been achieved with less volatility as measured by standard deviation, 7.2% versus the market's 13.5%.

The spread between the three broad equities is 40.9% long equities, 36.3% absolute bias, 14.5% market neutral and 8.3% cash.

Fund manager	Investment	Strategy	% of assets
	Large/Mid Cap Funds (split out below)		11.0%
Paradice Investment	Paradice Australian Equities Mid Cap Fund	Long equities	6.1%
	Paradice Large Cap Fund	Long equities	4.9%
Bennelong Australian Equities Partners	Bennelong Australian Equities Fund	Long equities	10.4%
Regal Funds Management	Regal Australian Long Short Equity Fund	Absolute bias	9.0%
Wilson Asset Management	Wilson Asset Management Equity Fund	Absolute bias	8.5%
Watermark Funds Management	Watermark Absolute Return Fund	Market neutral	7.6%
Tribeca Investment Partners	Tribeca Alpha Plus Fund	Absolute bias	7.1%
	Small/Emerging Companies Funds (split out below)		5.7%
Eley Griffiths Group	Eley Griffiths Group Small Companies Fund	Long equities	5.0%
	Eley Griffiths Group Emerging Companies Fund	Long equities	0.7%
Cooper Investors	Cooper Investors Australian Equities Fund	Long equities	5.3%
Sandon Capital	Sandon Capital Activist Fund	Absolute bias	4.2%
Bennelong Long Short Equity Management	Bennelong Long Short Equity Fund	Market neutral	3.4%
Optimal Fund Management Australia	Optimal Australia Absolute Trust	Market neutral	2.9%
L1 Capital	L1 Capital Long Short Fund – Retail Class	Absolute bias	2.9%
CBG Asset Management	CBG Asset Australian Equities Fund	Long equities	2.5%
Vinva Investment Management Limited	Vinva Australian Equities Fund	Long equities	2.4%
Discovery Asset Management	Discovery Australian Small Companies Fund	Long equities	2.0%
LHC Capital	LHC Capital Australia High Conviction Fund	Absolute bias	1.8%
Centennial Asset Management	The Level 18 Fund	Absolute bias	1.7%
Smallco Investment Manager	Smallco Broadcap Fund	Long equities	1.6%
Lanyon Asset Management	Lanyon Australian Value Fund	Absolute bias	1.1%
Qato Capital	Qato Capital Market Neutral L/S Fund	Market neutral	0.6%
	Cash and Term Deposits		8.3%

## Future Generation Investment Company Limited

ASX Code	FGX
Established	Sept 2014
Gross assets	\$403.1m
Market cap	\$377.6m
Share price	\$1.080
Net assets per share (before tax)	\$1.143
Shares on issue	349,663,801
Management fees	0.0%
Performance fees	0.0%
Annual donation (% of NTA)	1.0%
Annualised fully franked dividends (FY2017)	4.2c
Fully franked dividend yield	3.9%

## Investment objectives

- Provide a rising 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

David Leeton  
David Paradice  
Gabriel Radzyminski  
Kate Thorley  
Scott Malcolm

## Investment Committee

Bruce Tomlinson  
David Smythe  
Gabriel Radzyminski  
Geoff Wilson  
Matthew Kidman

## Chief Executive Officer

Louise Walsh

## Company Secretary

Mark Licciardo

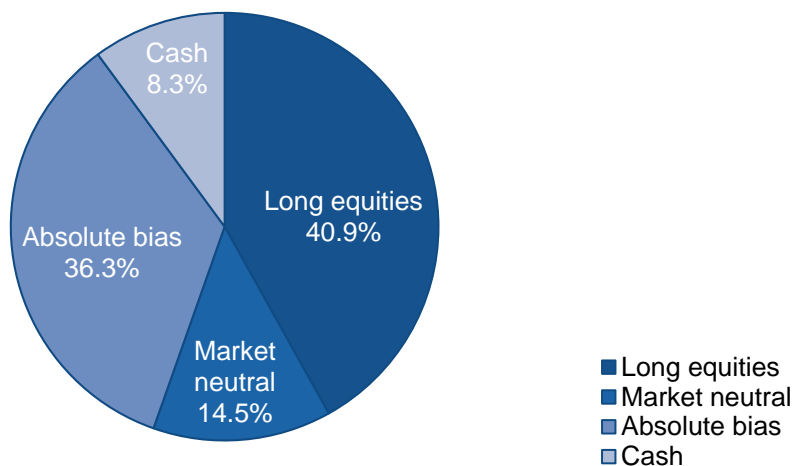
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## Investment strategy allocation (% of assets)

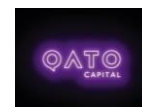


**Long equities** – investing in a portfolio of equities based on the expectation that the underlying equities will increase in value within a certain time horizon. Each equity represents an ownership claim in an underlying company which is generally listed on a public stock exchange.

**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.

## Fund Managers



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## Charities



## Service Providers



## Fund manager in focus: Watermark Funds Management

Watermark is a boutique hedge fund manager, founded in 2004 by Justin Braithling. As a specialist market neutral investor, Watermark uses its skill and experience in identifying mispriced securities to construct long and short portfolios populated with its best investment ideas.



### Investment style - Equity Market Neutral

By constructing two portfolios of roughly equal size and composition, Watermark ensures that its market neutral funds have little or no net exposure to the share market. The return in a market neutral strategy emerges when the long portfolio outperforms the short portfolio, creating a positive differential or 'spread'. Watermark employs a fundamental research process to identify strong, well-managed companies that it will look to buy on occasions when the shares are undervalued. Similarly, it will look to short-sell the shares of low-quality businesses when they are overvalued. Fund returns will be determined entirely by the extent to which the 'winners' or longs, do better than the 'losers' or shorts, with no correlation to the return from the broader share market.

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## Market Outlook

One luxury afforded a market neutral investor is that we need not spend our time trying to decipher where share markets are headed. With no net exposure to the share market, returns from Watermark's funds will ultimately be determined by our ability to pick the correct 'winners and 'losers'. Having said that, we see several risks ahead for share markets, which are reflected first and foremost in their price. Over the nine years since the GFC, risk assets such as shares have benefitted from ultra-easy monetary policy and coordinated stimulus from Central Banks. Not surprisingly, the prices of risk assets following this reflation phase are high, which makes them risky. Irrespective of whether the global economy can withstand deflationary pressures, geopolitical instability and the withdrawal of stimulus by Central Banks, we expect that returns from shares will be low in the medium-term.

## Watermark Fund Management Performance

Watermark Market Neutral Trust performance has been stable in recent months, despite a challenging environment for stock pickers.

Our strategies rely on being able to find dispersions between the share prices of high quality and low-quality companies, within and across sectors. With volatility in the share market languishing at very low levels and sentiment being driven to a large extent by macroeconomic factors, dispersions have been compressed, limiting our opportunity set. Fortunately, with a broad investment universe that includes international shares, our team have been able to apply their fundamental research process in identifying a range of compelling opportunities. Given the fund's hedged position, and track-record of strong performance in falling markets, we are well placed to deal with the challenges that may lay ahead.

A more comprehensive analysis of fund performance and our views on the outlook for shares can be found in the recent edition of our quarterly report – [The Leading Edge](#).

	1 Mth	6 Mths	Financial YTD	1 Yr	2 Yrs (p.a)	Since inception (p.a)
WMNT (net return)	0.6%	1.8%	2.3%	4.1%	11.3%	12.7%
RBA Cash Rate	0.1%	0.8%	1.4%	1.6%	1.8%	2.3%
<b>Outperformance</b>	<b>0.5%</b>	<b>1.0%</b>	<b>0.9%</b>	<b>2.5%</b>	<b>9.5%</b>	<b>10.4%</b>

For more information on Watermark, please visit <http://wfunds.com.au/>.

## Charity in focus: United Way Australia



### About United Way Australia

United Way Australia (UWA) brings communities, business, philanthropy, government and social purpose organisations together to ensure every Australian community thrives. We believe the postcode people are born into should not determine their destiny, and the evidence is clear that no single organisation can solve the complexities underlying community disadvantage alone. We work collaboratively in 35 communities to improve education and employment for families and communities experiencing disadvantage.

### United Way Australia and FGX

FGX is a vital partner in our early childhood initiatives, supporting 300 vulnerable children at risk of starting school developmentally vulnerable, in Acacia Ridge QLD, Mount Druitt NSW, Doveton VIC and children living in Out of Home Care in VIC.

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This early intervention builds the skills children need to start school prepared to learn and thrive through:

1. **Book distribution** – providing 0-5 year-olds with free monthly home-delivered books through Dolly Parton's Imagination Library (DPIL).
2. **Supporting parent behaviour change** – providing parents and carers with resources and opportunities to support them as their child's first teacher.
3. **Community mobilisation** – working collaboratively with early years' service providers, communities, educators, local government and business to develop shared goals, avoid duplication and improve outcomes for local families.

This initiative is making a huge difference to children and their families with survey feedback showing:

- More than 85% of parents/carers report a positive difference to reading with their children.
- More than 90% of parents/carers report using the books to increase children's general knowledge, numbers, sounds, shapes and rhyming.

## Q&A interview with Clayton Noble, CEO

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

I joined United Way as CEO because I wanted to be part of an organisation that creates sustainable social change. My motivation is to connect like-minded people and organisations across diverse sectors to improve outcomes for communities. There are many people in the private, public and social purpose sectors wanting to personally help to create brighter futures for people in communities of disadvantage. I see this 'coming together' happening every day and it gives me great satisfaction to be part of creating integrated solutions.



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

The social purpose sector, governments, businesses, funders and communities all know that key indicators of communities thriving are not improving in Australia despite many decades of funding, programs and good intentions. We all know that we need to do things differently, and that means it is not business as usual, which can be confronting. Funding real social change requires a deep understanding that sustainable social change takes time, and must be driven by communities. Only some funders appreciate this complexity and necessity, but not all. Funding sustainable social change, the work that United Way does, is challenging.

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

FGX is a crucial partner for United Way, deeply understanding the complexity of social change and the importance of funding stability to drive lasting positive outcomes. FGX's support enables our team to engage communities that are often 'unheard' or 'misunderstood' and ensure their voice, their aspirations, concerns and strengths, are at the table to guide our collaborative work. Through building a movement that starts with and is driven by communities themselves, we are beginning to see the dial move for some of Australia's most complex social issues.

For more information about United Way Australia, visit [www.unitedway.com.au](http://www.unitedway.com.au).