Investment update

As at 31 May 2018
Future Generation Investment Company Limited

ASX code FGX
Date of listing Sept 2014
Gross assets $444.6m
Market cap $435.7m
Share price $1.24
NTA before tax $1.25
Shares on issue 361,149,703
Management fees 0.0%
Performance fees 0.0%
Annual donation (% of NTA) 1.0%
Fully franked dividends 4.4c
Fully franked dividend yield 35%

Investment objectives
- Provide an increasing stream of fully franked dividends
- Achieve capital growth
- Preserves shareholder capital

Company overview
Future Generation Investment Company Limited (ASX: FGX) provides:
Shareholders with exposure to the best Australian fund managers without paying management or performance fees
Charities focused on children and youth at risk with a stream of annual donations
Fund managers with a unique opportunity to make a positive difference to Australia’s future generations.

Chairman
Jonathan Trollip
Founder and Director
Geoff Wilson AO
Chief Executive Officer
Louise Walsh
Directors
David Leeton
David Paradice AO
Gabriel Radzynski
Kate Thorley
Scott Malcolm
Investment Committee
Geoff Wilson AQ Chair
Bruce Tomlinson
David Smythe
Gabriel Radzynski
Matthew Kidman
Company Secretary
Mark Liciardi

Investment portfolio
In May, the FGX investment portfolio outperformed the S&P/ASX All Ordinaries Accumulation Index by 0.7%. The investment portfolio increased 2.1% while the Index rose 1.4%. Since inception, the investment portfolio has increased 106% per annum, outperforming the benchmark by 37%. The investment portfolio’s outperformance has been achieved with less volatility as measured by standard deviation, 6.6% versus the market’s 11.1%.
The spread between the three broad equities is 55.4% long equities, 27.9% absolute bias, 13.7% market neutral and 3.0% cash.

Net tangible asset (NTA) figures

<table>
<thead>
<tr>
<th>NTA before tax</th>
<th>125.41c</th>
</tr>
</thead>
<tbody>
<tr>
<td>NTA after tax and before tax on unrealised gains</td>
<td>125.58c</td>
</tr>
<tr>
<td>NTA after tax</td>
<td>121.81c</td>
</tr>
</tbody>
</table>

Future Generation Investment Forum recording
Australia’s top fund managers each presented a stock idea at the Future Generation Investment Forum in Sydney last month to a full house of almost 1,000 attendees with an additional 4,660 people live streaming the event.

If you missed our Investment Forum in Sydney, you can view the presentation recording and slides here. The next Investment Forum will be hosted in Melbourne during November – we will announce the date soon.

Defending the current dividend imputation system
The Federal Opposition has proposed changes to the current dividend imputation system. We firmly oppose these changes and are supporting Wilson Asset Management’s campaign to call on the Commonwealth Government and Federal Opposition to maintain the status quo. We believe it is unfair to change the rules for self-funded retirees, older workers and low income earners. You can show your support for the current system by signing the Wilson Asset Management petition to maintain the momentum Wilson Asset Management are currently consulting with shareholders and industry participants, and we will submit the petition along with a policy paper explaining the importance of the current system.
## Fund manager allocations

<table>
<thead>
<tr>
<th>Fund manager</th>
<th>Investment</th>
<th>Strategy</th>
<th>% of portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paradice Investment</td>
<td>Large/Mid Cap Funds (split out below)</td>
<td>Long equities</td>
<td>11.8%</td>
</tr>
<tr>
<td></td>
<td>Paradice Mid Cap Fund – B Class</td>
<td>Long equities</td>
<td>6.6%</td>
</tr>
<tr>
<td></td>
<td>Paradice Large Cap Fund</td>
<td>Long equities</td>
<td>5.2%</td>
</tr>
<tr>
<td>Bennelong Australian Equities Partners</td>
<td>Bennelong Australian Equities Fund</td>
<td>Long equities</td>
<td>11.8%</td>
</tr>
<tr>
<td>Regal Funds Management</td>
<td>Regal Australian Long Short Equity Fund</td>
<td>Long equities</td>
<td>10.2%</td>
</tr>
<tr>
<td>Wilson Asset Management</td>
<td>Wilson Asset Management Equity Fund</td>
<td>Absolute bias</td>
<td>8.8%</td>
</tr>
<tr>
<td>Tribeca Investment Partners</td>
<td>Tribeca Alpha Plus Fund</td>
<td>Absolute bias</td>
<td>7.3%</td>
</tr>
<tr>
<td>Watermark Funds Management</td>
<td>Watermark Market Neutral Trust</td>
<td>Market neutral</td>
<td>7.1%</td>
</tr>
<tr>
<td>Eley Griffiths Group</td>
<td>Small/Emerging Companies Funds (split out below)</td>
<td>Long equities</td>
<td>7.1%</td>
</tr>
<tr>
<td></td>
<td>Eley Griffiths Group Small Companies Fund</td>
<td>Long equities</td>
<td>6.1%</td>
</tr>
<tr>
<td></td>
<td>Eley Griffiths Group Emerging Companies Fund</td>
<td>Long equities</td>
<td>1.0%</td>
</tr>
<tr>
<td>L1 Capital</td>
<td>L1 Short/Aus Equities Funds (split out below)</td>
<td>Absolute bias</td>
<td>5.7%</td>
</tr>
<tr>
<td></td>
<td>L1 Capital Long Short Fund – Retail Class</td>
<td>Absolute bias</td>
<td>3.2%</td>
</tr>
<tr>
<td></td>
<td>L1 Capital Australian Equities Fund</td>
<td>Long equities</td>
<td>2.5%</td>
</tr>
<tr>
<td>Cooper Investors</td>
<td>Cooper Investors Australian Equities Fund</td>
<td>Long equities</td>
<td>5.3%</td>
</tr>
<tr>
<td>Sandon Capital</td>
<td>Sandon Capital Activist Fund</td>
<td>Absolute bias</td>
<td>4.3%</td>
</tr>
<tr>
<td>Bennelong Long Short Equity Management</td>
<td>Bennelong Long Short Equity Fund</td>
<td>Market neutral</td>
<td>3.7%</td>
</tr>
<tr>
<td>ARCO Investment Management</td>
<td>ARCO Investment Management (Optimal Australia)</td>
<td>Market neutral</td>
<td>2.9%</td>
</tr>
<tr>
<td>Vinva Investment Management Limited</td>
<td>Vinva Australian Equities Fund</td>
<td>Long equities</td>
<td>2.5%</td>
</tr>
<tr>
<td>CBG Asset Management</td>
<td>CBG Asset Australian Equities Fund</td>
<td>Long equities</td>
<td>2.5%</td>
</tr>
<tr>
<td>Centennial Asset Management</td>
<td>The Level 18 Fund</td>
<td>Absolute bias</td>
<td>1.7%</td>
</tr>
<tr>
<td>LHC Capital</td>
<td>LHC Capital Australia High Conviction Fund</td>
<td>Absolute bias</td>
<td>1.7%</td>
</tr>
<tr>
<td>Smallico Investment Manager</td>
<td>Smallico Broadcap Fund</td>
<td>Long equities</td>
<td>1.6%</td>
</tr>
<tr>
<td>Lanyon Asset Management</td>
<td>Lanyon Australian Value Fund</td>
<td>Absolute bias</td>
<td>1.0%</td>
</tr>
<tr>
<td></td>
<td>Cash and Term Deposits</td>
<td></td>
<td>3.0%*</td>
</tr>
</tbody>
</table>

*During the month, FOX redeemed its holding in the Discovery Australian Small Companies Fund. The proceeds from the redemption are included in the cash and term deposits balance at the end of the month.

## Investment strategy allocation

### 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. The long equities portion of the portfolio includes exposure to large-cap, mid-cap and small-cap stocks.

### 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 (including but not limited to short selling and leveraging) to profit from rising and falling markets, providing portfolio protection in the event an equity market experiences a significant fall.
Pro bono fund managers
Fully franked dividends

The Board is committed to paying an increasing stream of fully franked dividends to shareholders, provided the Company has sufficient profit reserves, franking credits and it is within prudent business practices. Since inception, FGX has paid 12.5 cents per share in fully franked dividends to shareholders.

Fully franked dividends since inception

cents per share

![Bar chart showing dividends for 2014/15, 2015/16, and 2016/17]
Fund manager in focus: Wilson Asset Management

Wilson Asset Management is the investment manager for WAM Capital, WAM Leaders, WAM Global, WAM Microcap, WAM Research, WAM Active, and Century Australia; and the creator and lead supporter of Future Generation Investment Company and Future Generation Global Investment Company.

Investing with Wilson Asset Management provides investors with:
Risk-adjusted returns. Wilson Asset Management is focused on delivering strong returns while taking the least risk possible to protect shareholders’ capital. Our flexible mandate allows for above average cash holdings.

Deep diversification. LICs managed by Wilson Asset Management generally hold small positions in many companies, providing shareholders with access to highly diversified portfolios.

Experienced experts. Wilson Asset Management’s investment team has a total focus on protecting and growing shareholder capital and is informed by more than 100 years of combined equity market experience.

Full market access. Wilson Asset Management’s investment team hold more than 2,500 company meetings each year, that coupled with their extensive network in the market, provides insight, intelligence and opportunities.

Transparency. Wilson Asset Management values shareholder engagement and its LICs adhere to strict corporate governance requirements.

Shareholder advocacy. Wilson Asset Management regularly and actively engages in public debate on behalf of self-managed superannuation funds and retail investors.

A positive impact to the community. Wilson Asset Management is passionate about making a difference to the broader community.

Market outlook
As the 2018 financial year approaches its end, domestic economic growth remains sluggish. The Reserve Bank of Australia (RBA) has been balancing its relatively optimistic forecast for economic growth against high household debt and weak wages growth, resulting in 20 consecutive ‘no change’ decisions on interest rates. Unless the buoyant mining sector assists higher levels of inflation, we do not anticipate interest rate increases in the short term.

Globally, economic growth continues, with the International Monetary Fund maintaining its positive outlook, forecasting 3.9% global growth in 2018, the best annual rate since 2011. As an active fund manager, we believe recent volatility experienced across global equity markets, combined with robust economic growth, presents attractive investment opportunities.

Performance

<table>
<thead>
<tr>
<th></th>
<th>FYTD</th>
<th>1 yr</th>
<th>3 yrs % pa</th>
<th>5 yrs % pa</th>
<th>10 yrs % pa</th>
<th>Since inception % pa (Jan 1998)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wilson Asset Management Equity Fund*</td>
<td>13.5%</td>
<td>15.6%</td>
<td>15.9%</td>
<td>16.8%</td>
<td>14.1%</td>
<td>21.7%</td>
</tr>
<tr>
<td>S&amp;P/ASX All Ordinaries Accumulation Index</td>
<td>10.5%</td>
<td>10.8%</td>
<td>6.4%</td>
<td>9.1%</td>
<td>5.1%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Outperformance</td>
<td>+3.0%</td>
<td>+4.8%</td>
<td>+9.5%</td>
<td>+7.7%</td>
<td>+9.0%</td>
<td>+13.1%</td>
</tr>
</tbody>
</table>

*Investment performance and index returns are before expenses, fees and taxes.
Charity in focus: Variety – the Children’s Charity

About Variety – the Children’s Charity

At Variety - the Children’s Charity we believe all Australian children deserve a fair go in life. This is why we support children who have a disability, chronic illness, who are facing geographic isolation, financial hardship or require critical care.

Our work for children includes granting equipment and experiences, giving scholarships, running programs, providing support services and holding events.

In 2017, Variety NSW/ACT:

- Directly impacted the lives of 27,422 children
- Granted $3.9m worth of equipment and experiences to children in need
- Supported children with 200 different conditions

Variety and FGX

The Variety Just Like You program, supported through FGX funding, helps the 37% of children with a disability who find it challenging to fit in socially at school.

It is made up of face-to-face workshops that change the way young people think about and act towards people with a disability. Each student participates in two workshops, delivered one to two weeks apart. In the first workshop, students are introduced to a concept relating to disability, such as the notion of hidden disability, physical versus mental disabilities, the use of appropriate language and terminology around disability, or the importance of social inclusion.

The workshops are delivered by trained, professional facilitators, each of whom is a person living with a disability. These facilitators go into schools and work with primary school classes (15-30 students), delivering interactive and engaging sessions that allow students to explore their beliefs, attitudes and behaviours.

Workshops are currently available in the Sydney metropolitan region, Newcastle/Hunter in NSW and Canberra.

In the short term, the program focuses on building students’ knowledge, skills and self-efficacy around interacting with children with a disability. It also aims to positively affect their beliefs and attitudes.

The program aims to achieve greater levels of inclusion and acceptance, lower levels of bullying and exclusion, and better health and social outcomes for children living with a disability.

Each year around 15,000 students participate in the program.

For more information, visit variety.org.au/nsw

Q&A with David Sexton, CEO of Variety the Children’s Charity

What impact does the FGX funding have on your organisation?

Studies have shown that children with a disability experience bullying at a disproportionate rate. The Variety Just Like You program helps to address the issue through a series of free and fun workshops which aim to build understanding, acceptance and inclusion of those living with a disability. The workshops are designed to help build empathy in children.

What is the biggest challenge for the organisation?

A key focus of our organisation is ensuring that families who need our help are aware of Variety and the work we do. There are still many families in need who don’t know that we are here ready and able to help them. Whether they have a child who is sick, living with a disability or disadvantaged, there are many ways that we can assist them including through our grants, scholarships, services and of course, programs like Variety Just Like You. We also run many events that help to build a sense of community by connecting families who are experiencing similar challenges.

What is a burning issue in the area you operate in?

The NDIS has been described as the most significant social reform since Medicare was introduced. With its roll out across the country, many families that contact us are unsure where they fit in to the scheme and say they are not getting the funding they need for essential support and services. For the families that we help, being able to access the support they need in a timely manner is really important. The difference that a new wheelchair or piece of mobility equipment can make in the life of a child living with disability, and their family, is significant. In an environment that is continuously changing, it is important to have organisations like Variety, who step in where there is unmet need and help fill the gaps.