

AUSTRALIAN

# RESEARCH

INDEPENDENT INVESTMENT RESEARCH

## Future Generation Global Investment Company Limited (FGG)

Listed Managed Investments

March 2018 Quarterly Review

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Independent Investment Research, "IIR", is an independent investment research house based in Australia and the United States. IIR specialises in the analysis of high quality commissioned research for Brokers, Family Offices and Fund Managers. IIR distributes its research in Asia, United States and the Americas. IIR does not participate in any corporate or capital raising activity and therefore it does not have any inherent bias that may result from research that is linked to any corporate/ capital raising activity.

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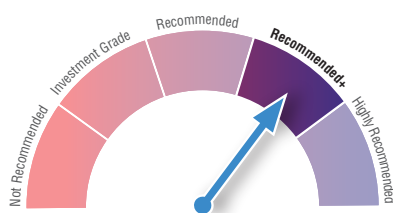
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## Rating



## LMI Type

Listed investment company

## Investment Area

International

## Investment Assets

Managed Funds

## Investment Sectors

Diversified

## Key Investment Information

Price (\$) as at 5 June 2018	1.325
Market cap (\$M)	392.3
Shares on issue (M)	296.1
Options on issue (M)	0.0
Shares traded (\$M p.a)	82.3
12-month L/H (\$)	107.5/1.36
Listing date	September 2015

## 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	-3.4%
Average since inception	-0.6%

## Dividend Yield

	%
CY14	na
CY15	na
CY16	0.94

## Largest Shareholders

	%
Citigroup Nominees Pty Ltd	7.6
HSBC Custody Nominees (Australia)	4.1

As at 31 March 2018

## COMPANY OVERVIEW

Future Generation Global Investment Company Limited (ASX:FGG) listed on the ASX in September 2015. The company invests in a portfolio of global fund managers who forego the management and performance fees so that FGG can 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 youth mental health.

## STYLE AND PROCESS

The company seeks to invest in a portfolio of global equity fund managers selected by the Investment Committee. No more than 10% of the portfolio is able to be invested in a single fund at the time of investment. The company will seek to be fully invested at all times with minimal cash holdings, however, this remains at the discretion of the Investment Committee. The company seeks to diversify the portfolio by investment strategy, seeking to hold long only, absolute bias and funds with a quantitative strategy, although the portfolio will have a long only bias. The company will have a buy and hold approach with respect to the underlying funds, with the portfolio expected to have minimal turnover. The Investment Committee will review the portfolio on a quarterly basis.

## PORTFOLIO CHARACTERISTICS

The portfolio will typically comprise 10 to 20 funds with a maximum of 10% of the portfolio allocated to an individual fund at the time of investment. At 31 March 2018, there were 14 funds in the portfolio with 58.5% long equities funds, 31.0% absolute bias funds, 3.7% in quantitative strategy funds and 6.8% in cash. The company exited its position in the Antipodes Asia Fund during the March quarter. Capital allocation is dependent on a number of things, including: (a) the capacity allocation provided by the underlying fund; (b) the portfolio optimisation process which is used to determine the optimal portfolio; and (c) the level of currency hedging the Investment Committee elects to have in the portfolio. The portfolio's currency exposure is managed through the underlying funds.

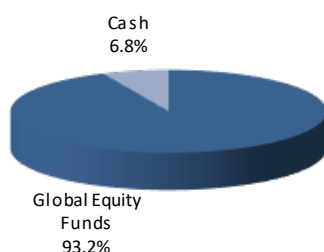
## INDEPENDENT INVESTMENT RESEARCH COMMENTS

FGG provides shareholders with exposure to a diversified portfolio of global equity funds while also assisting youth mental health charities. All the funds have agreed to forego management and performance fees for the investment by the company. The funds may reduce or retract this capacity if they so choose. Given the management and performance fees associated with the underlying funds are greater than 1% on average, investors are getting exposure to the funds at a discounted rate. In FY17 the value of pro bono support provided to FGG was estimated at 1.2% of assets. The difference between the fees and the 1% donation is to the benefit of shareholders. Since inception FGG has made total charitable donations of \$8.9m. The Investment Committee is responsible for managing the portfolio. Its members have considerable experience in financial markets. The Investment Committee is independent of the underlying funds, however we note some directors are related to some of the underlying funds. The portfolio had a strong quarter in March with the portfolio (pre-tax NTA plus dividends) up 3.7%. This compares to the MSCI World Total Return Index (AUD) which only increased 0.7%. While the portfolio has outperformed over the short-term, it is slightly lagging the global index since listing. During the quarter, the company released its results for CY17. Revenue was up 503% and NPAT was up 152,250% on the pcp. The company did not declare a final dividend for the period with the company stating an interim dividend payment for 1H18 will be dependent on the performance of the portfolio. During the quarter, Sue Cato resigned from the board and Kiera Grant was appointed to replace Ms. Cato.

## STRATEGY BREAKDOWN (EX CASH)

Strategy	%
Long only	58.5
Absolute return	31.0
Quantitative Strategies	3.7

### Asset Weighting



### Board of Directors

Belinda Hutchinson	Chairman
Geoff Wilson	Director
Kiera Grant	Director
Karen Penrose	Director
Sarah Morgan	Director
Frank Casarotti	Director

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

### Investment Committee

Amanda Gillespie
Aman Ramrakha
Sean Webster
Geoff Wilson
Chris Donohoe

## PERFORMANCE ANALYTICS

Performance	Mar Quarter	1 year	3 year p.a	5 year p.a
Pre-tax NTA + Dividends (%)	3.9	15.5	na	na
MSCI World Total Return Index, AUD (%)	0.7	14.3	na	na
Out/Under performance of index (%)	3.2	1.3	na	na
Share Price + Dividends (%)	-2.4	17.1	na	na
Tracking Error (%)	6.5	3.5	na	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.
- ◆ **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

## FGG’S PORTFOLIO WEIGHTING

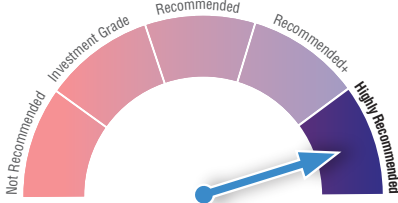
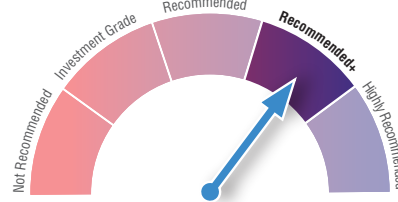
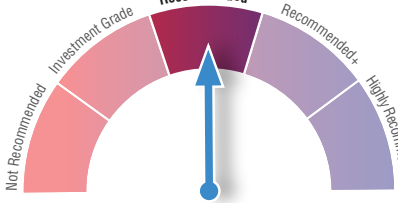
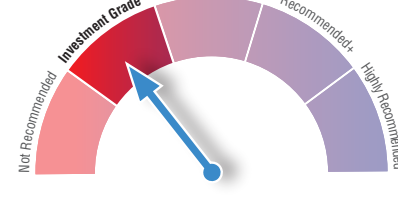
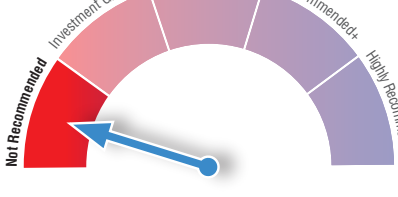
Fund	31 Dec (%)	31 Mar (%)	Strategy
Cooper Investors Global Equities (Unhedged) Fund	10.2	10.2	Long equities
Magellan Global Fund	9.9	9.6	Long equities
Ironbridge Global Focus Fund	8.9	8.6	Long equities
Antipodes Global Fund	8.3	11.0	Absolute bias
Marisco Global Fund	7.5	7.8	Long Equities
VGI Partners Funds	7.4	7.6	Absolute bias
Caledonia Fund	7.0	8.1	Long equities
Nikko AM Global Share Fund	5.9	6.0	Long equities
Manikay Global Opportunistic USD Fund	4.8	4.7	Absolute bias
Ellerston Global Investments Wholesale Fund	4.8	4.6	Long equities
Morphic Global Opportunities Fund	4.5	4.4	Absolute bias
Neuberger Berman Systematic Global Equities Trust	3.9	3.7	Quant Strategies
Paradice Global Small Mid Cap Fund	3.6	3.6	Long equities
Avenir Value Fund	3.5	3.3	Absolute bias
Cash	6.9	6.8	

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

## 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.

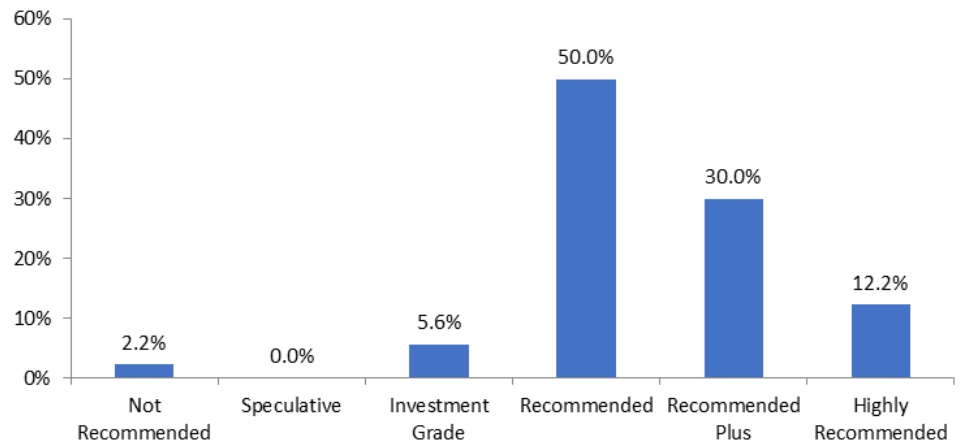
LMI Ratings	SCORE
<p><b>Highly Recommended</b></p> 	<p><b>83 and above</b></p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high 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><b>Recommended +</b></p> 	<p><b>79–83</b></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><b>Recommended</b></p> 	<p><b>70–79</b></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><b>Investment Grade</b></p> 	<p><b>60–70</b></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><b>Not Recommended</b></p> 	<p><b>&lt;60</b></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>

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## 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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