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VGI.AX - VGI Partners Limited - Special Call

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PRESENTATION

Ian J. Cameron - *VGI Partners Limited - CFO & Company Secretary*

Thank you for joining us for our briefing on VG1 and VG8. I'm joined this morning by Tom Davies, he's on my right, Senior Analyst here and partner. Tom has been with us for 8 years. Marco Anselmi on my left, Senior Analyst and Partner. Mark has been here at VGI for 7 years. And Rob Poiner, who's in New York and has been at VGI now for just on 12 years and is VGI's third largest shareholder. In terms of our presentation this morning, I'll go through the presentation deck that's been launched with the ASX under -- for VG1 and for VG8. I think also it was lodged on the BGI. And to be clear, VG1 is our list investment company that replicates our global strategy. And VG8 is our Asian investment strategy and VGI is the publicly-listed management company. In terms of just a basic overview on VGI, an update. We're a specialist fund manager. We have 2 onshore strategies and they consist of our global strategy and our Asian strategy. We also have separate accounts and 2 unlisted funds and Aussie dollar funded and U.S. dollar fund those funds are closed to new net inflow, and we decided by listing the 2 listed investment companies to effectively close our strategies which gives us a lot of capability to compound capital and a lot of capability to execute smaller, medium-sized situations that perhaps are the larger size fund managers can't execute on. And we'll get back to that later. In terms of funds under management, we are latest funds and management we've disclosed is $2.9 billion. And I think I might move on to the next slide. This just gives you a rough sense of our global strategy since inception, net return through the cycle. Our target return is 10% to 15%, and we use an index, and we've always highlighted this in our investor letters as a reference point, but our target return through the cycle is 10% to 15% net we're in the middle of the range at the moment despite this year being our most difficult year since 2008. 2008 was a better year for us. Also breaking down the performance in terms of up-months versus down-months. We tend to lag in a up-month, we tend to outperform a down-month. This is a basic summary for the fund since eduction and gives you a sense of the exposures we've had. Again, one of the differences is we're long and short. And we've generated a return in our target range with a net exposure of roughly 70% since inception and gross exposure of just over 100%, which is a very low level of overall risk long short fund and the return that exceeds a market index that's fully invested and is in line with our initial targeted return of 10% to 15% that we put in place in 2008. In terms of just a basic overview on our key philosophy points, we're focused on capital preservation. Our targeted return that we've highlighted, and we like to -- and continue to focus on investing capital in our best ideas. We don't have a good idea, we'll sit in cash, and that includes on the long side and the short side. Another key point, an overarching point is alignment of interest, particularly with our listed investment companies and also our unlisted funds. We've since day 1. And when we started operating in 2008, covered all our upfront costs and covered all the ongoing operating costs of our funds and structures. In terms of VG1 and VG8, we were the first list investment company ever in Australia to pay for all the upfronts and take on all the ongoings, which set the person for others to follow. In addition to that, we've made the commitment to reinvest all performance fees paid by VG1 and VG8 back into VG1 and VG8 shares, either on market if they're at a discount. And in addition to that VGI and it's staff and executives and family have been ongoing buyers of VG1 and VG8. And you can see our collective ownership in VG1 and VG8 is roughly just under $40 million in VG1 and just under $40 million in VG8. In terms of other key factors, at VGI, you won't see that myself or the other investment personnel or key staff at VGI trade personal account. You won't see us making investments in situations that we don't invest for our clients. We are completely prohibited from buying securities outside of what we do for our investors. And so what that means is we spend all our time managing our collected capital. And that alignment of interest is very powerful. It's very different to the vast majority of other fund managers, not just in Australia, but elsewhere. And we don't have our own separate portfolio for ourselves and then do something differently for our clients. We do it all in the one pool, and we consistently continue to reinvest and had to our collective investment in the VGI funds. In terms of key attributes we look forward. This should be familiar to anyone who's been invested with us for a period of time.

We're overarching point, we're looking for as a attractive industry structure. We're an industry structure that we think will become attractive necessarily doesn't have to stand out as immediately attractive today. When we bought Amazon 7-years ago, there are a variety of attributes that perhaps at that time weren't attractive if we need to look where the puck is going to, to use that famous saying. And hence, Amazon, we thought would be in a series of highly attractive industries. We want secular growth, and that means growth well above what is standard GDP growth or GDP plus some overlay. We're after an industry structure and then a business that sits in an industry structure that has sustainable competitive advantage. With live high-quality management, if they're not high-quality mediocre quality is okay, provided that it sits in a high-quality business. And then the other point, returns on capital and we're not a stickler for a strong balance sheet, but we have a preference for a strong balance sheet. We've owned some situations before where they're geared, but our preference is less gearing with more caring. And that's unusual these days to find that. But in certain businesses, certainly in Asia, you can find some very high-quality businesses with a lot of cash on the balance sheet. And we're after obviously a margin of safety. That means we're prepared to pay a fair price, but we're not we're not prepared to overpay to own a certain situation. VG1 and VG8 initiatives for managing and narrowing the discount, which is the key focus for everyone at VGI. As we've highlighted, we're substantial investors in VG1 and VG8 ourselves. I think the key point and overarching point is since inception, we've been really very focused on high net worth investors, and we've grown through a word-of-mouth referral. And when we launched VG1, we had a premium to NAV for nearly the first 2 years. And I think that created a situation where we didn't necessarily focus enough on creating a marketing or a BDM function for VG1. We've never had a BDM at VGI up until recently are a salesperson. That's not how we've operated, and that's never how we've raised money. What we did do earlier this year is we brought on a lady in Brisbane to help us go and communicate with planners and advisers there was obviously an issue with COVID, and she was now able to get out on the road for a period. But Rachel is doing that now, doing a terrific job.

And that's the first of a number of hires we intend to make. And it's something that a number of other listed investment companies who have managed to reduce their discount or inject the premium have done recently. Some have done it for a period of time. And it's something that we need to do and be very actively focused on. So that's a key initiative. We're working on it at the moment, been interviewing a number of senior BDMs, we hope to make some appointment shortly. And we believe that, that is going to be a very key driver of helping to narrow and in turn, eliminate the discount. Another key point is we've improved disclosure. We previously were relatively limited in the information we provided we're now providing more information on our long positions, particularly our top 10. We won't disclose certain situations if we think that it will compromise our capability to execute in the market. But generally speaking, once we're set, we're happy to disclose our positions. We won't comment on shorts, less relevant right now will be super relevant in the period ahead. And that's just a standard policy that we won't do. And what we're doing, for instance, this is part of a process of engaging more with our investors.

Doing more of these kinds of webcasts, not just with myself, but with senior people such as Tom or Marco, Rob Poiner and engaging more with our investor base not just the investment team, but other senior personnel here and when those BDMs start to hit the road, that will certainly add to our capacity to execute. We're also starting a program with livewire, something that we really haven't done and our other well-known is investment companies who have narrowed their discounts through injected premiums have been all over for a period of time and the use of social media and the use of other forums. We need to start to do more of that. And we're doing that. So we're commencing a program with livewire. And we actually have James here today to help moderate the Q&A session. And that is a process that we're far more focused on more engaged in. So I spent a lot of time talking about that because I think it's a very important point. And best practice in the industry is what we're looking to replicate. And over time, through concerted focus on it and some new hires we think we'll get there. In fact, we're highly confident we'll get there. In terms of capital management, we've announced a buyback for VG1, and that has been executed over the last couple of weeks and continues to participate on a daily basis. In terms of our dividend for VG one, it's something that initially at the time of the listing, we didn't have a specific policy on dividends because we didn't know when we were going to generate franking credits. And over the more recent period, we've been able to generate frances and we've, I think, now paid our third fully franked dividend. We said that we would only start paying dividends when we thought we could pay a consistent and growing dividend over the long term. So it's a key point to highlight, and that policy is certainly in place now, and it's continuing and should continue over the longer term. It's just a snapshot of where we are with the VG1 portfolio as at September, we're roughly at 75% net invested the key point to highlight is the gross investment is very low. It's a very conservative setting. We have a loan exposure of 83 but the short is low at and we are now 100% positioned in AUD, which is a change we made a number of months ago. I might move on to the top 10. So the top 10 positions that we now disclose, top 10 represents roughly 65% of capital is obviously a skew to the top 2 holdings, which are long-term holdings at VGI which include Amazon and Mastercard. Amazon has been reduced a little bit because of performance, it got close to 20%. It's been cut back a bit. Not because we don't like it. We just don't want the whole portfolio to be driven by only 1 or 2 securities. We don't think that, that's certainly not how we want to approach managing money. And we will be concentrated, but there will be some degree of diversification. The CME position, as we've highlighted some correspondence has been reduced in half due to concerns over headwinds that the CME our interest rate complex for faces. We are unable to predict the future of interest rates, inflation and volatility. However, we know that the CME business is extraordinarily high-quality, has substantial operating leverage to volatility, particularly interest rate volatility. And we view it as a very high-quality business and be a business that gives us a substantial inflation hedge and a superior inflation hedge to others that people may look to think about. So a number of new positions in the portfolio have been some substantial changes as we've communicated over the course of this year. A number of long-standing positions have been exited as we felt that the upside potential was muted. And a number of new positions have made their way into the portfolio and are growing in size prometic performance, one being interest. Olympus is a new position that's made its way into the global portfolio, having first appeared in the Asian fund. And we've also a new position that came in towards the end of the first quarter because it IPO-ed or was a spin-off in March, April is Otis. Those other positions we've held now for periods of time, some very long term. FDJ or franchise de Jure was an IPO position we took end of last year. And all of those positions were pre-existing positions were added to in the first quarter and early second quarter. So we're going to go into a couple of just overviews on these 2 new holdings in the global footfall on be Pinterest the other being Otis. I'll hand over to Tom Davis to go through interest and then Marco to go through .

Thomas S. Davies - *VGI Partners Limited*

As I'm sure many of you are quite familiar with the interest platform, but it's essentially a digital pinboard. The business is very strong network effects. So there's a lot of content discovery network-based and also just relating to the amount of content that's on the platform. So there's 400 million users who have been on the platform for 10 years. And over those years, they kind 200 billion pieces of individual content. So that's very hard to replicate. And some of the big guys in the industry have tried. So Amazon has tried base look has tried and Google has tried, and none of them have managed to get any kind of traction in the industry. So we think he's got a wide moat, the moats being tested. And because of those network effects, the most getting wider every game. In terms of the opportunity Pinterest is today, we think it's significantly under monetized. So if you look at what they've been doing for the last 10 years, they've spent 7 years focused purely on the used in space and improving the user experience. The last 3 years, they shifted that focus towards monetization, and that means that they've built out an advertiser facing technology and also their sales force. They're still in the very early stages of that and particularly in international markets. So if you look at the U.S. today, they generate $12 in average revenue per user, internationally that's $0.50], the key driver of that difference is just the build-out of the sales team.

So outside of the U.S., they only have 70 people in sales, and most of those are in Western Europe. So they're ramping that up, they're moving into Latin America later this year and then Asia after that. So we think as they granted that sales team, they'll improve their average revenue per user towards incode towards the U.S. level, which will drive significant revenue growth. And given the business model, there will be a lot of drop through earning and so we think the market under appreciates the quality of the business and also under appreciates the earnings-growth potential over the medium term.

Ian J. Cameron - *VGI Partners Limited - CFO & Company Secretary*

All right. Thanks, Tom. We'll just move on to Otis, which is something we added to all position we built in March, April. Over to you, Marco.

Unidentified Company Representative

Yes, sure. So Otis is the global leader in elevators and escalators. I'm sure many people on this call have been in one of their elevators because it's the -- it has the largest scale globally. The business was recently spun out of the U.S. conglomerate United Technologies, probably best known for the -- and we need jet engines. Now the elevators and escalators industry is one we have followed for quite some time because we think it has some very attractive attributes firstly, it's highly consolidated. So it's essentially in oligopoly with the top-4 players controlling roughly 70% of the market. Secondly, it has some very attractive business. It has an attractive business model. So it's essentially raised razor blade, where the elevators sell you the unit upfront that goes into a building and gets installed at a relatively thin margin. But the majority of the earnings are actually and on the servicing contracts. So the capital equipment is sold with multiyear servicing contracts that have very high retention and renewal rates. And therefore, generates a very stable and recurring earnings stream, which we find very attractive. In addition, these contracts tend to have inflation protection. So we think there is a little bit of pricing power as well for these businesses. Now the opportunity for Otis is, firstly, as a newly spinout entity, there is a management team that is entirely focused on driving growth in the business. Whereas previously, it was a division of United Technologies and really milked for its cash flows we think now with the management that is purely focused on growing the business. We think there is -- there will -- has a potential for a lot of growth and then secondly, more importantly, we think there's a lot of -- there's an interesting transition happening at the business in terms of digitization and software. So if we think about the business is evolving towards predictive maintenance and remote monitoring so that instead of elevated technician having to go and inspect the unit and double check if there's need for any repairs. They now can do this remotely in a predictive fashion so that one of the key costs being labor is being reduced significantly, and we think will lead to a significant margin expansion opportunity but in addition, it's also creating much higher lock in because it's much harder to move away. Now there's a lot more software involved in predicting any issues with elevators so overall, we think there's a long growth run opportunity. There's attractive secular growth drivers, and we think Otis is a core holding for us.

Ian J. Cameron - *VGI Partners Limited - CFO & Company Secretary*

Right. Thanks, Marco. Just moving on to the Asian funds. As Fund one listed middle of November last year. It's a strategy that came out of us establishing a presence in Tokyo and spending more time in the Asian region, looking at companies. We could see a substantial transformation of business behavior and corporate behavior in Japan, which is something that we thought was a powerful catalyst for valuation and for opportunities. And we also thought the evolution of a trade war between the U.S. and China would create an increasing set of unique opportunities in the Asian region. The reality has been that the trade war effect has been far more pronounced. It's far it's bales talked about, certainly, over the last few months as a consequence of other things, but it's very real. Regardless of who wins the U.S. election, we think the trade war and the acrimony between the western world and China will only continue, and that creates some very interesting investment opportunities. In the Asian region, of which we think some Japanese, Chinese, vietnamese other companies will be a substantial beneficiary so. In terms of the opportunity, it's really focusing on a region that has substantially higher growth, younger demographics, and an increasing skew to higher incomes over time. This can be seen across the Asian region, not just China, but especially countries emerging powerful emerging countries like Vietnam and you can make your way through in the Thailand, Indonesia and elsewhere. In terms of the addressable opportunities at the moment that we're focused on it's primarily Hong Kong listings or China listings through Hong Kong. That's our preference as opposed to U.S. We won't rule out U.S. listings and on a -- depending on how we manage the weight we've changed our news on VIS, which has been an important change for us. And we're very much focused on, like I said, Hong Kong, Japan, and we have made visits, a number of visits to South Korea, Taiwan and Vietnam. They're very interesting opportunities. And we've been reviewing a number. Vietnam is a little bit harder in the short term. Singapore, we've had a holding recently, which we've since sold and Australia is also an area where we've been active, not just on the short side for VG8, but also on the long side and have 2 domestic positions and one that we have been accelerating more recently. This is just a quick summary on what we're looking at and where we're focused in the -- at the moment, it doesn't mean that we're permanently excluding regions, we just want to invest in countries where we have a degree of confidence about accounting, the quality of accounting counterparty, regulatory and other key factors. VG8, this is a quick snapshot. I think the key point to highlight is our shorts in VG8 were covered in May and then ultimately a residual announced in June. Where we are now is we'd rather have a high cash balance or have cash that execute on shorts that we feel will grind is, our focus on shorts, which we can talk about has been typically accounting, skewed shorts, industry structure on ones and basically fad type situations. We found it increasingly difficult in the current MMT environment and liquidity fueled environment to execute on those. We have a number of situations we're watching closely. But the reality is, if we would have kept some of those specific shorts on, we would have just continue to have taken a loss on them, and that's not what we're prepared to do. And we'll talk about that more later. And I'm sure we've received a lot of questions on it, and we'll talk about it in more detail. Another key point here is, if we didn't sell any securities over the last, I don't know, perhaps 3-months, right Tom? We would be roughly 75%, 80% invested one of the key differences between us and the vast majority of other managers is we're an absolute return manager, we're long short, and we can sit in cash. And we're not afraid to sit in cash or we're not afraid to sell securities that are overpriced. We don't have to be invested, and that's not how we think. We're not a relative return mentality manager. So where we've made some changes over the last number of months is we've sold a serious positions. We've reinvested some of that capital. But the reality is, if we didn't sell anything, would be far more invested. And we don't think that, that would be an accomplishment. Sure, we would have more invested. But net-net, we don't think that would be a good outcome for investors to hold overpriced securities or situations that we think are overpriced or share price moves are being underpinned by purely by liquidity and momentum. We'll go to the next slide, this is the positioning of the portfolio as follows. For some of you who have watched the portfolio over the last few months, you'll see what we have sold. And then you'll see the new positions that have made their way in. Key new additions have been Nintendo. Which I'll get Marco to talk about later, but is one of the world's few AAA gaming companies. Other gaming companies you may have heard of with Electronic Arts or Activision Blizzard. And Nintendos, 1 of the 3 key console makers in the planet, the other being Microsoft with Xbox and Sony with Playstation. Another key addition has been Olympus position we built over the first quarter. Second -- first quarter and second quarter of this year. In turn, made its way into the global portfolio as we saw the global growth opportunity. And a number of positions that have been added to substantially include Richmont, which is a cartier and ban CLIF super luxury jewelry businesses, also], Mont Blanc, Panerai, IWC and a very substantial online business, which is Yorks Net-A-Porter. Turnover recard has been added, and we took a large amount of capital out of Rami Contro, which became fully priced. Both Punarecard and Rami Contro have the increasing proportion of their revenues well over 50%. And certainly, the vast majority of growth coming out of the Asian region, particularly for the cognac and fine spirits businesses. Positions that have grown due to a performance; and B, some moderate additions has been the Hong Kong and Japan Exchange Group.

They're both vertically integrated exchanges in the region and on their cash equities and derivatives and clary businesses, very high-quality situations and keeping a Unicharm. Unicharm has been a much higher position has been a very strong performer for the portfolio. And at this stage is now have been reduced to zero as a consequence of share price performance. So Unicharm is a good example of a high-quality Japanese business that the vast majority of its business has come from outside of Japan. Its business is primarily adult diapers, which has been a growth market in Japan. And they're seeing increased growth in China and elsewhere, but also female hygiene products and other types of sanitary products why hasn't been so much growth because emerging Asia very much like Japanese quality, Japanese brands, and it's been a very fast-growing consumer Products group in the Asian region. The current share price assumes a very high levels of perpetual revenue growth well into the double digits. And that is not something that we're prepared to continue to price and the security. We bought it very well, and we believe we've sold it well. That's an example of the situation that if we let it sit, would probably be about 6% of the portfolio today, and it's now zero, and we will recycle that capital in due course. Olympus is a new portfolio position. I'll hand over to Tom to talk about Olympus, and then another one that is new and the largest holding at the moment. Is Nintendo, and I'll hand over to Marco, and then we'll move on to Q&A.

Thomas S. Davies - *VGI Partners Limited*

So Olympus is the -- Olympus is the global leader in gastrointestinal endoscopes, actually pioneered this deal back in the 1950s and have dominated ever since, and they're still a 70% global market share today. These are highly engineered products with a lot of IP. So you can see an example of the joystick and control unit over on the right-hand side. And given the level of complexity, there's obviously a lot of training relief the doctor, and then they will use these products in this brand for 10 or 20 years. So there's significant lock in and very high switching cost for a doctor who uses this in addition, there's a lot of secular growth in the industry. So there's increased screening programs in developed markets and in developing markets, there's unfortunately more cases of colorectal cancer as it is shift to Western Diet. So we're seeing secular growth in both developed and developing markets. Look, in terms of the opportunity, so lives is going through some pretty dramatic changes at the moment as we're seeing across a range of companies in corporate Japan. And one of the big changes they made is they've appointed 3 independent directors, which is a pretty monumental change for Japan. And they've also disposed or announced the disposal of the digital camera business, which is obviously what the company is renowned and famous for. So that business was the loss-making. And earlier this year, they announced they're going to divest that business, which is obviously accretive. For margins. They've also announced that they're going to have a target of doubling operating margins over the next 3 to 5 years. And it's going to -- they're going to focus significantly on efficiencies and improving the operations of the business. So given the high-quality nature of the business, the secular growth and the margin opportunities that we see happening, we think this is a high-quality situation that will compound well for the long-term investors.

Ian J. Cameron - *VGI Partners Limited - CFO & Company Secretary*

All right. Thanks, Tom. And we'll touch on Nintendo with Marco and as a highlight, the Nintendos, one of the world's leading AAA game manufacturers, and it's an opportunity that we built before the recent share price move. And Marco you can touch on?

Unidentified Company Representative

Yes, sure. Yes, no problem. So I mean Nintendo is a well-known gaming -- video gaming development on some of the highest quality content. We are -- we think is probably the best gaming library globally, with titles such as Mario, Pokemon, Don Kiko and Zelda, amongst others. But not only that, it's also vertically integrated in terms of the distribution. So it's the only content developer that also owns the consoles. And so that is a very attractive feature. Now we think that the content that they have is heavily undermonetized. So historically, it's been only available on intenders platform, so the Nintendo switch console in the other and in tender consoles. But we are seeing steps and evidence that they're starting to open up this IP more widely such as through mobile gaming. Now the other thing -- the other thing we like about Nintendo is it's undergoing a digital transformation and digital transition. So if we think about today, a lot of the gains from intend are still sold through physical cartridges but there is an increasingly shift towards downloadable games and add-on and digital content, and that is a big tailwind for margins. And in this respect, intend or lags, it peers significantly. The other interesting aspect about Nintendo is that the earnings profile is changing dramatically. So historically, it's been relatively boom and bust due to the console cycles, whenever they would launch a new console, earnings route trend the cycle. But now there's an increasing shift towards digital and also subscriptions. So when you want to play games online, you might have to pay $10 a month to play with your friends a multiplayer. So we think this is changes significantly the earnings profile of the business towards more recurring and more predictable that we think is still underappreciated by the market. The other interesting thing that we've seen on Nintendo is that they've recently, a couple of years ago, I appointed the youngest CEO in the history. And he is the one driving a lot of these changes and we're seeing tangible evidence of the unlocking and opening up this funnel wider to make their IP more available. And we're seeing -- we're also seeing this through things like opening a new theme park in Japan, in the U.S. over the next few years, doing a Mario movie in a couple of years, we merchandise stores and we think a Nintendo almost reminds us a little bit of what Disney looked like many years ago, with the one exception being that Nintendo intender is doing this in a capital-light fashion. So it's partnering up with third-party operators or theme parks or producing movies with so it's doing -- it's just really licensing the IP in a high-margin and capital-light fashion. So the combination of all of these, we're very excited about intender. We think it's a long-term growth opportunity. We think it fits into one of the key thematics that we've been doing a lot of work on being gaming, I think it's a very attractive space to be. And you just need to look at how much time people are spending, not just playing games, but watching other people play video games, to know that this is going to be a growth market for a long time. So we're very excited about Nintendo.

Thomas S. Davies - *VGI Partners Limited*

All right. Thanks, Man. But before we go into Q&A, I might just see Rob Poiner in New York. Rob, like I said, Rob has been with us for 12 years. Third biggest shareholder. And Rob, do you have any additional comments or any points you'd like to touch on that perhaps didn't address through the presentation before we go to Q&A?

Robert J. Poiner - *VGI Partners Limited - Head of US Research*

No, I think you guys summarized it well. Let's jump into Q&A, but I think that's a good summary of all the key points.

QUESTIONS AND ANSWERS

Thomas S. Davies - *VGI Partners Limited*

Okay. Thanks, Rob. Greg, I think that's probably a good spot to stop and take some questions. So we advise, as Rob mentioned, we invite James Mile here from Livewire to conduct the Q&A. So if you have any questions, please enter them through the webcast we'll start off with some questions that we received by e-mail, and then we'll move on to the live questions as well from the webcast. We've already had quite a few questions that have come through. So if you -- if we don't get to all of them, our Investor Relations team will follow-up with you after the call. James, over to you.

Unidentified Company Representative

Thanks, Tom. And good morning, ladies and gentlemen, on the call. The short levels in VGI and VG1 are historically low. When do you think your shorts will increase again?

Unidentified Participant

The reality of the current environment, and we discovered this really in April and May has continued through the rest of the year. Is that the criteria that we've traditionally focused on all the factors that we're focused on, just lacking and efficacy at the moment. So accounting based shorts, let's keep in mind, we covered a very substantial amount of shorts in March and April. What we did do though is we put fresh shorts on in areas where we thought there was opportunity, and that was an arrow. So the areas that we focused on, which has been accounting based, I think I said previously, industry structure based or FAD based. So if we go back to Pandora jewelry was one of the bad based shorts we put on, and we've had for many years now.

We presented at the Arison conference in Sydney 3, 4 years ago. It's a situation that Tom Davies worked on with other members of the team, but Tom drove. And that's a situation that worked very substantially for us. We're able to take that off in April generated, I think, circa 80% return. But the reality is, is that stock has more than tripled from its lows. And it's, in our view, not fundamentally driven, it's been driven by an equity raise is been driven by the capacity access, very low-cost debt and a view by the marketplace, that there'll be a very sharp recovery in its revenues and earnings. And we can look at those situations across shorts that we've had on previously, and it's played out on a repetitive basis. We don't do earnings shorts. We're not -- we don't sit there and try and pick an earnings miss. That's not what we do. It's never how we've put short term. But in this environment, we're finding it extremely complex, extremely difficult. And we don't want to sit there and basically stand in the way of some limited liquidity. And this, as a consequence, extraordinary momentum. And in general, I would say, a general view by investors, whether they're professional, retail, whoever it may be, a general disregard for basic fundamentals like accounting. You can do a covid provisioning now. You can do all sorts of provisioning. And you're also in an environment where the markets prepared to look through an earnings GAAP or in a revenue gap of not just 6 months or 12 months but years. And that's a very hard environment to execute short team. I'll hand it over to -- I don't know, Rob. Rob, you've been shorting the Hanesbrand Shortz is one of the public ones that we did at Iris on, and that's been a we're able to generate, what, 80% or 90% return on that, and we had it for, what, 4 years. Where Hanes brands is what, nearly 20 -- close to $25.

Robert J. Poiner - *VGI Partners Limited - Head of US Research*

Yes. Close to $20. And that's a really good example of what you're talking about, a company that we think is structurally flawed has been extremely aggressive with accounting a number of red flags that we found and a very big debt load. And the same thing that stocks almost tripled from the lows, and it hasn't really been -- I mean, the key driver has been because they started manufacturing mass for a period, which we think is obviously a temporary goes to earnings.

But outside of that, there hasn't really been any catalyst for that to occur. Look, the only point I'd add is in terms of capabilities on the short side, we still are investing very he behind that. So over the last 10 years, we've developed -- we think is a pretty robust process, which incorporates very detailed red flag screening across every security in the world across 100-different flags, accounting, corporate action, change in management. And we continue to invest in that process, and particularly with our data scientists internally. So that's something that we continue to evolve. We're constantly talking about shorts and potential shorts just this morning before we got on this call, we were talking about a couple of potential shorts. So we're still investing in the process. We're still looking at the other side of our lungs, who do we think is going to be disrupted, and it's something that I would say we're not spending less time discussing or looking at. It's just a matter of the environment. At some point, that would change. And when it does, I think we'll be ready to go.

Unidentified Company Representative

Tom? Marco?

Thomas S. Davies - *VGI Partners Limited*

Look, I would just say I understand the risk reward the volatility in reported earnings, current provision and the stimulus that carrying out there has just increased the risk beyond what we think it compared to all scenarios. So we're continuing to mine our line situation across sale discussing them and hopefully we'll get some positions in the portfolio in the term.

Unidentified Participant

Next question. What makes VG1 and VG8 different from other funds available to Australian retail investments?

Ian J. Cameron - *VGI Partners Limited - CFO & Company Secretary*

Well, I think we've touched on that, in part of the presentation, first of all, we're absolute return, which I think is important. We don't have to be invested. And you can see we can move currency which is something that has been a substantial tailwind for returns for our group returns for a period of time. We're -- so absolute return is one. Concentrated stock picking is another, both long short.

But then moving into, I guess, more granular detail, we've got a situation with our risk investment companies where the managers themselves a very substantial investment, and there's very substantial alignment of interest. And Rob Poiner, myself, Tom and Marco, were all invested in the farm. We're all ongoing investors in the fund. And that creates an unusual alignment of interest. There are not many, in fact, very few -- we would be one of the very few where the manager themselves is a very substantial investor in their own investment and an ongoing investment. So that creates a very strong alignment. It treats a very long-term focus. And we're not short-term oriented. And we're not -- we'll make mistakes. And this is an example of where we've made mistakes. But the reality is, during an extraordinary sell off, both of our funds preserved capital. We made some missteps from that point, but our focus has been on preserving investor capital. And that comes from a strong alignment of interest. And we're not speculating with other people's money. It's our collective capital, and that's always been our approach. And I think another point is when you invest with VG1 or VG8, you're not buying a security and a list investment company where you've got a fungible choice. You've got a choice where you could go to a retail platform or you could go elsewhere and invest in that managers product through a variety of other sources. We're not a retail fund manager. We don't have a retail license. We're not -- you can't go and get access to what we do through a variety of other sources. And we believe, over time, that puts an interesting supply demand dynamic. And there's a reason why perhaps some other funds over time will have issues is if you look at -- the reality is it, say, with Jet Wilson's funds, you can only get access to it's funds as an investment company. There's no other access point. And in turn, over time, that's created a very powerful dynamic. He does an excellent job, and he markets his funds very well. And when there's been a discount, he's never bought that stock is driven performance and is driven communication. And so I think that comes from is very strong alignment of interest. And it comes from the fact there's no other access point. So I think an overarching point is that this is -- VG1 and VG8 is the only way to access the strategies. VG8 is the only way to access the Asian strategy.

And we think over time, that creates a very interesting automatic stable. We're not out there looking to raise Malmö and when you look at some of the positions that we can put into VG8, we can do that because we've limited the size of it. We wouldn't be able to take some of these positions. In certain situations, certainly on the short side, which we were able to take advantage of earlier in the year, but also some long positions. And as a situation we're building at the moment, and we're a meaningful portion of volume, and that's for VG8, which is just under $600 million fund. So if you're constantly raising money, you're constantly having to reallocate it, it limits you has to execute. And so there's no coincidence at the very large global managers are limited in what they can vest into the very largest companies in the plan. And that works sometimes, but it doesn't always work. So I hope that answered the question. I don't know, Tom. Rob, Marco?

Unidentified Company Representative

Next question. The VG1 buyback got off to quite a slow start but has picked up pace. What your investors be expecting from the buyback going forward?

Ian J. Cameron - *VGI Partners Limited - CFO & Company Secretary*

Well, I don't know about slow start. It was -- we were always, I think, cautious about how we would execute on it; and B, I think that you never -- you don't want to have a stock buyback that's a share price ran. Or is an overwhelming proportion of volume. And the reality is, it's an -- it's been an ongoing participant of daily volume. It's something that is active every day. And the plan and the strategy is that it will continue to participate on a daily basis. The reality is and I think we've highlighted before. And I think the person is basically pioneered the list investment company industry in Australia, which is has always said that a buybacks don't work. They can be -- and perhaps they can assess. But there's a reason why it's never done one. And the key driver of the discount over time is lack of liquidity and size. And if you shrink in size, your relevance becomes far less important, you dry up liquidity and it creates a very substantial headwind to maintaining or narrowing a discount, so maintaining a premium or narrowing a discount. And so we've activated it. It's obviously accretive to shareholders. We're shareholders.

We understand accretion. But we're very mindful of the fact that it's one small factor and short-term speculators who want some type of share price ramp or overwhelming proportion of volume, that's not prudent. In terms of other initiatives that we think will help and we can see has narrowed the discounts of both VG1 and VG8 in the last just week or so has been ongoing involvement and participation with our investors. And we've held a number of these calls. We've spoken to a number of high-quality broker groups and planning groups and explain to them our strategy in VG1 and VG8 and as very similar questions to what you're asking. And what we've noticed is the discount for VG1, which is still unacceptable to us. As narrow, the VG8 discount had started to narrow, and again, is not acceptable to us. And I think people have realized we're very focused on it, and that our strategy is different. And when they meet the 4 of us, we're only the senior members of the team, they realize that what we do is different. And you look at our global portfolio, and it is different. It's different to the strategies of other global investments. If you look at our Asian portfolio, there's a difference there to what you'll see.

And people -- not everyone wants to be fully invested. And I think the fact is these other strategies are communicating more, implementing some new hires of BDMs and sales, sales executives that is something that a number of groups have done really more recently, some larger managers have done this investment companies that have help narrowed their discount. And obviously, is a strategy that had in place for many years and has done extraordinarily successfully. And we stupidly hasn't replicated his capabilities that we'll look to replicate what he has in place and has done a brilliant job.

Unidentified Company Representative

A question on currency. Do you still plan to actively manage your currency exposure? Or should investors expect VG1 and VG8 to be 100% Australian dollar exposed from here on?

Ian J. Cameron - *VGI Partners Limited - CFO & Company Secretary*

Well we're not going to be 100% Aussie dollar hedge, if it doesn't make sense. So yes, it's like anything. We think that if the facts change will change our March.

But the reality is that we took a view for a period of time. It worked exceptionally well. We did not take the hedge off in March. We took summer, sub 60s in the 50s]. And the reality is we were staggered by the rally from the low to mid-60 above. We've taken that factor off the table at $0.68, $0.69 average. And where we are now, we'll continue to review it. But the reality is in the global Western World Jira rate environment, it's become a highly complex situation, and it's different to it's a different factor to what we've had to deal with previously. But we're constantly reviewing it. And it's the same as our shorting. We can -- we will change our mind when we see a catalyst for the tax change. Rob, I don't know, would you want to add to that?

Robert J. Poiner - *VGI Partners Limited - Head of US Research*

No, no, I think that's on the currency. I think it's a good summary of it.

Unidentified Company Representative

The global strategy is highly concentrated. And as we saw earlier, has a big holding in Amazon. What are your views on the other big tech names? And why don't you hold them?

Ian J. Cameron - *VGI Partners Limited - CFO & Company Secretary*

Well, you could -- you could argue you should have just hold only the big tech names over the last few years. we've held a large position in Amazon. We've allowed it to grow a compound. Perhaps the areas we view Amazon as the superior or the best place holding out of all the large tech. It certainly performed better than others. We've syctom on probably a few of the others, but we look at Amazon as a series of business components, which is why we're happy with the way that's got a very powerful, the leading world-leading cloud business, world's leading e-commerce business and then has a very substantial online advertising and gaming business. And Marco touched on gaming, they said that people spend more time now watching other people play games and play games, which you have to think about a little bit get the logic side. And they do that on a platform called twich that's owned by Amazon, which is a business that no one is valuing at them or very few people think about you. So it's a few businesses rating for one hence the way.

As I said, it would -- would be over 20% now we did we sell- in the last 3, 4 months, we decided to reduce it down roughly about 16% weight to that. What do we think of the others, they're all high quality businesses. We've been worried, we're probably overly worried a regulation for social media for a while, particularly Facebook on staggered. It hasn't had some part material regulation given the facts that have come out. And there's obviously a lawsuit just much against Google overnight. That's been a long time in the coming. And we've seen -- we recently saw out of the U.S. that they have been investigating large tech for a period of time. There is regulatory risk, and we've taken a view that Amazon has less regulatory risk than others. We made an error or Microsoft to not buy it when we saw cloud computing come through. We took the view that Amazon would be the winner or they're leading with at the best delta improvement in its business from cloud, which has been the case and has been reflected in the share price. But the reality is, sometimes the or approach of having 2 of the same thing, where they benefit from huge growth, which has been Microsoft, we missed that. Something we weren't aware of it. We just didn't think about it enough, and we made an error. Depending on price, there are a number of those larger situations that we keep an eye on it. Some of them are attractive to price. But you've got to make various assumptions for regulatory outcome and what could come out of that. So I don't know whether answer that. Rob, what do you think of?

Robert J. Poiner - *VGI Partners Limited - Head of US Research*

Yes. I think so the only thing I'd add to that is just that in terms of our technology, our efficiency portfolio, I'd also say that Mastercard is on the forefront the digitization of payments. So I consider that in the technology market. And then, of course, we've got the holy interest in a smaller on stack. So I think we have aviation as we wanted. And as Ian said, we are aware of some of the regulation by , that's how we decided to discuss the portfolio.

Ian J. Cameron - *VGI Partners Limited - CFO & Company Secretary*

And I guess, we've always taken a view that we'd like the best of in our portfolio. And we took a view that Amazon was the best of 6, 7 years ago.

And if you do the 7-year return of the major tech players, absent, say, test life, which is a very different category. I think you'll find the share price return of Amazon has been the best outcome. So the benefit of onstartups we should have on every single bank. So I'm sure every manager on the planet would think that. But we've also wanted to have a diversified portfolio without a substantial SKU. So maybe that has been the area that we -- I should just run a technology fund, but the reality is we wanted to have a diversified portfolio liability situation in business.

Unidentified Company Representative

Has the prospect of a Biden victory in the U.S. presidential election contributed to any of your recent decisions?

Ian J. Cameron - *VGI Partners Limited - CFO & Company Secretary*

No. We factored in, a couple of years ago, higher tax rates in our valuations, we're not sure that there would be a track to win the second election. And we also thought, particularly after if he did, the U.S. tax rates would ultimately go up, one with their debt burden.

In need to look at their debt burden to see that tax rates are likely to go up in the U.S. So we've factored that in any other changes, no, not really. Rob? We haven't made any...

Robert J. Poiner - *VGI Partners Limited - Head of US Research*

No. Tax has been the big one that we discussed. I mean there's a couple of other certain situations where there could be potential threats, but nothing that has been targeted in any of his policies. He's made a few remarks on CNBC or something, but no sort of sort of dedication behind it. So no, it hasn't impacted any decision-making other than discussions that we've had on tax.

Unidentified Company Representative

Rob, I'm just conscious that we have fine over time now. So there are outstanding questions, but look at the time limit. So I'm going to hand back to you.

Ian J. Cameron - *VGI Partners Limited - CFO & Company Secretary*

Okay. All right. Just getting into a role of some of those questions. Well, thank you very much for everyone's involvement and for your interest. We are very grateful for our investors in both our list investment companies and our unlisted funds, and we're aware that a number of fund investors are listening in. As we said at the beginning, Jama and Ingrid from Investor Relations are available for any follow-ups and of course so am I. We can organize a discussion. We're always very happy to do a call for you. So thank you again and Rob in NewYork and thank you for joining us and everybody have a good day.
