

# Kaizen Global Investments

## H118 delivered improved operating performance

Kaizen Global Investments (KGI) is a listed investment company (LIC) focussed on investing in global equities over a five year-plus time horizon. The company was incorporated in September 2014 and listed on the NSX in March 2015 after raising \$2.237m at \$1.00 per share. The company has subsequently undertaken two share placements, the first in April 2016, raising \$0.385m at \$0.955 per share, and the second in March 2017, raising \$0.5m at \$0.955 per share. The LIC is trading on par with its post-tax NTA for H118.

### Business model

KGI is a listed investment company. It seeks to invest in a diversified portfolio of global companies with strong thematic tailwinds and takes the long-term view. Its investment horizon is 5 years plus. Deep fundamental analysis is completed on each investment by talking to executive management, competitors, analysing the industry and its financials. In addition KGI has the ability to hedge market risk through short-selling and use of other instruments. KGI's goal is to generate absolute returns relative to cash, not a stock market index. KGI's mandate also allows it to invest in unlisted companies in Australia in order to generate and control cashflows that could be reinvested in the listed portfolio. The LIC is managed by Kaizen Capital, a fund manager established by KGI's chairman and managing director in 2009. Kaizen Capital is paid an annual management fee equal to 1.5% of the portfolio and is entitled to a performance fee equivalent to 20% (plus GST) of the portfolio's increase in value over the fiscal year. The performance fee is, however, subject to a high water mark and therefore only payable on the increase in portfolio value over the high water mark. KGI's directors have waived fees until the LIC's NTA reaches \$5m.

At June 30, 2017, KGI's portfolio was 40% invested in US stocks, 30% invested in Australian equities, 9% invested in the FTSE 100 and 5% invested in the Swiss market. From a sector perspective, 28% of the portfolio was invested in technology stocks, 8% in communication/telecom stocks, 7% in financials, 7% in commodities, 7% in consumer non-cyclicals, 5% in consumer cyclicals and 5% in consumer staples.

### H118 result

KGI reported total income of \$112,748 for the six months to December 31, 2017, a turnaround from loss of \$97,467 a year before. NPAT for the half was \$45,873, compared with a net loss of \$100,593 in H117. EPS was 1.45 cents per share for H118 and NTA post tax was \$3.11m or \$0.983 per share. The H118 result was also substantially ahead of the FY17 result and positions the company to, subject to its second half performance, deliver an increase in NPAT over FY17. At 28 February, KGI's NTA was \$0.9825 per share, up from \$0.969 per share at June 30. The LIC has managed to retain its NTA per share at a consistent level since listing while increasing liquidity through share placements.

#### Earnings history (A\$)

Year ended	Revenue	NPAT	EPS (c)	NTA (A\$m)	NTA per share (\$)	Shares on issue (m)
Jun-15	(19,137)	(27,912)	(1.25)	2.18	0.973	2.24
Jun-16	90,483	4,273	0.18	2.57	0.972	2.64
Jun-17	92,970	938	0.03	3.06	0.969	3.16

Source: Company data

#### Shares Summary

Share Code	KGI
Share Price	\$0.985
Market Capitalisation	\$3.117M
Number of Shares	3.164M
Net Cash (Debt) at 31 Dec 2017	\$0.031M
Share Registry	Boardroom Pty Ltd

#### Business Description

KGI is a LIC with a five-year-plus time horizon and a mandate to invest in global equities. Its current portfolio has a technology bias (28% of the portfolio).

#### Upside Case

- Demonstrated outperformance from investing in global markets
- Acquisition of private businesses generates free cash flow to reallocate to best opportunities
- Investment manager has a track record of outperformance

#### Downside Case

- Performance risk like all fund managers.
- Small capital base with currently low liquidity
- Financial results are not a good indicator of performance, NTA is the metric to follow

#### Board of Directors

Executive Chairman	Simon Winfield
CEO and Managing Director	Connor Grindlay
Non-Executive Director	Andre Edmunds

#### Catalysts

- Continued outperformance of key indices

#### Comparative Companies

ABW, CQG, SVS, WAA

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