

CHAIRMAN'S LETTER

To my fellow Shareholders,

It seems that almost every day we see another piece of unsettling news. Whether it be terrorism, another gaffe from the Trump camp, or brinkmanship with North Korea, uncertainty has become a constant. Whilst troubling in the short-term, we are confident that that over the long-term the world will grow and certain companies will flourish. There will always be opportunities to invest and prosper.

PERFORMANCE

We are relentlessly focused on increasing the value – per share – of Kaizen Global investments. In the 2017 financial year the net tangible asset (NTA) value of KGI was flat, and we grew the company's equity share capital by 19.4%.

We are focused on investing for the long-term, across the globe in companies where we have a quantifiable edge in both understanding and valuation. We constantly speak with executive management and perform deep due-diligence on potential investments.

We see asset valuations being quite stretched in certain parts of the world, for example in listed companies in the United States that are large and perceived to be 'high quality'.

Legendary investor Howard Marks calls these "super-stocks". He counsels "stocks that lead a bull market inevitably become priced for perfection and in many cases the companies' perfection turns out eventually to be either illusory or ephemeral."

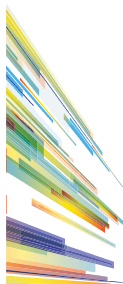
We believe that the best long term investment opportunities are found when not travelling 'with the herd'.

We also continue to believe that Australian investors should increasingly allocate their savings abroad, to diversify and benefit from a wider universe. Too large a portion of equity portfolios are held in ten Australian companies, which increases risk.

Investors should ensure that their global funds are, in fact, global and not US funds in disguise.

ARTIFICIAL INTELLIGENCE (A.I.)

Artificial Intelligence (A.I.) is about to change the way that companies operate, compete and innovate. We expect large disruption to occur in the physical world as the internet increasingly impacts our lives. The Internet of Things – IoT – is not a common term but it is coming into our homes through Amazon's Alexa, Google's devices and/or even through our televisions, fridges and cars. We believe that the next decade will favour investors with strong practical science based backgrounds, as opposed to business school graduates.



OPERATIONS + INVESTMENT PORTFOLIO

To find out more about our portfolio's make up, please read our Investment Manager's letter starting at page 6. It will give you a better idea of how our Manager is laying a solid foundation to protect your investment against short-term market volatility and downturns, and to ensure that it enjoys the benefits of long-term capital growth.

DIVIDENDS

It is our intention to pay a growing and progressive dividend over time so that shareholders can realise returns both through capital appreciation as well as income. Despite making a profit this year, we did not believe that was cost effective to distribute profits as a dividend. Remember too that our goal is to compound the value per share over the long-term. Whilst dividends are one form of rewarding investors, so too are share buybacks if the valuation is attractive. Reducing the number of shares in circulation, if done at the right prices, and using Buffett's analogy, shrinks the base of the pizza, increasing the amount of cheese per slice. This equates to the amount of assets (cheese) per share (slice). It is sometimes optimal to buy back shares rather than paying dividends and we will allocate capital to optimize for long-term total return per share.

AGM

We will be contacting you shortly about our annual general meeting – which will provide you with the chance to meet with KGI's key management personnel, and ask any questions you may have. I look forward to seeing you there.

Yours sincerely,



SIMON WINFIELD

Chairman
30 August 2017

INVESTMENT MANAGER'S LETTER

Dear Shareholders,

We have made a great deal of progress over the past year and whilst some things have changed, others have not. In reading last year's letter we are reminded that investing is sometimes a very frustrating pursuit. You can find interesting opportunities, do thorough analysis, and build a position into a diversified portfolio, but then you need to wait. The waiting is the hardest bit, especially when there's enormous pressure to deliver returns today. But delivering returns today isn't how markets work, particularly if you're a value investor buying things cheap. Value investing has been shown to deliver the best returns over the long-term, whereas growth investing has periods in the sun.

“ *It never was my thinking that made the big money for me. It always was my sitting. Got that? My sitting tight.* ”

”
EDWIN LEFÈVRE¹

We invest with a 5-year rolling horizon, and if the companies we have invested in are doing well, or improving, and we've bought them at an attractive price, this will eventually translate into higher valuations in the future. We believe that the big money will be made taking the longer-term view. Why? That has worked for us in the past, and we believe that it will work for us in the medium term – but there can be no guarantees.

ARTIFICIAL INTELLIGENCE (A.I.) IS UPON US AND IS INCREDIBLY IMPORTANT

The most important theme to emerge over the past year is the rapid rise of machine learning and artificial intelligence. In simple terms, it means that machines will be able to combine functionality with the ability to learn and solve problems. Whilst the field has been around since the 1950s it is only recently that the hardware, software and availability of enormous data mines have co-existed, allowing machines to learn, and to learn rapidly.

We see the development as the Third phase of the internet. The First phase began with the rise of the PC based internet in the 1990's and the creation of the first internet business models. In the 2000s we moved to the Second phase, the mobile internet which was accelerated by the iPhone and Steve Job's vision, the birth of social media and virtual exchanges. We believe that we have now entered the Third phase – that of A.I. These developments have led to an accelerating rate of development and progress and we expect this phase to be both transformational and destructive.

A.I. will impact ALL business models. It is akin, in our mind, to past developments like the electrification of an entire economy. The challenge is that it is not easy to understand and whilst logic is useful in analysis, the steps between change are likely to be exponential rather than linear. We strongly believe that engineers,

¹ Edwin Lefèvre wrote the Wall Street classic *Reminiscences of a Stock Operator*, the thinly disguised biography of Jesse Lauriston Livermore, a legendary investor.

