

Fund positioning – 25th June, 2010

The gross invested position of the fund is 23% comprising 21% long holdings and 2% shorts. Since our last update in April, activity has included:

- Adding a fourth tenet - the current exposure to this idea is 5% of the fund's capital invested in 2 companies; one listed in Australia, the second in Europe. We perceive over time this idea may hold a 10% weighting and given its nature we expect to be able to gain exposure to it through a number of smaller individual positions.
- We have increased the weighting of the large cap Australian tenet to 9% of the fund. We did this through adding a second position and topping up the original holding. We view this opportunity as something that will play out over the next three years and expect it to deliver 12 -14% type annual returns. We consider the risk / reward trade off to be reasonable given the strong cash generating capabilities of both businesses and their moderately geared balance sheets.
- Shorts and others - we realised modest gains from short positions in two large cap ASX listed companies and we also initiated a third short position which is still held in the fund. We have written a couple of blogs on the theme of "leveraging technology", our thinking behind the realised and existing short position is consistent with this line of thinking.
- There has been no change to the remaining two investment tenets previously highlighted. The US based position has de - rated broadly in line with equity markets, this decrease in value has been largely offset to date by leaving the currency unhedged. We also continue to hold the out of the money currency option position, in a sense we think of this holding as being a type of low cost capital insurance policy for the fund.

Our overriding views regarding markets and the available opportunity set have not changed. The local market has fallen about 12% since we opened the fund. We are happy to use this volatility to start to accumulate positions in specific investments, but we are not of a mindset where we want to be more broadly invested. We are reasonably content to sit in cash and equivalent type securities as the default position until we find what we believe are genuine company specific investments.