Long Tail ASSET MANAGEMENT PTY LTD AFSL 341 474

Fund Positioning – 30th June, 2011

We have used this update to provide more detail around the physical investments and options positions in the fund.

Since our previous update on 28/02/2011, activity in the fund has included:

- Exiting the balance of the large capitalisation Australian tenet we have previously referenced. This tenet was in two ASX listed companies and was 11% of the fund at its peak. The tenet realised an annualised internal rate of return of 24% (we started accumulating the position in April 2010 and exited in June 2011).
- Trading around the Australian bank put position. The effect of this activity enabled the fund to realise a small profit from the investment and extend its maturity. We essentially regard this position as a market hedge.
- Initiating a new investment tenet we are describing internally as "Newbanco". The rationale for this tenet is detailed below.

The fund's gross invested position is 39.0% (34.9% long / 4.1% short) before accounting for trading and other positions.

	Long (%)	Short (%)	Currency (%)
Australia	6.3%	-4.1%	84.8%
US	15.2%	0.0%	15.2%
UK / Europe	13.4%	0.0%	0.0%
Total	34.9%	-4.1%	100.0%
# investments	9	3	
# tenets (ideas)	3		
+ Trading & other (Yen puts, IAG calls, Australian bank puts)			(- 2.7% annualised)

ABN 34 136 795 170 | AFSL 341 474
PO Box R 1777, Royal Exchange Sydney NSW 1225
Ph (+ 612) 8241 – 1000 | www.longtailasset.com

The physical investments in the fund can be distilled as follows:

	Aus/NZ	# inv	US	# inv	UK/Eu	# inv	Total	# inv
Tenet 1			13.8%	2			13.8%	2
Tenet 2					9.8%	2	9.8%	2
Tenet 3	3.5%	1			0.4%	1	3.9%	2
Other Longs	2.9%	1	1.4%	1	3.1%	1	7.4%	3
Gross Long	6.3%	2	15.2%	3	13.4%	4	34.9%	9
Shorts	-4.1%	3					-4.1%	3
Gross physical	10.5%		15.2%		13.4%		39.1%	12

There are currently three discrete long ideas in the fund: Tenets 1, 2 and 3. The "other longs" are either ideas we are developing and working towards larger investments or positions we are selling. The short positions are three Australian mid to large cap investments. Each of these companies is regarded highly by the market. Our view is they are overvalued, there is confirmation of deterioration in their operating performance and they will struggle to realise the high expectations generally placed on them.

Tenet 1: US regional gaming

The fund has a 13.8% position in two US regional gaming and wagering businesses, the largest of which is an almost 10% investment in Churchill Downs Incorporated (CDI).

The core assets of CDI are:

- Freehold ownership of four horse racing tracks. Two of the tracks have sizeable regional casinos on their premises which are owned and operated by the company;
- Leading online (Advanced Deposit Wagering) wagering operations; and
- Standalone casino located in Mississippi.

The way we think about the physical footprint of the business is as follows:

Racetrack assets	Location	Trend in Tote pool	Trend in ADW pool	Casino gaming assets
Churchill Downs	Kentucky	GDP	up	n/a
Arlington Park	Illinois	down	up	n/a
Calder	Florida	down	up	1,200 slots
Fair Grounds	Louisiana	down	up	600 slots
Casino asset (stand alone)				
Harlows	Mississippi	n/a	n/a	900 slots

We consider that the business owns and operates the premiere US racing content in the Kentucky Derby. The performance around this event is similar to the Australian Spring Carnival, where the week of racing and associated events are consistently drawing record crowds and turnover.

Tote wagering turnover in America appears to be in decline - a trend that has been amplified in the current economic environment. Higher quality racing is holding its interest and growing, but the industry as a whole seems to be suffering from overcapacity. There has also been steady substitution of turnover from the tote to online sources (ADW). The company owns and operates the largest online businesses in America and this migration towards online turnover is accretive compared to the margins they earn in their traditional tote business. The environment for US racing is clearly difficult, but we feel Churchill Downs is well positioned given its skew towards higher quality racing and its strong positioning on the ADW / online business.

The two casinos that Churchill Downs own and operate at their tracks in Florida and Louisiana are the result of initiatives from the individual States to support the racing industry. The rationale for the licences is that a portion of the revenues from the slots are distributed to the racing industry stakeholders. The casino licences are valuable to the racetrack as they generate profits from their operation and improve the racing offering through higher prize money driving increased tote and ADW turnover. Ultimately, we think it is likely Churchill Downs will over time gain casino licences in both Illinois and Kentucky.

Over the past three years management have reinvested the free cashflow into two significant acquisitions:

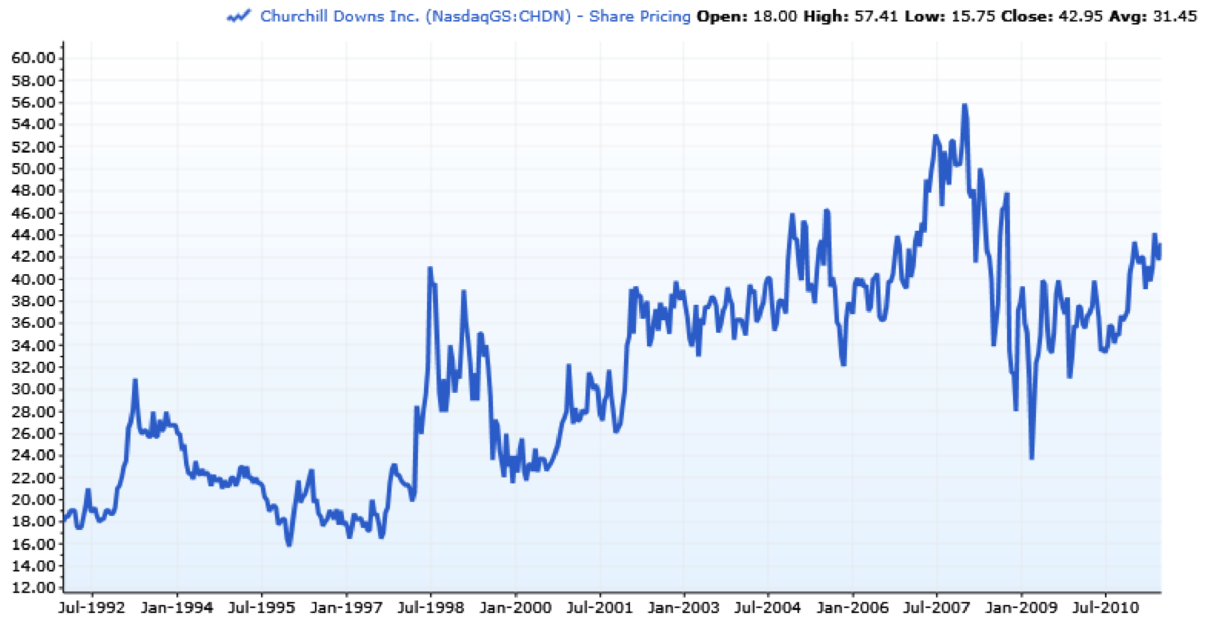
- building out their position in the online space; and
- acquiring a regional casino in September 2010 for $138m.

We hold management in high regard. They appear to have a strong operational focus, they are not wedded to racing ahead of shareholder returns and they have a strong understanding of return on investment / capital allocation decisions.

The current enterprise value of the business is US$950m and the balance sheet is modestly geared (ignoring the specifics of the investment arithmetic, US$950m strikes us as low in the context of the physical assets, businesses and content they own). After normalising the earnings base for the acquisitions, we expect CDI to generate about $105m in free cashflow (pre interest and tax but after capex) this year. Overtime we expect this coupon will grow organically at mid single digits driven by the quality of their racing content, specifically the Kentucky Derby, and the margin accretion the business realises from the substitution of turnover from the traditional tote to online sources. Given our view of the asset quality, modestly geared balance sheet and high regard for management, we are prepared to capitalise this coupon at 8.5%, suggesting a value for the company of $62 / share, compared to its current price of $43. Moreover, we regard our valuation as reasonably conservative – there is nothing attributed to the likelihood of additional casino licences in Illinois and Kentucky, improved performance from the racing business or a broader improvement in the economic environment. We think the market isn't realising this value because the cash generating power of the business has been obscured by the recent acquisitions and the market generally holding the view that racing is in decline. Our view is despite the overall decline, there are some desirable parts of the wagering business to invest in and we think we are getting confirmation of this view from the recent financial results of the company.

Following is a long term chart of CDI's share price. The fund acquired the bulk of its investment from May to July 2010.

ABN 34 136 795 170 | AFSL 341 474
PO Box R 1777, Royal Exchange Sydney NSW 1225
Ph (+ 612) 8241 – 1000 | www.longtailasset.com



Tenet 2: Pax trends

Approximately 10% of the fund's capital is invested in two European airports. Both have supportive regulatory frameworks, modestly geared balance sheets and either ownership or very long term stewardship of the individual assets. We are primarily attracted to airports as a means of capturing the structural long term trend of increased propensity to travel. This growth in passenger numbers is evident in airline operating data - the difficulty with airlines is generally there seems no limit to additional capacity which dilutes the investment returns from the growing passenger numbers. Our sense is destination airports are a means to leverage this positive passenger dynamic.

Airport activity is generally segmented into regulated activities and non-regulated retail and other activities. The regulated activities relate to providing a facility for planes to land and take off, and basic supporting infrastructure. The retail activities relate to the direct retail offerings, retail concessions, parking, commercial space and support infrastructure for airlines and maintenance. The regulated side of the business provides a predictable coupon consistent with the regulatory settings and passenger throughput. The retail and related offerings provide a return that is highly leveraged to passenger numbers which is a function of this increased propensity towards travel.

The market seems to value airport companies as a sector on basic headline valuation metrics, which we think at times fails to capture the nuances within the individual companies relating to passenger number risk, regulatory risk, retail offering potential and capital structure.

We regard the fund's airport investments as high quality assets that are operationally performing well. Both seem to have significant capacity to handle more passengers without the need to spend capital to match. We think the investment opportunity exists as the share prices of both investments are trading consistent with broader equity markets rather than reflecting the company specific attributes / opportunities. We feel we are getting confirmation of our thesis from the growing passenger numbers, implementation of regulatory frameworks and increased realised spend per passenger through the retail footprints.

Tenet 3: Newbanco

This idea is something we have been developing recently - it is evolving. Conceptually we regard Western interest rate settings as being an enabler for banks to rebuild their balance sheets. This stood out in the post we wrote on 15/04/2011. We think broadly a bank that has a strong brand, is well capitalised and has a clean balance sheet, should thrive in the current environment because:

- Deposit funding costs have essentially gone to zero (thanks to monetary policy settings);
- Lending standards are tightening;
- The value of the core property assets they are lending against have undergone a significant correction;
- Borrowers seem more risk adverse; and
- Generally, credit seems less available.

These points suggest loans written in the current environment should be highly profitable for the writers.

From a top down perspective the thematics seem in place to invest in banks. The difficulty we are having as our bank research efforts stretch beyond Australia is twofold.

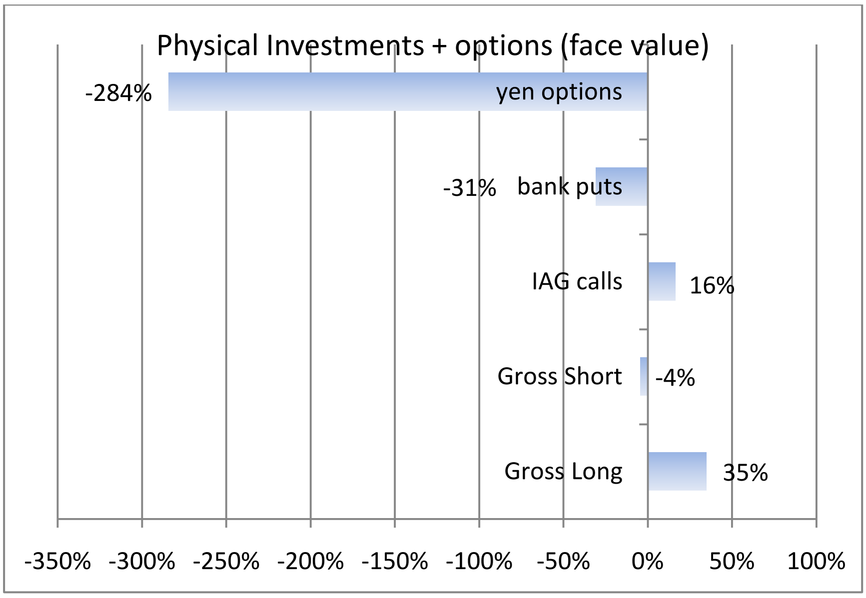
1) In an Australian context we feel we have a reasonable understanding of the history of the larger lenders with regard to credit and management culture. This gives us a sense for both the strengths of the individual organisations and also where problems are likely to arise. When we look offshore we just don't have this history to draw from. Our investment arguments seem to consistently fall back to thematic top down arguments rather than having confidence we have any company specific insight.

2) We also find ourselves second guessing where the regulators and political will is at with regard to the offshore banks. The numbers may point us towards wanting to invest but we have found it difficult to dimension the likely repercussions from the bailouts.

This process has led us to the newbanco line of thinking. There are a number of examples where essentially new / clean entities are being established to enter banking. We have seen instances of this where corporate entities or private equity led structures are being created to acquire banks with guarantees from the regulator with regard to the performance of the assets they are acquiring. There are also instances where existing organisations appear to have the infrastructure, expertise and the balance sheet to allocate capital to ramp up their banking activities. We are attracted to newbanco type investments as we think they are a clean exposure to the low cost deposit funding environment and the structures are unencumbered from the legacy balance sheet issues much of the industry seems to be dealing with. Newbanco entities seem well positioned to gain market share as a result government led initiatives that are intended to enable the incumbents to rebuild their balance sheets.

Trading and other positions

The fund currently holds three option positions where the cost of the premiums is approx 2.7% on an annualised basis. The three positions are the Yen puts, IAG calls and Australian bank puts. The option strikes were meaningfully out of the money when we acquired the various contracts, but the face value of the individual positions is significant in the context of the fund (as is illustrated in the following chart).



We see the advantages of using options in this manner as:

- Limiting the fund's risk to the cost of the premium;
- Gaining a focused exposure to the specific investment thesis we are looking to transpire; and
- Enabling the fund to acquire a large face value exposure relative to the size of the fund while risking a modest amount of capital in the cost of the premium.

Currency positioning and cash weighting

We are Australian based investors. We approach currencies with a view we are only going to carry direct foreign currency exposure when we actively want to own this currency rather than owning Australian dollars. The fund's default position is to be hedged back into Australian dollars - meaning if we don't have a view we actively want to own a currency, we will be hedged back. Currently the fund has an approximately 15% US dollar position as a result of its US equity investments. The fund also owns a sizeable out of the money Yen put option position (against the USD) as detailed above.

Over the year the cash weighting has been high which is a function of our idea generation rather than expressing a broader view regarding market prices. We are content to earn 5% type returns from money market funds and bank deposits until we identify suitable investments.

Conclusion

Our focus is to find large capitalisation Australian equity investments where we feel we have some insight as to why the business is mispriced and confirmation of why this valuation gap will close. We have a strong sense for the individual businesses we ultimately want to own and hopefully we will get what we regard as a genuine opportunity to acquire them.

Offshore our efforts are focused primarily towards utility / infrastructure and gaming investments - businesses we feel we have a sound background in. The fund's activity with regard to options is either for hedging purposes or to acquire an exposure where we think there is a compelling investment thesis, but for whatever reason we can't get comfortable with the downside risk of making a direct investment.

Over the past year, we have made profits from both our long and short investments, the yen position has cost roughly 2%, leaving the USD exposure unhedged from our equity investments was a drag and we are showing a small profit from the balance of the option activity.

The Information Memorandum for the fund can be downloaded from this page on our website. The fund is priced daily and offers daily applications and redemptions. Our thought process when we were establishing the fund was daily pricing gave investors a clearer line of sight to the underlying volatility and activities of the fund. The fund's performance can be accessed through this link.

Please don't hesitate to contact Nigel or myself if you would like to discuss investing in the fund or what we are up to in more detail.

Miles Webster & Nigel Trewartha

ABN 34 136 795 170 | AFSL 341 474
PO Box R 1777, Royal Exchange Sydney NSW 1225
Ph (+ 612) 8241 – 1000 | www.longtailasset.com

ABN 34 136 795 170 | AFSL 341 474
PO Box R 1777, Royal Exchange Sydney NSW 1225
Ph (+ 612) 8241 – 1000 | www.longtailasset.com