

Fund Positioning – 28th February, 2011

The fund's invested position is consistent with our last update in November. The gross invested position is 35.3% (32.6% long / 2.7% short) before accounting for the "trading and other" positions.

	Long (%)	Short (%)	Currency (%)
Australia	11.0%	-2.7%	77.1%
US	13.8%	0.0%	13.8%
UK / Europe	7.8%	0.0%	9.1%
Total	32.6%	-2.7%	100.0%
# investments	8	2	
# tenets (ideas)	5		
+ Trading & other			(- 2.7% annual)

The reporting period for local companies for the first half 2011 concluded today. Our assessment is the domestic market looks at best fair value. The most meaningful change to the portfolio is we sold an investment in Qube Logistics. This investment appreciated roughly 60% and contributed 2% to performance since we acquired it in May 2010. We would describe the other recent activity in the fund as being generally "maintenance", including:

- Trimming various long and short positions as they approached our assessment of fair value;
- Acquiring some short term out of the money put options on an Australian bank which we consider as a broad market hedge across the portfolio; and
- Acquiring out of the money call options in IAG. We sold a similar IAG option position in November 2010, since this time IAG's share price has fallen roughly 10% due to multiple earnings downgrades related to weather events and continuing losses in their UK operations. We regard these events as peripheral to the valuation of the business. Our central uncertainty regarding the investment relates to the sustainability of their high renewals in the domestic home and motor books (and why we isolated the investment to an option position rather than buying a direct investment.)

Other comments – fund structure

Our focus and intent is to identify what we regard as genuine company specific investment opportunities rather than being broadly invested and hoping an appreciating market does the work for us. The day we opened the fund the ASX 200 was 5001, today it closed at 4830 (this is the price index only and therefore does not account for dividends). There has been plenty of noise, bluster and volatility in between but the market has just gone sideways.

The structure and process of the fund reflects the manner we believe is most likely to deliver the optimal long term outcome for the investment of our own capital. Our preference is to find compelling domestic based equity investments. The fund has held a single domestic large capitalisation tenet to date (currently two companies comprising 6.4% of the fund's capital). At the time we purchased this investment we believed it would generate *"12 – 14% type annual returns over the next three years with the potential for additional upside from asset consolidation"*. This investment has returned 17% since we acquired it in April 2010. The balance of the activity in the large cap space has resulted in the investments in the IAG call options and a couple of short positions which have been more opportunistic in nature.

Occasionally we will find something in the small to mid cap space that we think we have a unique insight into and stands out as we did with the investment in Qube Logistics.

Our activities offshore are focussed towards infrastructure / utilities and the gaming sectors; two sectors we believe we have a strong background and knowledge base in. We don't feel we have any unique insight investing broadly in offshore markets, our preference is to narrow the universe down to a few discrete sectors that we feel we know well and that don't seem to hold much interest to the wider investment community. We are excited about the prospects of the investments we currently hold in Europe and America and believe there are likely to be opportunities to broaden exposure to these specific ideas over time.

The option activity in the fund is intended either for hedging purposes or to enable the fund to gain exposure to a specific investment which for whatever reason we are uncomfortable making a direct investment in.

The cash holding is an outcome of the ideas we have generated rather than being a specific targeted level. We are reasonably content to sit in cash until we find what we regard as appropriate investments.