

Fund positioning – 28th April, 2010

We opened the fund on the 15th of April. It is currently 10% invested, spread across three investment tenants; these tenants are diverse. One is a US equity investment, which we are looking to build towards 10% of the fund. The second tenant is a local investment, an ASX top 50 company. Currently our exposure to this tenant is through a single investment, ultimately we see this position as carrying up to 15% of the capital of the fund spread across two ASX listed companies. We believe both of these tenants are materially mispriced, our hope is the immediate volatility in markets will provide us with an opportunity to further build on these investments. Both are highly cash generative, mature businesses with reasonably geared balance sheets. Our horizon for the two investments is around three years.

The third tenant is a position looking to capitalise on the deterioration of a specific country's sovereign risk position. We have gained exposure to this position through acquiring a well out of the money option position looking to capitalise on a fundamental breakdown of the risk appetite trade. Our capital invested and total capital at risk in this position is 1.2% of the fund, ultimately we are looking to build the position towards 2%. We regard acquiring options in this manner as an efficient way of gaining exposure to this specific event while controlling the fund's risk around this position. If we are wrong, and we don't get the breakdown we are looking for the total cost to the fund (of the current position) will be 1.2% annualised. If the breakdown we are seeking does occur the position will contribute a meaningful positive return.

We are reasonably content to hold a significant cash weighting in the fund given the narrowness of the opportunities we are identifying.