

02/07/2014

Returns (to 30/06/2014)	Fund
Since inception* (annualised)	10.8%
Since inception* (cumulative)	54.8%
Rolling 3 year (annualised)	14.3%
Rolling 1 year	9.3%
Standard deviation	8.9%

Financial Year	2010	2011	2012	2013	2014
July		1.14%	-1.95%	-3.06%	2.03%
August		-0.33%	-0.32%	0.45%	1.42%
September		0.60%	-2.18%	1.89%	0.52%
October		2.12%	0.83%	1.30%	1.43%
November		0.47%	-1.22%	-2.46%	3.97%
December		-0.24%	0.27%	6.93%	1.13%
January		0.31%	0.84%	9.92%	-0.54%
February		1.78%	0.02%	2.69%	-0.81%
March		1.06%	5.59%	-0.44%	-1.45%
April	0.04%*	-1.94%	1.62%	4.45%	0.08%
May	-0.78%	1.01%	-0.37%	8.63%	1.29%
June	-0.76%	-0.70%	-2.58%	1.68%	0.02%
Financial Year	-1.49%	5.33%	0.29%	36.1%	9.3%
Calendar Year		-3.10%	10.12%	43.95%	

* Inception date: 15/04/2010

The fund's daily unit price and distribution details can be downloaded via this [link](#).

Fund performance

The fund's long investments contributed 17% in local currencies over the year ending June 30. The contribution was reasonably broad based. Through the year we decreased the gross long investments from 61% and 16 individual investments at the beginning of the year to 46% and 12 individual investments at 30 June. Much of this reduction involved reducing exposure to the US Wagering and European Airport tenets due to the appreciation of the underlying investments. More recent purchases in the fund have been directed towards businesses we regard as "tolls on the real economy". These businesses are asset heavy industrial services businesses that we believe have a degree of pricing power. We regard these businesses as highly desirable long term investments

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given our belief that they are well positioned to pass on cost pressures, and in a sense, negotiate through an environment where cash is being progressively devalued due to government stimulus efforts.

The short investments cost the fund 1.6% over the year. Approximately 1% of the cost resulted from a number of short investments (4 investments, 9% of the fund's capital) in the local regulated utility space. We perceived these businesses were over levered and their equity values unsustainable in an increasingly tightening regulatory environment. However, our thinking changed through the year as more recent regulatory rulings were more favourable to the operators / asset owners than we expected. As a result we closed out the utility short positions. In addition the fund held a put option position in Seek which expired worthless at a cost of 0.6%.

The appreciation in the Australian dollar against the USD and Euro was a drag on performance of 0.8%. In addition, we spent 0.5% on currency hedges to provide a degree of protection against the currency exposures that result from the equity investments in the US and European markets. We acquired well out of the money AUD call options against the USD and Euro as a form of protection against a material appreciation in the AUD (or maybe more to the point a material depreciation in the USD or Euro). As volatility globally decreased, the cost of rolling this protection has progressively decreased.

Equity derivative positions cost the fund 1.5%. At times during the year, we were active buying well out of the money put options against large cap domestic businesses that we regard as reasonable proxies for global risk. We perceive these positions offer a degree of protection against the invested position of the fund if / when asset prices correct.

The Yen options cost the fund 2%. The balance of the contribution to the results was the management fee of 1.25%.

Fund positioning

The fund is long:

- A collection of businesses we regard highly and consider to be desirable longer term investments despite the environment that eventuates. We will seek to increase the number of holdings and amount of capital allocated to these investments through periods of stress.
- Cash. We regard this as an asset that provides the fund with considerable flexibility to be aggressive as opportunities arise.

The fund is short:

- The JPY against the USD. We have continued to manage the spend to 2% of the fund's capital on an annual basis. We have used the declines in volatility globally to extend the maturity and increase the size of this position, while maintaining the cost at 2%.

Much of the appreciation in asset prices over the past three years has come from a re-rating due to yield compression rather than underlying earnings and cashflow growth. Our investments have also benefitted from this dynamic. The long investments the fund holds today probably carry more

market risk than they have previously due to this underlying valuation re-rating. Accordingly we have narrowed the number of positions, reduced the invested position and continued to acquire some additional protection; all of which we see as consistent and rational given our assessment of the current investment opportunity set.

	Long (%)	Short (%)	Currency (%)
Australia	9	0	70
United States*	24	0	19
UK/Europe*	14	0	11
Total	46	0	100
Derivatives (annual cost)	3.4		

Notes: Data as at 30th June 2014. * Euro & USD approximate only.

	Australia		United States		UK/Europe		Total	
	%	no/.	%	no/.	%	no/.	%	no/.
Tenet 1: US wagering			8	2			8	2
Tenet 2: European airports					9	2	9	2
Tenet 3: Not disclosed			8	2			8	2
Other tenets	9	2	8	2	4	2	21	6
Gross Long	9	2	24	6	14	4	46	12
Gross short								
Gross invested position	9	2	24	6	14	4	46	12
Derivatives (annual cost)							3	4

Notes: Totals may not add due to rounding. Data as at 30th June 2014.

