

1 October 2014

Performance Update

| Returns (to 30/09/2014) | Fund |
|-------------------------------|-------|
| Since inception* (annualised) | 11.6% |
| Since inception* (cumulative) | 63.8% |
| Rolling 3 year (annualised) | 18.2% |
| Rolling 1 year | 11.2% |
| Standard deviation | 8.8% |

| Financial Year | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|----------------|--------|--------|--------|--------|--------|--------|
| July | | 1.14% | -1.95% | -3.06% | 2.03% | 1.98% |
| August | | -0.33% | -0.32% | 0.45% | 1.42% | -0.39% |
| September | | 0.60% | -2.18% | 1.89% | 0.52% | 4.18% |
| 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](#).

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Portfolio Update

Long Investments: 48%

The fund holds 14 individual long equity investments, invested primarily in four discrete ideas.

We have previously detailed our rationale behind two of the ideas; the long standing investments in the European airport and US wagering sectors. More recently the fund has expanded into a new idea centred around businesses that we perceive as “tolls on the real economy”. This idea currently holds three US based companies and 12% of the fund’s capital. On face value these businesses appear unrelated but it is their perceived ability to continue to operate, generate cash and build economic value over time regardless of the economic environment that connects them.

Like many others, we hold concerns about the longer term impacts of the quantitative easing policies being pursued by Western governments. Our thinking has evolved through a process of taking these distortions to their logical end point and considering how best to preserve capital in real terms in this environment. Cash does not seem like the answer as its purchasing power is progressively being eroded and while some hard assets may be okay we haven’t had any real success in identifying operating businesses that we felt stacked up. The evolution of this thought process led us to a handful of well established industrial businesses with strong reputations, customer connections and networks that we perceive are positioned to adapt and remain relevant despite the environment. We are prepared to take equity market risk and lock capital away into these types of businesses longer term. We will use increased volatility and equity market pull backs as opportunities to increase the number and size of investments the fund has in these types of businesses.

We are heading to Texas, Florida and New York in November to explore a relatively new investment. The idea has stemmed from a recent corporate transaction involving a company we have been aware of for some time. We had peripherally looked at similar businesses before and regarded them as low quality, cyclical businesses with low barriers to entry. The more we looked at the recent corporate transaction and related companies, the more we think this peripheral view may miss something fundamental about the underlying quality of these businesses. We have a number of meetings and asset site visits organised which will hopefully enable us to learn more about what drives these businesses and what differentiates the successful operators from the group. We have established a small position in one of the companies in this area.

Looking more broadly at the characteristics of the individual long investments, the largest position is nearly 7% and nine positions are between 3% and 5% of the fund’s capital.

Over the past year we have reduced the size of some of the larger, longer standing investments, including Churchill Downs which is a 4% position today compared to 14% at its peak in May 2013 and Flughafen Wein (Vienna Airport) which is currently a 3% position compared to 7% at its peak in December 2012.

More recent activity has included an investment in Treasury Wine Estates (TWE) which we acquired in April 2014 at \$3.73 and divested in August 2014 at \$5.29, realising a return of slightly over 40% and contributing 1.2% to the fund’s performance.

We believe the long exposure held in the fund does carry more market risk than the overall invested position suggests due to the small cap nature of some of the investments. The fund has nearly 7% of its capital invested in two companies with sub \$100m market caps and an additional 14% in 4 companies with a market cap between \$100m and \$3,000m. Given the size of these businesses we expect they are more vulnerable to being sold down than the broader indices should equity markets pull back.

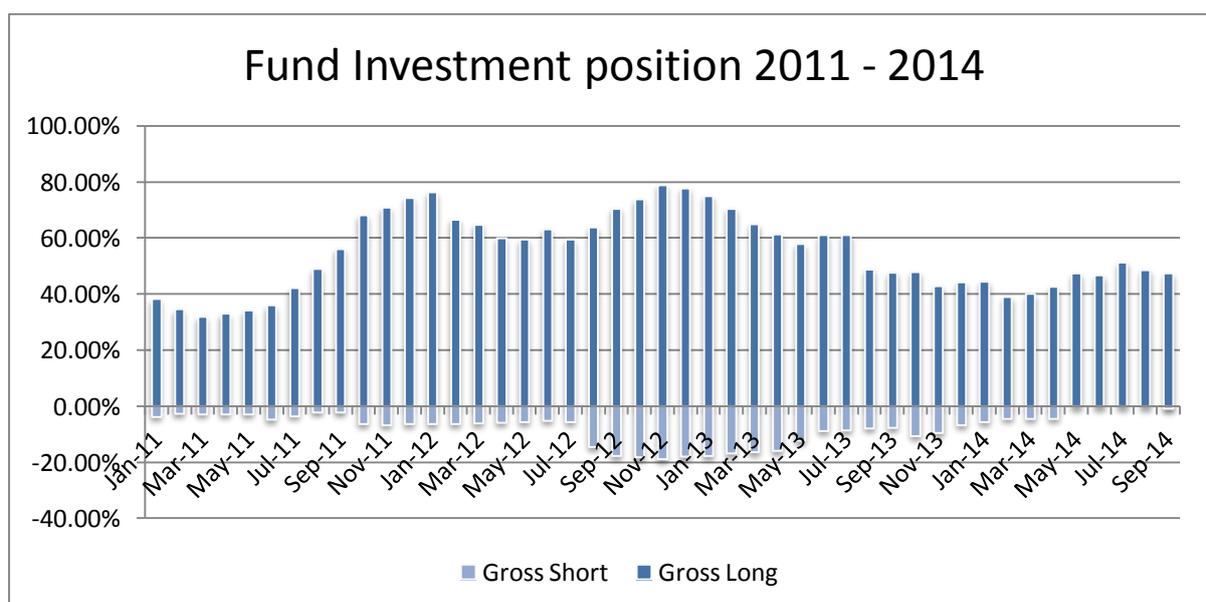
The following summarises the fund's current positioning.

| | Long (%) | Short (%) | Currency (%) |
|---------------------------|----------|-----------|--------------|
| Australia | 4 | 1 | 65 |
| United States* | 34 | 0 | 27 |
| UK/Europe* | 10 | 0 | 8 |
| Total | 48 | 1 | 100 |
| Derivatives (annual cost) | 3 | | |

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

| | Australia | | United States | | UK/Europe | | Total | |
|-----------------------------|-----------|------|---------------|------|-----------|------|-------|------|
| | % | no/. | % | no/. | % | no/. | % | no/. |
| Tenet 1: US wagering | | | 7 | 2 | | | 7 | 2 |
| Tenet 2: European airports | | | | | 6 | 2 | 6 | 2 |
| Tenet 3: Not disclosed | | | 10 | 2 | | | 10 | 2 |
| Tenet 4: Real economy tolls | | | 12 | 3 | | | 12 | 3 |
| Other tenets | 4 | 1 | 5 | 2 | 4 | 2 | 13 | 5 |
| Gross Long | 4 | 1 | 34 | 9 | 10 | 4 | 48 | 14 |
| Gross short | 1 | 2 | | | | | 1 | 2 |
| Gross invested position | 5 | 3 | 34 | 9 | 10 | 4 | 49 | 16 |
| Derivatives (annual cost) | | | | | | | 3 | 4 |

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



Yen Short: 4%

Given the recent weakness in the JPY/USD and the appreciation in value of the fund's Yen option position, we thought it timely to provide an update.

As described in [previous documents](#) from us, the fund's short position in the Yen is based on our concerns regarding the solvency position of the Japanese government.

Recently the Yen seems to have weakened against the USD due to the perception the US economy is accelerating and monetary stimulus will be reduced at a time when the Japanese economy appears to be stalling and stimulus likely increased. This view has fuelled a "buy dollar / sell Yen" trade which the fund has benefitted from through its Yen position.

We recognise the sell Yen trade is somewhat crowded and topical yet we are content to persist being of the view the current market and media focus is really just noise in the context of the solvency issue that we perceive to exist.

At the end of September the value of the fund's Yen option was approximately 4% of the fund's capital (note the fund spends around 2% of its capital on these options per year). The appreciation in the value of the option, the size of the exposure and proximity of the JPY/USD to the option strike price means the day to day volatility of the fund's NAV will likely increase as the daily change in the option value is reflected in the NAV. This day to day volatility does not concern us. We hold the position for a specific reason and that reason has not been realised; it doesn't make sense to us to be reducing the position simply because it has appreciated.

If the Yen tracks sideways or appreciates against the USD, the fund's current Yen option will expire worthless. Should the Yen continue to weaken the option could make a material positive contribution to the fund's NAV.

Mandate Offering

In addition to the fund, we also offer a single stock / single idea investment mandate offering.

We perceive the offering is appropriate for large institutional investors investing in the ASX large cap space. Occasionally we perceive there are discrete opportunities to invest a significant amount of capital into compelling opportunities in this area; the mandate offering is designed to operate in this manner.

Since the fund's inception on April 15th 2010, it has owned in total three large capitalisation Australian investments. The first two investments we perceived as appropriate for a single stock / single idea investment mandate. The third idea was TWE (as outlined earlier) but given the issues around the TWE investment we did not regard it as an appropriate candidate for a mandate investment.

This level of idea generation is consistent with our expectations. We expect every eighteen months or so we are likely to come up with an investment idea that is worth some serious consideration as a discrete co-investment opportunity. We think the results from the three large cap Australian investments the fund has owned do support us having an investment capability in this regard. There is more detail about the terms and structure of our mandate offering available through this [link](#) on our website.

Final Thoughts

We established Long Tail and the fund and mandate investment offerings in a manner that enables us to manage capital in the way we perceive is optimal. We control the timing and the size of all investments and we are free from any institutional imperative to gather assets or invest in areas we consider to be marginal.

The fund is the vehicle through which our own personal capital is invested. The mandates are structured to enable large investors to co-invest in some of our discrete ideas. We perceive the mandate structure is rigorous, efficient and scales up well for larger institutional investors.

Please do not hesitate to contact us to discuss our activities in more detail.

Regards,

Miles Webster & Nigel Trewartha.

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