

04/04/2016

There were no material changes to the Fund's positioning over the quarter.

Following the usual tables we publish for the quarterly report, we have included a summary set of numbers for the Japanese government general account budget, updated for 2016. We view the deterioration in the Japanese government's solvency position as being progressive and relentless. This view is the basis of the Yen put option position the Fund has carried since its inception in 2010.

Through the quarter, it did focus our thinking to see the Japanese government issuing 10 year JGBs (largely to the Bank of Japan) at negative interest rates. We feel if the yield curve is mispriced or manipulated, then the exchange rate is the primary valve through which this distortion will be reflected. It is a strange dynamic; our bias is certainly towards maintaining a full position in the Yen puts.

When we reflect on the activities of the Japanese government and the BoJ, it is hard not to question fiat currency systems more broadly. This thought process does impact the nature of the businesses we are tending towards. Previously we have referred to some common characteristics of the Fund's long investments, including: a degree of pricing power; reasonable balance sheets; scale in the context of their individual markets; and significant and real internal reinvestment opportunities. Collectively, we refer to these investments as "tolls on the real economy". They are not necessarily infrastructure investments, rather these businesses have traits that we perceive will enable them to survive and ultimately generate reasonable real returns for their owners despite the monetary and political environment that ensues. Of the Fund's 48% gross long exposure, we consider 35% to have these characteristics. We expect markets will continue to be volatile; ultimately our objective is to use periods of weakness to increase the gross long exposure, both by increasing some existing investments and expanding towards some new areas of interest.

Please do not hesitate to contact Miles, Nigel or Toby if you would like to discuss our activities in detail.

The fund is the primary vehicle for the investment of our capital. Its current traits are:

- Highly stock specific investments that are concentrated in our few key ideas;
- The key ideas generally relate to companies that are not well known or popular investments;
- The fund currently has a significant USD and Euro exposure as a result of individual equity investments in these geographies;
- There is a meaningful mid cap / micro cap bias to the investments;
- Managed with consideration of tax for Australian investors; and
- A meaningful short exposure to the Yen.

Returns (to 31/03/2016)	Fund
Since inception* (annualised)	10.7%
Since inception* (cumulative)	83.5%
Rolling 5 year (annualised)	11.7%
Rolling 3 year (annualised)	14.4%
Rolling 1 year	-6.9%
Standard deviation	9.3%

Financial Year	2010	2011	2012	2013	2014	2015	2016
July		1.14%	-1.95%	-3.06%	2.03%	1.98%	0.45%
August		-0.33%	-0.32%	0.45%	1.42%	-0.39%	-1.39%
September		0.60%	-2.18%	1.89%	0.52%	4.18%	-1.19%
October		2.12%	0.83%	1.30%	1.43%	2.53%	0.27%
November		0.47%	-1.22%	-2.46%	3.97%	11.10%	0.60%
December		-0.24%	0.27%	6.93%	1.13%	3.00%	-3.07%
January		0.31%	0.84%	9.92%	-0.54%	0.97%	-1.77%
February		1.78%	0.02%	2.69%	-0.81%	1.57%	1.77%
March		1.06%	5.59%	-0.44%	-1.45%	-0.04%	-0.84%
April	*0.04%	-1.94%	1.62%	4.45%	0.08%	0.32%	
May	-0.78%	1.01%	-0.37%	8.63%	1.29%	0.47%	
June	-0.76%	-0.70%	-2.58%	1.68%	0.02%	-2.61%	
Financial Year	-1.49%	5.33%	0.29%	36.06%	9.33%	24.95%	
Calendar Year		-3.10%	10.12%	43.95%	22.40%	-3.70%	

* Inception date: 15/04/2010

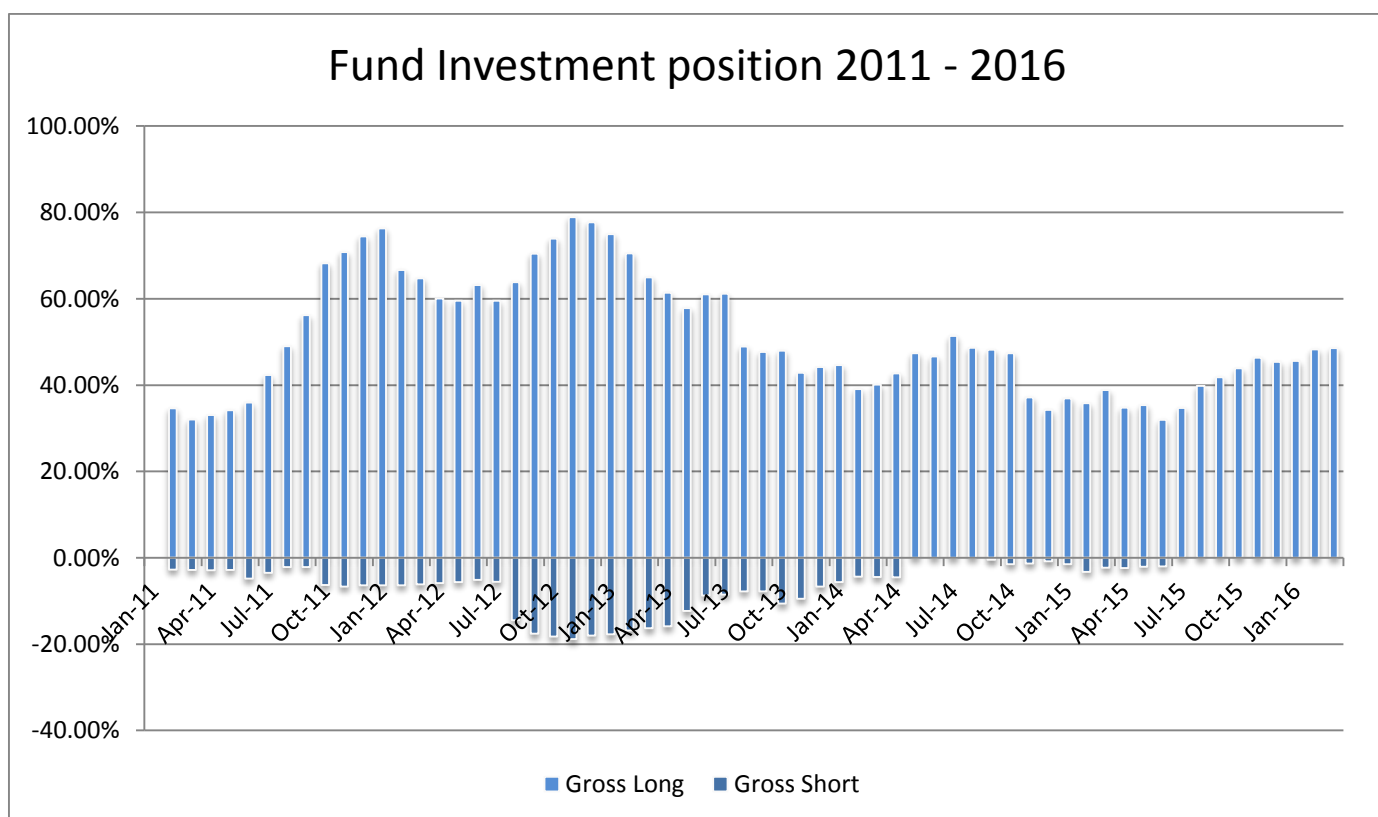
- The fund's daily unit price and distribution details can be downloaded via this [link](#).

	Long (%)	Short (%)	Currency (%)
Australia	0	0	61
United States*	37	0	30
UK/Europe*	11	0	9
Total	48	0	100
Derivatives (annual cost)	3		

Notes: Data as at 31st March 2016. * Euro & USD approximate only.

	Australia		United States		UK/Europe		Total	
	%	no/.	%	no/.	%	no/.	%	no/.
Tenet 1: Energy Related			13	2			13	2
Tenet 2:			14	2			14	2
Whole Foods Market			4	1			4	1
Deere & Company			3	1			3	1
Saft Groupe					4	1	4	1
Dover Downs Gaming			2	1			2	1
Other					7	3	7	3
Gross long			37	7	11	4	48	11
Gross short								
Gross invested position			37	7	11	4	48	11
Derivatives (annual cost)							3	3

Notes: Totals may not add due to rounding. Data as at 31st March 2016



Japan - General Account Budget (Trillions of Yen unless otherwise stated)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenue	62	60	59	60	62	56	57	60	57	52	50	53	58	57	59	56	49	48	48	46	47	55	59	62
Expenditures	72	71	74	73	73	77	79	78	78	77	75	75	74	70	70	73	92	81	80	78	80	83	83	83
Deficit	- 10	- 11	- 15	- 13	- 11	- 22	- 22	- 18	- 21	- 24	- 24	- 21	- 16	- 14	- 11	- 17	- 43	- 33	-31	-32	-33	-28	-24	-21
Deficit % GDP	-2	-2	-3	-3	-2	-4	-4	-3	-4	-5	-5	-4	-3	-3	-2	-3	-9	-7	-7	-7	-7	-6	-5	-4
GDP	491	496	502	512	523	512	505	510	506	499	499	504	504	507	513	501	471	483	472	475	480	488	500	505
Employment (millions)	65	65	65	65	66	65	65	64	64	63	63	63	64	64	64	64	63	63	63	63	63	64	64	64
Current a/c % GDP	3.0	2.7	2.1	1.5	2.2	2.9	2.6	2.8	2.1	2.7	3.2	3.9	3.7	4.0	4.9	2.9	2.9	4.0	2.2	1.0	0.8	0.5	3.0	3.0
Household savings %**	14	13	12	10	8	9	8	7	4	3	3	2	1	1	1	0	2	2	3	1	0	1	2	1
Gross debt*	392	427	477	524	571	623	685	733	777	819	846	910	939	942	939	961	991	1,042	1,083	1,125	1,165	1,200	1,229	1,252
Net debt*	81	93	115	144	178	229	264	300	331	372	387	415	414	411	413	478	500	546	600	613	590	615	630	647
Gross debt % GDP	80	86	95	102	109	122	136	144	154	164	170	181	186	186	183	192	210	216	230	237	243	246	246	248
Net debt % GDP	16	19	23	28	34	45	52	59	66	74	78	82	82	81	80	95	106	113	127	129	123	126	126	128
JGBs held by BoJ as % total																8	9	9	10	12	19	26	33	
Monetary base***	40	42	44	48	51	56	60	65	69	87	101	109	111	96	89	89	94	98	113	121	163	234	313	

Notes / Sources: Japan Ministry of Finance, IMF, OECD, BoJ. 2016 forecasts from Japan Ministry of Finance, IMF and OECD. * General Government. ** as % of disposal household income. *** There are many ways to measure money supply each with their own characteristics.

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