Fund Positioning – 17th April 2013

The fund turned three years on the 15th of April. Its results after all fees are detailed below.

Returns	Fund
Since inception (annualised)	8.4%
Since inception (cumulative)	27.3%
Rolling 3 year	8.4%
Rolling 1 year	20.5%
Standard deviation	8.97%
Best month	9.92%
Worst month	-3.06%
Worst draw down	-6.34%
Time to recovery (months)	11

Financial Year	2010	2011	2012	2013
July		1.14%	-1.95%	-3.06%
August		-0.33%	-0.32%	0.45%
September		0.60%	-2.18%	1.89%
October		2.12%	0.83%	1.30%
November		0.47%	-1.22%	-2.46%
December		-0.24%	0.27%	6.93%
January		0.31%	0.84%	9.92%
February		1.78%	0.02%	2.69%
March		1.06%	5.59%	-0.44%
April	0.04%*	-1.94%	1.62%	
May	-0.78%	1.01%	-0.37%	
June	-0.76%	-0.70%	-2.58%	
Financial Year	-1.49%	5.33%	0.29%	
Calendar Year		-3.10%	10.12%	

Since inception the fund's annualised return is 3 to 5% ahead of local and international large cap accumulation equity indices and the negative deviation has been considerably lower. The lower negative deviation has come about from the periodic use of derivatives as protection, the cash the fund has tended to hold and also the structure of the Yen position and the nature of these gains.

ABN 34 136 795 170 | AFSL 341 474
PO Box R 1777, Royal Exchange Sydney NSW 1225
Ph (+ 612) 8241 – 1000 | www.longtailasset.com

In the tables above we have not compared the fund's results to the popular equity indices. Since inception the numbers compare well (in our opinion), but we have not made this explicit because we think if a manager with our flexibility to invest broadly heads down that path it becomes easy to slip into a relative return mentality during periods of poor absolute performance.

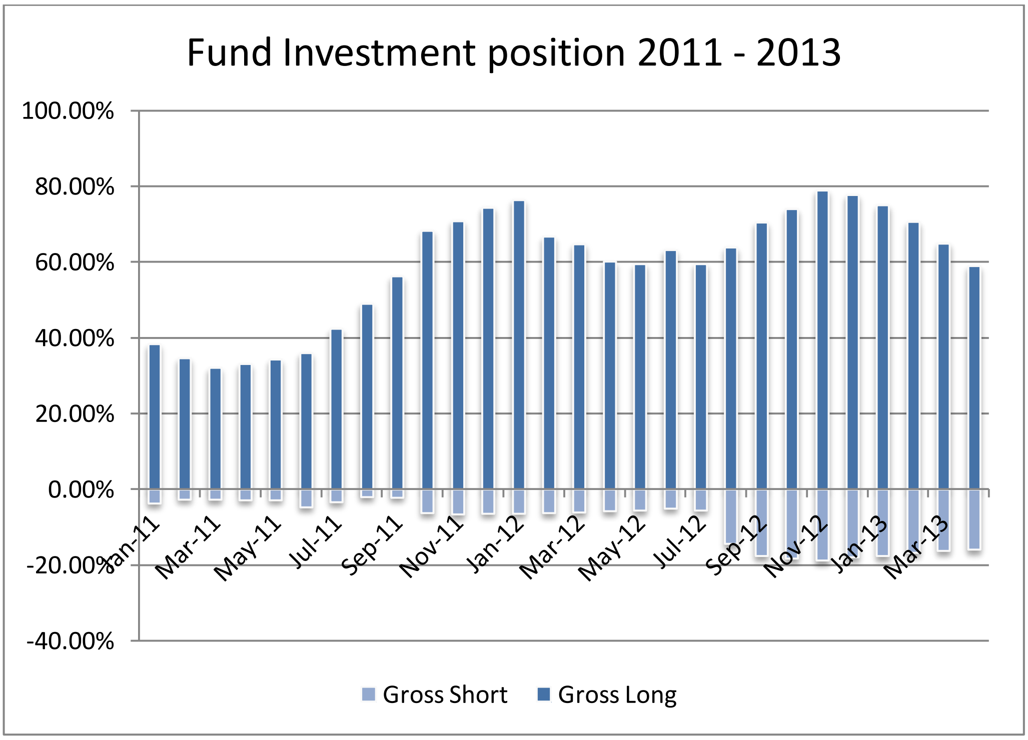
We invest to make real returns where we perceive we have a specific insight and confirmation of this insight. Without this our preference is to hold cash rather than what we regard as passive equity investments. Over time we want to deliver real positive returns from the opportunities available. We expect if we do this well our results will be well ahead of both cash and the popular equity indices.

The fund's daily unit price and distribution details can be downloaded via this link. The excel spreadsheet is intended to make our performance data transparent and accessible to third parties to enable comparison of our results to the indicies and risk measures of their choosing.

Fund Update

The intraday volatility in the JGB market since the BOJ announcement on the 4th of April is to some degree a concern to us. This concern was compounded by the weakness in gold over the past week. It is quite likely our concerns are misplaced as these moves have been largely isolated. Nevertheless, recent activity in the fund has involved increasing the amount of short term downside protection.

The following chart and tables outline our invested position.



	Long (%)	Short (%)	Currency (%)
Australia	7	16	50
United States	31	0	31
UK/Europe*	21	0	19
Total	59	16	100
Derivatives (annual cost)	2		

Notes: Data as at 15 April 2013. * Euro approximate only.

	Australia		United States		UK/Europe		Total	
	%	no/.	%	no/.	%	no/.	%	no/.
Tenet 1: US wagering			16	2			16	2
Tenet 2: European airports					18	3	18	3
Tenet 3: Not disclosed			5	1			5	1
Other tenets	7	3	10	3	3	2	20	8
Gross Long	7	3	31	6	21	5	59	14
Gross short	16	6					16	6
Gross invested position	22	9	31	6	21	5	74	20
Derivatives (annual cost)							2	2

Notes: Data as at 15 April 2013.

The fund currently has five key investment ideas (tenets).

Three tenets are long investment ideas. The two most significant long tenets are the investments in the US wagering industry (two investments, 16% of capital) and investments in European airports (three investments, 18% of capital).

The key short investment tenets are the position in the domestic regulated utilities (4 positions, 11% of capital) and the derivative position shorting the Yen against the USD.

If you are interested in reading our thoughts related to these positions they can be accessed via the following links:

- US Wagering
- Regulated Utilities
- Yen

In March we spent some time in the US. Following we have detailed the highlights of the trip and our thoughts on Calpine, an investment the fund has held since 2011. Please don't hesitate to contact us if you would like more information about the fund or investing with us.

US Trip Report

The focus of the trip was to meet with Calpine and conduct further due diligence on two US infrastructure businesses. We also took the opportunity to visit two casinos in Mississippi recently acquired by Churchill Downs, a significant investment in the fund.

Calpine

We visited Calpine in Houston. The fund established a position in Calpine in mid / late 2011 and added to it during 2012. The position is 5% of the fund. The fund's entry cost is around $14 compared to the current price of over $21.

Calpine is a merchant electricity generator that owns approximately 28,000 MW of predominately combined cycle gas turbine generation capacity in the US. This capacity is primarily concentrated in the North East (PJM electricity market), Texas, California and the South East. Calpine has a market capitalisation of around $9 billion and enterprise value of around $18.5 billion (they have plenty of debt).

Calpine has a chequered history following its rapid build out of new gas fired generation capacity in the early 2000s. Lower than expected electricity prices and high leverage lead to its financial collapse and Chapter 11 bankruptcy in 2005. Calpine re-emerged from bankruptcy in 2008 with a new management team, new balance sheet and a large fleet of almost brand new, highly efficient, low emission, combined cycle gas electricity generation plants.

Our Calpine investment tenet is that changes to US environmental policy will have a positive impact on gas fired electricity generation margins. The tenet also picks up on the tightening electricity demand-supply situation in Texas.

US environmental policy as it relates to electricity generators has progressed over the last few years to the point that something is actually starting to happen. The key changes are the pending introduction of the MATS and CSAPR rules. CSAPR will regulate emissions of SOx and NOx, while MATS will regulate emissions of mercury and other toxics. The impact is particularly felt by coal fired generators. The consequences over time for coal generators are lower output, more retirements, greater capital expenditure, and / or higher operating costs. For a given level of fuel costs, these consequences change the position and shape of the electricity supply curve with efficient gas fired generators being able to dispatch at higher prices and more often, thereby increasing their profitability. The evolution of the CSAPR and MATS rules has been very long and we expect the implementation to be no different. Legal challenges to these rules and their interpretation will continue – perhaps best described as two steps forward and one step back. However, we think the trend of tighter environmental controls is clear.

The situation for coal fired generators has been exacerbated by the fall in US natural gas prices over the last few years. Lower gas prices have made gas fired generators more competitive relative to coal, resulting in "coal to gas switching", whereby efficient gas generation is dispatched ahead of coal. However, our position in Calpine has never been premised on low natural gas prices. Indeed, a key part of our research process included understanding the impact on Calpine of rising and falling natural gas prices. In particular, we wanted to know whether Calpine could grow its earnings in a declining natural gas price environment.[1] Our work included developing a regional financial model of Calpine's operations so we could get a feel for their sensitivity to natural gas prices, dispatch assumptions, market heat rates, operating heat rates and other variables.

In addition to the environmental rule changes noted above which impact on many electricity markets in the US, Texas faces an increasingly tight electricity demand-supply situation. The predicament is that Texas electricity forward curves have (until more recently) been stubbornly low and flat, and hence not provided the normal price signal to incentivise new generation. The most prevalent reason for this is that natural buyers of electricity (e.g. retailers) have been reluctant to contract out more than a year or so (their contracts with customers typically do not extend beyond a year), leaving forward prices beyond this point depressed (i.e. generators are long electricity but there is little demand beyond the next year). However, with ongoing electricity demand growth and demand-supply continuing to tighten, PUCT and ERCOT (the Texas regulator and electricity grid operator) have implemented some changes to allow higher electricity prices and are giving consideration to other concepts such as a capacity market.[2] While a capacity market is some time off (if it happens at all), these changes and further recognition of the tight demand-supply balance has recently translated into a lift in forward curves – in particular, the 2014/15 forwards are starting to edge up towards the level required to justify new build economics. This should translate into higher earnings for Calpine given its large presence in Texas.

Overall, we are seeing confirmation in our Calpine investment tenet as the CSAPR and MATS rules progress (albeit with regular set-backs), ongoing coal generation plant retirements, recognition in the Texas electricity market of the tight demand-supply balance, and forward electricity curves appear to be moving higher.[3]

Calpine is guiding to slightly less than $2 billion in EBITDA this year and ongoing capital expenditure should be around $350 million, implying an unleveraged coupon of around $1.5 billion or yield of around 8% on an enterprise value of $18.5 billion[4]. There should be material upside from here if spark spreads / market heat rates in Texas, PJM and other markets move closer to the levels required to justify new build economics. It is also worth noting that the current enterprise value of $18.5 billion compares to a replacement cost in the vicinity of $30 billion.

New US infrastructure opportunity

Our US trip provided the opportunity to meet with management and conduct facility tours of two companies that we have been researching since mid 2012. These two companies do not have traditional infrastructure businesses, however, they have many of the attributes including the basic

[1] A common rule of thumb is lower natural gas prices mean lower earnings for gas fired generators. However, the relationship is more complex than this.

[2] Texas is an "energy" only market whereas PJM is an "energy" and "capacity" market. Capacity markets pay generators a fee for making available their generation capacity and therefore provide another revenue stream.

[3] Note that we do not expect forward curves to necessarily sustain or even reach the levels required to justify new build economics – someone will always build ahead of the curve thereby increasing supply and depressing prices. However, we think there is scope for spark spreads / market heat rates to improve and for this to be reflected in future earnings.

[4] Calpine has significant unused tax losses which we have not reflected in our valuation.

physical and organisational structures that provide an essential service to the business and wider community. The businesses have significant barriers to entry, extensive operating histories and are not subject to price regulation.

The fund has a 5% position in one of the companies and there may be an opportunity to broaden this exposure.

Terms and conditions

This document is only made available to wholesale clients as that term is used in sections 761G and 761GA of the Corporations Act 2001 (Cth).

Long Tail Asset Management Pty Limited holds an AFS Licence (number 341474). The information provided in this document is only intended to describe the activities of the Fund to existing and prospective investors. As such the information is generic in its nature and does not and cannot take into account an investor's objectives, financial position or needs. Investors should rely upon their own enquiries and analysis as to the merits and risks in deciding whether to make any investment and seek appropriate advice as necessary prior to making any investment decision. The document contains general financial product advice only.

You should understand that any forecasts or opinions in this document regarding the direction or prospects of any investment or market are based on a number of assumptions and may not be realised. Such forecasts or assumptions may change from time to time without notice to you.

Long Tail Asset Management Pty Limited has taken all reasonable care and believes that the information in this document is correct and accurate but no warranty or assurance is made with respect to its completeness, currency or accuracy, and neither Long Tail Asset Management Pty Limited nor its related bodies corporate, agents, Directors, officers, employees or advisers are, to the extent permitted by law, responsible for loss or damage suffered as a result of reliance by any investor or prospective investor on any statements, opinions or data contained in this document.

Investors should be aware of the risks of investing in products offered by Long Tail Asset Management Pty Limited. Prior to investing in a Fund operated by us you should read the Information Memorandum carefully and fully understand the risk factors.

Long Tail Asset Management Pty Limited does not guarantee or assure the return of all or any capital invested, nor the performance or profitability of its Fund. Investors should be aware that past performance of the Fund is not indicative of the performance which may be achieved in the future and is not a reliable indicator of future performance. No representation is made that profits will be achieved on behalf of the Fund or losses will be avoided in the future.

To the maximum extent permitted by law, the information and opinions contained in this document are provided without any warranty of any kind. Long Tail Asset Management Pty Limited and its associates expressly disclaim all liability for any loss or damage of any kind (including direct, indirect, special and consequential loss and damage of business revenue, loss of profits, loss or corruption of data, failure to realise expected profits or savings or other commercial or economic loss of any kind), whether reasonably foreseeable or not, incurred or suffered by any person arising out of or in any way related to this document.