

02/10/2015

The recent decline in equity markets has attracted a fair amount of broader attention. However, a look at the S&P 500 chart shows that it is minor in the context of the run up over recent years. While we continue to actively search for opportunities to deploy capital, genuine investment ideas are hard to find and we are not interested in marginal ideas. The Fund continues to have a significant cash holding (58%).

Our framework for investing in the current environment has not changed from that outlined in the 2014 Investor Letter. We are attracted to businesses where we perceive:

- A real and meaningful internal reinvestment opportunity to earn attractive returns;
- Hard to displace - despite the economic environment that eventuates;
- Ability to negotiate volatile economic conditions; and
- Nature of their products and services enables them to pass on costs.

During the quarter the Fund increased its gross long exposure from eight investments and 32% to nine investments and 42%. Activity included:

- Buying a new 3.5% position in a large cap (US\$20 billion) US listed global company. This business was established over 100 years ago. We regard it as an extremely high quality, well managed manufacturing business that operates in a highly cyclical space. The business has over time steadily built a highly regarded and recognised global brand, global distribution network and is revered by its customers as a dependable manufacturer of critical equipment. We think the brand, reputation and network are enduring assets that are difficult for competitors to replicate. These advantages are also indicated by the margins, return on assets and cash the business generates. The difficulty is the cyclicity of the business. Quarter to quarter the earnings risk is high and the transparency is low. We think this uncertainty and lack of transparency is part of the opportunity; over time we think this business will generate meaningful positive returns for its owners despite this volatility.
- Increasing the oil / energy related investments from 9.4% to 11.4%. We are attracted to higher quality businesses exposed to the oil industry in the current environment; believing they are well placed to improve their competitive positions and set themselves up for the next stage of the cycle. Ideally we would like to increase and broaden these positions. The difficulty has been getting suitable entry points. Despite the weak oil price and general distress in the sector, valuations of the higher quality businesses have (to date) tended to hold up reasonably well. We are prepared to be patient; we know what we want to buy and at what price.
- We used recent weakness to increase one of the positions in “Tenet 2” from 3.5% to 5% (taking the total “Tenet 2” exposure to 13%) and in Saft Groupe to increase its position from 1.5% to 2.6%.

The changes to the Fund's short investments over the quarter were as follows:

- At June 30 the Fund held a 2% direct short position. During the quarter we moved this position from being a direct short to a put option position replicating the short.
- We spent 0.3% on another put option position covering 10% of the Fund's value, expiring in December 2015. This position is focussed on a locally listed industrial business, whose economics are geared to global growth. The market tends to place a high premium on the valuation of this business. We view the business as lower quality than the market and regard it as having meaningful earnings risk. These options are currently about 5% out of the money. They may add some protection to the Fund's capital if markets continue to weaken or if the business delivers earnings lower than current expectations.

Returns (to 30/09/2015)	Fund
Since inception* (annualised)	12.30%
Since inception* (cumulative)	89.31%
Rolling 3 year (annualised)	22.40%
Rolling 1 year	15.56%
Standard deviation	9.41%

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%	
November		0.47%	-1.22%	-2.46%	3.97%	11.10%	
December		-0.24%	0.27%	6.93%	1.13%	3.00%	
January		0.31%	0.84%	9.92%	-0.54%	0.97%	
February		1.78%	0.02%	2.69%	-0.81%	1.57%	
March		1.06%	5.59%	-0.44%	-1.45%	-0.04%	
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%		

* 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	67
United States*	35	0	28
UK/Europe*	7	0	6
Total	42	0	100
Derivatives (annual cost)	3		

Notes: Data as at 30th September 2015. * Euro & USD approximate only.

	Australia		United States		UK/Europe		Total	
	%	no/.	%	no/.	%	no/.	%	no/.
Tenet 1: Energy Related			11	2			11	2
Tenet 2:			13	2			13	2
Whole Foods Market			4	1			4	1
Saft Groupe					3	1	3	1
Other			6	2	5	1	10	3
Gross Long			35	7	7	2	42	9
Gross short								
Gross invested position			35	7	7	2	42	9
Derivatives (annual cost)							3	3

Notes: Totals may not add due to rounding. Data as at 30th September 2015

