

Annual Review: 2018

Published: January 4th, 2019

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

Contents

Introduction	3
Fund Positioning	4
Investment Results.....	9
Appendix A: Chart Pack.....	10

Introduction

The way we invest has not meaningfully changed since we started the business nine years ago. Occasionally, we identify an investment where we think we understand the business, we have an insight or perspective that is different to the market and we have some confirmation of our insight. When we identify suitable investments we invest aggressively around these discrete ideas.

Once we invest in a business we tend to be patient. We are happy to give our investments time and space to evolve, to enable our thesis to prove out. Ideally, we will hold an investment for many years.

We regard the businesses that we invest in as being high quality, durable businesses that are important participants in their specific areas. We will often invest in these businesses when they are out of favour, when there is little or no immediate transparency or certainty. We generally do not have strong views about how the short term dynamics will play out, but we will invest from a longer term perspective being of the view that the investment case is robust over this time horizon.

Our business, the fund and our institutional mandate offering are designed to enable us to invest in exactly this manner.

Since the fund started we have held 49 long equity investments (including the 12 currently held). 10 of these investments have been subject to takeovers or similar corporate activity. We think this level of corporate interest in the businesses we have held provides a degree of confirmation of our investment process.

Please do not hesitate to contact us if you would like to discuss our activities in detail.

Best wishes for the holiday period and the year ahead.

Miles, Nigel and Toby.

Fund Positioning

The fund is 64% invested and holds 12 long investments; this compares to 49% and 10 investments at the start of the year. The fund benefitted from corporate activity during the year positively impacting the share prices of Santos Limited, Dover Downs Gaming and Entertainment Inc and Ceva Logistics AG.

The fund holds considerable investments in businesses that are exposed to trade related and emerging market activities. During the year we increased these exposures via new investments in Ceva Logistics AG and Cargotec Corporation and by increasing existing investments in Schlumberger Limited and Eurokai GmbH & Co. KGaA. We do not have a particular desire to invest in emerging markets or trade related businesses; rather, we consider the businesses the fund owns as being high quality and important participants in their respective areas. Each of these businesses have attractive opportunities to invest significant amounts of capital internally, earning high incremental returns. The nature of these businesses is that they are cyclical and have a high degree of short term earnings risk. Over a longer term horizon, we regard them as being attractive investment opportunities for the fund at current prices.

The substantial cash balance the fund continues to hold gives us flexibility to invest aggressively where we perceive there to be opportunities. Generally we regard asset prices as being high. There are a number of companies that we would like to invest in. Our preference is to sit patiently and wait for what we consider to be more attractive entry points.

New Investments

Ceva Logistics AG

The fund bought an initial 2.0% position in Ceva Logistics AG (Ceva) in May at CHF26.15 and subsequently increased it to 6.5% through to September at an average price of CHF20.90. Ceva is a large global contract logistics and freight forwarding business. We are attracted to the seeming durability of Ceva's customer base through a difficult private equity ownership period and we are also constructive on the direction that the current management team has taken to shift and focus the business since 2014. Ceva has a reasonable reputation, long enduring customer relationships and often provides important to critical services for its customers, yet it generates little profit. Our investment was based around a view that the management changes in 2014 were positive initial steps towards re-establishing the profitability of the business, and that these initiatives would be further assisted by the IPO process reducing the leverage in the business and in doing so also reducing the credit concerns of Ceva's current and potential customers.

In October DSV A/S (DSV), a Danish contract logistics company, bid CHF27.75 for Ceva and subsequently increased this bid to CHF30.00. CMA CGM S.A. (CMA), the French shipping entity (and 25% Ceva shareholder), matched the CHF30.00 bid and announced they would be selling additional assets into Ceva. Matching the DSV bid essentially gave current Ceva shareholders the choice of either accepting an economic outcome similar to the DSV bid or evaluating the proposed transaction and continuing with the Ceva investment. We think by CMA matching the DSV bid and enabling shareholders to exit, that CMA has acted reasonably from a Ceva shareholders perspective.

Given the appreciation in the share price and the recent CMA led changes we thought the position had become too big (around 8%) and we reduced it to 3% during October and November at an average price of CHF27.62 and sold out of the total position in December at an average price of CHF29.65

Cargotec Corporation

The fund bought a 2.0% position in Cargotec at an average price of EUR39.82 per share during August and September. Cargotec has three divisions, one of which is Kalmar, the global leader in container port handling equipment, related software and terminal management systems. Kalmar's activities and products extend to inland logistics terminals and distribution facilities. Historically the business has been focussed on selling units of equipment. Increasingly, they are focussing on developing recurring revenues in the business through selling automation solutions, software, service plans and connecting the equipment to proactively manage it over its economic life.

The move globally to wider adoption of port automation equipment has been slower than initially anticipated. We perceive this shift to automation will continue and maybe accelerate given the trend towards larger capacity ships. Our sense is the capital markets know this automation story, but have got somewhat stale with it given slower than expected adoption.

Cargotec has a second division called MacGregor which is the global leader in designing and implementing container ship storage solutions, and lashing and fastening systems. MacGregor also provides software designed to guide container positioning on a ship to assist balance and efficient loading and unloading. MacGregor equipment is used on half of the world's container ships today. The earnings base of this business has collapsed along with the decline in new ship builds. We perceive that MacGregor is cyclical, but a pretty attractive business longer term. We also view that aspects of the software MacGregor provides are complimentary to Kalmar's activities.

Asics Corporation

The fund bought an initial 2.5% position in Asics Corporation (Asics) in May at JPY1,942. Asics' main business is designing, manufacturing and selling athletics shoes globally. Asics has the leading market share in the running shoe markets in Japan and Australia; strong positions in various European countries and an established presence (but minimal profitability) in the US. Asics also has a strong and growing business selling its Onitsuka Tiger lifestyle shoes into China and South East Asia.

We regard Asics running shoes as having the following characteristics: global brand; produce a high quality functional product; reasonable gross profit margins; durability to ship; and strong loyalty from its core running customer base. We think this combination of characteristics is reasonably unique.

Asics is aggressively transitioning its distribution away from a traditional third party retail supported model (76% revenues) to a direct to consumer offering (24% revenues). Their direct to consumer offering consists of 900 company owned retail stores and an online shopfront. We are attracted to this shift to a direct to consumer offering, being of the view that Asics' relatively unique characteristics in the running shoe market positions them to successfully make this transition.

It will take many years for this investment to prove out and the risks are high. The business is currently in a state of flux. Asics appears to be losing the support of their traditional retail base as they push towards their direct to consumer offering. The direct to consumer offering requires capital investment

to support its development and the economics of the company owned stores is often challenging. Ultimately the success of the investment will be a function of their ability to attract and retain customers ordering direct from their online shop front.

(If you are interested in trying out Asics' online offering, you can access their Australian website through this link <https://www.asics.com/au/en-au/> . Please let us know how you find it!)

Investments Increased

Schlumberger Limited

We increased the investment in Schlumberger Limited (Schlumberger) by an additional 2.5% throughout the year at an average price of USD64.37. Our investment is based around a view that increasingly Schlumberger is uniquely positioned to provide services directly to the various National Oil Companies (NOCs). We perceive that Schlumberger's expansive capex via acquisitions and the expansion of services since 2010 has changed Schlumberger's business model and position in the industry. If this view proves correct, it will mean that the earnings power of the business is materially higher going forward than we have seen historically. We think this positive shift in industry position has been obscured by volatility in the oil price and the success of US onshore production meeting the level of incremental global demand over the past four years.

Eurokai GmH & Co. KGaA

We increased the investment in Eurokai GmH & Co. KGaA (Eurokai) by 1.6% between April and December at an average price of EUR37.25. Eurokai operates a number of high quality German and Southern European port terminal assets, inland terminals and associated infrastructure. The business carries modest gearing, is highly cash generative and we hold management in high regard. We are content to establish a large investment in this business and expect to hold it for many years.

Investments Sold

Deere & Company

We exited the balance of the Deere and Company investment in January at USD166. The fund held an investment in Deere from August 2015. It generated an annualised IRR of 34% and contributed 2.8% to the performance of the fund.

Santos Limited

We sold the investment in Santos Limited (Santos) at AUD6.03 in June. The fund held the investment from May 2017 to June 2018. It generated an annualised IRR of 66% and contributed 2.5% to performance.

The following tables summarise the fund's investment position at 31 December 2018.

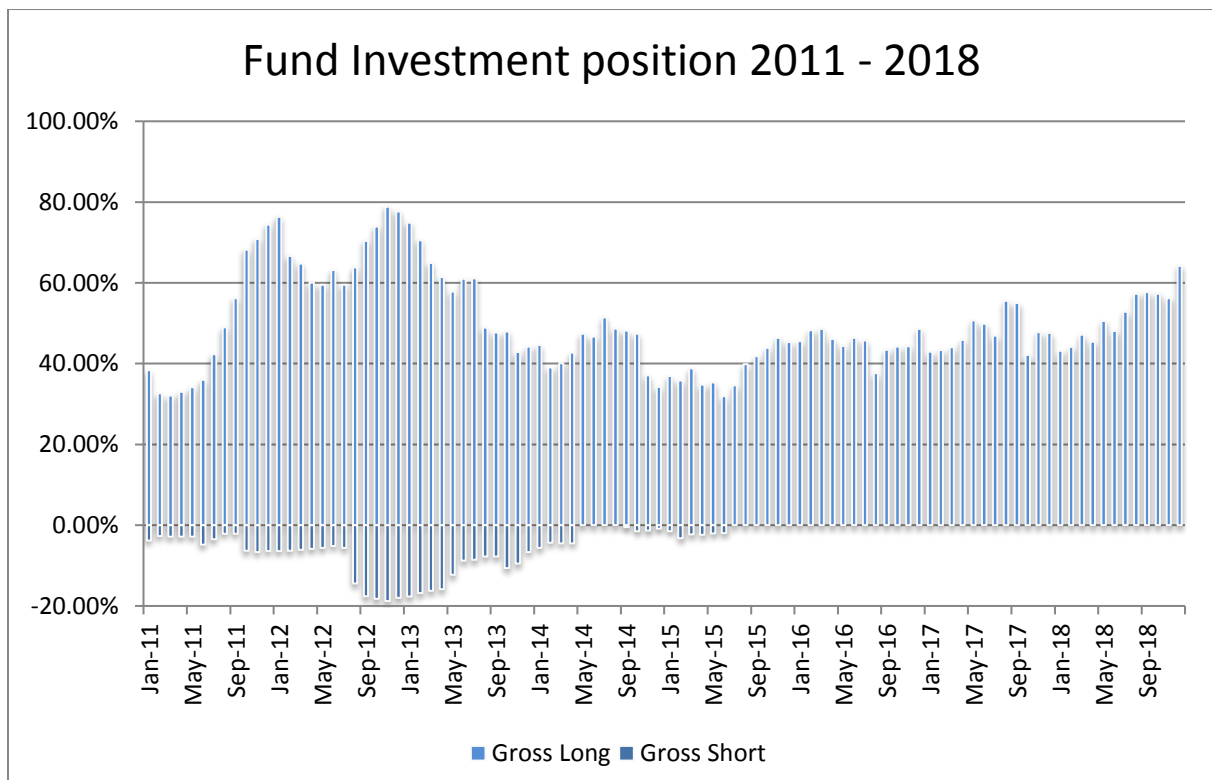
	31-Dec-17	Purchases	Sales	31-Dec-18
Tenet - Infrastructure Related				
Undisclosed	5.1%	3.9%		7.8%
Undisclosed	6.0%	1.6%		7.7%
Tenet - Paint / Coatings				
Akzo Nobel	2.3%			2.6%
Tikkurila	6.7%			5.4%
Tenet - Oil Related				
Schlumberger	3.7%	2.5%		4.6%
Tenet - Global Trade Related				
CEVA Logistics	0.0%	6.7%	9.2%	0.0%
Cargotec Oyj	0.0%	3.2%		2.8%
Tenet - European Container Terminals				
Eurokai	8.0%	1.6%		8.9%
Dover Downs Gaming	2.9%			10.3%
Topps Tiles	4.6%			4.6%
Asics Corp	0.0%	3.1%		3.0%
AltaGas Canada	0.0%	3.1%		3.5%
Undisclosed	0.0%	3.1%		3.0%
Deere & Company	2.6%		2.6%	0.0%
Santos Ltd	5.7%		6.0%	0.0%
Total	47.6%	28.8%	17.8%	64.2%

	Long (%)	Short (%)	Currency (%)
Australia	0	0	48
United States/Canada*	37	0	30
UK/Europe*	24	0	19
Japan	3	0	3
Total	64	0	100
Derivatives (annual cost)	3		

Notes: Data as at 31st December 2018. * UK/Euro & USD/CAD approximate only.

	31 December 2018
Large capitalisation (\$3 billion plus)	31%
Mid / Small capitalisation (\$100 million to \$3 billion)	22%
Micro capitalisation (less than \$100 million)	10%
Total	64%

	USA/CAD		UK/Europe		Japan		Total	
	%	no/.	%	no/.	%	no/.	%	no/.
Tenet - Infrastructure related	16	2					16	2
Undisclosed	8	1						
Undisclosed	8	1						
Tenet - Paint / Coatings			8	2			8	2
Akzo Nobel			3	1				
Tikkurila			5	1				
Tenet - Oil Related	5	1					5	1
Schlumberger	5	1						
Tenet - Global Trade Related			3	1			3	1
Cargotec Oyj			3	1				
Tenet - European Container Terminals			9	1			9	1
Eurokai			9	1				
Dover Downs Gaming	10	1					10	1
Topps Tiles			5	1			5	1
Asics Corp					3	1	3	1
AltaGas Canada Inc	4	1					4	1
Undisclosed	3	1					3	1
Gross long	37	6	24	5	3	1	64	12
Gross short								
Gross invested position	37	6	24	5	3	1	64	12
Derivatives (annual cost)							3	3
Notes: Totals may not add due to rounding. Data as at 31 st December 2018								



Investment Results

The fund returned -4.2% for calendar year 2018.

The contributors to the return were as follows:

- Long equity investments (in local currencies) detracted 6.4%;
- Movements in the Australian dollar contributed 5.4%;
- USD call / Yen put options cost 1.2%;
- Currency hedges cost 0.4%; and
- Equity derivatives cost 0.3%.

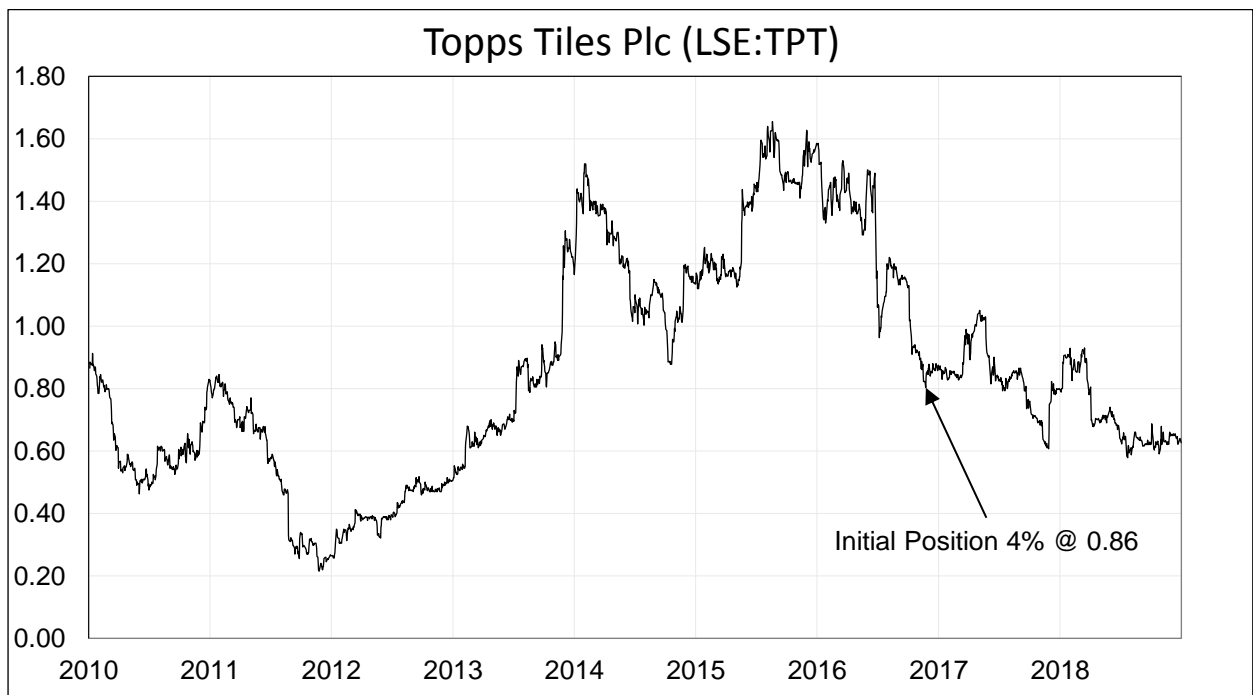
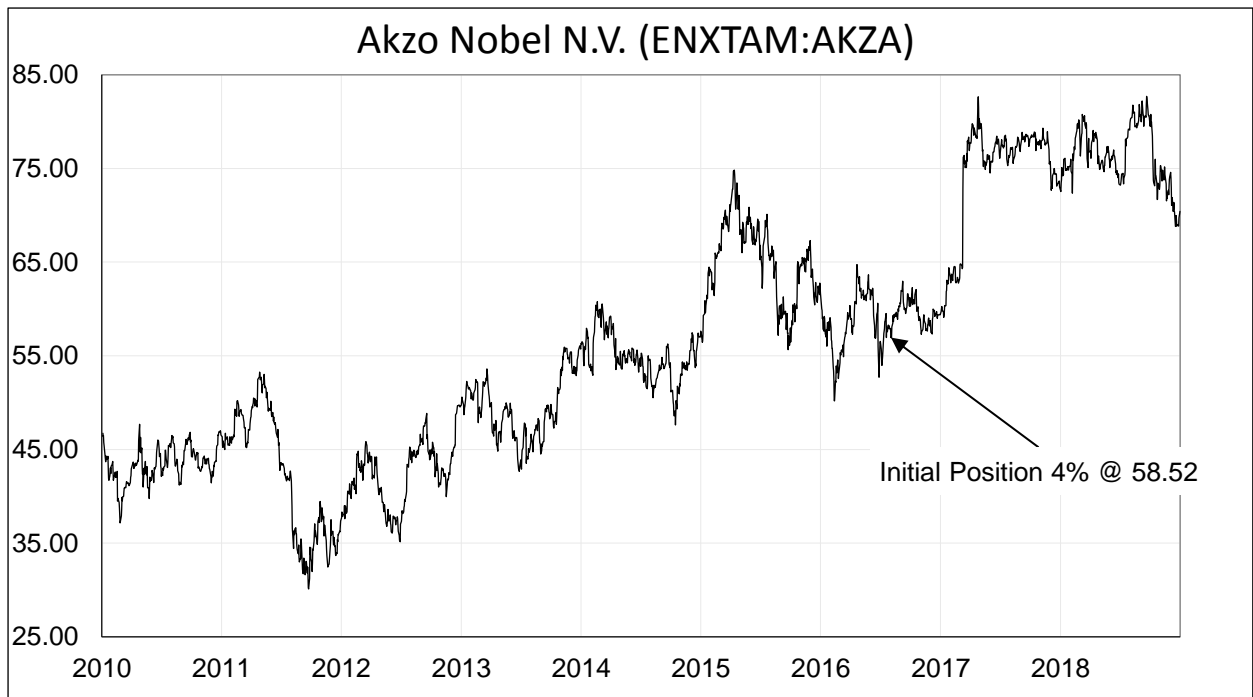
There was more volatility on an individual stock level than we have seen in previous years. Dover Downs Gaming and Entertainment contributed 5.3% and Ceva contributed 1.9%, while Eurokai cost 2.6%, Tikurilla cost 2.0% and Schlumberger cost the fund about 3%. Our current thoughts regarding Dover Downs can be accessed through this [link](#).

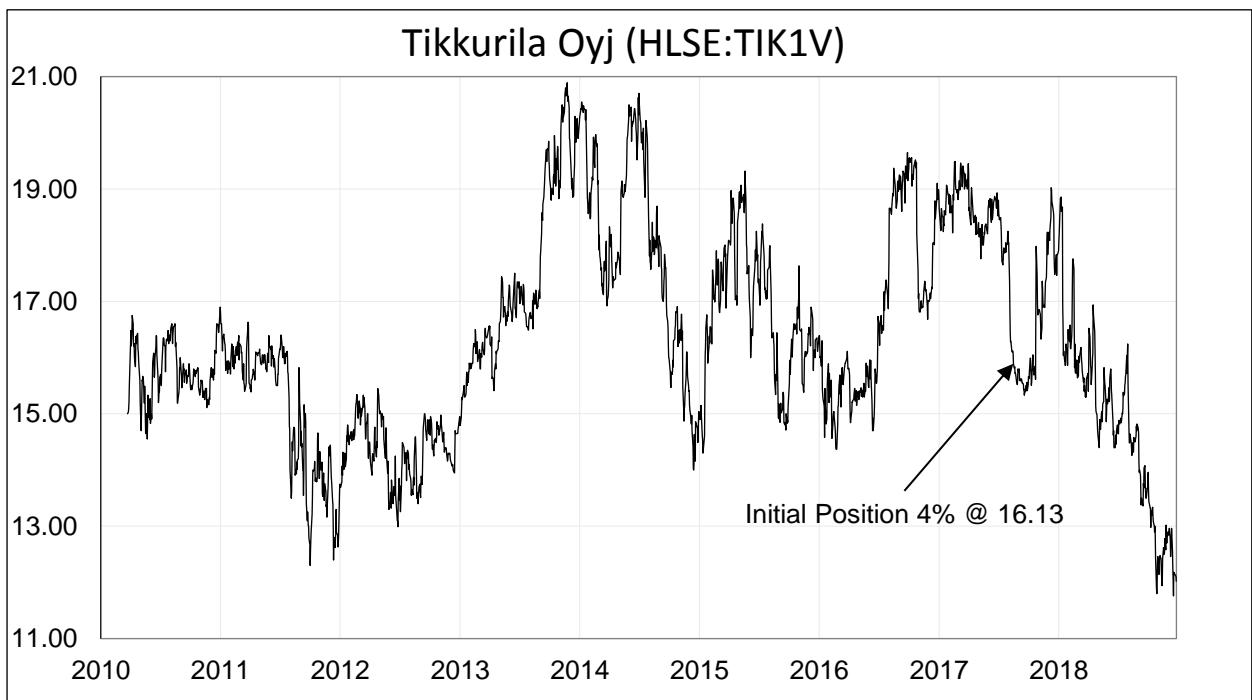
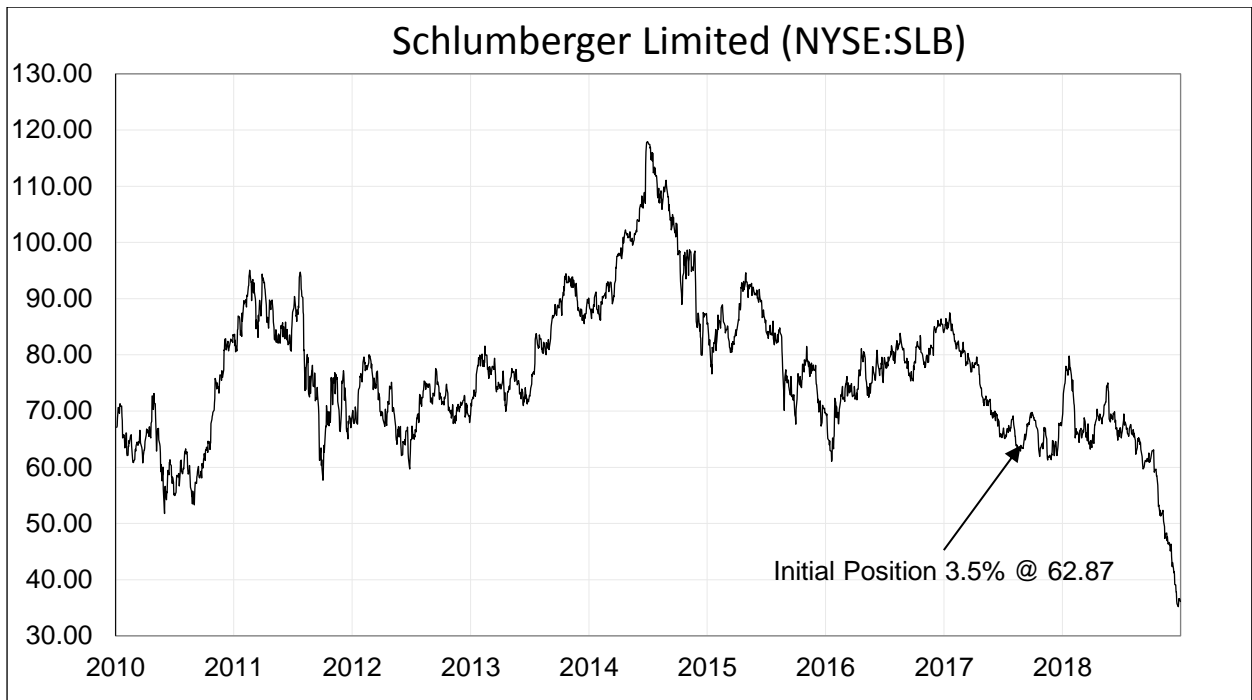
Returns (to 31/12/2018)	Fund
Since inception* (annualised)	8.6%
Since inception* (cumulative)	105.9%
Rolling 5 year (annualised)	5.6%
Rolling 3 year (annualised)	3.6%
Rolling 1 year	-4.2%
Standard deviation	8.9%

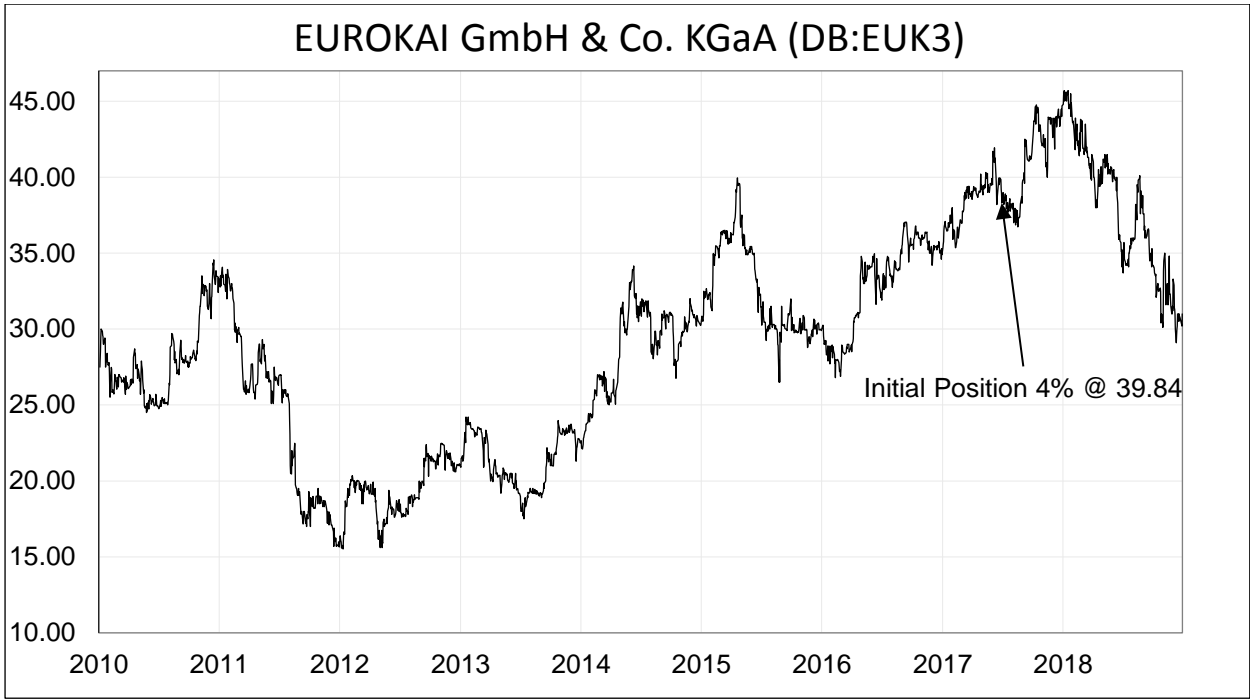
Financial Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
July		1.14%	-1.95%	-3.06%	2.03%	1.98%	0.45%	-1.62%	-1.57%	4.99%
August		-0.33%	-0.32%	0.45%	1.42%	-0.39%	-1.39%	-0.18%	1.21%	1.50%
September		0.60%	-2.18%	1.89%	0.52%	4.18%	-1.19%	1.34%	3.04%	-4.26%
October		2.12%	0.83%	1.30%	1.43%	2.53%	0.27%	-0.21%	0.56%	-1.60%
November		0.47%	-1.22%	-2.46%	3.97%	11.10%	0.60%	4.50%	2.73%	-0.54%
December		-0.24%	0.27%	6.93%	1.13%	3.00%	-3.07%	2.46%	0.06%	-3.05%
January		0.31%	0.84%	9.92%	-0.54%	0.97%	-1.77%	-5.16%	1.32%	
February		1.78%	0.02%	2.69%	-0.81%	1.57%	1.77%	-0.59%	-1.66%	
March		1.06%	5.59%	-0.44%	-1.45%	-0.04%	-0.84%	1.21%	-0.52%	
April	*0.04%	-1.94%	1.62%	4.45%	0.08%	0.32%	1.72%	1.34%	1.27%	
May	-0.78%	1.01%	-0.37%	8.63%	1.29%	0.47%	4.12%	1.84%	-0.23%	
June	-0.76%	-0.70%	-2.58%	1.68%	0.02%	-2.61%	-0.79%	0.37%	-1.21%	
Financial Year	-1.49%	5.33%	0.29%	36.06%	9.33%	24.95%	-0.31%	5.10%	4.97%	
Calendar Year		-3.10%	10.12%	43.95%	22.40%	-3.70%	10.76%	4.89%	-4.23%	

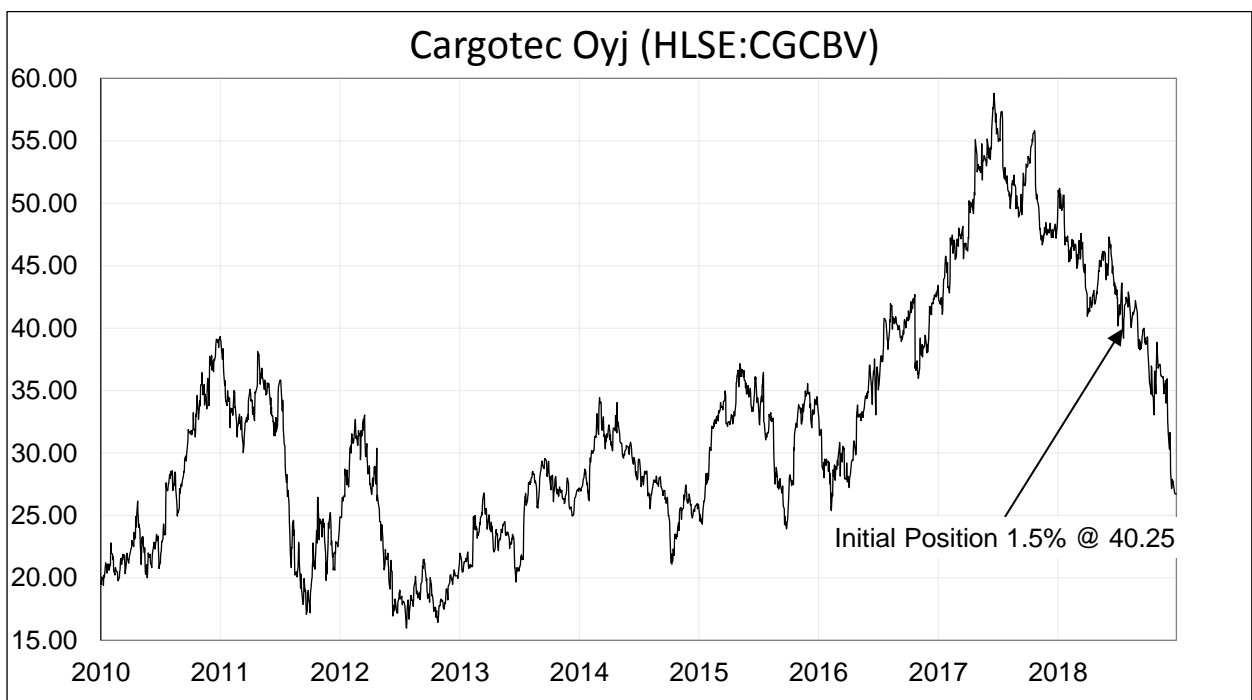
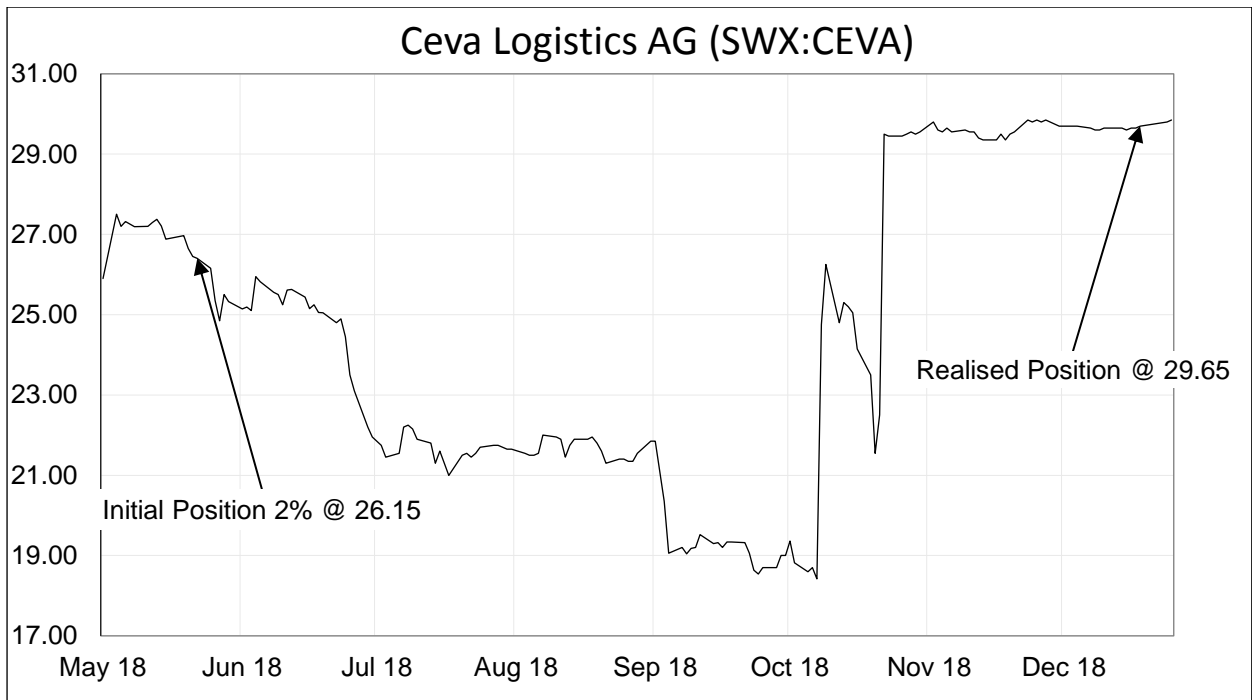
* Inception date: 15/04/2010. Past Performance is not a reliable indicator of future performance and no guarantee of future returns is implied.

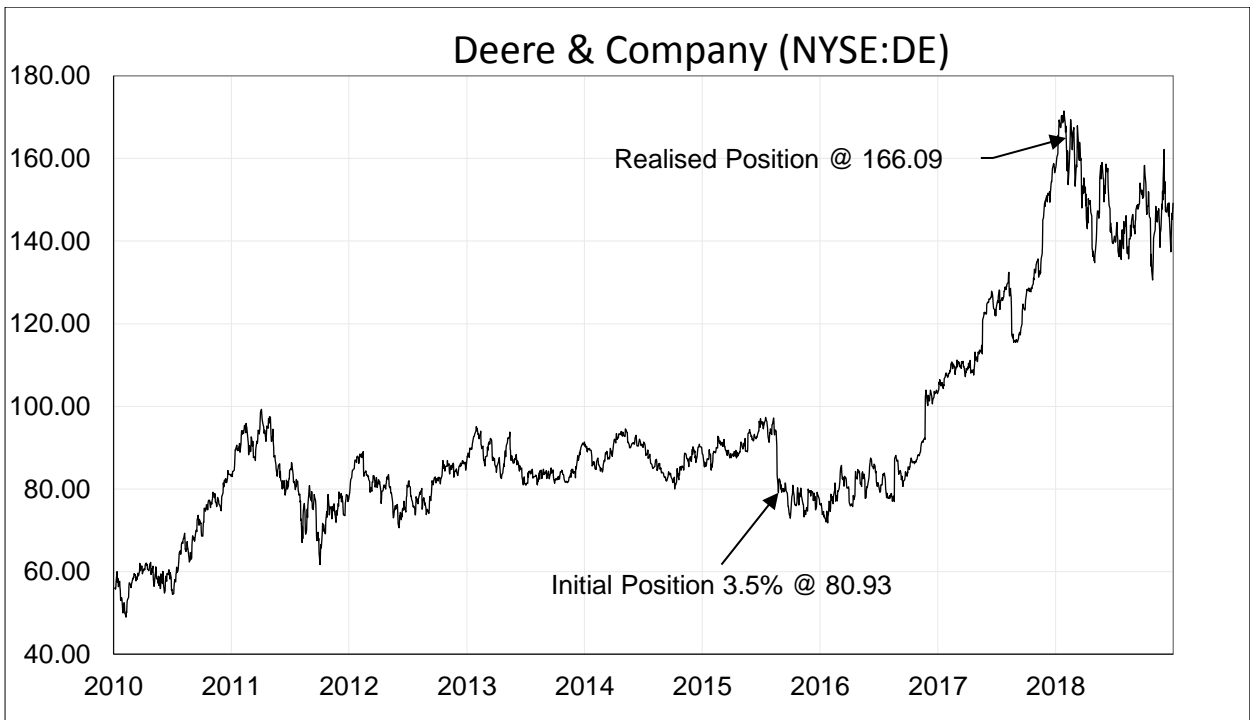
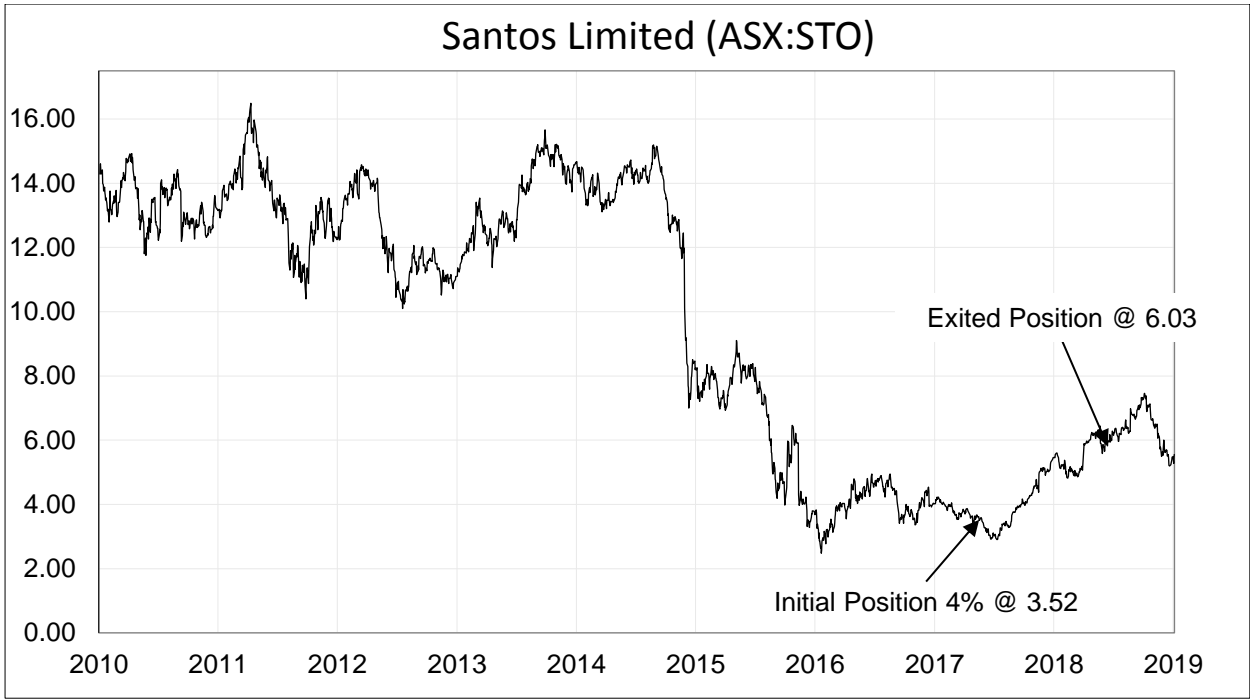
Appendix A: Chart Pack

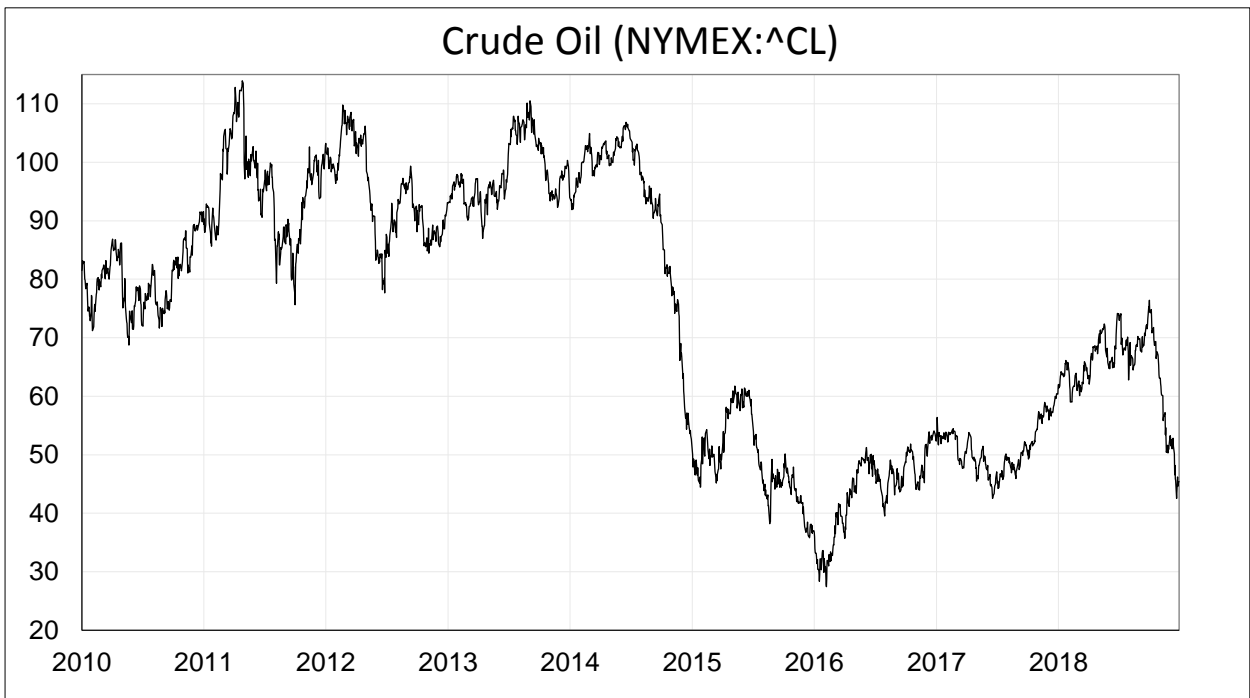
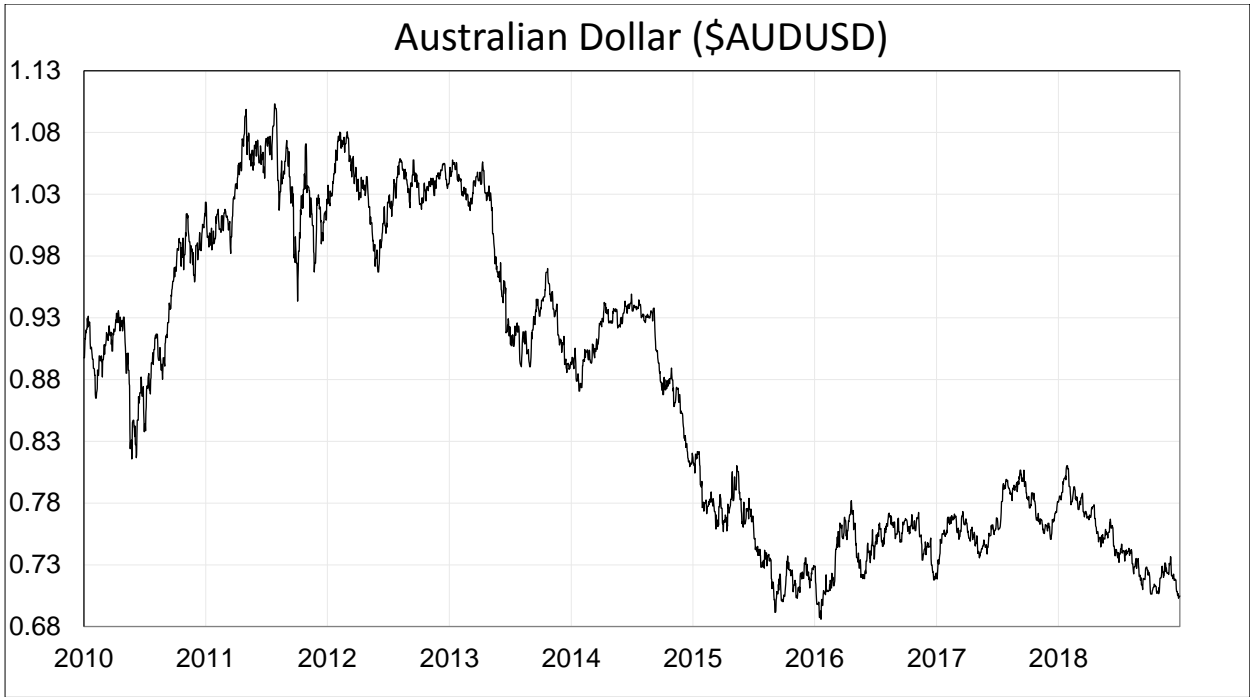


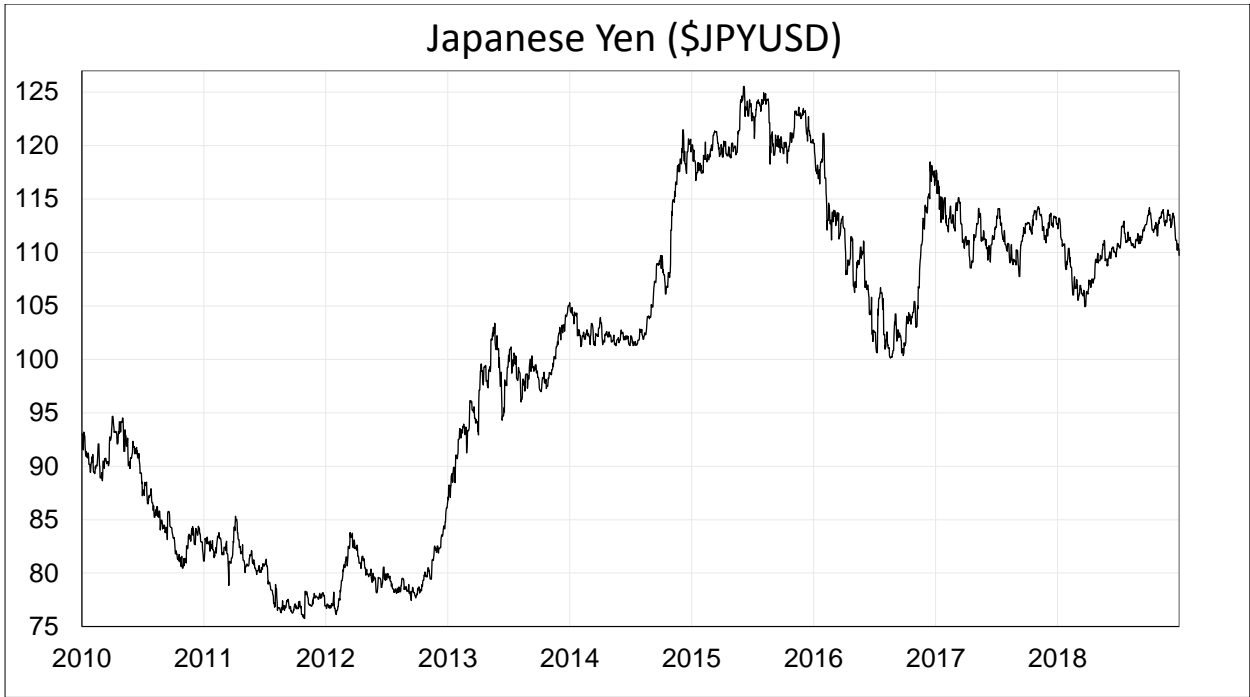












Terms and conditions

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.

Copyright on the information in this document is owned by Long Tail Asset Management Pty Limited. You may use and copy the information for your personal use only. Long Tail Asset Management Pty Limited expressly prohibits the reproduction, transmission, or distribution of this information for any other purpose without the written permission of Long Tail Asset Management Pty Limited.

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.