03/07/2020

Over the financial year ending June 30, 2020 we increased the fund's gross long exposure from 53% to 75%. Our thoughts around the key additions follow.

Electric Utilities: (National Grid plc and Portland General Electric Company)

The fund's exposure to this investment idea increased from 2.6% to 7.8%. We increased the investment in National Grid by 0.5%, we also invested 3.5% of the fund's capital into Portland General Electric Company at USD41.22.

Many electricity grids will be subject to heavy capital investment cycles for a number of years. These investments are designed to upgrade the capacity and functionality of the grids, as a means of reducing the carbon intensity of the broader economies. The grid owners earn significantly regulated returns from these investments.

We perceive there are attractive investments for equity holders around these dynamics. We are focused on businesses with a genuine emphasis on decarbonisation and a movement towards more performance based regulation. We are also focused on investing in these businesses at reasonable prices.

We have been interested in investing around this idea for a couple of years, but have found it difficult to identify suitable investments. National Grid seems to be discounted to a degree because of its unusual geographic asset mix, we then increased the fund's exposure to this idea by investing in Portland General when asset prices were broadly being sold off in March and April 2020.

FedEx Corporation:

We invested 6% of the fund's capital into Fedex in March at USD118.36.

We simplistically think of Fedex as an asset heavy service network that becomes increasingly valuable and entrenched as its volumes grow. The network is skewed towards business to business deliveries, while maintaining a meaningful exposure to business to consumer activities. The network is focussed in North America, with a significant presence in Asia and expanding interests in Europe. We hold management in high regard.

The business is exposed to trade and the macro environment. Despite this external volatility, we consider that Fedex has generated attractive returns on capital over time; they have tended to invest aggressively ahead of growth, but then they have consistently delivered adequate returns from this investment. We think of Fedex as a high quality business that operates in cyclical areas.

Over the last two years there have been a number of issues weighing on Fedex. Global trade tensions disrupted their activities, their acquisition of TNT Express NV has taken longer and been more difficult to integrate than expected, Fedex have increased their North American deliveries from 5 to 6 and now often 7 days a week, adding network capacity when volumes have been softer than anticipated, Amazon has aggressively built out its last mile delivery infrastructure to such a degree that Fedex stepped away from servicing them in 2019 and now the economic dislocations of COVID-19 has added to this mix.

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When we think about this list of concerns, we focus on Amazon's activities in last mile delivery. Aside from this concern, we consider the other points to be either inherent in the nature of the business or the expected results of management's decisions. These decisions would have immediate negative impacts on earnings, but they are initiatives designed to strengthen the business longer term.

The TNT acquisition was always going to be complex, but it provides Fedex with a dense, domestic European focused delivery network that is difficult to replicate. Increasing delivery days in North America expands the capacity of the network and improves its service levels ahead of volumes, and walking away from Amazon's business aligns Fedex with retailers outside of Amazon's environment and eliminates the risk of Amazon pulling increasing amounts of their delivery volumes in house. We regard these initiatives as positive – they are intentional, the earnings impacts are expected. We view this as a completely different dynamic to management being blindsided and then trying to manage problems within a business.

With regard to Amazon's expansion into last mile delivery, our view is that Amazon's internal growth is forcing them to expand in this direction. Amazon's volumes are large, highly seasonal and growing at 20% plus. UPS, Fedex and the US Postal Service don't have either the labour or physical capacity to adequately service these seasonal and growing peaks.

In 2019, Fedex stepped away from servicing Amazon, aligning itself with retailers outside of Amazon's environment. They are capable in managing and are actively pursuing volumes in non-standardised packages (think packages that are either too heavy or too large to be processed through an automated package sorting facility). Our view with regard to the Amazon risk, is that there is enough room for both of them in last mile delivery. The space is a lot larger than business to consumer online fulfillment. We expect that Fedex will continue to find profitable opportunities despite Amazon's involvement.

European Airports: (AENA S.M.E, SA and Flughafen Zurich)

We invested 5% of the fund's capital into AENA at EUR135.88 and 4% into Zurich Airport at CHF 120.56 in March.

We regard AENA and Zurich Airport as businesses that own high quality destination airport assets and consider both to be reasonably geared concerns. We are attracted to AENA's ownership of its assets, as opposed to them operating concessions; we are also attracted to their destination aspects, as opposed to them being hubs. We felt that their balance sheets also provide some flexibility.

The fund has previously invested in three other listed European airports (ADP, Vienna and Venice). When we generically think about European airport investments we think of their aeronautical activities as being highly capital intensive and the unregulated property assets are often highly productive and at times maybe undervalued by equity investors. The driver of this property value over time has been increasing passenger numbers and improvement of the retail and property offerings.

Forecasting today, passenger numbers in one year or five years time is anyone's guess and it is fair to say that we are presently more pessimistic about the likely ramp up in international travel activity than we were when we invested in these businesses earlier in the year. This led us to reducing the initial investment sizes, we are happy to be patient from here. It seems to be a consensus view that international travel will be permanently impaired as a result of COVID - 19 impacts, and we do concede that is how it also feels to us. Despite this underlying sense, we are content to hold these investments in the fund. We think that their asset qualities, balance sheets and current valuations provide a reasonable margin of error.

Qube Holdings Limited:

We invested 5% of the fund's capital into Qube in March at AUD2.32.

The fund previously held an investment in Qube from May 2010 to February 2011. We have a high regard for management and are attracted to the consistency of vision and really the sheer persistence that they have demonstrated developing their interests in the Moorebank Logistics Park.

The market is well aware that Moorebank is likely an interesting asset. Our investment thesis for Qube is more nuanced; to a degree, our thesis is captured by the following:

"Increasing road congestion around Port Botany caused by continued high growth rates in container volumes is reaching critical levels. The most effective solution is to progressively shift volumes from road to rail through the use of strategically located inland terminals."

"We believe that Moorebank is the pre – eminent site in New South Wales for an inland terminal given its size and location."

Mr. Chris Corrigan 18/12/2007

(Chairman of the KIL funds Advisory Committee, KIL evolved into being Qube Holdings Limited)

We are not attracted to the asset of Moorebank per se, rather we are attracted to the internal culture and the vision that has enabled Qube to not only develop this asset but to also materially expand their interests in both Moorebank and adjacent complimentary assets over the subsequent 13 years. Qube have achieved this while competing against larger, better capitalised, more established property and infrastructure players. They have held onto Moorebank, and expanded their interests in it through the GFC and the subsequent recovery. Moorebank has generated little cash over this time, rather there have been planning costs, development costs, capital improvements and a significant amount of management's time and attention invested into it.

It is unusual to come across a listed company that has the temperament to develop an asset in this manner. When we see something like this, our sense is that it pays to take notice.

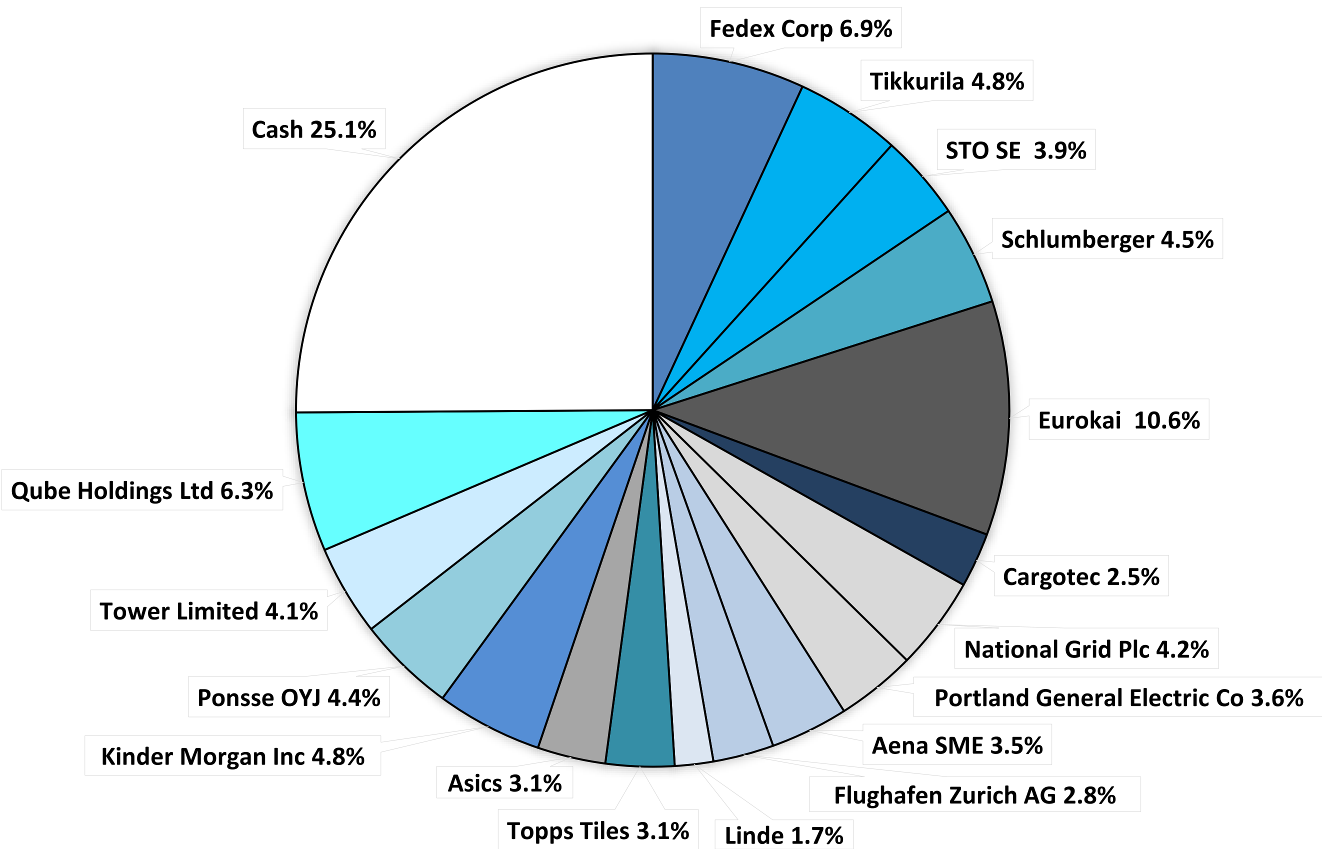
We consider that the fund paid a fair price for the asset value of Qube when we invested in it; sure, there are higher quality infrastructure assets out there and Qube carries development risk. This business started life in 2006 as essentially a Listed Investment Fund, a cash box with the objectives of investing "at least 50% of the fund's Gross Asset Value (GAV) in infrastructure and utilities securities that are listed on either the Australian Stock Exchange or New Zealand Stock Exchange" and " up to 50% of the fund's GAV in unlisted infrastructure and utilities investments and listed and unlisted logistics investments." Qube has come a long way from this start (supported by reasonably significant additional equity issuances). Our inclination is that their asset base will continue to evolve meaningfully, we expect the business will likely be worth materially more in the future than our assessment of their current asset value.

Thoughts on the fund's positioning:

We thought it was worthwhile to make the following comments about how we think about the fund's positioning:

- The fund is the primary entity that Nigel and I use to invest our personal capital. It holds a concentrated portfolio of equity investments and a meaningful amount of AUD cash.

- We take significant amounts of risk in the individual equity investments. A number of the fund's current investments are exposed to trade and emerging market dynamics. We manage these risks through individual position sizes and a fundamentally based, company specific research process. Over time we expect to be well rewarded for these risks.
- For various reasons, we consider that each of the equity investments are reasonably high-quality businesses.
- The available cash is held either at call or in term deposits with one of the four major Australian banks with maturities of up to 3 months. As a default the cash is held in AUD. We would need a particularly active negative view on the AUD to change this currency exposure.
- We have tended to invest annually around 3% of the fund's capital in various option contracts. Circa 2% shorting the Yen against the USD; the balance has been directed towards sporadic equity and currency downside protection strategies.
- We expect that volatility in equities and also broader asset classes is likely to continue to be elevated and that it may increase. We are conscious of not letting this volatility shake us out of the fund's strongest ideas.
- We hold concerns about the impacts of government and central bank intervention on the purchasing power of fiat currencies broadly longer term. We trace these concerns back to the GFC, but they have been elevated by the current political environment and also by various responses to the COVID-19 virus.
- Asset prices won't go up in a straight line / the mantra of "don't fight the Fed" is asinine. We want to continue to be patient, using periods of market strength to divest investments that we are not committed to; and using periods of weakness to deploy the fund's available cash into the operating businesses that we want to own longer term, businesses that we perceive can negotiate the contemporary environment and ultimately thrive.



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The fund returned -10.0% for financial year 2020.

The contributors to the return were as follows:

- Long equity investments (in local currencies) detracted 8.0%;
- Movement in the Australian dollar was flat;
- USD call / Yen put options cost 0.8%;
- Currency hedges cost 0.3%; and
- Equity derivatives contributed 0.4%.

Returns (to 30/06/2020)	Fund
Since inception* (annualised)	6.9%
Since inception* (cumulative)	97.8%
Rolling 5 year (annualised)	0.4%
Rolling 3 year (annualised)	-0.8%
Rolling 1 year	-10.0%
Standard deviation	9.5%

Financial Yr	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
July		1.14%	-1.95%	-3.06%	2.03%	1.98%	0.45%	-1.62%	-1.57%	4.99%	-0.35%
August		-0.33%	-0.32%	0.45%	1.42%	-0.39%	-1.39%	-0.18%	1.21%	1.50%	-1.64%
September		0.60%	-2.18%	1.89%	0.52%	4.18%	-1.19%	1.34%	3.04%	-4.26%	1.23%
October		2.12%	0.83%	1.30%	1.43%	2.53%	0.27%	-0.21%	0.56%	-1.60%	0.51%
November		0.47%	-1.22%	-2.46%	3.97%	11.10%	0.60%	4.50%	2.73%	-0.54%	1.36%
December		-0.24%	0.27%	6.93%	1.13%	3.00%	-3.07%	2.46%	0.06%	-3.05%	-0.02%
January		0.31%	0.84%	9.92%	-0.54%	0.97%	-1.77%	-5.16%	1.32%	2.20%	1.93%
February		1.78%	0.02%	2.69%	-0.81%	1.57%	1.77%	-0.59%	-1.66%	3.91%	-7.52%
March		1.06%	5.59%	-0.44%	-1.45%	-0.04%	-0.84%	1.21%	-0.52%	0.53%	-9.67%
April	*0.04%	-1.94%	1.62%	4.45%	0.08%	0.32%	1.72%	1.34%	1.27%	2.11%	0.43%
May	-0.78%	1.01%	-0.37%	8.63%	1.29%	0.47%	4.12%	1.84%	-0.23%	-3.64%	4.11%
June	-0.76%	-0.70%	-2.58%	1.68%	0.02%	-2.61%	-0.79%	0.37%	-1.21%	1.56%	0.05%
Financial Yr	-1.49%	5.33%	0.29%	36.06%	9.33%	24.95%	-0.31%	5.10%	4.97%	3.28%	-9.97%
Calendar Yr		-3.10%	10.12%	43.95%	22.40%	-3.70%	10.76%	4.89%	-4.23%	7.82%	

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

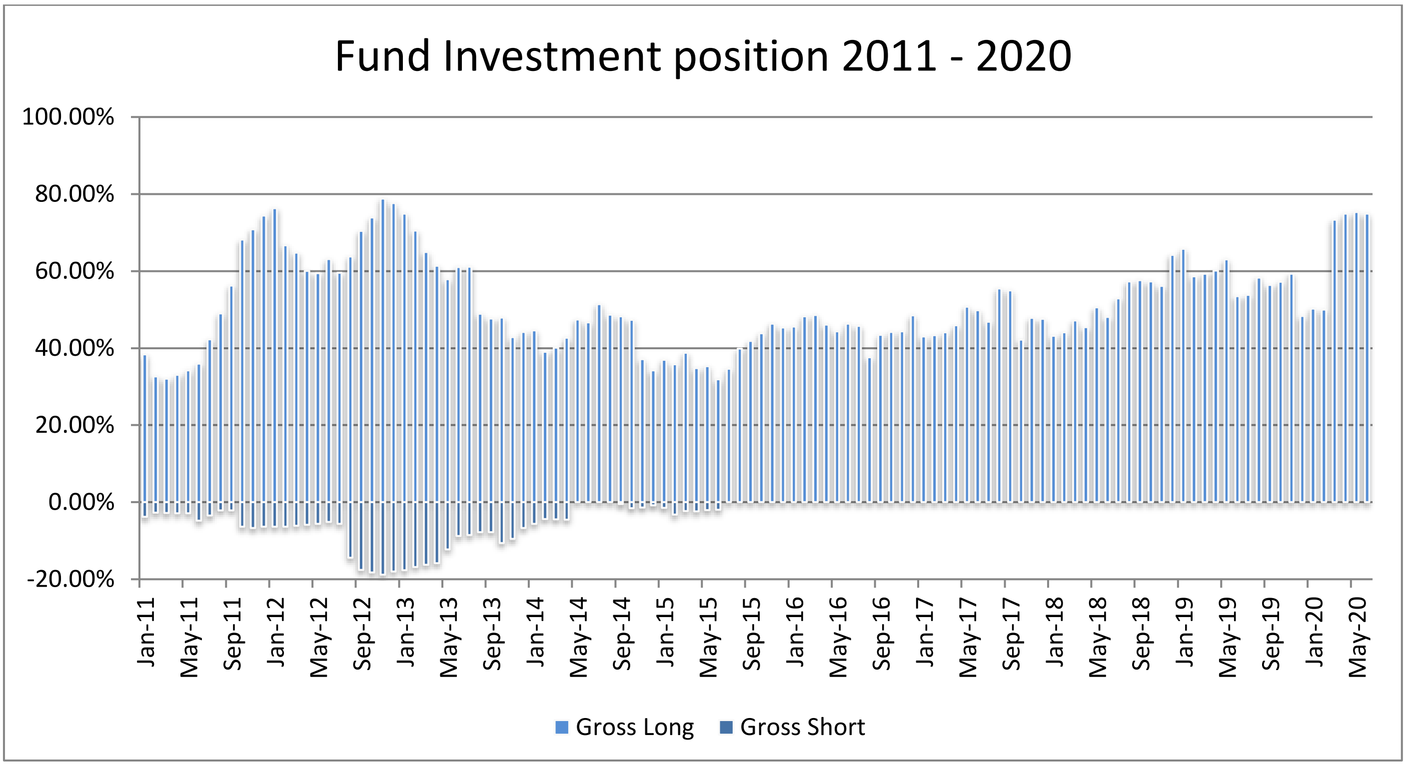
- The fund's daily unit price and distribution details can be downloaded via this link.

	Long (%)	Short (%)	Currency (%)
Australia	6	0	44
United States/Canada*	20	0	16
UK/Europe*	42	0	33
Japan	3	0	3
New Zealand	4	0	4
Total	75	0	100
Derivatives (annual cost)	3		

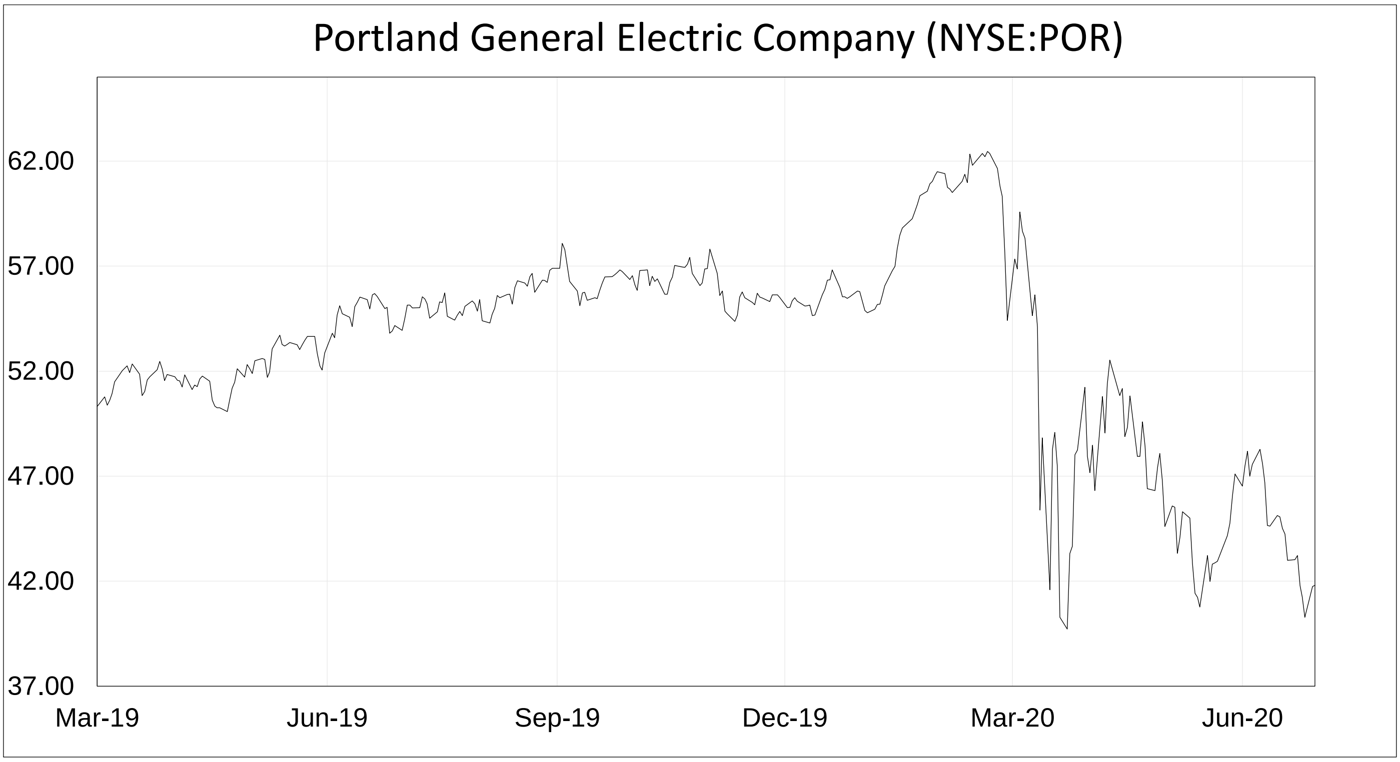
Notes: Data as at 30th June 2020. * UK/Euro & USD/CAD approximate only.

	Australia / NZ		USA / Canada		UK/Europe		Japan		Total	
	%	no/.	%	no/.	%	no/.	%	no/.	%	no/.
Tenet - Parcel Infrastructure			7	1					7	1
Fedex Corp			7	1						
Tenet - Paint / Coatings					9	2			9	2
Tikkurila					5	1				
STO SE					4	1				
Tenet - Oil Related			4	1					4	1
Schlumberger			4	1						
Tenet - Global Trade Related					2	1			2	1
Cargotec Oyj					2	1				
Tenet - European Container Terminals					11	1			11	1
Eurokai					11	1				
Tenet - Airports					6	2			6	2
Aena SME					4	1				
Flughafen Zurich AG					3	1				
Tenet - Electric Utilities			4	1	4	1			8	2
National Grid					4	1				
Portland General Electric Co			4	1						
Topps Tiles					3	1			3	1
Asics Corp							3	1	3	1
Kinder Morgan Inc			5	1					5	1
Ponsse OYJ					4	1			4	1
Tower Limited	4	1							4	1
Qube Holdings Ltd	6	1							6	1
Linde Plc					2	1			2	1
Gross long	10	2	20	4	42	10	3	1	75	17
Gross short										
Gross invested position	10	2	20	4	42	10	3	1	75	17
Derivatives (annual cost)									3	3

Notes: Totals may not add due to rounding. Data as at 30th June 2020



Appendix: Charts



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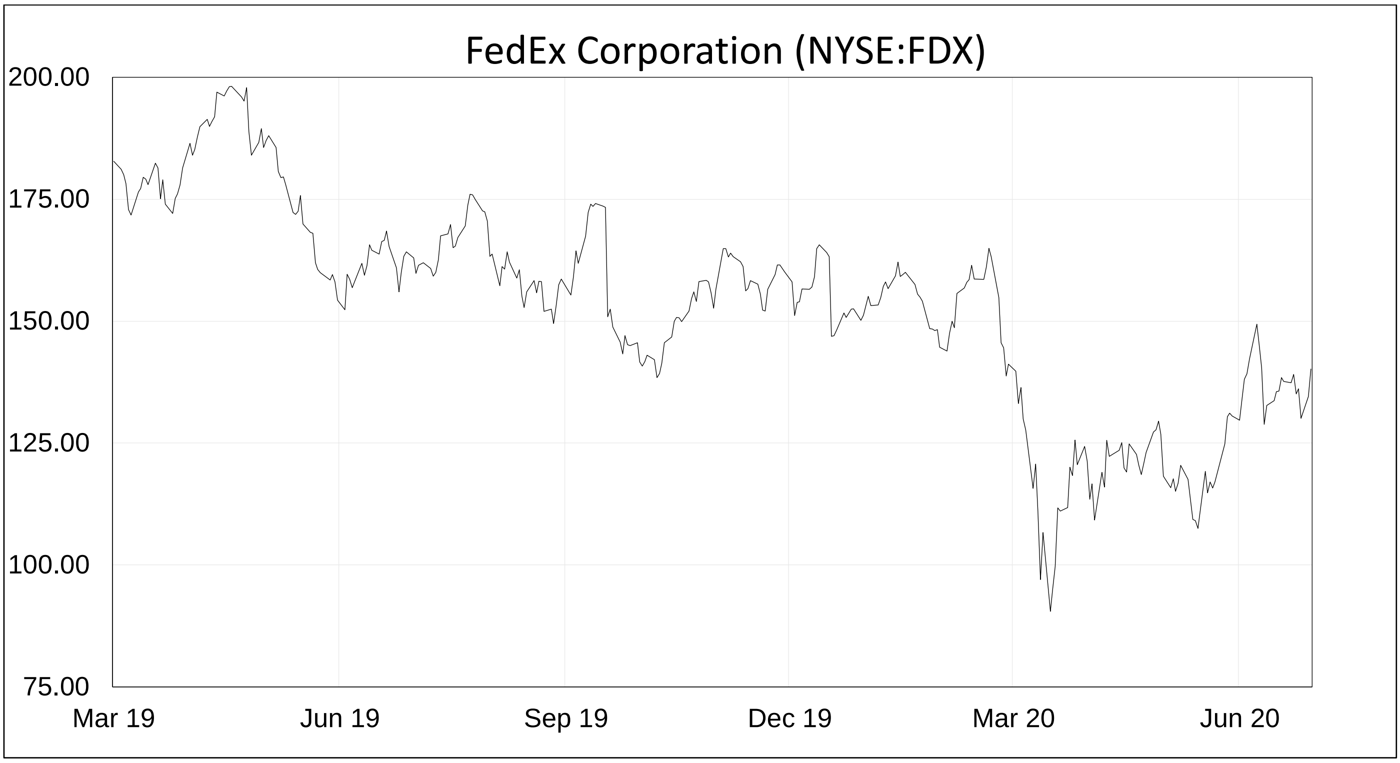

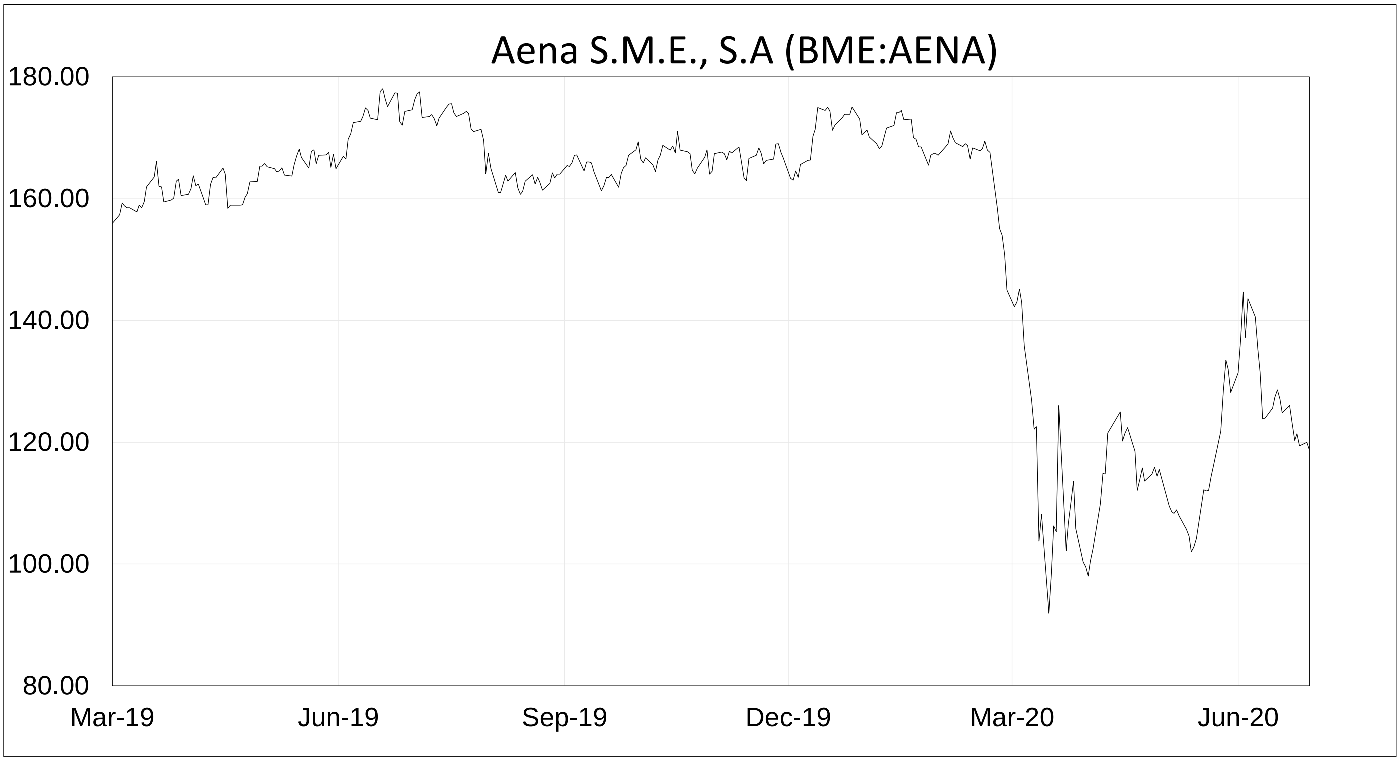

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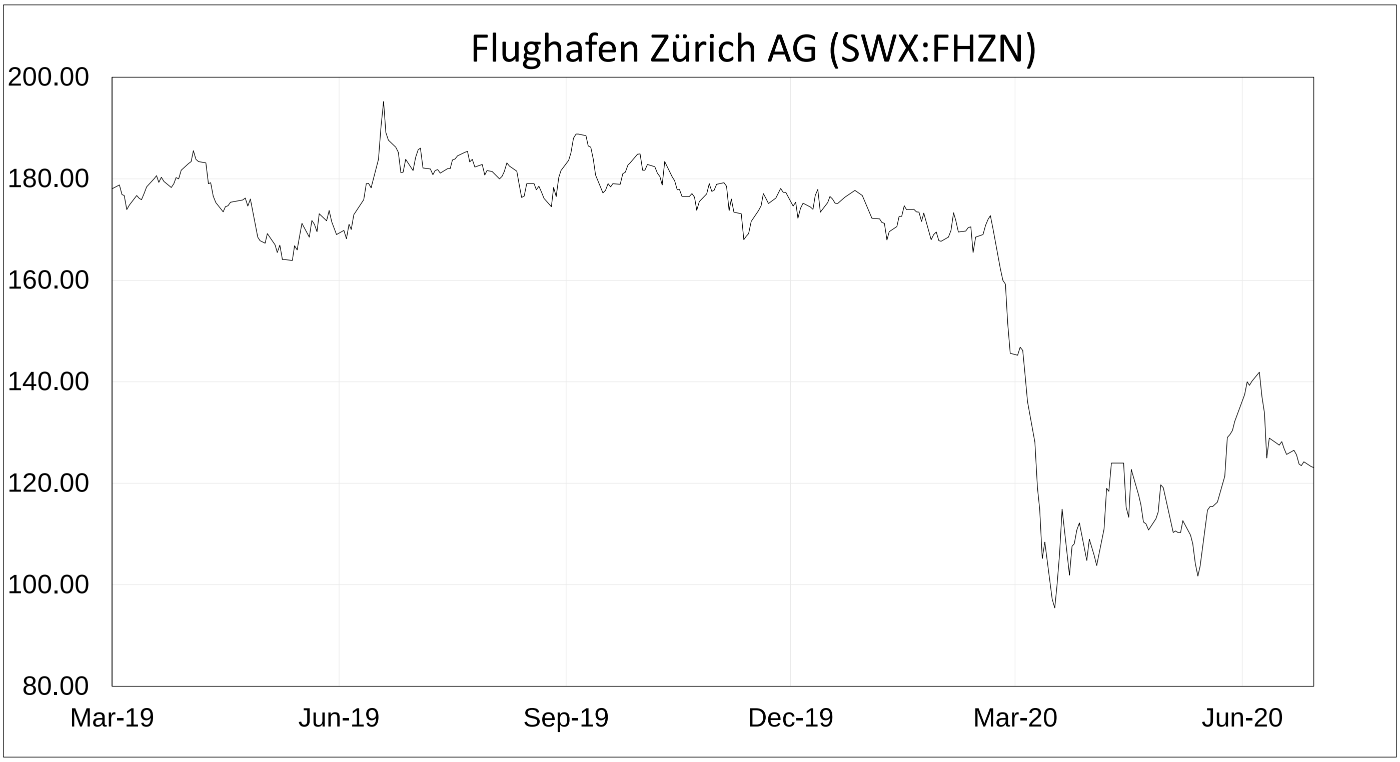

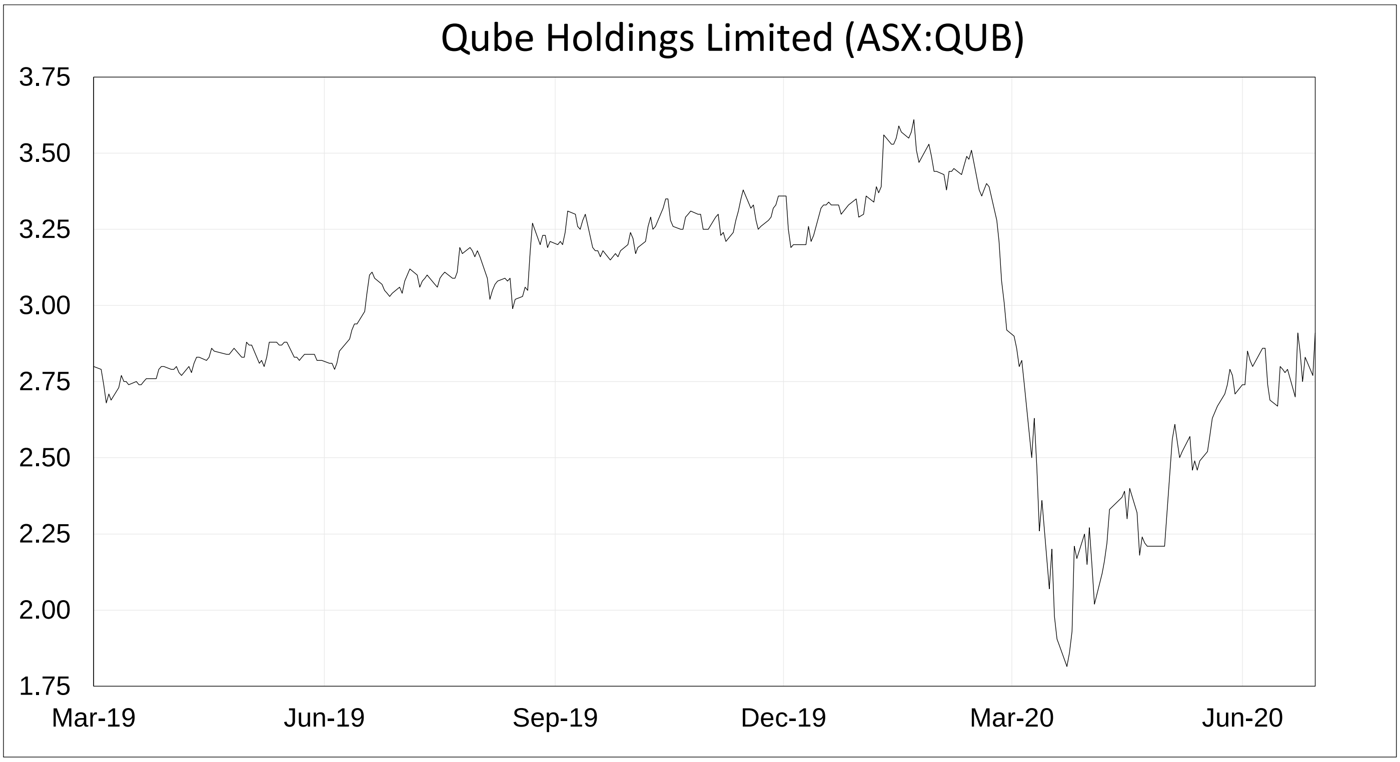

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