Annual Review: 2020

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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.. 12

Introduction

We increased the fund's invested position from 48% and 11 investments at the start of 2020 to 79% and 17 investments currently. The increased invested position is largely the result of new investments in Fedex Corporation and Qube Holdings Limited, meaningfully increasing the investment in Kinder Morgan Inc and also investing in three US regulated electric utilities. We used the market weakness in February and March to invest in these areas.

We consider each of the investments in the fund to be high-quality businesses. When we think about quality, we think about if a business can fund itself longer term from its existing resources and earn attractive returns on this capital. We are attracted to businesses with significant internal investment opportunities, we prioritise cash generation over accounting earnings and balance sheet progression is important to us. We often consider equity issuance as failure. We are also attracted to investments where a founding family or individual founder have significant influence.

A number of the investments in the fund are businesses that operate in cyclical industries and / or have meaningful levels of emerging market exposure. A number are also mid to small capitalisation companies. Given the reasonably large size of the individual positions in the fund and the likely day to day share price volatility, we consider the current invested position as being close to fully invested. We expect to own most of the fund's current investments for a number of years; our mindset is to let the business qualities continue to positively compound through multiple business cycles. In this context, the available cash gives the fund a buffer and a degree of flexibility to act where we view there to be appropriate opportunities.

The fund's investments are generally modestly geared, strongly cash generative and have operationally performed credibly over the past year in the context of the environment. This positive operating performance is starting to be recognised by the financial markets. We think there is a significant amount of risk investing in equities today and there are numerous signs of excess. Despite these concerns, we are constructive on the prospects of the investments held in the fund.

We appreciate the support that we received over the year from our investors and other stakeholders. Please contact us if you would like to discuss investing with us, or our activities in detail.

Best wishes for the holiday period and the year ahead.

Miles, Nigel and Toby.

Fund Positioning

We have written a paragraph or two addressing each investment in the fund. We have tried to provide a snap shot of the individual business's operations, why the fund is invested and any contemporary comments that we think are relevant. These comments follow.

Parcel Infrastructure – FedEx Corporation (5%)

We invested 6% of the fund's capital in Fedex in March at USD118.36. We regard Fedex as operating a network; the value of this network increases with increased parcel density. Fedex has tended to invest reasonably aggressively by expanding their physical assets ahead of growth; historically they have subsequently delivered the growth to justify this investment. We regard Fedex as a reasonably high-quality business; we are attracted to its activities and capabilities in the business to business sectors and expanding capabilities in the business to consumer area. There is a lot of noise around Fedex which we discount, the exception is Amazon's expanding interests in parcel delivery and logistics. We sold approximately half of the Fedex investment in October at USD271.47. The proceeds of the sale reduced the fund's invested position by 6%.

Paint and Coatings – Tikurilla Oyj (8%) / Sto SE & Co. KGaA (4%)

We are attracted to paint and coating businesses for prospective investment. We regard the capital intensity of these businesses as modest; the products typically have long established brands and are functional. There is some ebb and flow in the demand for the products but for decorative paint in particular, the demand is reasonably predictable and stable. The outcome of these traits is that these businesses tend to generate a lot of cash; this cash coupon is reasonably reliable and can grow in real terms over the long term.

The fund has held an investment in Tikkurila since August 2017 at an average price of EUR16.10. Tikkurila has the leading decorative paints businesses in Finland, Sweden and Russia; it also has material operations in Poland and there is retail demand for the Finish manufactured Tikkurila paint in China. Tikkurila's key decorative paint brands are Tikkurila and Beckers. Their channel to market is country specific, a function of the historical activities in the various countries where they operate. Our sense is that Tikkurila has not realised its earnings potential since being spun off as a separately listed entity in 2010. At that time Tikkurila's focus was to develop their Russian business, which has proved more volatile and slower than expectations. We regard Tikkurila as a modestly geared, highly cash generative business with strong brands and market positions. The current operating momentum in the business is also positive due to elevated demand for home improvement products. In late December, PPG Industries Inc bid EUR 25 per share to acquire Tikkurila. We have mixed feelings about this corporate approach. The investment to date has generated an annualised IRR of 13% and contributed 3% to the funds returns.

Sto is a German based building materials company, with significant operations across Europe and expanding interests in North America. Their core product is external building facades, these facades provide insulation and weather protection to pre-existing structures. Sto also produces renders and decorative paints that are often designed to be incorporated with their facade systems. Sto is recognised for providing meaningful service to architects, building owners and installers. Its products are functional, there is also a degree of brand recognition. The business is highly cash generative, their balance sheet currently holds significant internally generated net cash. Their earnings are benefitting from a cost out initiative and over time the demand for external facades is likely to resume its positive trajectory. Sto's valuation and the general demand for facades have both been negatively impacted by an indirect association with fire risk, we think Sto's valuation is further discounted due to the relative illiquidity of its traded shares and possibly concerns related to the use of their surplus cash. We used this weakness to buy an initial position in the fund in May 2019.

<u>Oil Related – Schlumberger Limited (4%)</u>

The fund has held an investment in Schlumberger since August 2017. The investment has generated an annualised IRR of - 21%, it has cost the fund 4%. We perceive that Schlumberger is positioned to increasingly directly service the various National Oil Companies (NOC). If this view is correct, we expect that Schlumberger's earnings power is materially greater going forward than it has been historically. Despite its poor performance to date, we are content to be patient with this investment. Our sense is that Schlumberger's share price has been moving consistently with other oil related listed businesses. We perceive that our Schlumberger investment thesis will ultimately be determined by company specific factors not the macro drivers in the sector.

<u>European Container Terminals – Eurokai GmbH & Co. KGaA (10%)</u>

Eurokai is the largest investment in the fund. It is a family-controlled seaport terminal operator with long term concessions in Germany, specifically Hamburg, Bremerhaven, and Wilhelmshaven. Eurokai also has significant operations under a concession in La Spezia, Italy and smaller operations in other locations in Italy and beyond. The scale of Eurokai's operations are significant in the context of their current EUR295m enterprise value (EUR430m market capitalisation less EUR135m in net cash). In Germany alone, Eurokai operated concessions handled 7.6m TEUs in 2019; Eurokai has a proportionate economic interest of 2.6m of these TEUs. For context, the whole of Port of Botany handles around 2.6m TEUs annually. Eurokai is cash generative, its trend adjusted EBIT is around EUR60m, we expect this coupon to grow over time. We consider that management have done a credible job of allocating capital and managing the various issues across the business; we are happy to align our capital with them. We view Eurokai as being materially mispriced. Its earnings are currently weak due to the economic environment, there is over capacity and competition issues in the Northern Range ports, the shipping lines (Eurokai's customers) are consolidating, Eurokai's shares are illiquid and its capital structure is complex. It is not straight forward, regardless we are happy for the fund to hold a meaningful investment in this business over a long-time horizon.

<u>Airports – Aena S.M.E., S.A. (3%) / Flughafen Zurich AG (3%)</u>

The fund invested in Aena at EUR135.88 and Flughafen Zurich at CHF120.56 in March 2020. We consider both to be genuine destination airport assets; we are also attracted to the sheer scale of Aena's freehold operations. The fund has made modest positive returns from these investments to date. Our original interest in Aena and Zurich began in 2019 as the share prices of each weakened due to concerns around upcoming regulatory determinations (the prevailing favourable regulatory settings were coming to an end) – this reduced their share prices from what we perceived as expensive to reasonable. Our assessment of the regulatory outlook was not as pessimistic as many others. Moreover, we were attracted to the upside from further development of the respective retail and real estate assets. We began building positions in each (with hindsight, too early) and then stepped-up purchases in March as Covid-19 concerns peaked. These purchases were made based on our assessment of a reasonably severe downside scenario and we viewed the risk – return as worth taking. The fund reduced the size of its investments in these businesses more recently, indicating we view them as more marginal in comparison to other investments in the fund.

Electric Utilities – National Grid plc (3%) / Portland General Electric Company (6%) / PG&E Corporation (2%) / Edison International (2%)

During 2020, we materially increased the fund's investment in the regulated electric utility sector. At the start of the year the fund held a 3% investment in National Grid; we added new investments in Portland General Electric, PG&E and Edison International. These investments are based on our view that electricity networks will be fundamental and central assets enabling decarbonisation through increased electrification. Moreover, we anticipate that the electric utility operating model will continue to evolve and this will lead to changes in the regulatory environment – in particular, US electric utility regulation will increasingly move away from a traditional cost of service model towards a more performance-based regulation model. We believe that these changes will significantly benefit those electric utilities that embrace these changes and the opportunities they present.

Kinder Morgan, Inc. (7%)

At the start of 2020, 4% of the fund's capital was invested in Kinder Morgan. We materially increased this investment in July and October. We are attracted to the scale and quality of Kinder Morgan's asset base; we also think management are both operationally and financially savvy. With the financial market's significantly increased attention on carbon reduction (which we concur with and is a key part of our electric utilities thesis), it is easy to overlook the extensive network of nationally important assets owned by Kinder Morgan (including moving 40% of US gas consumption and exports each day), the significant improvement in the capital structure, cashflow and internal funding since 2015, and a valuation more favourable than we can remember. The market is valuing Kinder Morgan today more on concerns of stranded assets resulting from their activities. They certainly have some exposure in these areas, our view is these concerns are manageable and that the key infrastructure assets they own will continue to be relevant for many, many years to come.

Qube Holdings Limited (5%)

We invested 5% of the fund's capital into Qube in March 2020 at AUD2.32. The fund has previously invested in Qube. We hold management in high regard and we are attracted to the asset base that they are building and assembling; this asset base has evolved from a cash box in 2006. We think this context is important. There is considerable operational and execution risk around realising material upside beyond the current share price.

Asics Corporation (4%)

Our thinking around Asics didn't change through the year. We are attracted to the opportunity for the business to increase their direct distribution; increasingly, to sell more of their products online directly to retail customers. Asics's brand and loyalty amongst a portion of their customer base enables this shift. 70% of Asics's business is distributed through traditional third-party channels. The transition increasingly towards direct distribution is not seamless, and this transition is causing considerable volatility in Asics's business. Recently, the financial markets seem to be starting to look through this volatility and are recognising the opportunity Asics have from direct distribution. Asics's current enterprise value (EV) is USD4.1 billion which represents and EV to revenue multiple of 1.1x. Both seem modest relative to their peers and our view of the longer-term earnings power of the business.

<u>Ponsse Oyj (5%)</u>

Ponsse produces forest harvesting machines and forwarders focussed on the "cut to length" method. Its key competitors are Deere & Company and Komatsu Ltd. Ponsse's end markets are growing and cyclical, they have funded their manufacturing capacity and service & distribution expansions since listing in 1996 without additional equity issuance. The business appears to have meaningful surplus manufacturing capacity as the result of their recent factory expansion. We also expect that in the future Ponsse will develop significant related business activities that will contribute to their earnings. Ponsse are progressing with selling stand-alone headers, we are also fascinated with the activities of their wholly owned subsidiary EPEC Oy. The revenue base of the existing business is EUR 650m and we expect it to earn 10% type EBIT margins; we expect both to grow through the cycle. We consider that there is a lot to work with from an investment perspective in the context of their current EUR830m enterprise value.

<u>Tower Limited (5%)</u>

Tower's "local" brand positioning resonates with us, competing against larger Australian owned entities in the New Zealand general insurance markets. We view that Tower is well positioned to significantly grow its market share in home, content and auto insurance over the medium and longer term. We expect that Tower can fund this growth internally, i.e. we expect that the growth can be funded without issuing additional equity. We consider this to be a significant investment opportunity given the current modest valuation and general financial market expectations for the business. Given the nature of the general insurance business, Tower's relatively low market share and their dreadful financial performance over the past decade, we think the investment opportunity revolves around prioritising internal reinvestment, organic market share growth and conservative balance sheet settings; well ahead of any returns to shareholders or future acquisitions.

<u>Topps Tiles Plc (4%)</u>

Topps Tiles is the leading UK based tile retailer focussed on the renovation market (think bathroom and kitchen renovations). They sell tiles through their own retail store network to tradesmen and DIY individuals. We view Topps Tiles as being materially differentiated from their competitors including other tile specialists and the big box home improvement stores. The business is consistently winning market share, it appears well organised and its economics are attractive. Topps Tiles have a well-regarded brand, fragmented customer and supplier bases, considerable scale in their markets and retail presence often located on lower rent properties; tiles are also generally non branded products. This combination seems to enable their superior economics. Topps have survived 2020 well, we thought their cash generation and cost management were impressive and the balance sheet looks healthy. Their operations are also currently benefitting from positive customer demand consistent with other DIY retailers.

Investments sold during 2020 include:

- We exited the remainder of the fund’s investment in Twin River Worldwide Holding Inc (previously Dover Downs) in February 2020. We had held this investment since July 2010. The investment generated an annualised IRR of 9.5% and contributed 0.6% to the fund’s returns. The sale in 2020 decreased the fund’s invested position by 2%.
- We sold the fund’s investment in Cargotec Corporation in October 2020. We initially invested in Cargotec in August 2018. The investment generated a small positive IRR; the sale in 2020 decreased the fund’s invested position by 3.8%.

In March 2020, in addition to the activity detailed above, we bought investments in Akzo Nobel N.V. and Linde plc. We exited the investment in Akzo Nobel in April 2020, for a small gain. We sold the position in Linde in July 2020; the investment contributed 0.9% to the fund’s returns.

The following tables summarise the fund's investment position at 31 December 2020.

	Australia / NZ		USA / Canada		UK/Europe		Japan		Total		Tolls on the Real Economy	Owner Operator / Family Led	Trade / Emerging Market Exposure
	%	no/.	%	no/.	%	no/.	%	no/.	%	no/.			
Tenet - Parcel Infrastructure			5	1					5	1			
Fedex Corp			5	1							✓	✓	✓
Tenet - Paint / Coatings					12	2			12	2			
Tikkurila					8	1					✓		✓
STO SE					4	1					✓	✓	
Tenet - Oil Related			4	1					4	1			
Schlumberger			4	1							✓		✓
Tenet - European Container Terminals					10	1			10	1			
Eurokai					10	1					✓	✓	✓
Tenet - Airports					6	2			6	2			
Aena SME					3	1					✓		
Flughafen Zurich AG					3	1					✓		
Tenet - Electric Utilities			11	3	3	1			14	4			
National Grid					3	1					✓		
Portland General Electric Co			6	1							✓		
PG&E Corporation			2	1							✓		
Edison International			2	1							✓		
Kinder Morgan Inc			7	1					7	1	✓	✓	
Qube Holdings Ltd	5	1							5	1	✓		
Asics Corp							4	1	4	1			
Ponsse OYJ					5	1			5	1	✓	✓	✓
Tower Limited	5	1							5	1	✓		
Topps Tiles					4	1			4	1			
Gross long	10	2	26	6	40	8	4	1	79	17	72%	30%	31%
Gross short													
Gross invested position	10	2	26	6	40	8	4	1	79	17			
Derivatives (annual cost)									3	3			

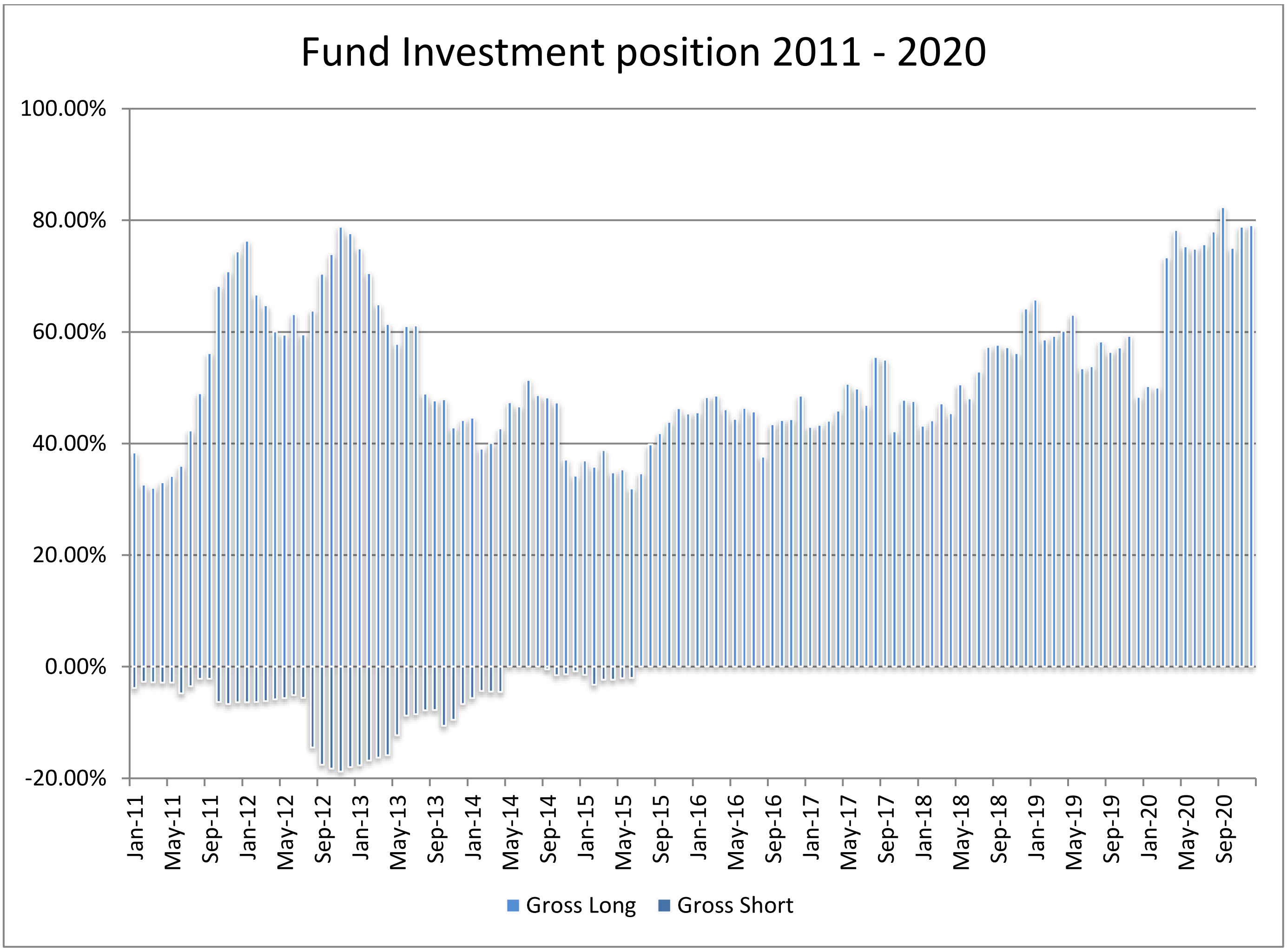
Notes: Totals may not add due to rounding. Data as at 31st December 2020

	31-Dec-19	Purchases	Sales	31-Dec-20
Tenet - Parcel Infrastructure				
Fedex Corp	0.0%	6.0%	-6.4%	4.7%
Tenet - Paint / Coatings				
Akzo Nobel	0.0%	2.2%	-2.2%	0.0%
Tikkurila	6.3%		-2.1%	7.9%
STO SE	3.1%	0.5%		4.0%
Tenet - Oil Related				
Schlumberger	5.0%	2.7%	-1.2%	3.9%
Tenet - European Container Terminals				
Cargotec Oyj	3.0%		-3.8%	0.0%
Eurokai	9.1%	3.0%		10.2%
Tenet - Airports				
Aena SME	0.0%	5.2%	-1.3%	3.4%
Flughafen Zurich AG	0.0%	4.0%	-1.3%	2.8%
Aeroports de Paris ADP	0.0%	2.0%	-1.6%	0.0%
Tenet - Electric Utilities				
National Grid	3.2%	0.5%		3.0%
Portland General Electric Co	0.0%	6.9%		6.1%
PG&E Corporation	0.0%	2.0%		2.4%
Edison International	0.0%	2.0%		2.1%
Twin River Worldwide Holdings	2.0%		-2.1%	0.0%
Linde Plc	0.0%	3.0%	-3.6%	0.0%
Kinder Morgan	4.1%	5.4%		6.7%
Qube Holdings Ltd	0.0%	4.9%	-0.5%	5.2%
Asics Corp	3.8%			3.8%
Ponsse OYJ	3.4%	1.0%		4.6%
Tower Limited	0.0%	4.6%		4.8%
Topps Tiles	5.4%		-0.9%	3.6%
Total	48.3%	56.0%	-27.0%	79.1%

	Long (%)	Short (%)	Currency (%)
Australia	5	0	26
United States	26	0	26
UK/Europe	40	0	40
Japan	4	0	4
New Zealand	5	0	5
Total	79	0	100
Derivatives (annual cost)	3		

Notes: Data as at 31st December 2020.

	31 December 2020
Large capitalisation ($3 billion plus)	41%
Mid / Small capitalisation ($100 million to $3 billion)	38%
Micro capitalisation (less than $100 million)	0%
Total	79%



Investment Results

The fund returned 0.8% for calendar year 2020.

The contributors to the return were as follows:

- Long equity investments (in local currencies) contributed 6.4%;
    - Fedex Corp was a key contributor and to a lesser extent Tikkurila OYJ and Qube Holdings Ltd
- Movements in the Australian dollar cost 1.5%;
- USD call / Yen put options cost 1.8%;
- Currency hedges cost 0.2%; and
- Equity derivatives cost 0.8%.

Returns (to 31/12/2020)	Fund
Since inception* (annualised)	7.8%
Since inception* (cumulative)	123.9%
Rolling 5 year (annualised)	3.9%
Rolling 3 year (annualised)	1.4%
Rolling 1 year	0.8%
Standard deviation	9.5%

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
July		1.14%	-1.95%	-3.06%	2.03%	1.98%	0.45%	-1.62%	-1.57%	4.99%	-0.35%	-0.86%
Aug		-0.33%	-0.32%	0.45%	1.42%	-0.39%	-1.39%	-0.18%	1.21%	1.50%	-1.64%	2.97%
Sept		0.60%	-2.18%	1.89%	0.52%	4.18%	-1.19%	1.34%	3.04%	-4.26%	1.23%	-0.66%
Oct		2.12%	0.83%	1.30%	1.43%	2.53%	0.27%	-0.21%	0.56%	-1.60%	0.51%	1.69%
Nov		0.47%	-1.22%	-2.46%	3.97%	11.10%	0.60%	4.50%	2.73%	-0.54%	1.36%	7.61%
Dec		-0.24%	0.27%	6.93%	1.13%	3.00%	-3.07%	2.46%	0.06%	-3.05%	-0.02%	1.99%
Jan		0.31%	0.84%	9.92%	-0.54%	0.97%	-1.77%	-5.16%	1.32%	2.20%	1.93%	
Feb		1.78%	0.02%	2.69%	-0.81%	1.57%	1.77%	-0.59%	-1.66%	3.91%	-7.52%	
Mar		1.06%	5.59%	-0.44%	-1.45%	-0.04%	-0.84%	1.21%	-0.52%	0.53%	-9.67%	
Apr	*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%	
Jun	-0.76%	-0.70%	-2.58%	1.68%	0.02%	-2.61%	-0.79%	0.37%	-1.21%	1.56%	0.05%	
Fin Yr	-1.49%	5.33%	0.29%	36.06%	9.33%	24.95%	-0.31%	5.10%	4.97%	3.28%	-9.97%	
Cal Yr		-3.10%	10.12%	43.95%	22.40%	-3.70%	10.76%	4.89%	-4.23%	7.82%	0.82%	

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

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