

Annual Review: 2021

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## Introduction

It has been an unusual year.

There is a lot we do not know.

We invest around the discrete opportunities we identify. Get this right, it is what matters.

Animal spirits are running, risk appetites feel overly optimistic.

Crypto? If they are sustainable, there will also be fiat currency volatility.

Valuation matters, ultimately.

Risks seem high.

### Fund Activity

Activity in the fund was limited during 2021. In March, we exited the investment in Tikkurila Oyj following the takeover by PPG Industries, Inc. We also sold the investments in National Grid plc and European Airports; Flughafen Zurich and Aena. We added new investments in Rotork Plc, Crown Resorts and Nihon Kohden Corporation. The fund started the year with 17 investments and 79% invested, it currently has 17 investments and is 75% invested.

### Fund Positioning

The fund is the primary entity that we use to invest our personal capital. It holds a number of investments that we expect to own for many years. We are content to hold these investments despite the macro environment. The fund also currently holds a meaningful balance of cash. We expect to use this cash to increase some existing investments and to add select new investments as we identify suitable opportunities. We are likely to use times of market stress to increase the fund's invested position.

### General

There were no changes to the people at Long Tail. Our structure is by design, it is intended to enable us to manage a concentrated investment portfolio in the manner that we view as optimal. We think that we function well as a group.

Please contact us if you would like to discuss investing in the fund or our activities in detail.

We hope that you have an enjoyable and relaxing holiday period.

Kind regards,

Miles, Toby and Nigel

## Fund Positioning

Below we have briefly detailed our current thoughts regarding the individual investments in the fund. If you would like to discuss these businesses, or our thoughts around these specific investments further, please let us know; we are happy to delve into the detail as desired.

### Eurokai GmbH & Co. KGaA 12% / Initial Investment – June 2017

We think that Eurokai is fundamentally mispriced. We are attracted to its strategic long-life assets, under levered balance sheets (various entities) and we hold management in high regard. In addition, currently, there is active consideration of consolidation of German port terminal interests. We expect consolidation would be positive for the industry, the individual operators and for the broader German economy. We attribute the mispricing of Eurokai to its closely held nature, the illiquidity of its share register, a relatively complex capital structure and volatility in their operating activities since the GFC.

### Tenet – Electric Utilities 12% / Initial Investment – March 2020

The investments in the fund around this idea include 3 US based electric utility businesses. These investments are based on our view around energy transition and the prospect that performance-based regulation will become increasingly applicable. We would like to increase the fund's investments around this idea as we identify suitable opportunities.

### Sto SE & Co. KGaA 9% / Initial Investment – May 2019

Sto has grown into a large individual position in the fund as a result of its share price appreciation. We think the business is well positioned, they appear to have a number of growth drivers both domestically and in their international operations. Sto's earnings are further benefitting from a cost out focus. The business is positively exposed to higher energy costs and initiatives towards carbon reduction. The valuation looks reasonable. Immediately, the business is being pressured by elevated input and supply chain costs, beyond these immediate pressures, the business is thriving.

### Ponsse Oyj 6% / Initial Investment – June 2019

We view Ponsse to be a high-quality business that operates in a cyclical manufacturing space. Ponsse is a strong brand, it has high market shares and broad recognition amongst forest harvesters globally. We are impressed with their business development over a long-time horizon, which they have funded internally. The valuation looks full. On some level, we do view their enterprise value as still being small in the context of their activities and IP. We expect that future earnings growth and business development will support the current share price.

### Crown Resorts Limited 5% / Initial Investment – October 2021

When we consider Crown's casino licences, tax agreements and the quality of their facilities; we regard them as some of the highest quality casino assets in the world. Despite this view, we have not previously invested in Crown in the fund due to long held concerns around their culture, high roller focus and domestic expansionist agenda. These concerns either no longer exist, or have been meaningfully addressed.

Tower Limited 4% / Initial Investment – January 2020

We are attracted to Tower's positioning in the NZ home and motor general insurance markets. We perceive that Tower has significant organic growth opportunities and that these opportunities can be funded internally. We think Tower's growth in NTA per share adjusted for dividends is a reasonable measure to gauge their progress against the investment opportunity that we perceive.

Schlumberger Limited 4% / Initial Investment – August 2017

We are attracted to Schlumberger's exposure to the various National Oil Companies (NOCs). Schlumberger is positioned to increasingly engage directly with them. This infers that Schlumberger's earnings power is higher in the future than it has been in the past. Operationally, Schlumberger's results have been reasonable over the life of the fund's investment. Day to day, the share price seems to move with oil prices and other oil services businesses. Our thesis and attraction to Schlumberger is based on a company specific dynamic that we believe will ultimately outweigh the macro drivers.

Topps Tiles Plc 3% / Initial Investment – November 2016

We continue to hold the fund's investment in Topps Tiles. Their activities have been meaningfully disrupted by Covid restrictions. Despite these disruptions, the business continues to be highly cash generative. Operationally we think that Topps Tiles is performing reasonably in the context of the prevailing environment. The valuation appears very cheap. The business appears to be well positioned, defensible and continuing to operate at a reasonably high level.

Fedex Corporation 3% / Initial Investment – March 2020

We view Fedex as a network, this network becomes increasingly valuable with increased density and throughput. The fund previously invested in Fedex, we used the Covid related weakness in their share price in March 2020 to again invest in this business. We view Fedex as a reasonably high-quality business, that has invested capital ahead of growth, but then, consistently realised activity to underpin these investments. Our greatest hesitation is Amazon's rapidly growing activities in last mile package delivery. We view Fedex as being differentiated from the commoditised last mile consumer package business. Fedex has higher exposure to business to business deliveries and also has expertise and capabilities in non-conforming business to consumer services.

Asics Corporation 3% / Initial Investment – May 2018

We are attracted to the Asics brand; we perceive that their products are functional and differentiated from a faddish field. We invested in Asics based on a view that the business has considerable opportunities to develop the direct distribution of their products. Asics now appear to be focussed on these same opportunities; they are making reasonable progress towards them.

Qube Holdings Limited 3% / Initial Investment – March 2020

Similar to Fedex, the fund had previously invested in Qube and we used the Covid related share price weakness in March 2020 to again invest in this business. We hold management in high regard, we think they have assembled an interesting mix of assets that we view as impressive from essentially a standing start 15 years ago. We consider that this history is important; we expect management will continue to

invest and expand Qube's activities through acquisition, which is immediately facilitated by the proceeds from the Moorebank monetisation process.

Nihon Kohden Corporation 3% / Initial Investment – December 2021

In December, the fund bought an initial investment in Nihon Kohden Corporation, a Japanese based medical equipment manufacturer. This is the second equity investment that the fund has purchased in Japan (the first was the investment in Asics Corporation in May 2018). We are attracted to Nihon Kohden's high domestic market shares and expanding international businesses in various lines of medical equipment. The enterprise value of the business strikes us as small in the context of their brand, breadth of in-house manufacturing activities, various market positions and historic financial progression. Nihon Kohden consider their key technology to be "Human – Machine interface technology". We are interested in how this technology may be applied to enable their future business activities.

Rotork plc 3% / Initial Investment – July 2021

We have long viewed Rotork as a high-quality business. This quality is evident in their margin structure and financial progression over time. We invested in Rotork due to the opportunity that we perceive that they have in electric valve actuation. If this opportunity is realised consistent with our expectations, it will drive organic revenue and cash generation growth for the business over (at least) a medium-term horizon.

Kinder Morgan, Inc 2% / Initial Investment – December 2018

Kinder Morgan owns and operates what we consider to be strategic, core US based natural gas infrastructure assets. We hold management in high regard, we think they have managed their capital structure and balance sheet well over the past decade in comparison to similar businesses. We are attracted to the core nature of their assets and our perception of the cash generating capabilities of the business.

INVESTMENTS SOLD

Tikkurila Oyj 4% / Initial Investment – August 2017

We sold the investment in Tikkurila in March 2021 following the takeover by PPG industries. The investment generated an annualised IRR of 20.7%, it contributed 5.7% to the fund's returns. The sale reduced the fund's invested position by 9%.

National Grid plc 3% / Initial Investment – May 2019

We sold the investment in National Grid plc in March 2021 following the WPD acquisition. The investment generated an annualised IRR of 6.4%. It contributed 0.3% to the fund's returns. The sale reduced the invested position by 2.7%.

European Airports 6% / Initial Investment – February 2020

We sold the fund's investments in the European Airports (Flughafen Zurich and Aena) in February 2021. The investments contributed 56 bps to returns and reduced the fund's invested position by 3.2%.

The following tables summarise the fund's investment position at 31 December 2021.

	Australia / NZ		USA		UK/Europe		Japan		Total		Tolls on the Real Economy	Owner Operator / Family Led	Trade / Emerging Market Exposure
	%	no/.	%	no/.	%	no/.	%	no/.	%	no/.			
Eurokai					12	1			12	1	✓	✓	✓
Tenet - Electric Utilities			12	3					12	3	✓		
STO SE					9	1			9	1	✓	✓	
Ponsse OYJ					6	1			6	1	✓	✓	✓
Crown Resorts Ltd	5	1							5	1			
Tower Limited	4	1							4	1	✓		
Schlumberger			4	1					4	1	✓		✓
Topps Tiles					3	1			3	1			
Fedex Corp			3	1					3	1	✓	✓	✓
Asics Corp							3	1	3	1			
Undisclosed	3	1							3	1	✓		
Nihon Kohden Corp							3	1	3	1			
Qube Holdings Ltd	3	1							3	1	✓		
Rotork Plc					3	1			3	1	✓		✓
Kinder Morgan Inc			2	1					2	1	✓	✓	
Gross long	15	4	21	6	33	5	6	2	75	17	61%	32%	28%
Gross short													
Gross invested position	15	4	21	6	33	5	6	2	75	17			
Derivatives (annual cost)									3	3			

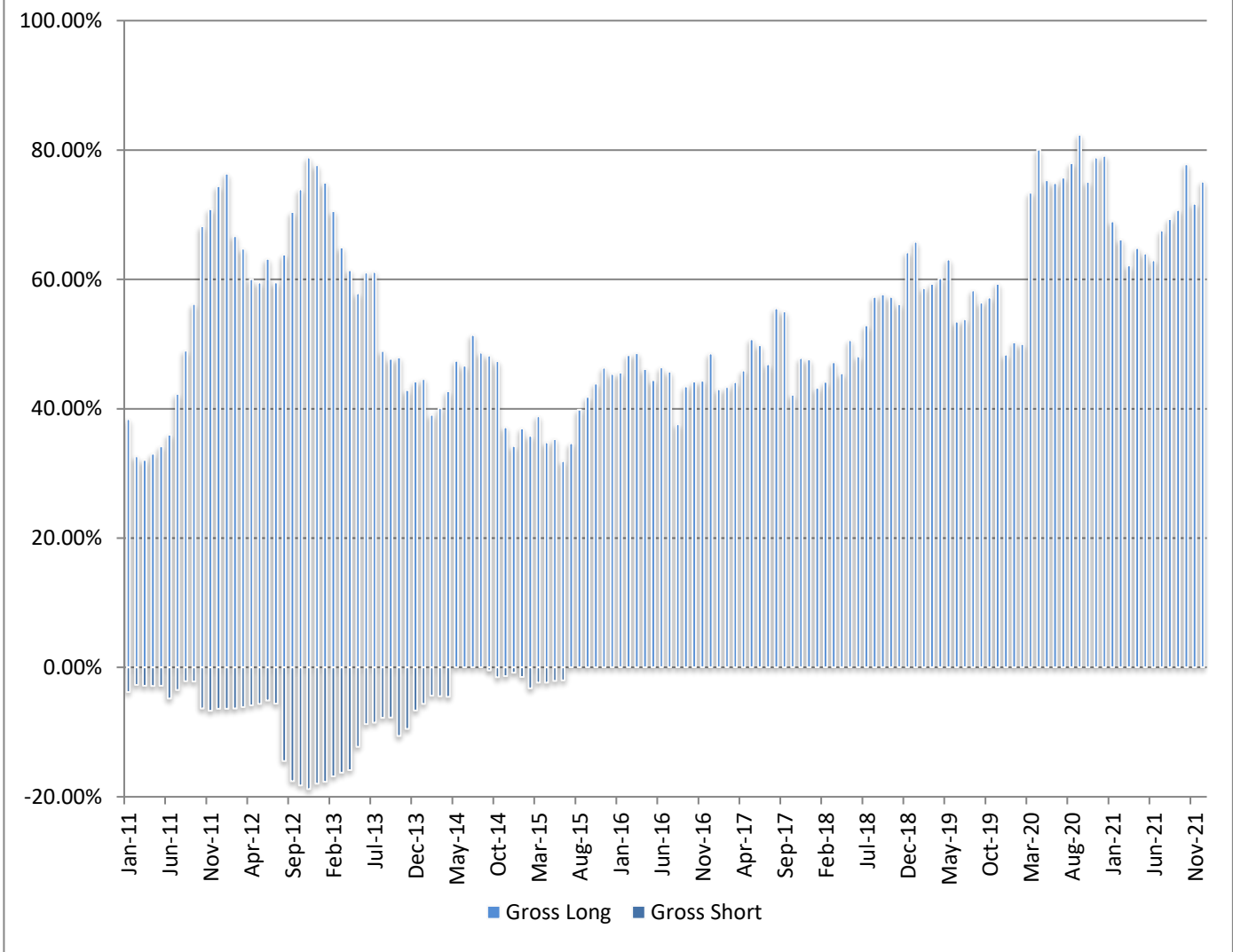
Notes: Totals may not add due to rounding. Data as at 31st December 2021

	Long (%)	Short (%)	Currency (%)
Australia	11	0	36
United States	21	0	21
UK/Europe	33	0	33
Japan	6	0	6
New Zealand	4	0	4
Total	75	0	100
Derivatives (annual cost)	3		

Notes: Data as at 31<sup>st</sup> December 2021.

31 December 2021	
Large capitalisation (\$3 billion plus)	38%
Mid / Small capitalisation (\$100 million to \$3 billion)	37%
Micro capitalisation (less than \$100 million)	0%
Total	75%

### Fund Investment position 2011 - 2021





## Investment Results

The fund returned 17.4% for calendar year 2021.

The contributors to the return were as follows:

- Long equity investments (in local currencies) contributed 21.5%;
  - Key contributors were Eurokai, Sto, Tikkurila and Ponsse
- Movements in the Australian dollar contributed 0.2%;
- USD call / Yen put options cost 1.3%;
- Equity derivatives cost 1.5%.

Returns (to 31/12/2021)	Fund
Since inception* (annualised)	8.6%
Since inception* (cumulative)	162.9%
Rolling 5 year (annualised)	5.1%
Rolling 3 year (annualised)	8.5%
Rolling 1 year	17.4%
Standard deviation	9.3%

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
July		1.14%	-1.95%	-3.06%	2.03%	1.98%	0.45%	-1.62%	-1.57%	4.99%	-0.35%	-0.86%	0.12%
Aug		-0.33%	-0.32%	0.45%	1.42%	-0.39%	-1.39%	-0.18%	1.21%	1.50%	-1.64%	2.97%	-0.37%
Sept		0.60%	-2.18%	1.89%	0.52%	4.18%	-1.19%	1.34%	3.04%	-4.26%	1.23%	-0.66%	0.69%
Oct		2.12%	0.83%	1.30%	1.43%	2.53%	0.27%	-0.21%	0.56%	-1.60%	0.51%	1.69%	-0.43%
Nov		0.47%	-1.22%	-2.46%	3.97%	11.10%	0.60%	4.50%	2.73%	-0.54%	1.36%	7.61%	0.92%
Dec		-0.24%	0.27%	6.93%	1.13%	3.00%	-3.07%	2.46%	0.06%	-3.05%	-0.02%	1.99%	1.54%
Jan		0.31%	0.84%	9.92%	-0.54%	0.97%	-1.77%	-5.16%	1.32%	2.20%	1.93%	2.82%	
Feb		1.78%	0.02%	2.69%	-0.81%	1.57%	1.77%	-0.59%	-1.66%	3.91%	-7.52%	1.72%	
Mar		1.06%	5.59%	-0.44%	-1.45%	-0.04%	-0.84%	1.21%	-0.52%	0.53%	-9.67%	4.36%	
Apr	*0.04%	-1.94%	1.62%	4.45%	0.08%	0.32%	1.72%	1.34%	1.27%	2.11%	0.43%	0.44%	
May	-0.78%	1.01%	-0.37%	8.63%	1.29%	0.47%	4.12%	1.84%	-0.23%	-3.64%	4.11%	3.85%	
Jun	-0.76%	-0.70%	-2.58%	1.68%	0.02%	-2.61%	-0.79%	0.37%	-1.21%	1.56%	0.05%	0.66%	
FY	-1.49%	5.33%	0.29%	36.06%	9.33%	24.95%	-0.31%	5.10%	4.97%	3.28%	-9.97%	29.71%	
CY		-3.10%	10.12%	43.95%	22.40%	-3.70%	10.76%	4.89%	-4.23%	7.82%	0.82%	17.44%	

\* 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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