Product Assessment - For financial advisers only

Zenith
Investment Partners Pty Ltd

Highly Recommended
Recommended
Approved
Not Approved

Fortitude Capital

9 April 2010

Fortitude Capital Pty Ltd ("Fortitude"), is an Australian absolute return equities manager (the "Manager") with a strong track record and a solid team. Fortitude was founded in 2004 by John Corr and Tim McGowen.

The Manager has two products available for Australian investors: the Fortitude Capital Absolute Return Trust ("FCART") and the Fortitude Capital Australian Equity Income Fund ("FCAEIF"). In addition it operates a managed account for BT Investment Management ("BTIM").

Fortitude has an industry leading investment and risk management process. We do however believe that a key area for improvement is in getting their offerings accepted by a larger group of domestic investors.

John Corr is the Firm's Managing Director, the seed investor into FCART and remains one of the largest single investors in the Fund. In April 2007 Corr and McGowen sold 40% of the equity in the Manager to MFS Alternative Assets Limited ("MFS AAL").

MFS AAL is an unlisted public trading company 30% owned by Octivar. By diluting their founding stakes in the management company Corr and McGowen were able to re-capitalise the business, and this action has provided sufficient capital to allow the Manager to operate with current levels of AUM for a number of years without the need to reduce headcount. The strong performance of the older fund (FCART), the attractiveness of an income fund and the current focus of the business to open their offering to Australian investors provides us with greater confidence in the long term viability of the business.

Tim McGowen sold his interest in the Fund in May 2009, but he had been in transition for a period of 6 -9 months prior to that date and hence the firm was able to plan and successfully train staff to manage his duties. Tim's role as Chief Executive involved business management and marketing activities. The sell-down of Tim's stake in the business was amicable.

The Fortitude team consists of 6 people; 5 of whom are investment professionals and the other who is a very experienced operations executive. The majority of the equity in the Manager is now owned by John Corr and 40% is owned by MFS AAL Limited.

The experience of John Corr provides Zenith with tremendous confidence in Fortitude. Not only is he a highly rated proprietary trader (8 years as proprietary trader and Head of Equity Proprietary Trading at Solomon Smith Barney/ Citigroup) it is also evident that he has strong support from his investment team.

Initial seeding came from John Corr and from BT Investment Management (which remains the largest investor). Fortitude's Funds Under Management ("FUM") topped A$190 million across various funds and managed accounts that had a pari passu strategy to FCART. During 2008/2009 the wave of redemptions by offshore fund of hedge funds reduced the FUM to just over $75 million as at January 2010.

The trading experience of the senior members of the Manager is evidenced with the strong focus they have on risk management. All trades are reported and entered into the risk systems, and all traders have trading limits in place. Before positions are added to the portfolio the Manger considers the liquidity of the positions, the availability of stock options to act as a hedge and each trader must define a timeline. Fortitude uses a number of risk management systems sourced internally and externally to monitor positions and the portfolio.

Drawing from many years of experience, the Manager considers the market to be dynamic and constantly providing opportunities. The result is a portfolio that is dynamic across a number of strategies, and with the derivative overlay it has produced very constant returns since inception with FCART at the time of our review being compounded net of fee returns of 10.71% with a very low volatility of 2.93%. Over 59 months of returns the Fund has had only 5 negative months, the largest of these of -0.58% in August 2009. Most telling of all was the Fund's success over 2008, the year in which many markets fell, when the Fund was up 12. 29%.

The new fund, the Australian Equity Income Fund, launched in September 2009 is a "buy and write" fund. The aim of this fund is to provide a more volatile offering which is able to take advantage of rising markets, while still being risk adverse. A Buy and write fund is one where the fund buys shares and sells call options against them to generate income. The Fund was seeded with approximately A$5 million from individual investors and a not for profit group. With this latest offering Zenith believes it will allow the Manager to increase fund inflow and to increase the stability of the business.

Zenith
Investment Partners Pty Ltd

Product Assessment - For financial advisers only

Contents

The Managers' philosophy is important to understand. The Manger does not believe that it is feasible to predict the long term price of any asset, and it does not claim to have any special ability to predict long term asset performance. The Manager sees that its strength is in understanding the short term movements in markets and the knowledge of how market participants will react to news and announcements.

The performance success of the FCART is a result of strong risk management and short term trading focus, married with a strong investment team. As an observer of hedge funds offered in Australia it has been concerning that some of the best managers are overlooked because their headline returns more subdued in boom markets.

Overall, Zenith has a high opinion of the structure, the management and highly rates this investment as "Recommended".

Structure & Ownership

History

Fortitude Capital was a venture set-up between the founders John Corr and Tim McGowen in 2004, with both holding 50% equity. The business grew with additional seeding in the FCART from Corr and McGowen. At the same time BTIM added a managed account with the same mandate as FCART. An offshore fund, domiciled in the Cayman Islands was launched in September 2006. Again this fund had the same investment approach as FCART. During that time Fortitude added a number of managed accounts for various fund of hedge fund groups. At the peak Fortitude had nearly A$180 million in the FCART strategy.

In 2007 the Manager was approached by MFS AAL who wanted to build a portfolio of hedge fund investments. Corr and McGowen took the opportunity to sell equity in order to capitalise the business. The result was a dilution of their respective equity holdings in the business such that MFS AAL held 40% after the issue.

As the wind of the global financial crises moved around the world, it forced liquid investments held by fund of hedge funds to be unwound, including those in the Fortitude managed accounts and Cayman Islands Fund. During 2008 AUM for Fortitude fell below A$100 million.

The GFC was not kind to MFS AAL's parent company which also became a victim. Subsequently MFS AAL's has reconfirmed that it wants to maintain its holding in Fortitude.

Towards the middle of 2008 Corr and McGowen, in response to the GFC saw a changed landscape with their traditional clients and McGowen thought that it was time to move on from the business. The result was a managed exit, allowing for his responsibilities to be passed on to John and the other members of the team.

Corr bought out McGowen's stake and the pair separated amicably in May 2009.

While it is always difficult to continue to see a manager positively after a parting of founders, the transition for Fortitude was made easy because of a number of factors. John was the principal trader and risk manager with Tim's role concentrating on business management and marketing.

The drop in AUM is a concern, but the consequence of selling shares to MFS AAL in 2007 has left the balance sheet very strong, with enough cash to carry on the business with current AUM for years to come.

With the collapse of much of the global fund of hedge fund industry the Manager is seeking to attract investors in Australia. This is a new step for Fortitude, which it is tackling with dedication and will place the firm in a good position over the longer term.

Fortitude is also looking to finalise a partnership with a domestic organisation that could assist it with distribution. We believe that talks are progressing well and we see that such a tie-up would greatly benefit Fortitude's penetration into the local market.

A further result of the outflow of funds is the size of the BT investment and the risk that this might be withdrawn. We have spoken to BT about their commitment to the BT Total Return Fund ("TRF"), the vehicle that invests into Fortitude, and believe that BT will likely increase its allocation to TRF rather than decrease it. The TRF's previous portfolio manager, Robert Swift, has recently left and Brian Wright has taken over his role. With his departure and the arrival of a new CEO, Emilio Gonzalez some risk exists that BT may reconsider its commitment to domestic fund of hedge fund product.

Personnel

At the firm's outset management had looked to hire good quality analysts/traders and train them with the necessary skills and risk management processes. An outcome of this policy is that the two earliest hires are still employed by Fortitude and were able to take extra responsibilities after the departure of Tim McGowen.

While recognising the key man risk (is part mitigated by key man insurance), Zenith's view is that the team is solid, dependable and very able to operate the business.

John Corr, Managing Director and founder of Fortitude Capital with 23 years relevant experience.

Prior to establishing Fortitude Capital, John was a Director at Citigroup Global Markets Australia where he was responsible for the management and development of a team of equity proprietary traders who traded local and overseas equities and equity derivatives. As a result of significant success in this role John is highly regarded in Australia as a trader.

He has responsibility for risk and works closely with all traders, providing direction and assessment of optimal risk opportunities.

John was the seed investor in the Fortitude Capital Absolute Return Trust.

John's experience and risk adverse nature make a natural fit with the Manager's fund offerings. From our experience in dealing with John we know him to be an experienced and high calibre investment professional.

Sheriden Hure, Senior Portfolio Manager joined Fortitude Capital as the first employee in 2005 Sheriden and is well versed in Fortitude Capital's risk management and Market Neutral trading program. Sheriden is now responsible for the Mergers and Acquisitions strategy, in consultation with John Corr. In addition she assists in business development.

Prior to Fortitude Capital, Sheriden worked as a Graduate Analyst for Loftus Capital Partners Limited, a listed investment company, focusing on investment and bottom-up company analysis.

Sheriden holds a Bachelor of Finance (Newcastle) and is a Fellow of the Financial Services Institute of Australasia.

Andrew Ward Senior Portfolio Manager joined Fortitude in 2006 he, along with Sheriden has a thorough understanding of the business objectives and operations of the Manager. Andrew now specialises in the Derivatives Overlay and Convergence strategies.

Prior to joining Fortitude Capital Andrew worked as a senior auditor for Ernst and Young Sydney.

Andrew holds a Bachelor of Commerce and a Post Graduate in Accounting from the University of Cape Town.

Darren Raward Senior Trader, with 21 years of relevant experience. Reward joined Fortitude Capital in 2008, primarily managing yield research, trading & investments. The yield strategy can be an area of concentration within the portfolio and requires disciplined assessment of risk and consultation across the portfolio structure.

Prior to joining Fortitude Capital, Darren was the Director of Capital Market Origination with nabCapital.

During his career Darren has been responsible for educating and marketing hybrid securities, pricing securities, managing a trading book of listed and unlisted credit instruments, and managing portfolio risk.

He holds a Bachelor of Business Major in Economics and Finance from the Queensland University of Technology and a Graduate Diploma in Applied Finance and Investment from the Financial Securities Institute of Australasia.

Donna Dwyer, Senior Operations Manager, with 17 years relevant experience. Dwyer joined Fortitude in 2008. Prior to joining Fortitude she held various roles with major investment houses, these include: Ord Minnett, E-Trade, Salomon Smith Barney and Citigroup, the later where she was Vice President of Operations for a period of three years.

Philip Cornet, Product Development Manager, with 13 years relevant experience. Cornet joined Fortitude in 2009 in a product and business development role. he has been involved in the launch of the Fortitude Capital Australian Equities Income Fund (FEIF) and will transition to manage this new fund in line with the risk management and disciplined trading principle applied within Fortitude's existing funds.

Prior to Fortitude Cornet worked for major investment banks in both derivative and equity sales trading. During this time he engaged a range of investors from both traditional and alternative institutions.

He has a Bachelor of Sports Science from the University of New South Wales.

Administration and Operations

Operations

Many of the failures of boutique managers can be attributed to operational failure. Fortitude has addressed a number of the larger operational issues; capability of staff, strength of process, independent service providers, independent pricing and importantly transparency. The recent hire of Donna Dwyer has added extra depth to the operations function. In addition there is a disaster recovery plan which allows team members to seamlessly continue working remotely.

As for the trade capture process, it is well thought out and during the firm's history there has not been a significant booking or reconciliation issue.

All trades are reconciled daily and any errors immediately corrected.

The manager has operated a number of managed accounts in the past resulting in good systems and processes to allocated trades across accounts. Trades are executed in IRESS and loaded into a report distributing the trades to the appropriate account. This trading sheet is uploaded by their prime broker, UBS, who then allocates the positions to the appropriate accounts.

On the day after a trade positions and cash flows are reconciled between the Prime Broker and the risk systems within the firm. The dedicated operations manager is charged with reconciling any discrepancies immediately. The external fund administrator reconciles all positions and cash flows on a monthly basis and calculates the Net Asset Value (NAV) of the fund.

Service Providers

Fortitude use quality service providers, UBS are the Prime Broker and DLA Phillips Fox is the legal and compliance counsel. Ernst & Young are the appointed Auditors and Kingsway Taitz Fund Administration act as the Fund Administrators.

UBS is one of the largest domestic Prime Broking services, and the first to offer a domestic platform to local managers.

DLA Phillips Fox, is one of the largest legal firms in Australasia providing full service commercial advice. Its capability in funds management is well known and highly regarded.

Ernst & Young are one of the largest accounting firms offering dedicated hedge fund services domestically.

Kingsway Taitz Fund Administration is a boutique fund administrator based in Sydney. The firm is not affiliated with any audit firms, fund managers, prime brokers or industry investors which allows for independence.

The Custodian of the new fund, the Fortitude Capital Australian Equity Income Fund is JPMorgan Chase Bank.

Pricing

All of the offerings by Fortitude trade in liquid market securities, and as such only market prices are relied on for valuations. At Zenith we find comfort in market pricing rather than internally priced models.

The result of using market pricing is that there has not been a dispute with the Fund Administrator regarding NAV estimates since inception.

Transparency

The often cited criticism of alternative funds is that they do not allow portfolio transparency, giving rise to the idea that all such funds operate as a black box. This is the case with Fortitude. The Manager has allowed detailed views of their portfolio and the fact that investors with significant size can request managed accounts highlights Fortitude's attitude to transparency.

For many investors such daily detail will not add much to their understanding and perhaps for many they should look to regular updates for their information. But the ability to drill down at different times into the portfolio should be seen as a positive.

Disaster recovery

All the IT systems are backed-up nightly and traders have the ability to work remotely in the event of an IT disaster recovery. In addition all trades and positions are recorded with the Prime Broker and Administrator thus creating an additional level of risk management.

Personal trading

The Directors are committed to being investors in the fund. Employees are permitted to hold long term individual positions that do not conflict with the portfolio. All personal positions held are subject to the company's internal regulations.

Compliance

The Manager has an Australian Financial Services Licence ("AFSL") that is appropriate for its Fund's offering.

Fortitude uses Integrated Financial Solutions for its annual compliance review. DLA Phillips Fox is used for all licence variations, applications and ad-hoc queries. Moore Stephens submit annual reports to ASIC including a licence review as part of the annual audit The compliance manual is jointly maintained by the Company Secretary and the Managing Director.

The last compliance audit occurred in July 2009 and there has not been any breech of its Australian Financial Services Licence.

Risk Management

Fortitude has incorporated risk as a function of the investment process, in addition to investing in systems that provide the portfolio managers and the Managing Director with timely risk reports.

Fortitude Capital uses IRESS as its internal trading and risk management system. The system enables Fortitude to deal directly into the ASX and equity derivative markets through all major institutional brokers. Upon execution the orders are automatically downloaded into the company's risk management system.

The IRESS Risk Management System (RMS) includes comprehensive position and risk management tools. It provides real time portfolio valuation and includes an automated stop loss execution system. RMS incorporates the measurement of all equity derivative exposures including delta, gamma and theta values.

The Manager uses RISK101 for exposure reports & risk reporting.

Product Assessment - For financial advisers only

Zenith Investment Partners Pty Ltd

Zenith's view of the Manager

Fortitude is a competent business manager and has the appropriate structures in place to deal with compliance, operational management and risk management. Given that Australian investors have tended to shy away from domestic alternative products in favour of institutional hedge funds this may continue to create headwinds for the likes of quality Australian fund managers such as Fortitude Capital. The focused marketing effort at Fortitude, until recently, has been to offshore investors. These factors have hindered the Manager's ability to attract a diversified domestic investor base.

With a renewed focus on domestic investors, and a balance sheet that will provide for 3 -4 years of cash burn without needing to scale down team size, we have confidence in the Manager will succeed in gaining a strong following with local investors.

Fortitude Capital Absolute Return Trust

The Fortitude Capital Absolute Return Trust is a very attractive offering for wholesale investors who are looking for a low risk Australian equity offering. FCART Fund has a long track record for an absolute return fund. The principal of the business has a substantial portion of his net wealth invested in the Fund.

The Fund is categorised as a market neutral, it may employ a number of strategies which may individually have a market position. The target return is 5-10% above the domestic cash rate, with the emphasis on low volatility. A gamma overlay, effectively an insurance policy for the portfolio using options, is applied to the portfolio to achieve a market neutral stance.

The Manager is run by a highly regarded proprietary trader, John Corr who was schooled in the art of absolute returns. He has trained his team to share his view on creating long term positive gains, with low volatility.

Fund Details	
Fund Size	A$20 million
Strategy size	A$70 million
Capacity	A$500 million
Firm size	A$75 million
Fund inception	March 2005
Domicile	Australia
Open	Yes
Management Fee	1.5% excl GST
Performance Fee	20% excl GST
Hurdle rate	RBA cash rate
High water mark	Yes
Subscription notice period	3 Sydney business days before month end
Subscription minimum	A$100,000
Subsequent minimum	A$100,000
Subscription frequency	Monthly
Redemption notice	30 days
Redemption fee	None
Redemption gate	Manager discretion if more than 10% of NAV applied for redemption in any one month
Lock-up	None
Reference currency	A$
Fiscal year end	30 June
Distributions	Annual
Leverage	Up to 5 times, max used 1.3 times

Fund comparison

Since inception the Fund has outperformed the RBA cash rate by 5.3%, while lower than the high end of the targeted range of 5-10% the Manager has done this with very low volatility and importantly has preserved capital through the Global Financial Crisis. In addition, in our experience 10% outperformance over cash for a market neutral equity fund tends to required leverage. FCART occasionally employs very low levels of leverage (1.3 times NAV has been the highest leverage used) but for the most part the Manager does not use it.

As it is an equity fund and has a market neutral style we have compared its performance to the Australian All Ordinaries Index and the HFN Market Neutral Index.

Since inception, March 2005, the Fund has only had five negative months. While the table below shows that FCART shares a similar risk (standard deviation) profile to the global HFN Market Neutral Equity index the Fund's compound return is far superior. In other words compared to an industry index, FCART has a much better risk adjusted return.

The comparison against the Australian All Ordinaries Index is even more striking. Not only is the Fund's compound return much better but the risk of holding a long only equity portfolio is highlighted.

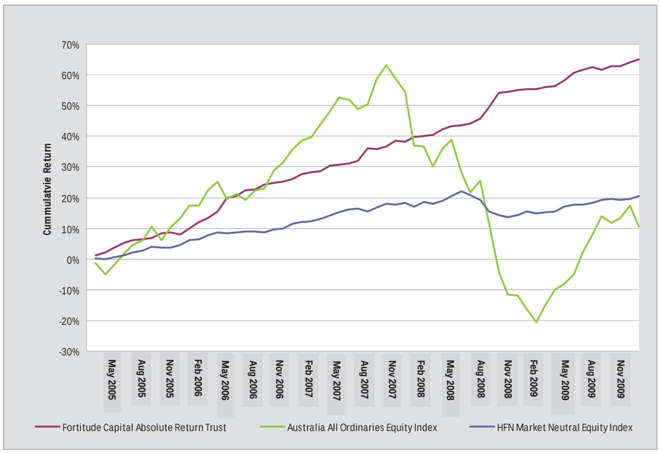
Zenith Investment Partners Pty Ltd

Market exposure as measured by Beta is slightly negative, but close to zero. This level of Beta is to be expected in a market neutral portfolio.

Importantly the table below demonstrates how the FCART preserves capital through market drawdowns. The capital preservation over events like the GFC allows investors to be in a strong position after large market corrections (the 2008 drawdown for the All Ordinaries Index has yet to be recovered).

Risk	FCART	Australia All Ordinaries Equity Index	HFN Market Neutral Equity Index
Standard Deviation	2.93%	16.25%	2.82%
Sharpe Ratio (5%)	1.83	-0.09	-0.38
Sortino Ratio (5%)	6.32	-0.21	-0.46
Maximum Drawdown	(0.58%)	(51.37%)	(6.85%)
Months In Maximum Drawdown	1	16	5
Months To Recover	1	0	0
Returns			
Compound ROR	10.71%	2.07%	3.83%
Largest Month Gain	3.63%	7.64%	1.53%
Largest Month Loss	(0.58)%	(14.00)%	(3.12)%
% Positive Months	91.53%	61.02%	71.19%
Comparison To Benchmark(s)			
Alpha		0.87%	0.97%
Annualized Alpha		10.95%	12.26%
Beta		(0.05)	(0.36)
Correlation		(0.29)	(0.34)
R-Squared		0.08	0.12

The chart below provides a graphic representation of the Fund against the above mentioned indices. Since its inception the Fund has commutated returns higher than the equity market peak and has not suffered drawdowns to the extent of its peers, as exampled by the HFN index has over the period.



We acknowledge that past performance is not a guide to the future, but in the case of Fortitude we contend that the past supports the investment process and skills of the Manager in executing its investment process and philosophy. Further evidence of skill is found in the examination of past performance of John Corr's as a proprietary trader.

Strategy and objective

FCART is an Australian based and focused absolute return fund with an equity focus. FCART's return objective is to outperform RBA cash rate with low volatility.

The Fund has a market neutral bias, with the portfolio protected from sharp market movements by a 'long gamma' derivative overlay. The use of equity derivatives enables the Portfolio Manager to hedge market and stock specific risk through long volatility strategies. The investment mandate of Fortitude Capital demands that short volatility strategies are protected with stock positions. The long volatility bias is funded through a multi-strategy approach some of the gains of which are used to pay the costs associated with insuring the portfolio with equity derivatives. The multi-strategy approach includes:

- Convertible arbitrage/ yield;
- Event driven trades – typically announced takeovers;
- Futures (hedging only);
- Long/Short equity; and
- Convergence (ADR/CDI's arbitrage).

Since inception all strategies have provided positive contributions to the Fund.

The convertible arbitrage strategy allows the Fund to capture excess returns when debt/equity structures approach maturity. At such times these instruments are no longer of interest to fixed income investors and for a period they are not fully appreciated by equity investors. The Manager focuses on quality corporates with maturities less than 1 year. Historically this strategy has been 23% of the portfolio and contributed 22% of the returns.

The event driven strategy concentrates on announced deals and schemes providing strong levels of capital protection. The Australian experience is a very high rate of announced deals successfully complete. The Manager reviews each announced deal, looking at terms, conditions, the regulatory issues and the expected potential for completing the bid. This consideration determines conviction and the position size in the portfolio. This strategy is similar to the convertible arbitrage, as the Fund enters a low risk position of providing liquidity to investors in the target company and for doing so receives a premium. For deals that are script based, the Manager can short the acquirees stock thereby reducing market risk. For the cases where a cash bid is offered, the Manger is able to reduce risk through the derivative market. Event driven has historically been 22% of the portfolio and provided 28% of the returns.

The Manager will opportunistically buy or short sell a particular stock in the long short strategy. In this way the Fund is able to take advantage of bookbuilds, primary issues and blocktrades. As with the other strategies this provides for alpha capture with 11% of the historical returns of the fund being derived from this strategy. In that time Long Short has represented 6% exposure in the Fund.

Convergence trading strategy historically has represented 15% of the Funds exposure, and is implemented through trading fungible instruments such as ADR's. These are trades that while involving local listed stocks have instruments listed on foreign exchanges. The Manager attempts to use the timing difference to its advantage. Convergence trading has provided 22% of returns of the Fund.

The options overlay (and futures hedging), is long volatility and thus a cost to the Fund. Despite this it has produced the balance of the returns of the Fund, 17% since inception. On a more granular view this strategy provided 63% of the returns in 2008 but cost the Fund in 2009 (ie negative return) as volatility fell.

Zenith sees that the positive contribution from all strategies is a strong indicator that the Manager is working to its strengths.

Investment process

Fortitude has a clear investment process that provides for a robust engine for the Fund.

The Manager does not believe that it is feasible to predict the long term price of any asset, nor claim they have any special ability to predict long term asset performance. It follows then that the strategies employed are complementary to this philosophy.

The Manager contends that using this array of strategies not only provides for different sources of alpha, but also allows the Manager insight into identifying short term market opportunities. Consequently the investment process begins with understanding the drivers for each opportunity, gleaned from not only the market but also the Manager's interpretation of broker research.

When a trade idea is identified then there are a number of steps involved;

- The analyst needs to be able to identify if the idea can be hedged and if so at what cost. If there is no market hedging available and the cost is too great the trade will not be executed.
- The proposed trade is then subjected to a risk return matrix; if the risks are too high for the anticipated return then the idea will not continue.
- The risk manager will demand to know the liquidity of the proposed trade. If there is not sufficient liquidity then the trade will not proceed to execution.
- All proposals must fit the portfolio structure and limits.

The risk management, as can be seen above, is part of the investment process resulting in the Manager focus being on both generating returns for its investors as well as protecting capital against losses.

The Manager believes, and we agree, that actively trading options as a hedge provides not only a tool to monitor implied volatility levels but can also indicate areas of the market where inefficiencies are apparent. In this way the multi-strategy approach should provide for consistent returns over a cycle.

Fortitude has clear steps in the investment process and once an opportunity is approved, executing is done efficiently and at a low cost. All trades are reported in a timely manner to both the independent Prime Broker and Fund Administrator.

Investment Universe

All positions are listed on the Australian Stock Exchange (ASX). All derivatives are listed and have short expiry dates – ensuring good liquidity. Most positions can be liquidated in 1 – 2 days.

Risk Management

The Manager uses two risk management systems to oversee the investment risks and to ensure various limits are not breached. IRESS is its internal trading and risk management system. The system enables Fortitude to deal directly into the ASX and equity derivatives market through all major institutional brokers. Upon execution the orders are automatically downloaded into the company's risk management system.

The IRESS Risk Management System (RMS) includes comprehensive position and risk management tools. It provides real time portfolio valuation and includes an automated stop loss execution system. RMS incorporates the measurement of all equity derivative exposures including delta, gamma and theta values.

The managers use RISK101 for exposure reports and risk reporting. This system collates data on exposure and performance by strategy on a daily basis.

Specifically for FCART the following limits are in place:

Leverage: the mandate allows the Manager to use up to 5 times leverage. However, this had never been used and the most ever employed is 1.3 times NAV.

Position limits:

- Largest long position 10%
- The Fund can have 3 such positions, thereafter the next longest cannot exceed 5%
- Largest short position 5%
- Small cap stocks (<A$500 million) cannot represent more than 10% of the portfolio and largest of which can represent only 5% of the portfolio.

Zenith
Investment Partners Pty Ltd

- Average position size is 2%
- Liquidity the portfolio must be able to be liquidated in 1 – 3 days.

Risks

We have spoken about some of the risks of the Fund in the preceding commentary. The Manger has listed in section 5 of the Information Memorandum additional risks. In summary the principal risks that the Fund, and its investors are exposed to are:

Derivative risk and importantly a derivative may not exactly hedge the risks it was added to the portfolio for.

Short selling risk; short positions have an unlimited loss potential, whereas the maximum loss a long position is limited to the purchase price.

Leverage the Fund is able to use leverage, which can magnify the gains and losses in a portfolio.

Liquidity, under certain market conditions some or all of the portfolio may have a limited market. Lack of market depth can affect the valuation of the securities in the Fund.

Manager risk: the ability of the Manager to successfully execute its stated marketing strategy.

Concentration risk: the high concentration of one investor in the Manager's main fund.

FEES

The fee levels are not high and are broadly in line with Fortitude's peer group. In Australia, many single strategy long short funds are offered with a management fee of between 1.5 and 2.0%. A performance of 20% is usually charged for some sort of outperformance. Offshore hedge funds typically do not set out a hurdle rate and tend to charge performance fees on any increase in the NAV of the fund. In Australia managers tend to include a benchmark above which they will charge a performance fee.

Author: **Daniel Liptak**

(03) 9642 3320
daniel.liptak@zenithpartners.com.au