

**Fund Name:** Fortitude Capital Absolute Return Trust  
**Administrator:** Kingsway Taitz  
**Start Date:** Mar-05 **End Date:** Nov-08  
**Benchmark 1:** Reserve Bank of Australia cash rate  
**Benchmark 2:** S&P ASX 200



**FORTITUDE CAPITAL**

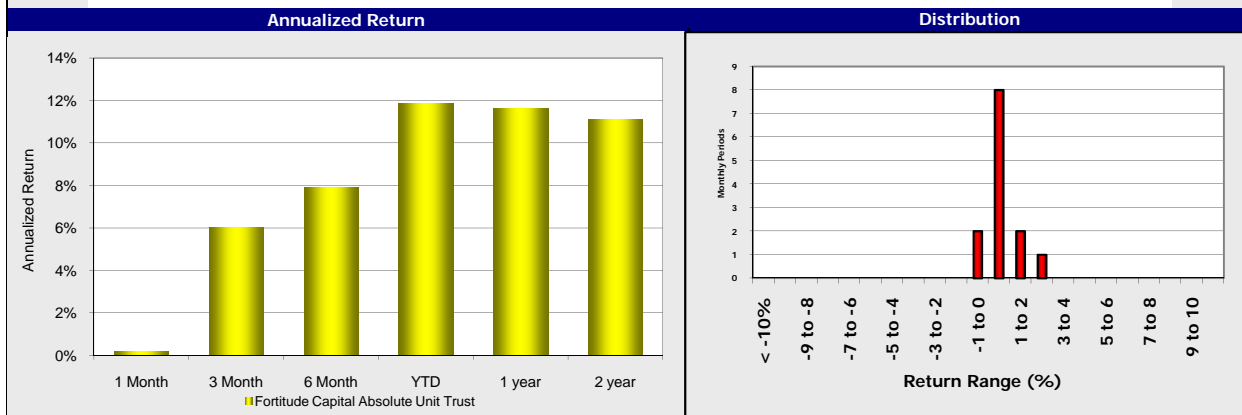
**Strategy**

Fortitude Capital Absolute Return Trust is a multi-strategy market neutral fund specialising in listed Australian equities and derivatives. The core philosophy is the management of risk through a long volatility overlay incorporating listed equity and index derivatives. The multi-strategy approach includes long/short, M&A, Yield and Convergence strategies. The portfolio managers adopt a proprietary style approach to the management of risk and incorporate strict stop loss procedures.

Return & Statistical Analysis	Fund	BM1	BM2	Growth of \$1000 (Since Inception)	
Compound ROR	12.30%	5.89%	(2.86%)		
Standard Deviation	3.10%	0.54%	15.34%		
Sharpe (5.00%)	2.20	1.56	-0.43		
Alpha (Annualized)		9.50%	12.23%		
Beta		0.45	(0.06)		
R-Squared		0.01	0.09		
Active Premium		6.41%	15.16%		
Outperformed in up markets		68.18%	7.41%		
Outperformed in down markets		100.00%	100.00%		
Percent Profitable Quarters	100.00%	100.00%	62.79%		
Average Quarterly Gain	2.94%	1.49%	5.96%		
Average Quarterly Loss	0.00%	0.00%	-8.83%		
Best Quarterly Return	7.02%	1.77%	10.54%		
Worst Quarterly Return	1.12%	0.57%	-27.13%		
Best 12 Month Return	16.71%	7.00%	32.03%		
Worst 12 Month Return	7.09%	5.50%	-42.71%		
Monthly Profit/Loss Ratio	43.59	44.00	0.92		
Maximum Drawdown	-0.50%	-0.50%	-44.59%		

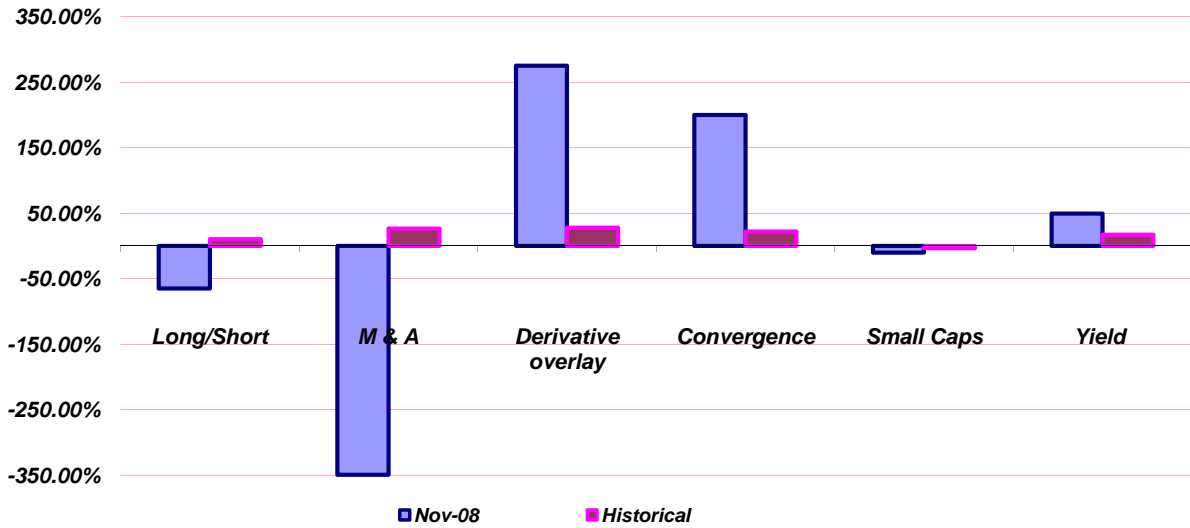
Latest Period Returns	Month	Quarter	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
Fortitude Capital Absolute Unit T	0.21%	6.03%	11.88%	11.62%	12.46%			
Reserve Bank of Australia cash r	0.44%	0.57%	5.30%	5.88%	5.98%			
S&P ASX 200	-6.86%	-27.13%	-40.97%	-42.71%	-6.88%			
Over/Under Benchmark-1	-0.23%	5.47%	6.57%	5.74%				
Over/Under Benchmark-2	7.07%	33.16%	52.84%	54.33%				

Year	Monthly Performance (%) Net of Fees													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	
2008	1.34%	0.17%	0.27%	1.21%	0.63%	0.18%	0.45%	1.14%	2.61%	3.12%	0.21%			11.88%
2007	1.14%	0.52%	0.32%	1.40%	0.21%	0.36%	0.63%	3.06%	-0.30%	0.71%	1.32%	-0.23%		9.48%
2006	1.71%	1.82%	1.38%	1.82%	3.63%	0.57%	1.55%	0.27%	1.30%	0.61%	0.14%	0.80%		16.71%
2005			1.02%	0.96%	1.50%	1.58%	0.92%	0.18%	0.52%	1.34%	0.28%	-0.50%		8.06%

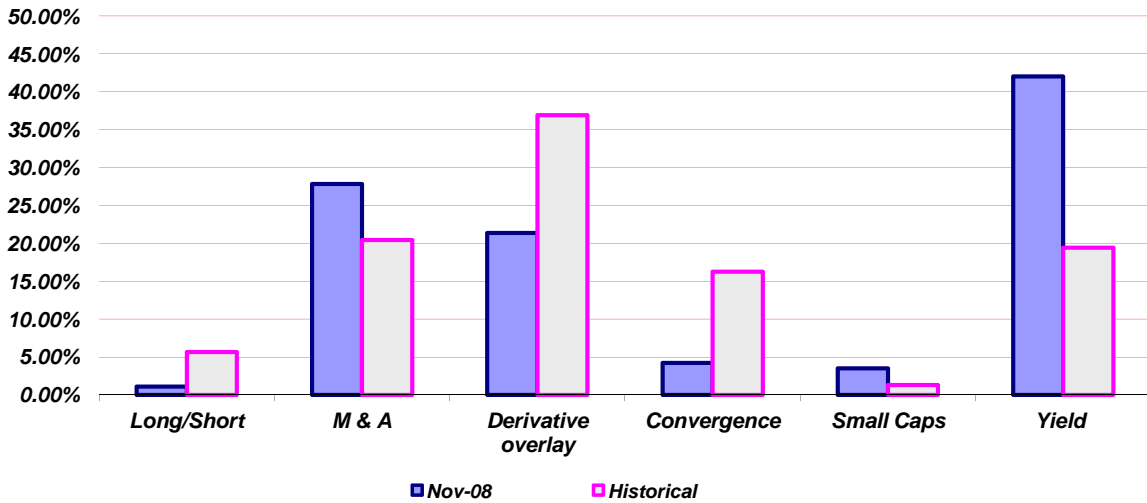


\*\*\*Past Performance is not indicative of future results\*\*\*

### P & L CONTRIBUTION BY STRATEGY



### STRATEGY WEIGHTINGS



## **November Commentary**

### **Portfolio:**

Equity markets remained under extreme pressure during November (ASX 200 -6.9%) as investor focused on \$9bn of equity raisings and a number of company downgrades. Based on the 1990-91 experience, estimates of capital raisings are in the vicinity of \$50-60bn for 2009 which may remove a significant amount of the refinancing risk currently overhanging the market. With this magnitude of raisings expected and likely to be at solid discounts as we have seen to date, this may curtail performance by the broader market in the near-term. This coupled with likely deteriorating economic data and profit warnings ahead of the Feb reporting season it will be challenging for the Aussie market to rise over the next 2-3 months

The major news in November however was BHP's decision to walk from its bid for Rio Tinto. Following the announcement the market immediately focused upon RIO's debt levels with speculation that a capital raising and or asset sales would be forced upon the company. The bid's failure cost the portfolio around 1.25%.

The short selling ban was lifted on non- financials during the month with the financials ban expected to be lifted in late January.

### **Yield strategy:**

The yield book continues to be well insulated from the continued market volatility. We maintained our stance of holding a small number of securities with a preference for those that have a high likelihood of redemption or conversion. Over the month our position in Leighton Notes was redeemed and our largest exposure in the book –Brickworks PAVERS- will also be redeemed on 1 December. If we are to exclude the above mentioned securities our largest 2 positions CBA PERLS 2 (expectation of conversion) and Macquarie Airport Tickets (fall in fixed rates) were our largest contributors over the month. Our holding of Sky City ACES detracted from the portfolio performance but we like the defensive characteristics of the security (reset structure and monopoly-like assets).

The portfolio IRR at month end stood 15.87% against 12.57% for October. Weighted average maturity (WAM) lengthened to one year ( 6 ½ months in the previous month) due to the redemptions mentioned above .The portfolio is primarily exposed to floating rate resets (60%) whilst the majority of fixed rate paper held is in Macquarie Airport Tickets (app. 39%) which has a redemption date of 1/1/2010.

By market value, some 97% (61% in October) of the securities hold company ratings of investment grade status (BBB- or better). The only non-rated security is the Gunns FORESTS which we are holding given the company's intention to convert by mid/late next year.

With no signs of credit markets improving in the near future, we will continue to hold a conservative stance and maintain our preference for short-dated securities that are candidates for redemption or conversion.

### **Derivative overlay:**

Despite the further declines in the index, looking at the structure of volatility it is worth noting that short dated volatility continues to fall with little or no significant change in volatility levels 6-12 months out. All indications point towards continuing uncertainty about the medium term outlook for the market given medium term volatility levels remain extremely well elevated.

The derivative portfolio remains our most profitable strategy in 2008, assisted in part by the enormous monthly trading ranges. During the month of the 20 trading days, only 4 days saw moves of +/- 1% whilst 6 days were over 4% and 12 over 2%. Despite the short selling ban, our derivative books in the financials have maintained core long stock holdings (against put options) which has enabled the books to participate in capital raisings and enable active hedging. The portfolio continues to write premium against recent heavily discounted placements.

Most profitable derivative positions for the month included QBE, Westpac, Commonwealth Bank and the index.

**M&A strategy:**

The strategy's largest position the BHP/RIO Tinto risk arb transaction imploded during the month, following BHP's decision to walk away. The portfolio fell into the trap of increasing the size of the position in the days prior to the announcement as the discount increased from -15% to -25%. The subsequent 50% fall in the value of the trade shocked both the market and ourselves and only reinforced the risk to this strategy in the current environment. While highlighting the crowded nature of the transaction, the real issue was the market's infatuation with debt levels and the ability of company's to service those debt levels. The position was liquidated immediately.

During the second half of 2008 the risk arb strategy has seen around 80% of executed deals fail in one form or another.

**Convergence strategy:**

The portfolio remains active in ADR trading with Newscorp a strong contributor to November's performance. The strategy's largest (and longest held) position in -TOL/+TOLPA unwound in November post the conversion period. The strategy's other largest position WES/WESN the portfolio is unable to trade given the regulators interpretation of the position. As is stands WESN spread remains at parity with very little activity.