MONTAKA GLOBAL ACCESS FUND
QUARTERLY LETTER

DECEMBER 2016

UNIT PRICE # $0.9378

FUND COMMENTARY

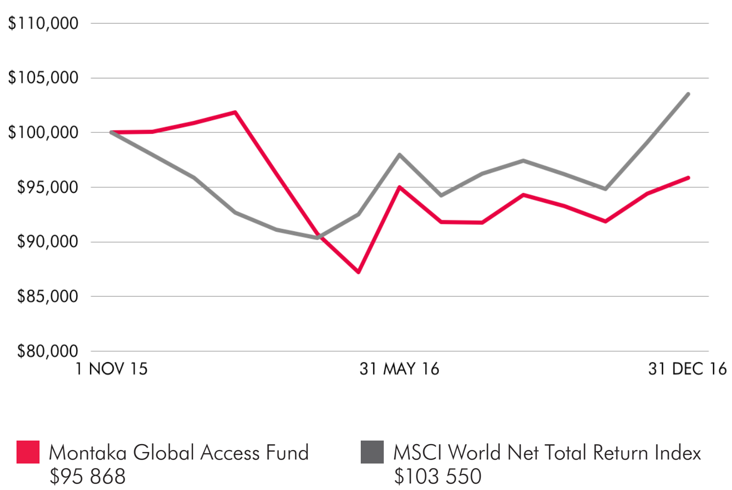
In the month of December, the Montaka Global Access Fund increased by 1.57%, net of fees. The monthly increase was assisted by a 2.36% increase in the US dollar, relative to the Australian dollar. Over the same period, the global market[2] increased by 4.48%. The relative underperformance to the global market index during the month was driven by Montaka's long portfolio, while its short portfolio fared very well given the strong market conditions.

For the December quarter, The Fund increased by 2.75%, net of fees; versus the global market which increased by 7.64%. Since inception, the Montaka Global Access Fund was down 4.13%, net of fees, versus the global market which was up by 3.55% over the same period, in Australian dollar terms.

The December quarter was yet another period of historical significance. As we entered the quarter in October, concerns were starting to mount over the future of Italy's government and, ultimately, its membership in the EU. With a Constitutional Referendum slated for the first week in December, we believed that a failure would clearly increase the probability of an ultimate withdrawal from the European Monetary Union.

The referendum ultimately failed and cost Prime Minister Renzi his job. On the day, the market reaction was relatively muted. Yet it was the decline in the Euro and Pound Sterling in the preceding two months that was significant. Our investors were shielded from these declines as we had hedged all of the portfolio's Euro and Pound exposure from the end of September in anticipation.

FUND PERFORMANCE[1]



1) Inception: 1 November 2015
2) MSCI World Net Total Return Index in Australian dollar terms

PERFORMANCE ATTRIBUTION* (%)

	December 2016
Long portfolio contribution	-0.98
Short portfolio contribution	0.19
Change in AUD/USD	2.36
Net return	1.57
Since inception[1]	-4.13

EXPOSURES* (as at 31 December 2016)

	% of NAV
Long exposure	99.0
Less: short exposure	(40.2)
Net market exposure	58.9

POSITION METRICS* (as at 31 December 2016)

	Long Portfolio	Short Portfolio
Number of positions	24	28
Largest position size	7.1	2.8
Smallest position size	2.2	0.7
Average position size	4.1	1.4

Note: sizes shown as % of NAV

TOP 10 LONG POSITIONS* (as at 31 December 2016)

		% of NAV
1	Playtech	7.1
2	REA Group	6.3
3	Apple	6.0
4	Ross Stores	5.7
5	Tencent	5.1
6	Alibaba	5.0
7	Take-Two Interactive	4.6
8	Home Depot	4.5
9	Microsoft	4.4
10	Essilor	4.3
	Total top 10 long positions	52.9

FUND SIZE (NAV) ($M) (as at 31 December 2016)

Montaka Global Fund	146
of which: Montaka Global Access Fund	62

 # The fund is forward priced; you will receive the price struck subsequent to the receipt of your application/ redemption request.

** all exposures, metrics & positions are derived from the underlying investment fund*

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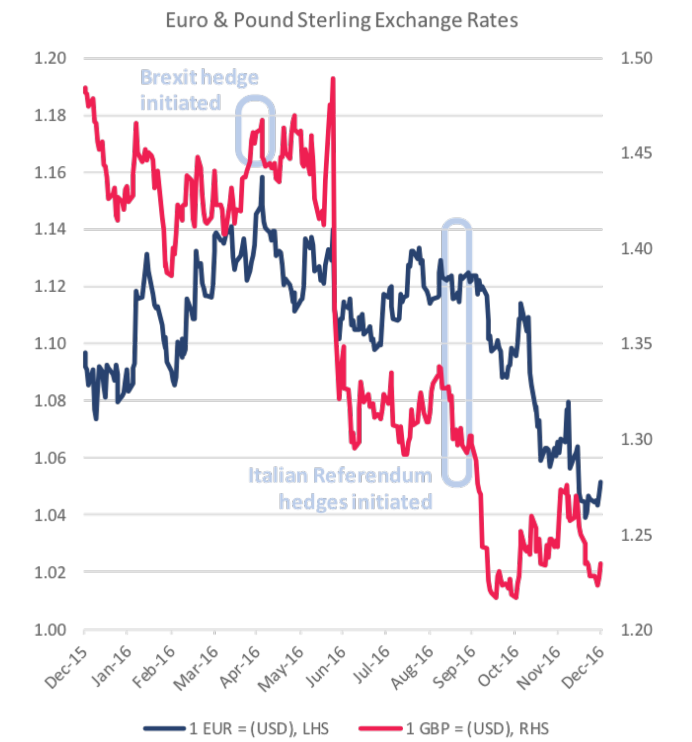


Source: Bloomberg; MGIM

Next, the quarter included the first OPEC deal to cut oil production in eight years. While a deal seemed unlikely – and may still prove to be unworkable – it was achieved through an historic negotiation between member nations, led by Saudi Arabia. From its November lows, WTI crude rallied by more than 20 percent in the final six weeks of the year.

Now, of course, the most significant event of the quarter was the surprise election of Donald Trump as President of the United States and the Republican Party as the majority of both the House and the Senate. We believe the probability of this result was very low. But very low probability events can happen, by definition.

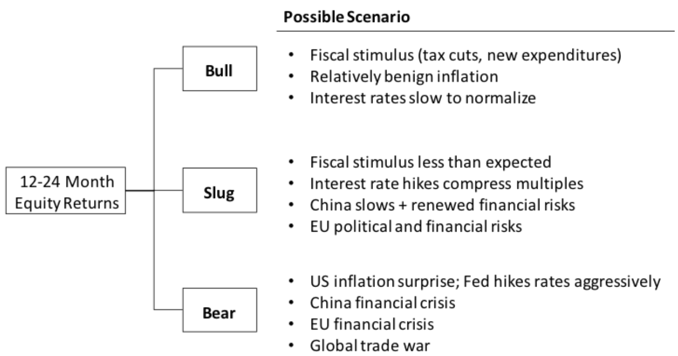
The election result is highly significant from an economic perspective, in our view. The reason the result is significant is not because Donald Trump will be President. The reason is because the Republican Party will effectively control the White House, the House and the Senate at the same time. Given the complete dysfunctionality of US lawmakers over the last six years, the Republicans will surely pass as much legislation as physically possible over the next two years (just as Democrats would do if they found themselves in such a position).

For investors in US equities, we believe that the probability of a more bullish scenario over the next 12-24 months has increased as a direct consequence of the election result. While we do not try to predict the direction of equity markets with any great precision, we believe the process of thinking through the probability distribution of possible outcomes is a valuable exercise.

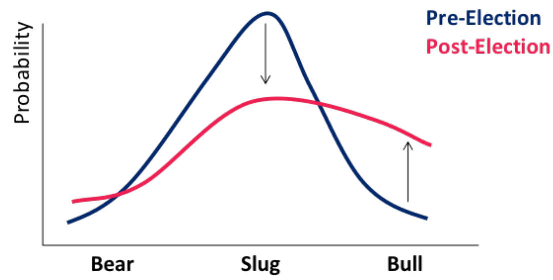
We define three simple scenarios for the global equity market over the next 12-24 months as follows:

- Bull case – global equities return double-digits percent per annum;
- Slug case – global equities return +/- low-single-digits percent per annum; and
- Bear case – global equities fall double-digits percent per annum.

We then use the "premortem" technique to place ourselves in the future and look back at the reasons why we found ourselves in each possible scenario. This technique is designed to break cognitive groupthink. We outline each of the possible scenarios below.



We believe that the shape of the probability distribution of these three potential scenarios has evolved as follows. In essence, we believe the probability of the Bull scenario has increased as a direct consequence of the election result. That said, we believe the most likely outcome remains the Slug scenario – as we have believed for some time.



In forming the above assessment in the days following the election result, we concluded that it made sense to increase the net market exposure of the Montaka portfolio. And to achieve this increase, we systematically trimmed the exposure of all short positions that were predominantly exposed to potential policy changes that could materially impact the US economy.

Finally, the month of December included the next instalment of the Federal Reserve's interest rate hiking program. The market was almost unanimous that the Fed would hike its target federal funds rate by 25 basis points; and it did not disappoint.

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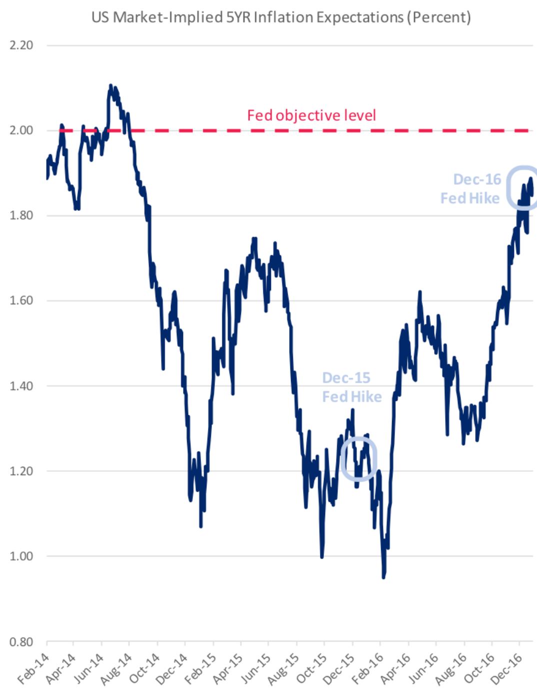
We make the following observations with respect to the projected rate of increase in the federal funds rate:

• In December 2015, the date of the Fed's most recent interest rate hike, Fed participants projected four 25 basis point hikes in 2016. Instead, one was implemented.

• In December 2016, most Fed participants project at least another three 25 basis point hikes in 2017.

A key determinant of the equity return profile over the next 12-24 months will be the rate at which the Fed hikes interest rates. If the Fed delivers 3-4 hikes in 2017 as forecast, then returns may be harder to come by. Instead, if the Fed hikes at a slower rate than anticipated, equity returns will likely be materially higher.

While Fed Chair Janet Yellen has proven historically to err on the side of dovishness (i.e. slower rate hikes), we observe one key difference between this year and last year: market-implied inflation expectations. As shown below, inflation expectations are materially higher today than they were one year ago. To the extent these expectations remain here or increase further, the prospect for further rate hikes in 2017 will only strengthen.



Source: Bloomberg; FOMC

Finally, we note the Taylor Rule is currently implying a 3.90 percent Fed Funds Target rate versus its current range of 0.50-0.75 percent. The Taylor Rule is a mathematical proxy for where central bank policy should be based on the current and target rates of inflation and the current economic output gap. It is illustrated below and clearly supports the argument for near-term upside risk in short-term US interest rates. Interestingly, the Taylor Rule estimate is a full 1.0 percent above where it was when the Fed lifted interest rates at the end of 2015.

Source: Bloomberg

All of the above resulted in a very strong year-end rally for 2016. In the final 60 days of the calendar year, the global market rallied by approximately 6 percent in US dollar terms. While this does not sound like much, this is equivalent to an annualized rate of return of over 40 percent! Over the same period, the US Dollar Index also strengthened by more than 5 percent against major world currencies. The strategic positioning of Montaka's portfolio towards high-quality US dollar-denominated earnings streams has certainly paid off over this period. Finally, the prices of many commodities finished the year up significantly from where they were one year prior. Whether its oil, iron ore, coal, copper or aluminium: 2016 will be remembered as the year in which commodities received a potent – though almost surely temporary – shot in the arm.

Continuing with our investor education, we provide a quarterly case study on a live portfolio position. This quarter, we examine Aetna (NYSE: AET), one of the largest health insurers in the US, which has remained an owned position in Montaka's long portfolio since inception.

CASE STUDY: AETNA

Aetna is the third-largest health insurer in the US, with approximately 20 million members spanning both commercial and government lines of business. As an industry, US health insurers stand to benefit from the increasing demand for healthcare as a result of an aging American population. We believe Aetna is particularly well-positioned within the industry to capture this opportunity in a profitable way given its strong track-record of focus and investment in value-based healthcare delivery.

In the US, around 10,000 Americans turn 65 every day. Upon reaching 65 years of age, US citizens become eligible for Medicare, a national social insurance program. Private insurers, including Aetna, offer what is called Medicare Advantage (MA), which gives seniors the option to have their Medicare benefits administered via a private insurance plan.

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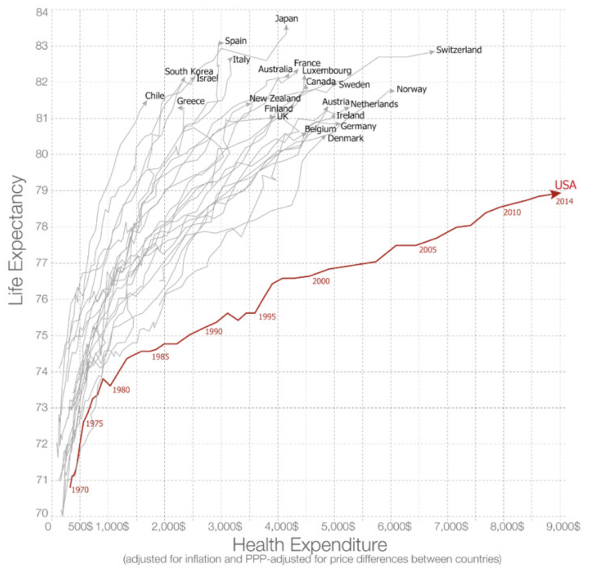
The penetration of MA has increased, rising from 12% of total US Medicare beneficiaries in 2004 to 31% in 2016. This is an undeniable industry tailwind that has decades to run. And the industry winners will be those insurers that can provide the most effective healthcare in the most efficient and user-friendly way.

And we believe Aetna is an industry leader in doing just this. Today, over 40% of Aetna's medical spend currently runs through some form of value-based model, with the company aiming to lift this to 75% by 2020. Value-based care involves the providers of healthcare being rewarded based on delivering a quality outcome for the patient, rather than on the quantity of services provided. This reduces the incentive to simply grow volume of healthcare services; and in turn, dampens overall medical cost growth. Health insurers have an incentive to reduce medical costs – they pocket the difference between premiums they take in and medical expenses they pay out to beneficiaries. In this sense we view Aetna as part of the solution to reigning in the egregious medical cost inflation that has persisted in the US with no corresponding outperformance in outcomes – and even significant underperformance in many areas, including life expectancy as illustrated below.



Data source: Health expenditure from the OECD; Life expectancy from the World Bank Licensed under CC-BY-SA by the author Max Roser.

We have spent considerable time researching the potential benefits of value-based healthcare delivery over recent years. One of the leaders in the field is Professor Michael Porter from the Harvard Business School. Porter has been developing a framework for the delivery of "high-value health care" for the better part of the last decade.

Michael Porter: The Value Agenda[4]

Porter defines the overarching goal of healthcare – for all stakeholders – as the need to improve value for patients; where value is defined as the health outcomes achieved that matter to patients relative to the cost of achieving those outcomes.

Porter has developed six components to high-value healthcare delivery:

[4] *(HBR) The Strategy That Will Fix Health Care, October 2013*

1. **Organizing around the customer around the need; rather than the specialty or the discrete service.** For instance: Virginia Mason Medical Center in Seattle has demonstrated that with a dedicated "back pain" team – comprising a team of a physician paired with a physiotherapist – patient outcomes are better and facility productivity has increased significantly. Relative to peers, patients at Virginia Mason's Spine Clinic miss 52% fewer days work per episode and need 50% fewer physical therapy visits. And without increasing facilities or staff, the clinic has increased patient volume by +64%.

2. **Measuring outcomes and costs for every patient.** This is considered to be perhaps the most important step for improving healthcare. Outcomes should be measured by medical condition, not by specialty. Sustainability of outcomes should also be measured. By focusing on "time-driven activity-based costing" providers are achieving savings of "25% or more" by improving capacity utilization and better matching personnel skills (and costs) to tasks.

3. **Moving to bundled payments for care cycles.** By moving away from fee-for-service payments and towards bundled payments covering the full care cycle, providers have a clear incentive to improve outcomes and reduce costs. Medicare in the US has clearly caught on to the potential benefits of bundled payments.

4. **Integrating care delivery across separate facilities.** This further builds on the idea that condition-specialists create significant efficiency gains over condition-generalists. According to Porter: "A recent study of the relationship between hospital volume and operative mortality and high-risk types of cancer surgery, for example, found that as hospital volumes rose, the chances of patient's dying as a result of the surgery fell by as much as 67%." The Children's Hospital of Philadelphia also demonstrated cost-savings of 30-40% by reserving its main hospital for specialist complex procedures and shifting routine procedures to suburban ambulatory surgery facilities.

5. **Expanding geographic reach.** Superior providers for particular medical conditions need to be able to serve patients all over the country – perhaps by partnering with local facilities.

6. **Building an enabling IT platform.** There is enormous potential that stems from the digitization of medical data and cloud-based platforms that can be accessed by all parties involved in the healthcare value chain. There are also future potential benefits from "big data" insights.

The point is: there are material cost savings on offer for any provider that can shift to value-based care. As insurers are the payers to healthcare providers, they are likely the key to driving this new kind of behaviour – especially the large players with the data and the scale to drive changes in healthcare providers. And value-based care is something that Aetna has been focusing on and investing in for years.

Aetna has a suite of assets that fundamentally change the way providers use the healthcare system, geared towards lowering the cost of healthcare delivery. For example, Medicity, a health information exchange that Aetna acquired in 2010, helps make healthcare more efficient and affordable via its database of electronic health records.

Medicity-connected users are able to share the clinical transactions of patients, allowing timely clinician engagement, more effective transitions of care, and a reduction in duplicative services. This technology helps Aetna address the fact that approximately 30% of US healthcare spending, or close to US$1 trillion, is wasted due to unnecessary services, fraud, and other inefficiencies.

Aetna is a high-quality standalone business that is well positioned to increase the effectiveness and efficiency of healthcare delivery to ultimately drive gains in its market share. We can see clear evidence of its quality in its reported financials with the company's return on equity at around 14-15 percent, or approximately double its cost of equity. It is a business Montaka has owned since inception on the basis that it has remained below our estimate of its intrinsic value.

There is one further aspect that makes this investment particularly interesting and lent itself to a new profitable opportunity. In July 2015, Aetna announced a definitive agreement to merge with its smaller competitor, Humana (NYSE: HUM), in a cash and stock deal. For reference, Aetna trades with a market capitalization of approximately US$45 billion; while Humana trades at approximately US$30 billion.

The strategic rationale of the merger makes sense, in our view. A combined Aetna/Humana would give the business greater scale and customer data to drive more intelligent value-based healthcare delivery initiatives. Ultimately, we believe this would serve to drive down healthcare costs which the business could reinvest in lower premiums and higher market share. Furthermore, Humana has a higher skew towards the rapidly growing MA segment, which would position the merged entity well to capture the demographic tailwind of an aging US population.

The deal is not a sure thing, however. In July, 2016, the US Department of Justice filed a lawsuit to block the deal alleging that the transaction would "increase concentration and harm competition across the country." This announcement created an interesting opportunity for us. As illustrated below, in July 2016, Humana's stock sold off quite significantly on the reduced probability of the deal closing. At US$153/share, Humana's stock was implying a deal-premium of 44 percent to the consideration of US$221/share its shareholders would receive, should the merger ultimately close.

We were agile enough to take advantage of what turned out to be a short-term mispricing in the market price of Humana's stock. At US$153/share, we believed the downside in Humana's stock was limited based on its standalone intrinsic value (which we were able to determine quickly given our experience in the space and close analysis of the proposed Humana merger); and the upside was around 44 percent should the merger ultimately close. In July 2016, we split our Aetna position across Aetna and Humana. Fast-forward to December: Humana's stock price was up 42 percent since July; and the implied deal-premium had reduced to approximately 10 percent. At this time, we reverted back to our original holding solely in Aetna as we wait for the Court to rule on the proposed merger. And to the extent a President Trump and the Republican Party repeal the Affordable Care Act, we believe this would be a net positive for the shareholders of Aetna.

** Consideration = US$125 + 0.8375 x AET share price

Source: Bloomberg; MGIM

This live recent example speaks to the high degree of agility and decisiveness that exists in the Montaka research team. When we see a high-quality business that is mispriced in the marketplace, we can move quickly. As this example also illustrates, such large mispricings often disappear as quickly as they arrived.

* * *

As we begin a new calendar year, it is worth spending some time reflecting on the year that has passed and seeing if we can make any sensible comments about what to expect going forward.

It may seem like a distant memory now, but in the first three weeks of calendar 2016, the global market fell by more than 10 percent in US dollar terms. There were serious concerns of a financial crisis in China combined with the beginning of a monetary tightening cycle by the Fed in the US. This could have been 2008 all over again. But, of course, it was not. Thanks to stimulus from China, Japan, Europe – and the temporary abandonment of stimulus withdrawal from the United States – the global market went on to rally 21.5 percent from its February low.

The question now becomes: what next? It may seem obvious, but it is sometimes forgotten that the nature of growth requires all of what was achieved last year to be repeated, and then some more. The challenge for many economies and markets in 2017 will be repeating what was achieved in 2016. Said another way: if 2016 essentially pulled forward demand from the future, then when the future arrives in 2017, the economic environment may be more challenging than what is currently expected.

And expectations are high! In December, the Conference Board's survey of expectations for higher stock prices one year from now jumped by the highest monthly amount since November 1998 – a period known as the dot-com boom.

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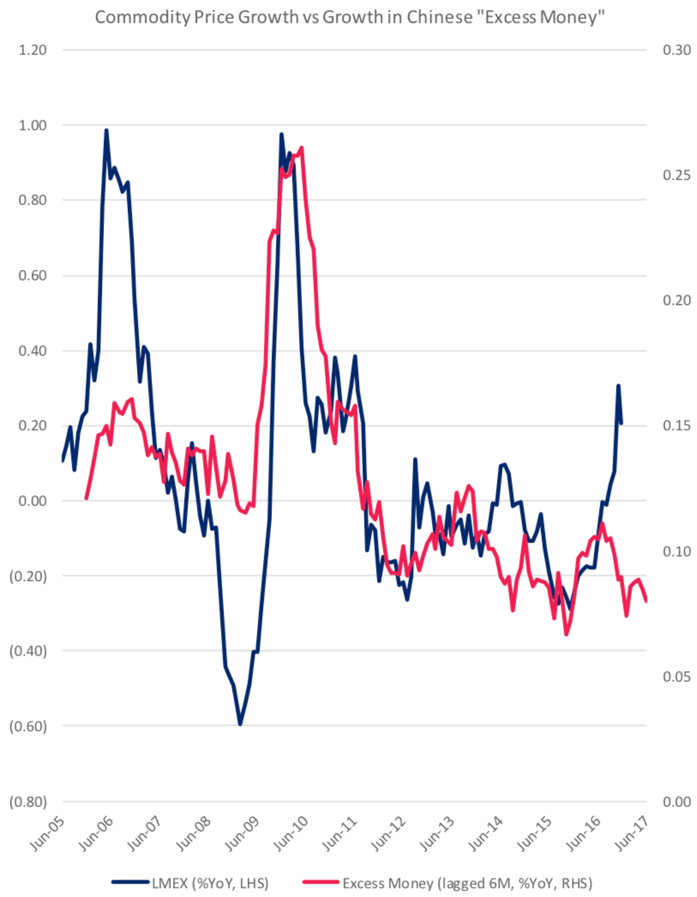
Meanwhile, the People's Bank of China quietly removed language from its last quarterly statement saying it would reduce lending costs. And on Christmas Eve, it became known that Chinese President Xi Jinping told a meeting of Communist Party officials in the preceding days that China did not need to meet its 6.5 percent GDP growth objective if doing so created too much risk . Compare this to China's announcement nine months earlier that "6.5 per cent is an iron bottom that should never be broken…"

So what for commodity prices? Well, part of what has driven the price rally of 2016 is "excess liquidity" released in China that has found its way into speculative commodity positions. One way to define the rate of growth of this excess money is to subtract from the growth rate of overall money supply, the growth rate of nominal GDP expectations – which we proxy with the Chinese 10-year bond yield. As shown below, growth of excess money, lagged by about 6 months, has been reasonably well correlated with metals prices on the London Metals Exchange. And over recent months, growth in excess money has slowed materially. At the same time, supply growth of many commodities will also likely add pressure to the downside in 2017.



Source: Bloomberg; MGIM

Finally, a significant tail risk remains in the EU. If any major European nation successfully engineers their own exit from the monetary union, the probability of a sovereign default is high. This scenario would likely result in severe downside risk to the value of the equity of nearly every bank and insurance company in Europe. The reason is simple: essentially zero risk capital is required to be held against EU sovereign bonds to protect against default on the basis they are "risk-free". Even a small write-down of a sovereign's bonds would likely result in a significant impairment in the equity of many European financial businesses.

The risk of such a financial catastrophe in Europe remains low – but is nonzero and increasing with every step towards new populist government leaders. We note that 2017 will include a general election in France, Germany; and possibly Italy as well. And the challenges facing Europeans associated with immigration and terrorism are showing no signs of abating. Given the significant consequences of such a scenario, even changes in the probability of occurrence will likely be market moving.

So what does one do against this backdrop? We continue to believe that owning high-quality US dollar-denominated earnings streams will serve investors well. Furthermore, we believe that Montaka's short portfolio will become valuable to investors again at some point in 2017. Owning insurance is always a drag when it is not needed (such as the last 10 months of 2016); but the problem is one never knows when it will be needed.

As always, the Montaka team is humbled by, and grateful for, the opportunity to protect and grow your wealth. We continue to implement our research process systematically and with discipline day in and day out. We are very much looking forward to a prosperous 2017 for all of our investors and beyond.

Sincerely,

Andrew Macken

MONTAKA

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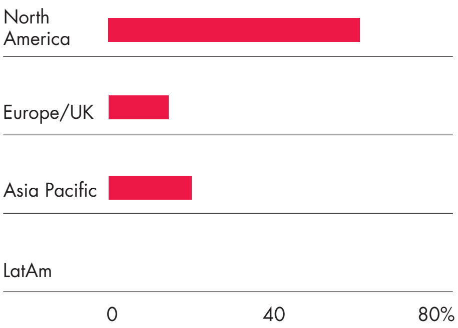
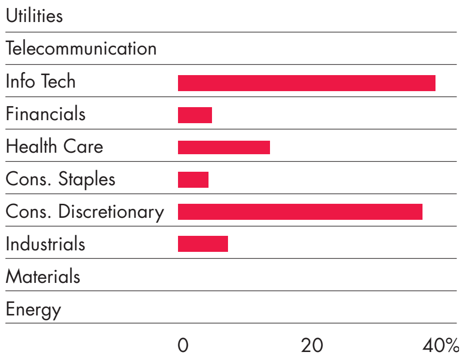
LONG PORTFOLIO*

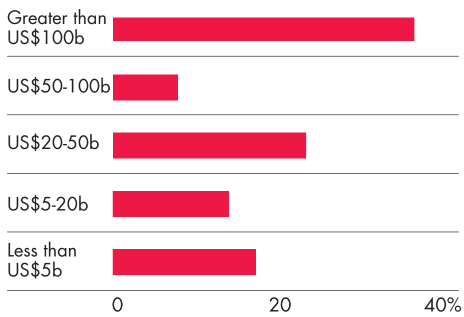
GEOGRAPHIC EXPOSURE (Country of domicile)



INDUSTRY EXPOSURE

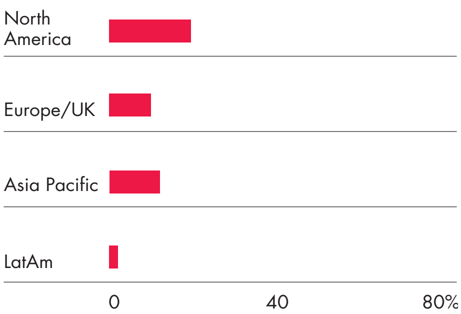


MARKET CAP EXPOSURE

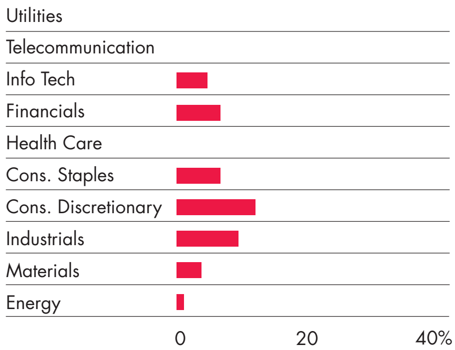


SHORT PORTFOLIO*

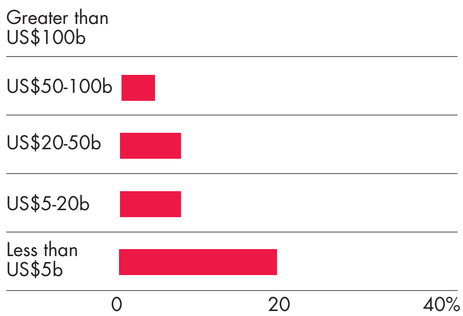
GEOGRAPHIC EXPOSURE (Country of domicile)



INDUSTRY EXPOSURE



MARKET CAP EXPOSURE



Note: exposures shown as % of NAV

** all exposures, metrics & positions are derived from the underlying investment fund*

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DISCLAIMER