MONTAKA GLOBAL ACCESS FUND
QUARTERLY LETTER

MONTAKA

MARCH 2018

UNIT PRICE [1]
$1.0925

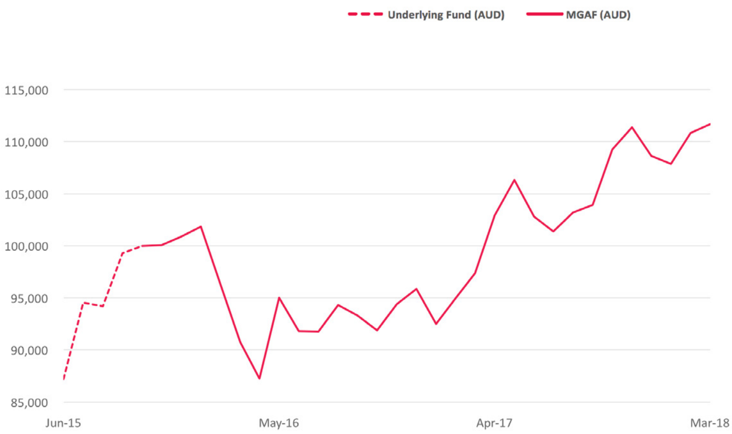
FUND COMMENTARY

In the month of March, the Montaka Global Access Fund delivered 0.77 per cent, net of fees. This was a pleasing result given the MSCI World Total Return Index in Australian dollar terms (the Global Market) declined by 0.69 per cent over the same period. Over the March quarter, the Fund returned 2.78 per cent, net of fees; versus the Global Market, which delivered 0.60 per cent over the same period.

Since inception, the Fund has returned 11.68 per cent, net of fees, with an average net market exposure of 47 per cent. Over the same period, the Global Market has delivered 18.04 per cent, but with 100 per cent net market exposure.

Over the last three months, the world has changed significantly. Global investors are navigating significant geopolitical and economic change which has marked a return of equity market volatility.

FUND PERFORMANCE



PERFORMANCE (%)	1M	3M	12M	INCEPTION
Fund (AUD)[2]	**0.8**	**2.8**	**14.7**	**11.7**
Underlying Fund (AUD)[4]	0.8	2.8	14.7	28.0
Average Net Market Exposure[3]	49	46	45	47
Global Market (AUD)[5]	(0.7)	0.6	12.9	18.0
Average Net Market Exposure[3]	100	100	100	100

PERFORMANCE ATTRIBUTION[1]* (%)

	March 2018
Long portfolio contribution	(0.86)
Short portfolio contribution	0.57
Change in AUD/USD	1.06
Net return	0.77
Since inception[2]	11.68

EXPOSURES (as at 31 March 2018)

	% of NAV
Long exposure	90.8
Less: short exposure	(41.9)
Net market exposure	48.9

POSITION METRICS (as at 31 March 2018)

	Long Portfolio	Short Portfolio
Number of positions	20	29
Largest position size	6.5	2.4
Smallest position size	2.3	0.8
Average position size	4.5	1.4

Note: sizes shown as % of NAV

TOP 10 LONG POSITIONS (as at 31 March 2018)

		% of NAV
1	St James's Place	6.5
2	Insperity	6.2
3	51job	5.9
4	Facebook	5.8
5	Wells Fargo	5.8
6	Union Pacific	5.6
7	Travelers Companies	5.2
8	REA Group	5.1
9	Alibaba	4.8
10	Apple	4.6
	Total top 10 long positions	55.5

FUND SIZE (NAV) ($M) (as at 31 March 2018)

Montaka Global Fund	180.4
of which: Montaka Global Access Fund	70.5

1) The fund is forward priced; you will receive the price struck subsequent to the receipt of your application/ redemption request.
2) Inception: 1 November 2015
3) Based on average of month-end net market exposures
4) Montaka Global Fund; inception 1 July 2015
5) MSCI World Net Total Return Index in Australian dollar terms
* all exposures, metrics & positions are derived from the Underlying Fund (Montaka Global Fund)

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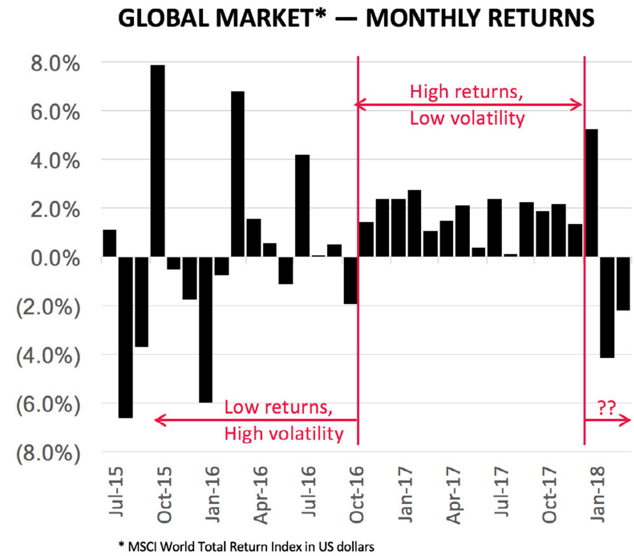

Source: Bloomberg

The March quarter marked one of the most significant geopolitical changes of our lifetimes, with China eliminating term limits for President Xi. Xi's power in China is now unrivalled and absolute. And remember, within a couple of decades - and now under the watch of President Xi - China will likely overtake the US to be the world's largest economy.

Still on geopolitics and we continue to see increasingly brazen and aggressive moves by the Russian government, under the watch of President Putin. It is alleged that Putin who, during the quarter, "won" yet another Russian Presidential election, authorised the attempted assassination of a former Russian spy (and his daughter) on British soil in March. This follows a concerted and surprisingly successful state-sponsored effort, by Russia, to influence the 2016 US general election; as well as continual cyber targeting of US critical infrastructure, as disclosed by the United States Computer Emergency Readiness Team (US-CERT) in March.

The timing is perhaps no coincidence. At a time when US global leadership is arguably at a low point; China, Russia and other states (such as Saudi Arabia and North Korea) appear to have become significantly more assertive in a very short period of time. The world is changing rapidly. And investors need to consider the implications of these changes on their portfolios.

From an economic perspective, legislative and policy changes in the US have been a significant contributor to changes in global equity valuations. First, as discussed in detail last quarter, the enormous US tax cuts signed into law late last year - combined with February's expansionary budget deal - will unleash a wave of fiscal stimulus into the US economy at a time when the economy is already operating at its capacity (based on the assessment of the Federal Reserve).

In discussing the timing of this new fiscal expansion with a friend of the firm, who is also a senior investment advisor to private and policy banks across Latin America, he likely summed it up best when he said: "I believe this seems to be like that 'last' bottle of wine that you shouldn't have ordered. Hangover will be bad!"

Interestingly, for all of President Trump's desires to reduce the US current account deficit, this enormous fiscal expansion will likely have the opposite effect. We believe consumption will increase (especially government consumption), which will reduce national savings (defined here as national production, minus consumption), at a time when investment will also likely strengthen. If so, the gap between US savings and investment will widen which is, by definition, funded by the current account deficit. We believe this is the key reason why the US dollar has weakened of late.

Finally, President Trump announced new protectionist trade measures in the form of tariffs this quarter, levied on imports of steel, aluminium and approximately US$50 billion of Chinese imports. These announcements were a major source of anxiety for global equity markets. Our view is that the market is right to be nervous, but not because of the tariffs that have been announced. The actual magnitude of imports to which these tariffs relate are relatively small, at approximately 2.7 per cent of total annual US imports.

It is, instead, the continued deterioration in the broader US-China relationship, which is roiling equity markets. And the future trajectory of the political and economic relationship between the two largest economies in the world should be of genuine concern to all global investors.

As we have written numerous times before, we pay very close attention to the macro winds created by globally significant geopolitical and economic events. But we primarily concern ourselves with owning significantly undervalued, high-quality global businesses in Montaka's long portfolio; and selling businesses which are challenged, misperceived and overvalued in Montaka's short portfolio.

In this quarter's case study, we examine Prada (HKEx: 1913). What makes Prada interesting to study is that it is the only stock in Montaka's history for which we have previously been short, but are now long. The simple reason this does not happen very often is that we only own high-quality businesses; and we typically do not short high-quality businesses. Prada was an exception.

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CASE STUDY: PRADA

Let us first briefly examine why Montaka was short Prada nearly three years ago. Employing Montaka's unique short-side framework, shown to the right, we can see that Prada exhibited three out of four characteristics that we think make for a great short.

Thematics

- This element relates to significant changes that are taking place at the industry level. These are persistent changes that will last for years, not quarters.
- A new technology (such as digital advertising) disrupting an old technology (such as offline advertising) might be an example of such an industry thematic.
- In the luxury space three years ago, the industry-wide thematic related to the Beijing Corruption Crackdown. In effect, Chinese Party members were no longer allowed to be seen in public with flashy luxury accessories; and this created a significant headwind for all luxury players around the world.

Divergent Expectations

- This is defined as instances of the market's expectations - as implied by the current stock price - being overly aggressive relative to our own expectations.
- In the case of Prada three years ago, despite sales growth having evaporated and margins down significantly, the market consensus was for revenue growth to immediately return to 10 per cent per annum; and for margins to quickly revert back to where they had been in 2012 before the Corruption Crackdown commenced.
- It was our assessment at the time, that the drivers leading to this weakness were going to persist for years, not quarters. And thus, there was a divergence between the expectations of the market and our own expectations.

Asymmetries

- This characteristic relates to asymmetric risks in the stock price stemming from, say: too much leverage in the capital structure, or regulatory risk, or risk around an acquisition premium dissipating, for example.
- Prada did not exhibit any of these asymmetric risks, in our view.

Misperceptions

- Misperceptions are instances of aggressive accounting which aim to portray a better-looking picture of the underlying economics of a business than what is perhaps the case in reality.
- In the case of Prada at the time and for years prior, a strong top line rate of growth was masking a decline in revenues-per-store. Prada was simply adding new boxes which created the perception of growth at a time when each underlying box was going backwards.

PRADA — MONTAKA SHORT-SIDE FRAMEWORK

		Drivers	Evidence (from 2015)
1. Thematics/ Structural Declines	✔	• Beijing corruption crackdown	• Accelerating comparable sales declines in Asia – particularly in HK/Macau • Evidence from peers supporting hypothesis (e.g. Burberry experiencing double-digit percentage declines in comparable sales, July 2015)
2. Divergent Expectations	✔	• Market underestimating extent of crackdown	• Sales growth expectations reverting back to +10%/yr for next three years • Consensus expectations see operating margins reverting back to historical levels • Yet, underlying drivers of weakness not going away any time soon
3. Asymmetries	✘	• N/A	• Clean balance sheet
4. Misperceptions	✔	• Revenue growth overstated by store roll-out	• Reasonably strong revenue growth over recent years has masked deterioration • Revenue-per-store has been declining for last two years across all regions

Source: MGI

And this was the result. The chart below shows Prada's stock price over the 2015/16 period during which Montaka was short (which we discussed openly with the Asian press).

THREE YEARS AGO, MONTAKA WAS SHORT PRADA

Source: Australian Financial Review; The Edge Singapore; Bloomberg

Today, Montaka owns Prada. How could this be? As readers know well, for Montaka to own a business, we require two concurrent criteria to be met: (i) high business quality; and (ii) significant undervaluation. And, since July last year, we have believed Prada exhibits both.

We believe Prada is and always has been a high-quality brand that is near-impossible for a competitor to recreate. It has a 100-year family history; its creative design remains today under the personal direction of Miuccia Prada - whose family continues to own 80 per cent of the business. Nearly a century ago, Prada was appointed the official supplier to the Italian Royal Family - and continues to be allowed to display the House of Savoy coat of arms in its trademark logo. So Prada is an Italian fashion icon; and its brand is nearly impossible for competitors to recreate making it a high-quality business.

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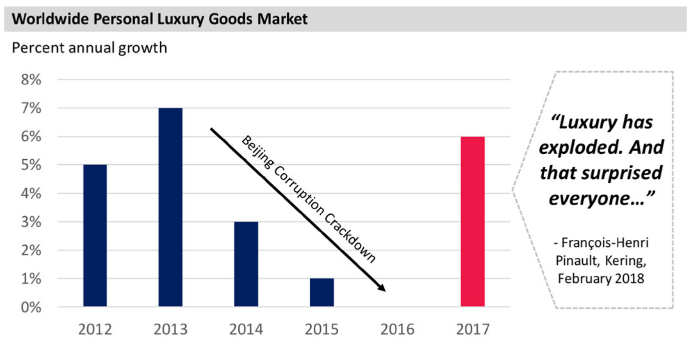
And we can see evidence of this business quality in Prada's financial statements. The business has generated high returns on capital over time, continues to generate significant free cash flow and has a clean balance sheet.

From an industry-perspective: "Luxury has exploded" in the words of Kering CEO Francois Pinault, some weeks ago. The chart shown below illustrates annual growth in the worldwide personal luxury goods market. As can be observed, in recent years, global growth in this space was crushed - and we believe this was primarily driven by the Beijing Corruption Crackdown.

But what you can also see is that growth has now bounced back. The global luxury market grew by 6 per cent in 2017. And according to Bain, the global market will grow by around 5 per cent per year organically for at least the next three years - and likely beyond - driven in large part by the "emerging consumers" of China.

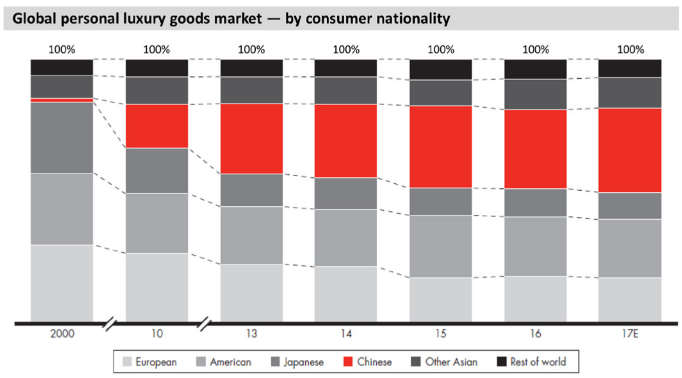
A STRUCTURALLY GROWING LUXURY SPACE



Source: Kering; FT

On exactly this point, one can see clearly from the chart showing below, that Chinese consumers - shown in red - now drive one-third of global demand for luxury. And over the coming years, that share will likely increase further.

CHINESE CONSUMERS NOW ACCOUNT FOR ONE-THIRD OF GLOBAL LUXURY

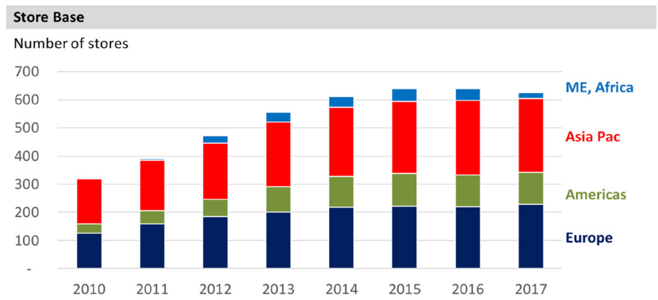


Source: Bain & Company

With respect to distribution, we believe that Prada is well-positioned for this growth in Asia. Prada is approaching the tail-end of a multi-year investment period in its distribution platform - both offline and online.

From an offline perspective, the chart below shows Prada's owned store base, by geography. As one can see, since 2010, the store base has approximately doubled - with no future intention to grow the base significantly above where it is today. And a significant share of this growth related to the expansion of the Asian store base (shown in red) - which positions Prada well for the expected growth out of this region over the coming decade.

PRADA — OFFLINE DISTRIBUTION PLATFORM



Source: Prada

From a digital perspective, we are the first to acknowledge that Prada was late to this very important game. But we believe the business is now slowly getting to where it needs to be. In 2016, Prada really got serious about its digital platform - and, interestingly, this was around the time we completely covered Montaka's residual short position in the name.

Prada has since hired a new digital team and started to invest heavily across the dimensions of: e-commerce, particularly in China; social media consumer engagement; multi-platform marketing; and Big Data - to drive personalisation. We believe these digital initiatives will start to gain some traction over the coming years.

Now, the above talks to the quality of the Prada business and its favourable positioning in a structurally-growing luxury space. But this tells us nothing about business value relative to its share price.

To assess potential undervaluation, readers will know that the Montaka research team spends an inordinate amount of time "reverse-engineering" what the market-implied expectations are for the key value drivers of businesses at the prevailing market prices. Upon identifying the expectations that are "priced in" at the current stock price, we can then make an assessment as to the reasonableness, or otherwise, of these expectations. If the market-implied expectations built into a stock's price are unreasonably conservative, then the stock is undervalued. We call this our Expectations Framework.

The application of our Expectations Framework to Prada is shown in the following chart. As can be observed, Prada's value is driven by its growth in free cash flow (like for many businesses). In the case of Prada, we believe the two most important value drivers are (i) revenue-per-store; and (ii) operating profit margin. (Given the near-completion of Prada's distribution platform, capex and store growth will be minimal going forward).

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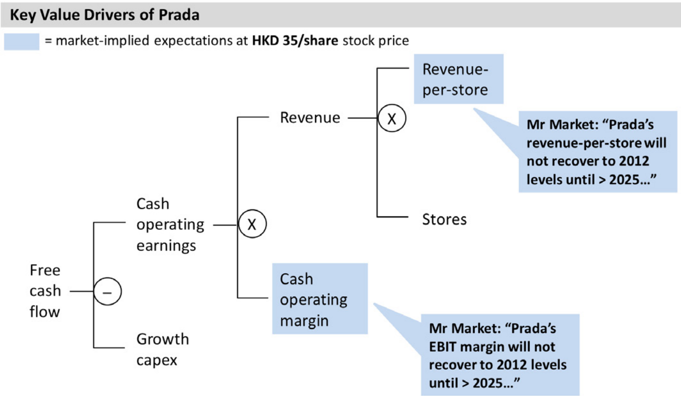
We then "reverse engineer" the expectations that are being implied for these two key value drivers at the current share price of about 35 HKD per share. At this price, the market is implying the following: "Both revenue-per-store and operating margins will not recover to 2012 levels until after 2025."

PRADA — APPLYING OUR EXPECTATIONS FRAMEWORK



Source: MGI; Prada

While, we have no idea how long the recovery will take, we do not believe that the headwinds faced by this business in recent years will take more than a decade to work through. If we are wrong, and it does take until 2025 for Prada to fully recover back to 2012 levels, then we break-even. This, of course, is the concept of Margin of Safety expressed in a slightly unusual way.

Finally, in March, Prada reported their 2017 results and we can see the first evidence of this thesis playing out. After a difficult five year period of continual declines in same-store-sales, management disclosed that, in the first two months of 2018, same-store sales grew by 7.5 per cent year-on-year. On this news, the stock rallied 15 per cent the following day.

EVIDENCE THESIS IS WORKING

Source: MGI; Prada; Bloomberg

* * *

Entering the second calendar quarter of 2018, Montaka's positioning has evolved somewhat to reflect the new economic environment in which we find ourselves.

The most significant driver of change has been the new fiscal expansion in the US - coming at a time when the economy is already at capacity, as described above. We believe this increases the probability that global monetary conditions will tighten more significantly and more quickly than previously expected. As such, we have recently been finding value in financials and our exposure to this sector has increased the most significantly.

From a currency perspective, we highlighted our analysis around an expected widening in the US current account deficit above. As a direct consequence of the new expansionary fiscal policies in the US, we believe there is a higher probability the US dollar could weaken further. Funding this deficit, we believe, will be increased current account surpluses of Europe and Japan. As such, during the quarter, we reduced our US dollar exposure and increased our Euro and Yen exposure.

Finally, we enter the June quarter with a net market exposure of 49 per cent. As volatility continues to re-emerge, we feel well-prepared to pounce on a range of high-quality businesses we have been monitoring for years, when the price is right.

Thank you for your ongoing trust which you have placed in us to preserve and grow your capital. This responsibility continues to be the privilege of our lifetimes and we continue to work as hard as we can to deliver you attractive risk-adjusted returns and a positive client experience.

Sincerely,

Andrew Macken

MONTAKA

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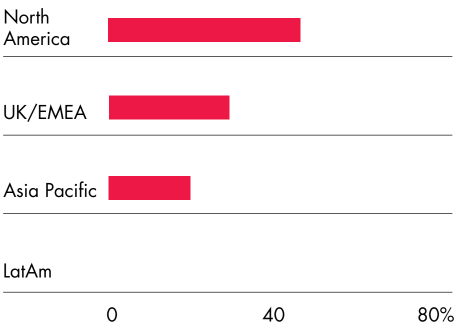
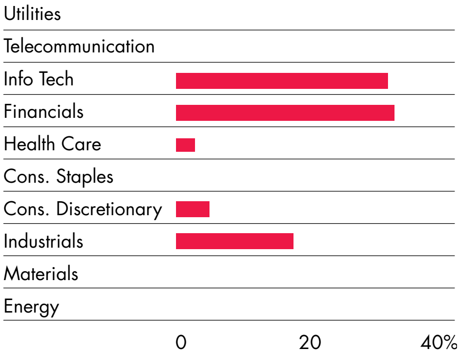
LONG PORTFOLIO

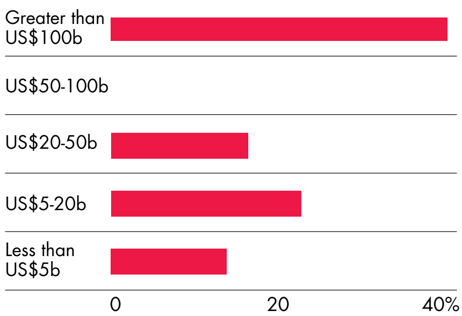
GEOGRAPHIC EXPOSURE (Country of domicile)



INDUSTRY EXPOSURE

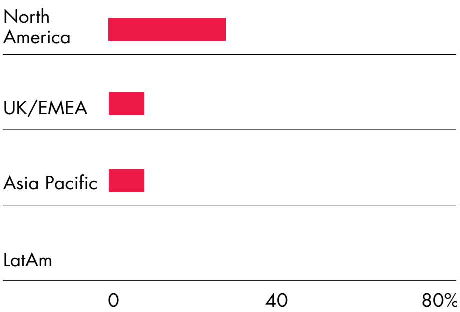


MARKET CAP EXPOSURE

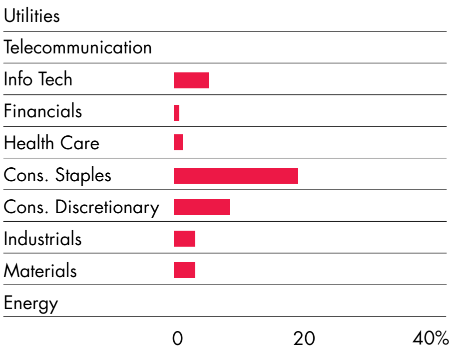


SHORT PORTFOLIO

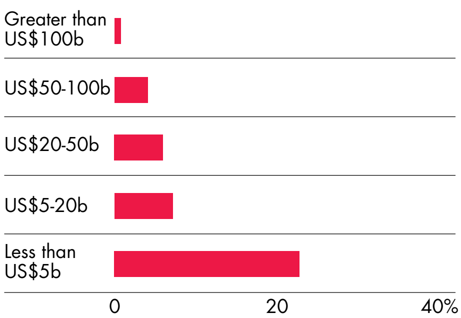
GEOGRAPHIC EXPOSURE (Country of domicile)



INDUSTRY EXPOSURE



MARKET CAP EXPOSURE



Note: exposures shown as % of NAV

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DISCLAIMER