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HAVE YOU BEEN BUYING OR SELLING ON AVERAGE SINCE THE US ELECTION RESULT ON NOVEMBER 8? WHICH STOCKS HAVE YOU BEEN ADDING AND SUBTRACTING AND WHY?

KARL SIEGLING: I think, like many market participants, we have come into the end of the 2017 period reasonably cautious holding around 35% cash. Global uncertainty in the year just gone has created a lot of volatility in stock markets and as such people seem cautious. Generally speaking when all the experts agree on something it does not happen. What we are seeing now are many markets around the world making new highs. We have started buying **resource companies** and this month have been adding to these positions as they move higher and get cheaper as commodity prices rise. Generally speaking we have not been adding to other positions and have not been participating in many IPOs (which do not look cheap or compelling).

2

WHAT WERE YOUR BEST PERFORMERS IN 2016 AND WHY? DO YOU STILL OWN THEM?

KARL SIEGLING: Our first steps back into the resources market have produced good percentage returns but have not become a big part of the portfolio yet. Mining services have done well. We still hold these positions and under our process as the positions continue to perform we will be adding to them. Examples include [Independence Group \(IGO\)](#), [Monadelphous \(MND\)](#) and [MetalsX \(MLX\)](#) through the recent spin off. [Insurance Australia \(IAG\)](#) in the US has performed well and is still trading below NTA. Samsung has performed well despite problems with one of their mobile phone launches.

3

WHAT WERE YOUR BIGGEST MISTAKES IN 2016 AND WHAT ARE YOU DOING TO CORRECT THEM?

KARL SIEGLING: **Financial services** and diversified financial services were very volatile this year and for a trend following fund such as ours this has hurt performance. Whilst these positions performed very well for three to four years in many cases the volatility associated with global uncertainty, Brexit, potential interest rate trend changes have seen many of these positions whip sawed and produce short-term losses. On average these positions have all been reduced by a third.

We also saw a **reversal in the resources trend** this year especially in January and February. Being short resources was good for us for four years but this trend reversed early this calendar year and we lost money on resource shorts in the six months. The resource index is now up 50% from the bottom.

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Investors need to watch for the continued reversal in the interest rate trend and to recognise that this is potentially the biggest change that occurred in 2016. Not Brexit, not the US election and maybe not the resources trend reversal.
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KARL SIEGLING

4

RESOURCES AND MINING SERVICES HAVE BOUNCED TO EARLY DECEMBER. DO YOU THINK THIS WILL CONTINUE AND HAVE YOU POSITIONED YOUR PORTFOLIO TO TAKE ADVANTAGE IF IT DOES/DOESN'T?

KARL SIEGLING: We have started investing in resources and invested in mining services earlier this year. We have added to some of these positions but it is not a large part of our portfolio at the moment. We have been spending a lot more time in Perth and visiting mining companies and mining services and related companies. The turnaround is not yet immediately evident but the worst of the last resources bust seems over and the first tentative signs of improvement are on a balance of probabilities appearing. Resources are up 50% from the bottom and obviously still down significantly from the last boom. It is worth reflecting on what it was that led to the last resources boom and whether any of those conditions still exist for another commodities boom.