

# AIMA'S ILLUSTRATIVE QUESTIONNAIRE FOR DUE DILIGENCE OF



# **FORTITUDE CAPITAL**

Published by  
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## **DISCLAIMER**

Whilst AIMA has used all reasonable efforts to produce a questionnaire of general application in connection with a due diligence appraisal of hedge fund managers, in any particular case an investor is likely to have its own individual requirements and each hedge fund manager its own characteristics. As a result, prior to any individual investor sending out the questionnaire, it is strongly recommended that the questions are reviewed and, where necessary, amended to suit its own requirements and its state of knowledge of the hedge fund manager's operations.

In addition, you should review with your legal counsel and other advisors the value of the responses and to what extent, if any, you may rely upon such responses. The contractual terms of an investment in any hedge fund will normally be confined to the terms of the application or subscription documents, prospectus, private placement memorandum or other offering document and the constitutional documents of the hedge fund. In order to obtain the best possible information on any specific hedge fund manager, additional questions should be raised to clarify any point of uncertainty, and where practicable verbal examination should be undertaken. In particular, AIMA recommends that in respect of special areas of concern, such as fund performance or risk profile, independent third party data should, if possible, be obtained in order to verify these facts.

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# AIMA's Illustrative Questionnaire for Due Diligence of FORTITUDE CAPITAL PTY LTD

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*NB: THE INFORMATION GIVEN HEREIN IS CORRECT AS AT 17 MAY 2010.*

# 1 INVESTMENT MANAGER INFORMATION

## 1.1 Contact information

1.1.1	Company name:	Fortitude Capital Pty Limited
1.1.2	Address:	Level 2, 350 George Street, SYDNEY NSW 2000
1.1.3	Telephone:	+61 2 9376 9800
1.1.4	Fax:	+61 2 9321 1602
1.1.5	E-mail:	<a href="mailto:info@fortituedeapital.com">info@fortituedeapital.com</a>
1.1.6	Name of contacts:	John Corr
1.1.7	Title of contacts:	Director
1.1.8	Telephone of contacts:	+61 2 9376 9800
1.1.9	E-mail of contacts:	<a href="mailto:John@fortituedeapital.com">John@fortituedeapital.com</a>
1.1.10	Internet/website:	FortitudeCapital.com

## 1.2 Company

1.2.1	Please give a brief history of the company and, if applicable, group structure:	Please refer to business plan (by request)
1.2.2	Type of company/entity:	Australian Pty Limited
1.2.3	Date and place of incorporation and registered number:	Registered in Sydney NSW, February 2003
1.2.4	Domicile:	Australian
1.2.5	Subsidiaries, branch offices or other locations, if any:	Sydney, New South Wales, Australia
1.2.6	What functions are performed at these subsidiaries, branches and locations?	Trading and Administrative functions
1.2.7	Which regulatory authority is the company registered with? <ul style="list-style-type: none"> <li>Name(s) of regulatory bodies:</li> <li>Date of registration:</li> <li>Registration number:</li> <li>Scope of registered activities:</li> <li>List individuals also registered with the same authority in relation to the company's registration:</li> </ul>	<ul style="list-style-type: none"> <li>The company holds an Australian Financial Services licence with the Australian Securities and Investment Commission (ASIC).</li> <li>February 2003</li> <li>221 131</li> </ul> <p>This licence authorises the licensee to carry on a financial services business to: (a) provide general financial product advice only, for the following classes of financial products: (i) derivatives; (ii) debentures, stocks or bonds issued or proposed to be issued by a government; and (iii) securities; (b) deal in a financial product by:</p> <p>(i) issuing, applying for, acquiring, varying or disposing of a financial product in respect of the following classes of financial products: (A) derivatives; (B) foreign exchange contracts; and (C) interests in managed investment schemes limited to: (1) own managed investment scheme only; and (ii) applying for, acquiring, varying or disposing of a financial product on behalf of another person in respect of the following classes of products: (A) deposit and payment products limited to: (1) basic deposit products; (2) deposit products other than basic deposit products; (B) derivatives; (C) foreign exchange contracts; (D) debentures, stocks or bonds issued or proposed to be issued by a government; (E) interests in managed investment schemes excluding investor directed portfolio services; and (F) securities; and (c) provide the following custodial or depository services: (i) operate custodial or depository services other than investor directed portfolio services; to wholesale clients.</p> <ul style="list-style-type: none"> <li>John Corr (Director)</li> <li>David Anderson (Non-executive Director)</li> <li>Andrew Ward (Company Secretary)</li> </ul>
1.2.8	Specify reliance on any regulatory exemptions:	N/A
1.2.9	Please specify the date of the most recent regulatory inspection if any:	Statutory Audit June 2009
1.2.10	List any affiliations,	N/A

	directorships and memberships of the company and/or its principals:	
1.2.11	Specify nature of services provided by the company (discretionary investment management or advisory):	Discretionary Investment management
1.2.12	Please list the total assets under management by the company across its different categories of client including the fund:	AUM A\$ 74 m
<b>1.3 Ownership</b>		
1.3.1	Describe the company's and group ownership structure, name of its owners, their percentage ownership, and their role within the company:	60% - John Corr (Corr Family Trust) - Director 40% - MFS AAL Limited
<b>1.4 Organisation</b>		
1.4.1	How many full-time employees are there?	6 including the Managing Director
1.4.2	Please provide a short background of principals (education, career background, etc.): • Please, attach information if necessary.	Please refer to Appendix A
1.4.3	Who are the key principals and how are the key-man issues addressed and managed?	John Corr - Managing Director John Corr has trained all staff rigorously in the underlying risk management and market neutral principles of the business. Sheriden Hure and Andrew Ward were recruited during the establishment phase of the business and, as such, were involved in the design, implementation and monitoring of internal risk systems. The company has a key man insurance policy. For further information please contact the investment manager directly.
1.4.4	Please give details and descriptions of other commitments or interests of the principals:	N/A
1.4.5	How many investment professionals (portfolio managers, analysts, etc) are in the company and what due diligence was carried out prior to their appointment?	5 investment professionals with over 70 years of market experience. Background checks have been performed on all staff members.
1.4.6	What are the average years of professional experience in the company, both years as a professional as well as years in the company?	14 years in the industry with average of 3 years with the firm
1.4.7	Please enclose an organisation chart depicting the names of senior managers in charge of the following areas and headcount: • Trading: • Reporting, performance analysis:	Available on request.

	<ul style="list-style-type: none"> <li>• Strategy, research and development:</li> <li>• IT/Programming:</li> <li>• Administration:</li> <li>• Risk Management:</li> <li>• COO/Operations:</li> <li>• Legal:</li> <li>• Compliance:</li> <li>• Marketing and business development:</li> <li>• Others (please specify):</li> </ul>	
1.4.8	What has been the turnover rate among the company's personnel? Please list joiners/leavers of key staff over last (two) years.	Three new trading professionals.  Three departures in 5 years.
1.4.9	Where do the primary trading, research and portfolio management activities take place?	Sydney office, NSW
1.4.10	Where are the accounts maintained?	Business accounts are produced internally and held by company's auditors (MSWI) Monthly NAV's are outsourced to Kingsway Taitz Fund Administration. Fund accounting is performed daily internally, with a copy of the accounts stored offsite. All accounts are stored within the Sydney office.
1.4.11	Are outside representatives or consultants used for any activities? If so, give details:	Yes. Legal, compliance, IT, Tax & Marketing consultants are used intermittently.
1.4.12	Please provide details of the appointed legal counsel and auditors?	<p>Legal: DLA Phillips Fox 255 Elizabeth Street, SYDNEY NSW 2000 PH: 612 9286 8059 EMAIL: <a href="mailto:Martin.Jamieson@phillipsfox.com">Martin.Jamieson@phillipsfox.com</a></p> <p>Auditors: Funds: Ernst &amp; Young Sydney 680 George Street, SYDNEY NSW 2000 PH: 612 9248 5837 EMAIL: <a href="mailto:Jon.Pye@au.ey.com">Jon.Pye@au.ey.com</a></p> <p>Business: Moore Stephens Sydney Level 7, 20 Hunter Street, Sydney NSW 2000 Tel: +61 2 8236 7700 EMAIL: CCHANDRAN@moorestephens.com.au</p>
1.4.13	Have the auditors ever issued qualified financial statements?	No
1.4.14	Do you have a relationship (e.g. seeding arrangement) with another investment manager?	No
1.4.15	Do you share office space with another investment manager? If so, please give details.	No
1.4.16	Does this create conflicts and, if so, how are those conflicts managed?	N/A
1.4.17	Is the firm a member of AIMA or any other relevant trade association?	Yes
1.5	<b>Manager references</b>	

1.5.1	<p>Please provide at least two references for the company and for each of the principals involved in the management of the fund?</p> <ul style="list-style-type: none"> <li>• Name:</li> <li>• Profession:</li> <li>• Company:</li> <li>• Title:</li> <li>• Telephone:</li> <li>• Fax:</li> <li>• E-mail:</li> <li>• Current and past relationship with the company or its principal:</li> </ul> <ul style="list-style-type: none"> <li>• Name:</li> <li>• Profession:</li> <li>• Company:</li> <li>• Title:</li> <li>• Telephone:</li> <li>• Fax:</li> <li>• E-mail:</li> <li>• Current and past relationship with the company or its principal:</li> </ul>	<p><b>Malcolm Sinclair</b> Equities Citigroup Managing Director Head of Equities 612 8225 4059 612 8225 5483 <a href="mailto:Malcolm.Sinclair@citigroup.com">Malcolm.Sinclair@citigroup.com</a> Malcolm was the Managing Director when John Corr was the Director of Proprietary trading at Citigroup.</p> <p><b>David Goodman</b>  State Street Bank Managing Director 612 9786 3000 612 8249 1141 <a href="mailto:David_goodman@ssga.com">David_goodman@ssga.com</a> John Corr and David Goodman were part of the number 1 ranked equity derivative sales team in the late 1980's and early 1990's. Since then, they have maintained a long relationship through a common interest in markets and global trends; with a special focus on developments in derivatives markets.</p>
<b>1.6 Manager track record</b>		
1.6.1	Number of portfolios/accounts/products managed by the company:	4
1.6.2	<p>Number of funds managed/advised by the company:</p> <ul style="list-style-type: none"> <li>• Names and sizes of these funds:</li> </ul>	<p>Fortitude Capital – BT Managed Account Fortitude Capital – Absolute Return Trust Fortitude Capital – Equity Income Fund Fortitude Capital Extension (Caymans Fund) Please consult the Investment Manager for fund sizes</p>
1.6.3	Total assets managed/advised by the company:	AUD \$74m
1.6.4	Oldest continuously active account:	BT Managed Account
1.6.5	Largest current account:	BT Managed Account
1.6.6	Length of track record:	5 years
1.6.7	Has the track record been audited? If yes, by whom?	BT audits their Total Return Fund of which Fortitude Capital is one of six managers. They are available to sign-off on our stated track record.
1.6.8	<p>What is the level of trading activity of the portfolio? Please provide information in terms of coverage of assets/instruments measured and whether numbers are for notional or nominal values. If relevant please indicate average holding periods for long and short positions.</p>	<p>Very active Please consult the investment manager for further information regarding strategies and turnover.</p>
1.6.9	<p>Average annual commission costs as a percentage of total assets:</p> <ul style="list-style-type: none"> <li>• Brokerage to equity ratio:</li> <li>• Administrator fee to equity ratio:</li> </ul>	<p>2.8% p.a. 0.2% p.a.</p>

	<ul style="list-style-type: none"> <li>• Custodian fee to equity ratio:</li> <li>• Auditors' fee to equity ratio:</li> </ul>	<p>N/A - UBS Prime Brokerage Fee consists of real and nominal measures. Please consult the investment manager for further information.</p> <p>0.1% p.a.</p>
<b>1.7 Risk Management</b>		
1.7.1	Discuss position concentration (e.g. industries, countries) and stop-loss limits and their management:	<p>Fortitude Capital holds a market neutral bias on the management of their portfolio. In excess of 80% of the portfolio is hedged in order to generate this market neutral bias. This hedging is generally in the form of either equity derivatives over individual stock positions or futures over the portfolio.</p> <p>Unhedged positions are generally small caps or positions where there is no equity derivative protection available. Sector risk may be reduced through 'pairs' trades where there is no derivative coverage. Unhedged positions are assessed on a price and time basis and stop loss limits are applied on these at the time of execution. On average these positions comprise less than 10% of the portfolio.</p>
1.7.2	How often are these limits applied? When were their peaks observed?	Where possible positions are hedged daily. All Unhedged positions are re-assessed on a daily basis
1.7.3	How do you adjust your risk capital allocation when there is a significant increase in equity due to trading profits?	The portfolio's capital allocation process will be identical to that adopted during times of significant capital inflows
1.7.4	Do you use an external risk monitor? If so, who and why that particular one?	<p>Fortitude Capital uses IRESS as 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.</p> <p>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.</p> <p>The managers use RISK101 for exposure reports &amp; risk reporting.</p>
1.7.5	Please describe the operational risk management policy:	All vital data and functions have back-up procedures in place. A copy of the company's procedures manual is available on request.
1.7.6	How do you measure minimum liquidity of positions?	Liquidity is a major determinant in our stock selection position process. Our investment mandate demands that 80% of the portfolio by value should not represent more than 2 days volume.
1.7.7	What risk system/software is used in your middle office?	N/A
<b>1.8 Operational Risk</b>		
1.8.1	How does the company define operational risk?	All vital data and functions have back-up procedures in place. A copy of the company's procedures manual is available on request
1.8.2	Does the company have an operational risk management framework? Does the framework consider how the company identifies, assesses, monitors and controls operational risks?	Yes, controls are in place to minimise risk with daily procedures in place monitoring both the trading and operational risk systems internally which is reconciled against external systems (Prime broker and administrators)
1.8.3	Are the employees responsible for the operational risk framework adequately	Yes, all staff and investment managers actively manage risk levels. The company uses Risk101 and custom designed risk management procedures.

	independent from the business and appropriately trained? (For example, does the company have a risk or internal audit function that is responsible for the framework?)	
1.8.4	Does the board of directors approve and regularly review the operational risk management framework?	Yes, the managing director is involved in all aspects of risk monitoring
1.8.5	Who is responsible for implementing the operational risk framework? Are there clear lines of responsibility across senior management?	Compliance and risk procedures are implemented from senior management and discussed openly within the office daily. Clear lines exist between the CEO, traders and operations. All staff continuously monitor risk levels.
1.8.6	How does the company ensure that employees understand their responsibilities for implementing the operational risk framework?	All employees are thoroughly trained in risk management principles which underpin the business. All risk indicators and procedures are viewed by all staff. All aspects of the business are discussed openly with all staff members
1.8.7	What on going assurance does the firm provide to clients over the effectiveness of its operational risk framework? If a SAS70 or FRAG 21 (being replaced by AAF 01/06) has been completed, please list the key weaknesses identified in the last 5 years.	Estimates of performance are sent to investors which regularly coincide with administrator's NAV. Compliance reviews have been completed by an outsourced firm (last completed July 2009). All investors/prospective investors are allowed full transparency over the operations of the manager.
<b>1.9 Operational Risk for Outsourced Functions</b>		
1.9.1	What due diligence process does the company perform prior to the appointment of an outsourced service provider? Please specify if this process differs for different service providers, e.g. custodian, administrator and prime broker.	Market industry recommendations where businesses have provided their strengths and ability in performing functions. Custodian/Prime Broker/Administrator are required to submit AGS1026 or evidence of internal control procedures and certificate of currency.
1.9.2	Are service level agreements in place between the company and its outsourced service providers? If so, how does the company monitor services against the prescribed standards?	Yes - monitor on a daily basis with regular contact with all providers
1.9.3	Does the company perform periodic reviews of the outsourced service providers?	Yes
1.9.4	What ongoing assurance does the firm perform over the effectiveness of the controls at outsourced service providers?	2009 - completed annual due diligence on all outsourced providers

<b>2 INVESTMENT RESEARCH</b>		
2.1	What outside sources are used?	Fortitude Capital has access to leading investment house research
2.2	What proportion of research is generated internally?	Investment ideas are generated internally and account for over 80% of all investment decisions
2.3	Describe the typical flow of an investment idea from inception to a trading position:	<ol style="list-style-type: none"> <li>1. market filter - identify the opportunity - market or research initiated</li> <li>2. Ability to hedge -can we hedge? - evaluate cost of derivative protection</li> <li>3. risk v reward equation - potential upside v downside risk</li> <li>4. liquidity - ability to execute and exit - is our stop loss based on time or price or derivative hedged</li> <li>5. portfolio structure &amp; limits</li> </ol>
2.4	Describe your back testing of investment ideas:	N/A
2.5	Have you published or commissioned any research/academic papers? Please give details.	No
<b>3 EXECUTION &amp; TRADING</b>		
3.1	Describe members of the trade execution group, their functions and experience:	The investment managers have over 70 years combined experience in the Australian equity market and recognise that a multi-strategy approach is essential in identifying short term market inefficiencies. Please refer to Appendix A and the investment manager for further information.
3.2	Who is authorised to place orders on behalf of the fund?	All 5 investment managers
3.3.	Is there clear separation of functions between front and back office?	Yes - we have 1 staff member to perform back office functions
3.4	How are executed trades allocated to accounts? Please explain in detail, particularly with respect to split fills:	<p>Trades are executed in IRESS, loaded into an excel macro spreadsheet distributing the trades to the account (as determined by the split allocation %).</p> <p>Positions are electronically then uploaded to our prime broker who then allocates the positions to an investors account for settlement.</p>
3.5	Are any positions allocated as of the end of the trading day or immediately after execution, rather than prior to or at the time of order entry?	All trades are allocated to Fortitude Capital accounts at the end of the trading day
3.6	Does the manager undertake any cross trades or netting and if so, what procedures are utilised?	No, all trades are ON-Market trades
3.7	What is the company's policy with respect to trading and system errors? Please explain in detail:	As the booking and trading system is automated there are very few errors. The positions are reconciled daily by an accountant and any errors are generally of a bookings nature rather than a trading nature and are reconciled immediately.
3.8	Have there been any major "trade breaks"? If so, please describe.	No
3.9	Are trades reconciled to broker confirmations? How often?	Trades are confirmed against IRESS broker executions
3.10	Are cash positions reconciled? How often?	Yes, trading accounts are monitored daily
3.11	What is the company's policy with respect to personal account dealing by: <ul style="list-style-type: none"> <li>• Staff?</li> </ul>	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. A copy the company's Code of Conduct Policy can be forwarded if required.

	<ul style="list-style-type: none"> <li>Principals?</li> <li>The company itself?</li> </ul>	
3.12	Is there a restricted list?	No
3.13	Does the company make use of "soft dollars"?	The company has two soft dollar agreements in place for the provision of information and risk management systems with two investment banks. Fortitude Capital sought a legal opinion on the use of soft dollar agreements and found that the provision of information systems was authorised under both domestic and international regulations.
3.14	Does the company or advisor have any relationship which may affect its trading flexibility, e.g. associated broker/dealer?	No

## 4 COMPLIANCE

4.1	Who is responsible for compliance in the company?	Compliance is managed on an ongoing basis by the company secretary and the operations manager. An outsourced compliance firm is used for annual review as well as any queries.
4.2	Does a dedicated compliance team exist? Does the company maintain a written compliance manual? If yes, please provide details:	Yes
4.3	When was the manual last updated?	July 2009
4.4	Please describe any current or potential conflict of interest or any relationships which may affect its trading, trading flexibility, e.g. associated broker/dealer.	N/A
4.5	What are the company's employees' own account dealing procedures?	Employees are permitted to hold long term individual positions that do not conflict with the portfolio.
4.6	Does the company have regular compliance monitoring programs? If so, please give brief details:	All personal positions held are subject to the company's internal regulations. A copy the company's Code of Conduct Policy can be forwarded if required.
4.7	Has the company or its principals ever been the subject of any action or warnings from a regulatory body?	No
4.8	Has any application to a regulatory body on behalf of the company ever been withdrawn? If so, please give details:	No
4.9	Do any of the company's principals have other business involvement? If yes, describe and quantify how much of their professional time is dedicated to each:	No
4.10	Has an employee of the company ever been refused authorisation or had it withdrawn? If so, please provide details:	No

## 5 LEGAL

5.1	Are there or have there in the last 10 years, been any criminal, civil, regulatory or administrative proceedings against (i) the Investment Manager or any of its principals or (ii) the Investment Product or any of its directors any similar such matters including reparations, arbitrations and negotiated settlements? If so, please provide details:	No
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## 6 ANTI-MONEY LAUNDERING POLICY

6.1	Confirm that the company has established Anti-money Laundering (AML) procedures:	Yes
6.2	Please advise which jurisdiction's regulations you comply with:	As advised by KTFA.
6.3	Please advise who your AML officer is:	Andrew Ward
6.4	Elaborate on the procedure to ensure compliance with AML policies including details of any training provided to employees:	All investors and employees are subject to AML procedures as prescribed by the company's AML Manual (reviewed annually by KTFA).
6.5	Please provide a summary of your AML procedures.	Please refer to investment manager for further information and/or a copy of the AML Procedures Manual.

## 7 INSURANCE

7.1	<p>Do you currently hold insurance for the following:</p> <ul style="list-style-type: none"> <li>• Directors' &amp; Officers' Liability? <ul style="list-style-type: none"> <li>a) For the funds</li> <li>b) For the management companies</li> </ul> </li> <li>• Professional Indemnity or Errors and Omissions?</li> <li>• Crime (Employee fidelity/third party fraud)?</li> <li>• Key Person Insurance?</li> </ul>	All policies held.
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## 8 BUSINESS CONTINUITY

8.1	Does the company have a formal business continuity management plan? Please describe the basic provisions:	Yes
8.2	<p>What contingency plans do you have in terms of:</p> <ul style="list-style-type: none"> <li>• Computer system fault?</li> </ul>	The home offices of the Investment Managers have the necessary trading software (IRESS, Bloomberg) to effectively manage the fund in the case of computer faults in the office. This includes the ability to redirect emails.

	<ul style="list-style-type: none"> <li>• Incapacitated investment decision makers?</li> <li>• Technical failure at prime broker's location?</li> <li>• Presence of in-house computer technician?</li> <li>• Back-up systems?</li> <li>• Viral outbreaks?</li> </ul>	<p>The CEO has key man insurance cover which would cover the cost of the employment of a further investment professional. All portfolio managers are multi-tasked in all administrative and portfolio management duties required to effectively manage the portfolio and administer the business.</p> <p>UBS is the company's prime broker and has in place business contingency plans in the case of a technical failure.</p> <p>No - the company has outsourced all IT functions. Any specific IT issues can be addressed offsite with the appropriate remedy put in place externally.</p> <p>The computer systems are backed-up each night. This allows a 'daily snapshot' image to be taken offsite each night.</p> <p>Cross trained staff members to perform daily functions</p>
8.3	Are you familiar / do you comply with the AIMA Guide to Sound Practices for Business Continuity for Hedge Fund Managers?	Yes

## 9 FUND INFORMATION

### 9.1 Fund Details

NOTE: Fortitude capital operates 2 funds and a managed account pari passu under its absolute return strategy. An equity income fund was launched in September 2009 (\$5m AUM). The fund uses the derivatives, risk management and operational expertise within Fortitude Capital. Please consult the investment manger for further information on the Fortitude Equity Income Fund.

9.1.1	<p>Contact details:</p> <ul style="list-style-type: none"> <li>• Name:</li> <li>• Address:</li>   <li>• Telephone:</li> <li>• Fax:</li> </ul>	<p>1. Fortitude Capital Australian Absolute Return Fund ("FART") Level 2 350 George St, Sydney, NSW, 2000, Australia +61 2 9376 9800 +61 2 9231 1602</p> <p>2. Fortitude Capital Extension (CAYMANS) Fund ("CAY") c/o Walkers SPV Limited, Walker House, 87 Mary Street George Town, Grand Cayman KY1-9002, Cayman Islands + 61 2 9376 9800 +61 2 9231 1602</p>
9.1.2	<ul style="list-style-type: none"> <li>• Currency of participation interests:</li> </ul>	<p>FART - AUD CAY - USD/EUR</p>
9.1.3	<ul style="list-style-type: none"> <li>• List share classes and denominations of each share class</li> </ul>	<p>FART - AUD CAY - USD Class and a EUR Class</p>
9.1.4	<ul style="list-style-type: none"> <li>• Date of inception:</li> </ul>	<p>FART - March 2005 CAY - September 2006</p>
9.1.5	<ul style="list-style-type: none"> <li>• Is the fund regulated? If so, please provide details (including where and by who) and explain any requirements for regulation:</li> </ul>	<p>FART - Regulated by ASIC. CAY - The fund is a Cayman Islands incorporated fund. The investment adviser is regulated by ASIC.</p>
9.1.6	<ul style="list-style-type: none"> <li>• Describe the fund's ownership structure?</li> </ul>	<p>Both funds are unit trusts.</p>
9.1.7	<ul style="list-style-type: none"> <li>• Is the fund listed on any exchange(s)?</li> <li>• E-mail:</li> <li>• Internet:</li> <li>• Fund structure:</li> <li>• Legal entity:</li> <li>• Domicile</li> </ul>	<p>No</p>

### 9.2 Fees

9.2.1	Management fee:	1.5%
9.2.2	Administration fee:	Approx. 0.2% p.a. fee to equity ratio
9.2.3	Incentive fee (or performance allocation, preferential dividend, etc.):	20%
9.2.4	Hurdle rate/high water mark:	High water mark and hurdle rate (RBA cash rate for FART, USD 1 month LIBOR for CAY)
9.2.5	Sales fee:	N/A
9.2.6	Redemption fee:	N/A
9.2.7	Any other fees:	N/A
9.2.8	What costs, if any, are recharged to the fund?	N/A
9.2.9	Are your fees calculated and charged in terms of equalisation structure	Equalisation method

	<ul style="list-style-type: none"> <li>by:</li> <li>• Issuing a different series of shares every time shareholders subscribe?</li> <li>• The Equalisation Share method?</li> <li>• The Equalisation and Depreciation Deposit method?</li> <li>• The Equalisation-Adjustment method?</li> <li>• Others? (Please describe):</li> </ul>	
9.2.10	<ul style="list-style-type: none"> <li>• Do you ever share fees with a third party?</li> </ul>	No
9.2.11	<ul style="list-style-type: none"> <li>• Have any investors been granted rebates?</li> </ul>	Yes the CAY initial seed investor was granted a fee rebate on management fees.
9.2.12	<ul style="list-style-type: none"> <li>• Disclose any soft dollar/soft commission agreement(s):</li> </ul>	The company has two soft dollar agreements in place for the provision of information and risk management systems with two investment banks. Fortitude Capital sought a legal opinion on the use of soft dollar agreements and found that the provision of information systems was authorised under both domestic and international regulations.
9.2.13	<ul style="list-style-type: none"> <li>• Ratio of expenses (other than the company's management and incentive fee) to NAV:</li> </ul>	Refer 1.6.9
9.2.14	<ul style="list-style-type: none"> <li>• Highlight unamortized launch costs, if any, separately</li> </ul>	N/A
<b>9.3 Investment/Redemption and Lock Up Terms</b>		
9.3.1	<ul style="list-style-type: none"> <li>• Minimum initial investment:</li> </ul>	FART: AU\$100,000 CAY: US \$1m, €1m
9.3.2	<ul style="list-style-type: none"> <li>• Minimum investment subscription?</li> </ul>	FART: AU\$100,000 CAY: US\$100,000, €100,000
9.3.3	<ul style="list-style-type: none"> <li>• Minimum subsequent investment:</li> </ul>	FART: AU\$100,000 CAY: US\$100,000, €100,000
9.3.4	<ul style="list-style-type: none"> <li>• Subscription frequency (when):</li> </ul>	Monthly
9.3.5	<ul style="list-style-type: none"> <li>• Redemption frequency (when):</li> </ul>	Monthly
9.3.6	<ul style="list-style-type: none"> <li>• Redemption notice period:</li> </ul>	30 days
9.3.7	<ul style="list-style-type: none"> <li>• Redemption cash proceeds time period:</li> </ul>	N/A
9.3.8	<ul style="list-style-type: none"> <li>• Does the fund have any lock-up period or any other liquidity constraints (e.g. suspension of redemptions and gates)?</li> </ul>	No
9.3.9	<ul style="list-style-type: none"> <li>• Is there a "gate" and how is that computed (on an aggregate basis or investor by investor basis) and how is the amount in excess of the gate treated?</li> </ul>	No
9.3.10	<ul style="list-style-type: none"> <li>• Under what conditions would these restrictive provisions be invoked?</li> </ul>	N/A
9.3.11	<ul style="list-style-type: none"> <li>• What is the maximum period that a shareholder would be prevented from</li> </ul>	Within the month

	having their redemption notice accepted and redeemed?	
9.3.12	<ul style="list-style-type: none"> <li>After a shareholder has given the fund administrator the minimum required notice for redemption, please state the maximum number of days it will take to receive the redemption proceeds, including all possible restrictions (e.g. gate provisions etc).</li> </ul>	30 days
9.3.13	<ul style="list-style-type: none"> <li>Has the manager undertaken any analysis of costs attached to liquidating the fund over certain time frames; for example, 1 day, 3 days, 5 days, 1 month etc? If so, please enclose.</li> </ul>	Yes
9.3.14	<ul style="list-style-type: none"> <li>Does the fund allow for transfer of shares or limited partnership interests between nominees?</li> </ul>	Yes
9.3.15	<ul style="list-style-type: none"> <li>Are there any independent fund directors, please provide details:</li> </ul>	Yes Trustee directors for both funds are independent apart from John Corr. Directors for Fortitude Capital Pty Ltd, trustee for FART, are detailed in section 1. Abali Hoilett and Alison Tweed are directors of the CAY fund - contact details provided in 9.1.1.
9.3.16	<ul style="list-style-type: none"> <li>How often does the board meet?</li> </ul>	Monthly
9.3.17	<ul style="list-style-type: none"> <li>Please provide roles and responsibilities of the Directors.</li> </ul>	FART: John Corr - CEO & Chief Investment Officer
<b>9.4 Fund Directors</b>		
9.4.1	<ul style="list-style-type: none"> <li>Please list the number of directors, their names, the degree of relationship with investment manager and service providers, directors' fees paid and the duration of the company's professional relationship with each director:</li> </ul>	FART: as per section 1. CAY: As per 9.3.15 There are no Director's fees for the FART fund. The CAY fund has a nominal Directors/RE fee payable annually. All directors are independent of Fortitude Capital service providers.
9.4.2	<ul style="list-style-type: none"> <li>Is there D&amp;O insurance?</li> </ul>	Yes
9.4.3	<ul style="list-style-type: none"> <li>Are there provisions in the fund documentation relating to indemnification of directors?</li> </ul>	Yes
<b>9.5 FUND Administrator - list of services performed</b>		
9.5.1	Details: <ul style="list-style-type: none"> <li>Name:</li> <li>Address:</li> <li>Telephone:</li> </ul>	Kingsway Taitz Fund Administration Pty Limited Level 16, 201 Elizabeth St, Sydney, NSW, 2000. PO Box A2224, Sydney, NSW 1235, Australia 612 9232 2746 612 8915 1620

	<ul style="list-style-type: none"> <li>• Fax:</li> <li>•</li> <li>• E-mail:</li> <li>• Name of contact:</li> <li>• Telephone of contact:</li> <li>• E-mail of contact:</li> </ul>	<p>614 2397 9802</p> <p><a href="mailto:cchan@kingswaytaitz.com.au">cchan@kingswaytaitz.com.au</a></p> <p>Colin Chan</p> <p>+61 2 9232 8171</p> <p><a href="mailto:cchan@kingswaytaitz.com.au">cchan@kingswaytaitz.com.au</a></p>
9.5.2	<ul style="list-style-type: none"> <li>• Duration of the company's professional relationship with the administrator.</li> </ul>	4 years
9.5.3	<ul style="list-style-type: none"> <li>• Are there provisions in the fund documentation relating to indemnification of the administrator?</li> </ul>	No
9.5.4	<ul style="list-style-type: none"> <li>• Please provide contact names, telephone and email for the following functions:</li> <li>• Financial Reporting</li> <li>• Valuations / Fund Accounting</li> </ul>	<p>FART: Shay Aviram +61 2 9232 2746</p> <p>CAY: Diego Gourgues: <a href="mailto:dgourgues@kingswaytaitz.com.au">dgourgues@kingswaytaitz.com.au</a> +61 2 9232 2746</p>
9.5.5	<ul style="list-style-type: none"> <li>• Have ongoing due diligence visits been conducted? If so, by whom and of what frequency?</li> </ul>	Yes - October 2009
<b>9.6 Fund Pricing</b>		
9.6.1	<ul style="list-style-type: none"> <li>• Where assets are valued in-house, please provide a summary of the controls in place to ensure accuracy.</li> </ul>	N/A - monthly unit prices are determined by the administrator.
9.6.2	<ul style="list-style-type: none"> <li>• Who is responsible for obtaining valuations and how are any difficult-to-price assets or instruments priced?</li> </ul>	Fund Administrator. All securities are listed on the ASX and, as such, all securities have an actively market price.
9.6.3	<ul style="list-style-type: none"> <li>• What is the percentage of funds not held in exchange traded instruments?</li> </ul>	Nil
9.6.4	<ul style="list-style-type: none"> <li>• Does the fund hold investments in which the underlying market has limited liquidity?</li> </ul>	No
9.6.5	<ul style="list-style-type: none"> <li>• Does the fund take positions in any non-traditional instruments such as pre-insurance, underwriting and bridging?</li> </ul>	No
9.6.6	<ul style="list-style-type: none"> <li>• Are at least three independent prices available for non-exchange traded investments?</li> </ul>	N/A
9.6.7	<ul style="list-style-type: none"> <li>• Please list the sources and methodology of valuation for instruments that have limited liquidity or are non-exchange traded?</li> </ul>	N/A
9.6.8	<ul style="list-style-type: none"> <li>• Are any investments (as examples: trade finance, private placements, private equity, highly structured credit instruments, insurance, mezzanine loans,</li> </ul>	N/A

	<p>warrants or options) priced using a yield-to-maturity, quantitative model, or other non market traded pricing practice?</p> <ul style="list-style-type: none"> <li>If yes, please explain the pricing methodology.</li> </ul>	
9.6.9	<ul style="list-style-type: none"> <li>Please describe how the fund directors ensure that the fund administrator obtains and verifies independent third party valuations for these investments?</li> </ul>	Administrator NAV's are reconciled to Fortitude NAV estimates. As both systems use ASX listed settlement prices there have been no instances of unit price dispute or amendments.
9.6.10	<ul style="list-style-type: none"> <li>What is the procedure to price any investments where the purchase or sale of the investment would create a notable or material market impact?</li> </ul>	N/A
9.6.11	<ul style="list-style-type: none"> <li>Do you adhere to AIMA's Recommendations on hedge fund valuation (2007)?</li> </ul>	Yes
<b>9.7 Prime Broker - list of services performed</b>		
9.7.1	<ul style="list-style-type: none"> <li>Details:</li> <li>Name:</li> <li>Address:</li> <li>Telephone:</li> <li>Fax:</li> <li>E-mail:</li> </ul>	<p>UBS Prime Broker  Contact: Phillip Loveday  Level 25, Governor Phillip Tower  1 Farrer Place, SYDNEY NSW 2000  612 9324 3680  612 9324 3601  <a href="mailto:Phillip.Loveday@ubs.com">Phillip.Loveday@ubs.com</a></p>
9.7.2	<ul style="list-style-type: none"> <li>Duration of your professional relationship:</li> </ul>	5 Years
9.7.3	<ul style="list-style-type: none"> <li>Are the assets held in the name of the fund? If not, please explain:</li> </ul>	Yes
9.7.4	<ul style="list-style-type: none"> <li>Are all or any of the assets segregated from the prime broker's assets?</li> </ul>	No
9.7.5	<ul style="list-style-type: none"> <li>Do you use multiple prime brokers? If so, please give details:</li> </ul>	No
9.7.6	<ul style="list-style-type: none"> <li>How is cash held at the prime broker?</li> </ul>	In the funds name in UBS nominated bank accounts
9.7.7	<ul style="list-style-type: none"> <li>Are long and short accounts held with the prime broker netted off?</li> </ul>	Yes
9.7.8	<ul style="list-style-type: none"> <li>Does the prime broker have insurance? If so, please detail scope:</li> </ul>	Yes, the Prime broker provides a guarantee.
9.7.9	<ul style="list-style-type: none"> <li>Can the assets of the fund be pledged or in any other manner used to support or benefit another entity's liabilities?</li> </ul>	No
9.7.10	<ul style="list-style-type: none"> <li>Does the company or any affiliate ever take "custody" of client assets?</li> </ul>	No
9.7.11	<ul style="list-style-type: none"> <li>Which other services offered by the prime</li> </ul>	UBS offer Stock lending and FX trading

	broker do you or have you utilised?	
9.7.12	<ul style="list-style-type: none"> <li>Are there provisions in the fund documentation relating to indemnification of prime broker?</li> </ul>	No
9.7.13	<ul style="list-style-type: none"> <li>Have ongoing due diligence visits been conducted? If so, by whom and of what frequency?</li> </ul>	October 2009
<b>9.8 Custodian</b>		
9.8.1	<p>Details:</p> <ul style="list-style-type: none"> <li>Name:</li> <li>Address:</li> <li>Telephone:</li> <li>Fax:</li> <li>E-mail:</li> </ul>	Refer Prime Broker section
9.8.2	<ul style="list-style-type: none"> <li>Duration of the company's professional relationship with the custodian:</li> </ul>	
9.8.3	<ul style="list-style-type: none"> <li>How are sub-custodians treated? Are you provided with notice when the custodian transfers assets to a sub-custodian?</li> <li>How is the risk of loss treated?</li> </ul>	
9.8.4	<ul style="list-style-type: none"> <li>Are there provisions in the fund documentation relating to indemnification of the custodian or sub-custodian?</li> </ul>	
9.8.5	<ul style="list-style-type: none"> <li>Have ongoing due diligence visits been conducted? If so, by whom and of what frequency?</li> </ul>	
<b>9.9 Auditor</b>		
9.9.1	<p>Details:</p> <ul style="list-style-type: none"> <li>Name:</li> <li>Address:</li> <li>Telephone:</li> <li>Fax:</li> <li>E-mail:</li> </ul>	Ernst & Young 680 George Street SYDNEY NSW 2000 612 9248 5837 612 9248 5218 <a href="mailto:John.Pye@au.ey.com">John.Pye@au.ey.com</a>
9.9.2	<ul style="list-style-type: none"> <li>Duration of the company's professional relationship with the auditor:</li> </ul>	4 Years
9.9.3	<ul style="list-style-type: none"> <li>Confirm that the auditor is in good standing in its domicile/jurisdiction.</li> </ul>	Yes
9.9.4	<ul style="list-style-type: none"> <li>Have the auditors ever issued qualified financial statements for the fund?</li> </ul>	Yes
9.9.5	<ul style="list-style-type: none"> <li>Have ongoing due diligence visits been conducted? If so, by whom and of what frequency?</li> </ul>	October 2009
<b>9.10 Legal Advisor</b>		

9.10.1	<p>Details:</p> <ul style="list-style-type: none"> <li>Name:</li> <li>Address:</li> <li>Telephone:</li> <li>Fax:</li> <li>E-mail:</li> </ul>	<p>Phillips Fox 255 Elizabeth Street SYDNEY NSW 2000 612 9286 8059 612 9283 4144 <a href="mailto:Martin.Jamieson@phillipsfox.com">Martin.Jamieson@phillipsfox.com</a></p>
9.10.2	<ul style="list-style-type: none"> <li>Duration of the company's professional relationship with the legal advisers:</li> </ul>	5 Years
<b>9.11 General</b>		
9.11.1	<ul style="list-style-type: none"> <li>Has the administrator, prime broker, custodian, lawyer or auditor been changed within the past 3 years? If so, why and please give name of previous provider?</li> </ul>	No
9.11.2	<ul style="list-style-type: none"> <li>Do either the prime broker(s) or administrator hold a credit rating and are they insured? Please provide details:</li> </ul>	The prime broker has credit rating and is insured. The administrator does not have a credit rating (unlisted medium size entity) and holds insurance.
<b>9.12 Fund Promoters</b>		
9.12.1	<ul style="list-style-type: none"> <li>What external promoters or distributors, if any, have been appointed by the company for the fund?</li> </ul>	None
9.12.2	<ul style="list-style-type: none"> <li>What is the regulatory status of the external promoter and/or third party distributor?</li> </ul>	N/A
9.12.3	<ul style="list-style-type: none"> <li>Duration of the company's professional relationship with any promoter:</li> </ul>	N/A
<b>10 DATA OVERVIEW</b>		
<b>10.1 Fund Assets</b>		
10.1.1	<ul style="list-style-type: none"> <li>Please list the size of the fund's net assets:</li> </ul>	AU\$74m total
10.1.2	<ul style="list-style-type: none"> <li>What percentage of assets is represented by the largest investor?</li> </ul>	60%
10.1.3	<ul style="list-style-type: none"> <li>Please list the size of assets by investment vehicle:</li> </ul>	Please contact the investment manager for further information
10.1.4	<ul style="list-style-type: none"> <li>List the total assets under management and their respective changes over the last year:</li> </ul>	Please contact the investment manager for further information
10.1.5	<ul style="list-style-type: none"> <li>What is the percentage of "benefit plan investors?"</li> </ul>	0%
<b>10.2 Capacity Management</b>		
10.2.1	<ul style="list-style-type: none"> <li>What is the maximum capacity of your fund?</li> </ul>	US\$500m soft close
10.2.2	<ul style="list-style-type: none"> <li>What is the projected time frame to reach capacity?</li> </ul>	2 years

10.2.3	<ul style="list-style-type: none"> <li>Will new money be accepted after capacity is reached?</li> </ul>	The fund will be closed to new investors, with only existing investors being able to re-invest. Any withdrawals will be replaced with new investors.
10.2.4	<ul style="list-style-type: none"> <li>How will front/back-office operations be affected in the event of significant increase in assets under management, and what measures will be taken?</li> </ul>	Fortitude Capital has two full time support staff. The company has an automated trading and bookings system that should not require additional employees should funds under management increase quickly
<b>10.3 Withdrawals</b>		
10.3.1	<ul style="list-style-type: none"> <li>What were the 5 largest withdrawals in your fund since inception?</li> <li>Date:% of NAV:</li> <li>Reasons:</li> </ul>	AUD 40m March 2009: 26% Closure of fund
<b>10.4 Management Team's Co-investment</b>		
10.4.1	<ul style="list-style-type: none"> <li>What is the total amount invested by the principals/management in the fund and other investment vehicles managed pari passu with the fund?</li> </ul>	The management of Fortitude Capital have invested \$1.5m.
10.4.2	<ul style="list-style-type: none"> <li>How is such co-investment structured and what are the key terms?</li> </ul>	Management investments rank pari-passu wit all unitholders.
10.4.3	<ul style="list-style-type: none"> <li>Has the management reduced its personal investment?</li> <li>Date:</li> <li>Amount:</li> <li>Reasons:</li> <li>Disclose conditions of subscription/redemptions of team and owners' assets:</li> </ul>	No    N/A
<b>10.5 Investor Base</b>		
10.5.1	<ul style="list-style-type: none"> <li>Please provide details of investor type.</li> </ul>	FART: Fund-of-funds & High Net Worth Individuals CAY: Fund-of-funds
<b>10.6 Fund Performance</b>		
10.6.1	<ul style="list-style-type: none"> <li>Historical performance since inception:</li> <li>Monthly NAVs since inception (in table format):</li> <li>Monthly RoR since inception:</li> </ul>	Please refer to company newsletters at FortitudeCapital.com
10.6.2	<ul style="list-style-type: none"> <li>Please explain any major factors affecting performance and drawdowns (i.e. a manager change, a change in strategy, etc):</li> </ul>	Performance has averaged 10.5% p.a. std dev. =3% for FART (CAY & BT accounts managed pari passu). Performance has been consistent and not subject to volatility.
10.6.3	<ul style="list-style-type: none"> <li>Is the fund performance audited? If Yes, by whom?</li> </ul>	Yes - Ernst & Young
<b>10.7 Drawdowns</b>		

10.7.1	<ul style="list-style-type: none"> <li>List the 5 maximum drawdowns, in percent of equity for the fund, the recovery period and explain when and why they have happened:</li> </ul>	<p>-0.73% March 2010  -0.58% September 2009  -0.50% December 2005  -0.30% September 2007  -0.23% December 2007  All drawdowns have been recovered in the subsequent month</p>
10.7.2	<ul style="list-style-type: none"> <li>Over the past 3 years, how many drawdowns greater than 5% have occurred? When did they occur and what was the length of recovery?</li> </ul>	There have been no drawdown's greater than 5%.
<b>10.8 Other/Preferential Terms</b>		
10.8.1	<ul style="list-style-type: none"> <li>Is the fund's reporting AIMR/GIPS compliant?</li> </ul>	Compliant in terms of calculation and presentation of calculated numbers. Not compliant i. t. o. figures not presented by Fortitude as these are not value add and do not enhance the decision making process.
10.8.2	<ul style="list-style-type: none"> <li>Are there any side letter agreements that can negatively impact the fund? If so please give details.</li> </ul>	No
10.8.3	<ul style="list-style-type: none"> <li>Are there any special terms given to certain investors in relation to fees or redemption?</li> </ul>	No
10.8.4	<ul style="list-style-type: none"> <li>Please list the following special terms: <ul style="list-style-type: none"> <li>Best redemption terms</li> <li>Lowest fee granted</li> <li>Size of additional capacity</li> <li>Best portfolio transparency</li> </ul> </li> </ul>	generally N/A - please contact the investment manager for further information
<b>11 INVESTMENT STRATEGY</b>		
11.1.1	<ul style="list-style-type: none"> <li>Characterise your investment style in terms of: <ul style="list-style-type: none"> <li>Strategy;</li> <li>Hedging;</li> <li>Market exposure;</li> <li>Portfolio concentration in terms of amount of instruments and exposure bias (min/max/avg. number of instruments, min/max/avg. long or short bias);</li> <li>Geographical market focus;</li> <li>Liquidity;</li> <li>Correlation.</li> </ul> </li> </ul>	<p>Market Neutral (listed Australian equities &amp; derivatives).  Active use of equity derivatives, short-selling.  Market neutral.  Average no. of holdings = 70  Average net market exposure +3.9%  Average largest exposure 4.2%</p> <p>Mandate limits:  Largest long position not greater than 10% of account equity or 20% marked-to-market.  Can have 3 such positions after which the longest position should be 5% at cost.  Largest short position not greater than 5% of the portfolio at cost &amp; not more than 10% when marked-to-market.  No position can represent more than 5% of the issued capital of a company.  Small cap shares capitalised at less than \$A500m cannot represent more than 10% of the portfolio with no individual holding greater than 5%.  80% of the portfolio by value should not represent more than two days volume.</p>
11.1.2	<ul style="list-style-type: none"> <li>List the instrument types</li> </ul>	Fully paid equities = 70%

	you use by percentage:	Equity options = 15% Hybrids/ Convertibles = 10% Futures =5%
11.1.3	<ul style="list-style-type: none"> <li>Do you carry out IPO or PIPE trading on behalf of the fund?</li> </ul>	Yes
11.1.4	<ul style="list-style-type: none"> <li>Describe your strategy (in as much detail as possible):</li> </ul>	<p>Fortitude Capital uses a multi-strategy approach to produce absolute returns. Their target return is 10% above the domestic cash rate, with the emphasis upon consistent low volatility returns. They have 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 to;</p> <ol style="list-style-type: none"> <li>1. hedge market and stock specific risk through long volatility strategies</li> </ol> <p>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 which alleviates the risk associated with the time decay of equity derivatives. The multi-strategy approach includes;</p> <ol style="list-style-type: none"> <li>1. convertible arbitrage</li> <li>2. M&amp;A trades</li> <li>3. futures (hedging only)</li> <li>4. long/short</li> <li>5. convergence ( ADR/CDI's arbitrage)</li> </ol> <p>The investment managers have over 100 years combined experience in the Australian equity market and recognise that a multi-strategy approach is essential in identifying short term market inefficiencies.</p> <p>The investment process identifies the following guidelines when evaluating a new position;</p> <ol style="list-style-type: none"> <li>1. Market filter - identify the opportunity</li> <li>2. Ability to hedge - can the position be hedged &amp; and at what cost</li> <li>3. Risk vs. reward equation</li> <li>4. Liquidity - ability to execute and exit</li> <li>5. Portfolio structure &amp; limits - does the position fit within the portfolio and the investment mandate limits.</li> </ol> <p>The investment discipline focuses upon capital preservation, with the emphasis upon short term risk management and a lesser focus on longer term value.</p>
11.1.5	<ul style="list-style-type: none"> <li>What is your investment/trading philosophy?</li> </ul>	Strength through the investment cycle
11.1.6	<ul style="list-style-type: none"> <li>Do you believe that there are persistent structural inefficiencies in the area you invest in? Please explain. How do you think these market inefficiencies will change over time?</li> </ul>	<p>Yes. The investment managers 100 years of market experience have helped them identify that short term inefficiencies exist in the Australian equity market albeit across a broad range of investment strategies.</p> <p>In the creation of the investment mandate, the managers believed it was essential to incorporate a multi-strategy approach to ensure that any market inefficiencies could be identified across a broad spectrum. The use of equity derivatives by way of example and the monitoring of implied volatility levels, indicates that in this specialised area market inefficiencies can be apparent in option pricing across a broader time scale.</p> <p>All market inefficiencies will be eroded through competition and over time. Through a disciplined risk management process Fortitude Capital quickly identifies when the margins have narrowed and when the risk reward equation indicates that the strategy is no longer viable.</p>
11.1.7	<ul style="list-style-type: none"> <li>What makes your strategy unique?</li> </ul>	<p>Fortitude Capital offers an investor;</p> <ol style="list-style-type: none"> <li>1. a market neutral bias</li> </ol>

		<ol style="list-style-type: none"> <li>2. the ability to provide increasing upside/downside exposure through a long volatility exposure</li> <li>3. active management through gamma trading</li> <li>4. a multi strategy approach - identifying short term inefficiencies across a broad spectrum</li> <li>5. market orientated not model driven</li> <li>6. exceptional risk management process</li> </ol>
11.1.8	<ul style="list-style-type: none"> <li>• What makes your strategy different from your peers?</li> </ul>	The use of an equity derivatives overlay
11.1.9	<ul style="list-style-type: none"> <li>• Describe your strategy for today's market:</li> </ul>	<p>In today's market we recognise that there exists exceptional upside momentum that makes producing absolute returns from a market neutral bias extremely difficult. We have adjusted our strategy accordingly, by weighting the short side of the portfolio with put option protection versus short stock exposure. Our emphasis on capital protection has led us to believe that the risk to performance is from the capital loss associated with short stock exposure. We believe that cheap out-of-the-money put option exposure provides protection without excess capital losses.</p> <p>In exceptionally strong bull markets we recognise that M&amp;A transactions will increase and have increased our weightings to this sector.</p> <p>The portfolio has increased its derivative exposure in the anticipation of some sharp market movements within the next three months.</p>
11.1.10	<ul style="list-style-type: none"> <li>• What are the strengths/weaknesses of your investment strategy?</li> </ul>	<p>Strengths;</p> <ol style="list-style-type: none"> <li>1. Focusing on not making losses - short term focus incorporates disciplined risk management.</li> <li>2. Over 30 year's investment management experience.</li> <li>3. Exceptional track records of management.</li> <li>4. Consistent low volatile return profile.</li> <li>5. Market neutral bias.</li> <li>6. Uncorrelated returns.</li> <li>7. Derivative overlay allows for upside &amp; downside exposure.</li> </ol> <p>Weaknesses;</p> <ol style="list-style-type: none"> <li>1. Short term focused with a lesser extent focus on longer term value.</li> <li>2. Low implied volatility levels.</li> <li>3. Strong trending markets leading to underperformance.</li> </ol>
11.1.11	<ul style="list-style-type: none"> <li>• Why do you feel you will generate absolute returns?</li> </ul>	<p>Fortitude Capital generate absolute returns through;</p> <ul style="list-style-type: none"> <li>• Discipline risk management process.</li> <li>• Experienced and creative management.</li> <li>• Flexibility of a multi-strategy approach.</li> <li>• Strong industry contacts.</li> <li>• Repeating past processes.</li> </ul>
11.1.12	<ul style="list-style-type: none"> <li>• In which markets do you believe your strategy performs best/worst? (Give examples of time periods):</li> <li>• Volatility:</li> <li>• Trends:</li> <li>• Range trading</li> </ul>	<p>Volatile markets - we are mandated to running a net long 'gamma' portfolio which increases the opportunity to profit by;</p> <ol style="list-style-type: none"> <li>1. increasing implied volatility levels of equity derivatives</li> <li>2. Opportunities to actively 'gamma trade' through changing delta exposures.</li> </ol> <p>Trending markets - liable to under perform due to market neutral bias and declining volatility levels.</p> <p>Liquidity - high turnover markets are more profitable and less efficient. By holding a market neutral bias the focus remains on the ability to hedge with equity derivatives. The investment manager's bias is towards the 50% of the ASX 200 securities with equity derivatives listed. The selection process is then refined based</p>

		<p>on stock and equity liquidity.</p> <p>Correlation - committed to absolute return focus /market neutral emphasis = low correlation.</p>
11.1.13	<ul style="list-style-type: none"> <li>• What is your average holding period for:</li> <li>• All investments?</li> <li>• Profitable investments?</li> <li>• Losing investments?</li> </ul>	<p>Depends on strategy - we estimate the following averages per strategy</p> <ol style="list-style-type: none"> <li>1. long/short - 1 week to 3 months</li> <li>2. M&amp;A 3 -12 months</li> <li>3. derivative strategies 1- 12 months</li> <li>4. Convertibles 6-18 months</li> <li>5. Convergence ( ADR/CDI's) 1 day - 12 months</li> <li>6. futures ( hedging only) - 3 - 12month expiries</li> </ol>
11.1.14	<ul style="list-style-type: none"> <li>• Does the strategy have a long or short bias?</li> <li>• What is the maximum net long or short exposure the fund has had?</li> <li>• What is the normalised net exposure?</li> </ul>	<p>Market neutral bias</p> <p>40% (incl. unconditional/approved M&amp;A deals)</p> <p>11% (incl. unconditional/approved M&amp;A deals)</p>
11.1.15	<ul style="list-style-type: none"> <li>• What investment criteria must new positions meet?</li> </ul>	<ol style="list-style-type: none"> <li>1. ability to hedge</li> <li>2. risk vs. reward equation</li> <li>3. liquidity - ability to execute and exit</li> <li>4. portfolio structure &amp; limits</li> </ol>
11.1.16	<ul style="list-style-type: none"> <li>• How do you invest new capital into the market?</li> </ul>	<p>Add to current scale where possible &amp; appropriate. The success of our introduction of new capital is indicative in our returns.</p>
11.1.17	<ul style="list-style-type: none"> <li>• How do you close out positions to meet capital redemptions?</li> </ul>	<p>All positions are ASX listed &amp; liquid. The majority of positions can be liquidated in 1-2 days with settlement T+3.</p>
11.1.18	<ul style="list-style-type: none"> <li>• In what circumstances would you suspend redemptions and for how long?</li> </ul>	<p>N/A</p>
11.1.19	<ul style="list-style-type: none"> <li>• What would be the maximum period of time when normal terms would be suspended?</li> </ul>	<p>N/A</p>
11.1.20	<ul style="list-style-type: none"> <li>• Have the strategy or trading processes changed over time due to capital flows?</li> </ul>	<p>No</p>
11.1.21	<ul style="list-style-type: none"> <li>• Have you encountered position limit problems? If yes, please explain:</li> </ul>	<p>No</p>
11.1.22	<ul style="list-style-type: none"> <li>• What is the percentage of assets in non-exchange traded instruments? How long do you expect it would take to liquidate these assets under normal circumstances?</li> </ul>	<p>N/A</p>
11.1.23	<ul style="list-style-type: none"> <li>• Describe your cash management policy:</li> </ul>	<p>Cash is held on deposit by Prime Broker and subject to a margin haircut. Cash has been held in Australian (AA rated) bank bills</p>
11.1.24	<ul style="list-style-type: none"> <li>• Do you outsource this function? If so, please give name of provider and</li> </ul>	<p>UBS Prime Broker</p>

	method used.	
11.1.25	<ul style="list-style-type: none"> <li>Is there cross collateralisation in the case of multi class funds?</li> </ul>	Yes - this occurs across the US\$ & € Classes in the CAY fund where all assets are pooled and hedged into AU\$ for trading. One class is not prejudiced against the other.
<b>11.2 Portfolio Construction</b>		
11.2.1	<ul style="list-style-type: none"> <li>Who is responsible for managing the portfolio and how are decisions made (unanimous, majority, individual)?</li> </ul>	John Corr. The trading process is governed by a central risk management philosophy. Whilst not model driven traders are governed by risk management and strategy processes. The trading execution is individual with override capability for John Corr (or Senior Portfolio manager in his absence). All traders view a centralised Risk Management System. The Investment Managers are responsible with open discussion amongst the Fortitude Capital Team.
11.2.2	<ul style="list-style-type: none"> <li>Describe how capital is allocated to a particular strategy.</li> </ul>	Once again a central risk management philosophy dictates the allocation of capital to particular trades & strategies. In cases capital allocation may be short of desired levels due to lack of stock borrow or lack of corporate activity.
11.2.3	<ul style="list-style-type: none"> <li>To what extent is the portfolio construction dependent on computer models?</li> </ul>	Limited. Portfolio monitoring relies on a centralised Risk Management System.
<b>12 RISK</b>		
<b>12.1 Leverage</b>		
12.1.1	<ul style="list-style-type: none"> <li>Discuss your leverage exposure policy and its management over different market cycles:</li> <li>What has been the maximum/ minimum leveraged used?</li> <li>What has been the normalised leverage used?</li> </ul>	<p>Current mandate allows up to 5 times leverage. For clarity the investment mandate demands that the sum of the long market value (LMV) and short market value (SMV) cannot be more than 5 times the account equity (AE). The LMV and SMV cannot be of greater value than the account equity. These measures include the impact of equity derivatives.</p> <p>Leverage more likely to be used in falling markets as the derivatives books move from a supplier of cash (short stock long call) to a net user (long stock long put).</p> <p>Maximum leverage used has been 1.3 times AE. The manager rarely leverages at the account level. Please refer to exposure figures for normalised leverage.</p>
12.1.2	<ul style="list-style-type: none"> <li>What are your portfolio financing constraints/limits?</li> </ul>	N/A
12.1.3	<ul style="list-style-type: none"> <li>Discuss sensitivity (cost) to LIBOR levels:</li> </ul>	N/A - except for interest rate differentials i.e. the cost/gain of hedging US\$/€ into AU\$.
<b>12.2 Hedging</b>		
12.2.1	<ul style="list-style-type: none"> <li>How is the portfolio hedged?</li> </ul>	Active use of equity derivatives
12.2.2	<ul style="list-style-type: none"> <li>How do you determine size and limits for each position/basket?</li> </ul>	<p>Strict mandate position limits subject to leverage limits: Largest long position not greater than 10% of account equity or 20% marked-to-market can have 3 such positions after which the longest position should be 5% at cost largest short position not greater than 5% of the portfolio at cost &amp; not more than 10% when marked-to-market. No position can represent more than 5% of the issued capital of a company. Small cap shares capitalised at less than \$A500m cannot represent more than 10% of the portfolio with no individual holding greater than 5%.</p> <p>Average position size is 2% with an informal limit of 5% which is reviewed for special situations. Each strategy has specific position size limit relative to liquidity and the ability to hedge the position. Special situation positions include M&amp;A, convertible arbitrage and convergence trades ( derivative protected)</p>
12.2.3	<ul style="list-style-type: none"> <li>How often do you re-</li> </ul>	Intraday, particularly through active gamma hedging.

	hedge?	
12.2.4	<ul style="list-style-type: none"> <li>Are short positions profit centres?</li> </ul>	Yes, having a market neutral bias means that the portfolio's returns are reliant on short positions to perform. Recently and given the strength in the equity markets, the managers have relied on reducing short stock exposure and replacing this exposure through long put options. The loss of derivative premium in comparison with the capital loss on short stock positions remains a more viable option in the current equity environment.
12.2.5	<ul style="list-style-type: none"> <li>Who bears the burden of loss in the event of a counterparty failure?</li> </ul>	N/A - all instruments traded are ASX listed
<b>12.3 Liquidity</b>		
12.3.1	<ul style="list-style-type: none"> <li>Discuss the nature of illiquid holdings in the fund and explain how they are valued:</li> </ul>	N/A - all instruments traded are ASX listed
12.3.2	<ul style="list-style-type: none"> <li>What is the liquidity of the underlying assets and what is the appropriate time period to liquidate?</li> </ul>	Liquidity - 1-3 days. The manager looks to liquidate within a short time period with minimum market impact. This has been achieved through trading majority highly liquid securities.
<b>12.4 Diversification</b>		
12.4.1	<ul style="list-style-type: none"> <li>Discuss the depth of diversification:</li> </ul>	The investment mandate has no restrictions in regards to diversification. The investment managers recognise that there may be concentration concerns and these concerns are discussed and addressed on a daily basis.
12.4.2	<ul style="list-style-type: none"> <li>How do you calculate the correlation between each investment in the portfolio?</li> </ul>	Risk101 software collates data on exposure & performance by strategy and instrument on a daily basis.
12.4.3	<ul style="list-style-type: none"> <li>What are the main sources of marginal risk in your strategy?</li> </ul>	Structural changes to the Australian equity market (e.g. Index changes, incorporations of Australian companies offshore) - which may lead to a reduction in volatility and liquidity.
12.4.4	<ul style="list-style-type: none"> <li>How has performance been distributed across positions and time?</li> </ul>	All trading strategies have been profitable over time. Performance attribution can be forwarded on request.
12.4.5	<ul style="list-style-type: none"> <li>How do you ensure there is no style drift?</li> </ul>	Centralised risk management system overseen by John Corr. Positions also subject to mandate limits as per above.
<b>12.5 External Controls</b>		
12.5.1	<ul style="list-style-type: none"> <li>Are any third parties involved in verifying adherence to risk limits, e.g. the fund's administrator?</li> </ul>	No
12.5.2	<ul style="list-style-type: none"> <li>What are the procedures used to ensure a true independent pricing positions?</li> </ul>	All positions are listed on the ASX.
<b>13 INVESTOR SERVICE / REPORTING</b>		
13.1	<ul style="list-style-type: none"> <li>Can the prospectus/offering memorandum be transmitted to us electronically?</li> </ul>	Yes
13.2	<ul style="list-style-type: none"> <li>Are all prices provided by independent service providers? Please give details:</li> </ul>	Yes, by the ASX. Bloomberg & Reuters also used.
13.3	<ul style="list-style-type: none"> <li>Does the investment</li> </ul>	Only as estimates in daily/weekly/month end reconciliations

	manager ever provide any instrument prices/NAV calculations?	
13.4	<ul style="list-style-type: none"> <li>Who calculates the NAV and what is the frequency of calculation?</li> </ul>	Kingsway Taitz Monthly
13.5	<ul style="list-style-type: none"> <li>Do you make any adjustments to the NAV valuation received from your source? If yes, please explain what kind in terms of: <ul style="list-style-type: none"> <li>Liquidity:</li> <li>Time zone:</li> <li>Size:</li> <li>Holding period:</li> <li>Other:</li> <li>Percentage of adjustments to total NAV:</li> <li>What instruments are subject to adjustments:</li> </ul> </li> </ul>	No
13.6	<ul style="list-style-type: none"> <li>Can fund performance (NAV, RoR) be transmitted to us electronically on a regular basis, and at what periodicity?</li> </ul>	Yes, monthly.
13.7	<ul style="list-style-type: none"> <li>List all reports and correspondence usually sent to clients - explaining the frequency and the detail with which the manager reports performance to investors.</li> </ul>	Monthly performance report includes; <ol style="list-style-type: none"> <li>risk management numbers</li> <li>market &amp; performance commentary</li> <li>investment strategy weightings</li> <li>strategy performance contribution</li> <li>monthly exposure summary</li> <li>weekly P&amp;L estimates</li> </ol>
13.8	<ul style="list-style-type: none"> <li>Can you provide copies of historical reports?</li> <li>Please provide examples.</li> </ul>	Yes, all reports are available online
13.9	<ul style="list-style-type: none"> <li>Are investors informed when minor/major changes are made to the trading, money management, or risk control methods?</li> </ul>	Monthly newsletter
13.10	<ul style="list-style-type: none"> <li>What databases, publications or other available sources does the manager regularly report performance figures to?</li> <li>If none, explain why?</li> </ul>	Eurekahedge Investor Weekly ( Australia) Investor Info ( Australia) HFN
13.11	<ul style="list-style-type: none"> <li>What portfolio data can you provide (electronically) in terms of: <ul style="list-style-type: none"> <li>Position?</li> <li>Concentration?</li> <li>Exposure?</li> <li>Performance attributes?</li> <li>Hedge?</li> </ul> </li> </ul>	All positions can be reported electronically Yes Net market exposure can be reported electronically Performance contributors can be reported electronically All hedging positions can be reported electronically
13.12	<ul style="list-style-type: none"> <li>Can all trades be reported on a daily basis to the client?</li> </ul>	Yes

## 14 TAXATION

14.1	<ul style="list-style-type: none"><li>On what basis does the fund maintain that it is managed and controlled, and therefore tax resident, outside the UK?</li></ul>	FART: Domiciled and registered in Australia CAY: Domiciled and registered in the Cayman Islands
14.2	How has the company satisfied itself that the conditions on the Investment Manager Exemption have been met from the date that trade commenced?	N/A

Name:	Andrew Ward
Position:	Senior Portfolio Manager
Date:	17 / 5 /10

## **Introducing Fortitude Capital**

Fortitude Capital is situated in a heritage building in 350 George Street, the centre of the business district of Sydney. Trading staff member are situated around one large open-planned office. All trading staff view a live risk system of the total portfolio. The aim of this is to build team work, allow transparency and enhance risk management of the portfolio.

### **John Corr - B.Comm - Managing Director**

John Corr is the Managing Director and founder of Fortitude Capital. John was also the seed investor in the Fortitude Capital Absolute Return Trust and to date remains one of the largest investors after significant growth of the fund.

John has over 23 years experience in the financial markets. Prior to establishing Fortitude Capital, John was a Director at Citigroup Global Markets Australia. He worked in proprietary trading for eight years, trading local and overseas equities and equity derivatives, and was responsible for the management and development of a team of equity proprietary traders.

John is responsible for the overall portfolio at Fortitude Capital. John, as the Head of Risk Management, determines the appropriate portfolio structure to provide offsetting risks and a low volatility return profile. John works closely with all traders, providing direction and assessment of optimal risk opportunities.

John has and continues to conduct a risk management program in Market Neutral and Derivative Strategies for the Executive Support Team. The objective is to educate and implement a systematic, repeatable process for disciplined trading strategies and portfolio management. Business management skills are also a focus for development.

John holds a Bachelor of Commerce from the University of Wollongong.

### **Sheriden Hure - B.Fin, F.Fin - Senior Portfolio Manager**

Sheriden Hure joined Fortitude Capital as the first employee in 2005. Sheriden has trained in Fortitude Capital's risk management and Market Neutral trading program to date, covering all strategies. Sheriden had focused her attention within the Mergers and Acquisitions strategy over the last 2 years, in consultation with John Corr. This involves deal-risk assessment, modeling, execution and overall portfolio risk assessment.

Sheriden works closely with John Corr as part of the Executive Support Team. This involves portfolio supervision and risk management. It also involves business evaluation and development.

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

Sheriden holds a Bachelor of Finance (Newcastle) and is a Fellow of the Financial Services Institute of Australasia having completed her Graduate Diploma of Applied Finance and Investments in 2006.

### **Andrew Ward - C.A. (S.A) - Senior Portfolio Manager**

Andrew Ward joined Fortitude Capital in 2006 during the early growth of the business. As such, he has a thorough understanding of the business objectives and operations. Andrew has trained in the risk management and Market Neutral trading program and now specialises in the Derivatives Overlay and Convergence strategies.

Andrew is a member of the Executive Support Team. This involves both portfolio management and business development responsibilities.

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 - B.Bus - Senior Trader**

Darren Raward joined Fortitude Capital in 2008, capitalising on his credit and equity market experience. Darren primarily manages yield research, trading & investments. This involves an in-depth understanding of the unique Australian listed credit market and any appropriate hedging techniques. The yield strategy can be an area of concentration within the portfolio and hence it requires disciplined assessment of risk and consultation across the portfolio structure.

Darren has over 21 years experience as a senior Credit Analyst. Prior to joining Fortitude Capital, Darren was the Director of Capital Market Origination with Nab Capital. He has an extensive quantitative skill set which allows him to analyse and manage credit, interest rate and equity risk associated with high yield and convertible arbitrage portfolios.

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, & managing portfolio risk.

Darren Raward 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**

Donna Dwyer joined Fortitude in 2008 as an experienced back-office manager. Donna has in-depth experience in systems, processes and post-trade management, ensuring accuracy and reliability of portfolio reporting and reconciliations. Donna liaises with brokers, custodians and investors to provide timely information.

Donna has over 17 years experience in administration and operations of major trading and stock broking companies in the Australian Market. These include: Ord Minnett, E-Trade, Salomon Smith Barney and Citigroup; where she was Vice President of Operations for a period of three years.

### **Philip Cornet - B.S.Sc - Product Development Manager**

Phil Cornet joined Fortitude in 2009 in a product and business development role. Phil has been working towards raising the profile of Fortitude's existing funds whilst exploring new avenues for growth. This has resulted in the launch of the Fortitude Capital Australian Equities Income Fund (FEIF).

The Equity Income Fund was launched in September 2009 and is designed to provide correlated equity market returns with a lower volatility profile. Fortitude's derivative skill set and Phil's market experience are well coupled. Overtime, Phil will transition to manage this new fund in line with the risk management and disciplined trading principle applied within Fortitude's existing funds.

Phil has 13 years experience in financial markets having 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 and provided market research and commentary.

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