

Headland Global Diversified Fund

6 April 2011

Headland Global Investment Management Pty Ltd (“Headland” or the “Manager”) was founded in July 2006 by Jerry Pressnell. The Manager commenced investment using the global diversified investment process with the principal’s capital.

The Manager’s main investment programme is called the Headland Global Diversified Fund (the “Fund”) and is available through a information memorandum and as such is a wholesale unregistered managed investment scheme. The Manager can only issue units in the Fund to wholesale clients as defined by the Corporations Act 2001.

Initially the Manager operated the programme as a managed account converting it to a Fund in 2008. The process and systematic nature of the investment has remained the same, and for our analysis we have combined the two series. The Fund invests in long-term trends in global bond, currency and commodities markets. Trends are identified through a quantitative process and managed in a risk aware manner. Once recognised the Manager uses exchange traded derivatives to express these views.

The Fund aims to realise an annualised return of 12% - 14% with an annualised volatility of 8% to 10% with no direct equity market exposure. Since inception of the programme the Manager has achieved an annualised compound return of 7.19% with a standard deviation of 9.32%. While the performance has not matched the Manager’s expectations long term trend following approaches do not have the ability to move directions quickly and will more likely be caught in market correction, such as occurred over 2008.

The Fund is suitable for those investors who would like to increase their portfolio diversification. In particular it should be a useful inclusion into portfolios that already have short term trend following CTA exposures.

While this Fund invests in developed futures markets it does so within a long term trend identification framework and therefore should not be compared with shorter term trend following styles.

Diversa Ltd (ASX: DVA), a Australian listed wealth management company acquired a minority interest (40%) in the Manager in April 2010. Along with this investment the Manager now has two seasoned financial services entrepreneurs on its board, Neil Detering, founder of IRESS Market technology and Vincent Parrott, founder of Souls

Key Features	Description
Strategy size	A\$3 million
Capacity	A\$1 billion (review)
Firm size	A\$3 million
Fund inception	March 2008
Domicile	Australia
Open	Yes
Management Fee	1.5% per annum (exl GST)
Performance Fee	20% per annum (excl GST)
Hurdle rate	RBA Cash Rate
High watermark	Yes
Subscription notice period	3 business days before month end
Subscription minimum	A\$25,000
Subsequent minimum	A\$5,000
Subscription frequency	Monthly
Redemption notice	3 business days
Redemption fee	None
Redemption gate	None
Lock-up	None
Reference currency	A\$
Fiscal year-end	June 30
Distributions	Annually

Funds Management. The combination of both provides Zenith with a high level of comfort about the strategic management of Headland. The principal, Jerry Pressnell, with his deep institutional market experience is the source of ideas and the portfolio manager of the Fund. He brings institutional investment experience, among other things, to the Manager. We see the balance of business pragmatism and funds management experience as an important factor in our positive assesment of the Fund. However our rating is moderated by the early stage of Headland’s business development and the current level of funds under management.

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Zenith rates the Fund **Approved**.

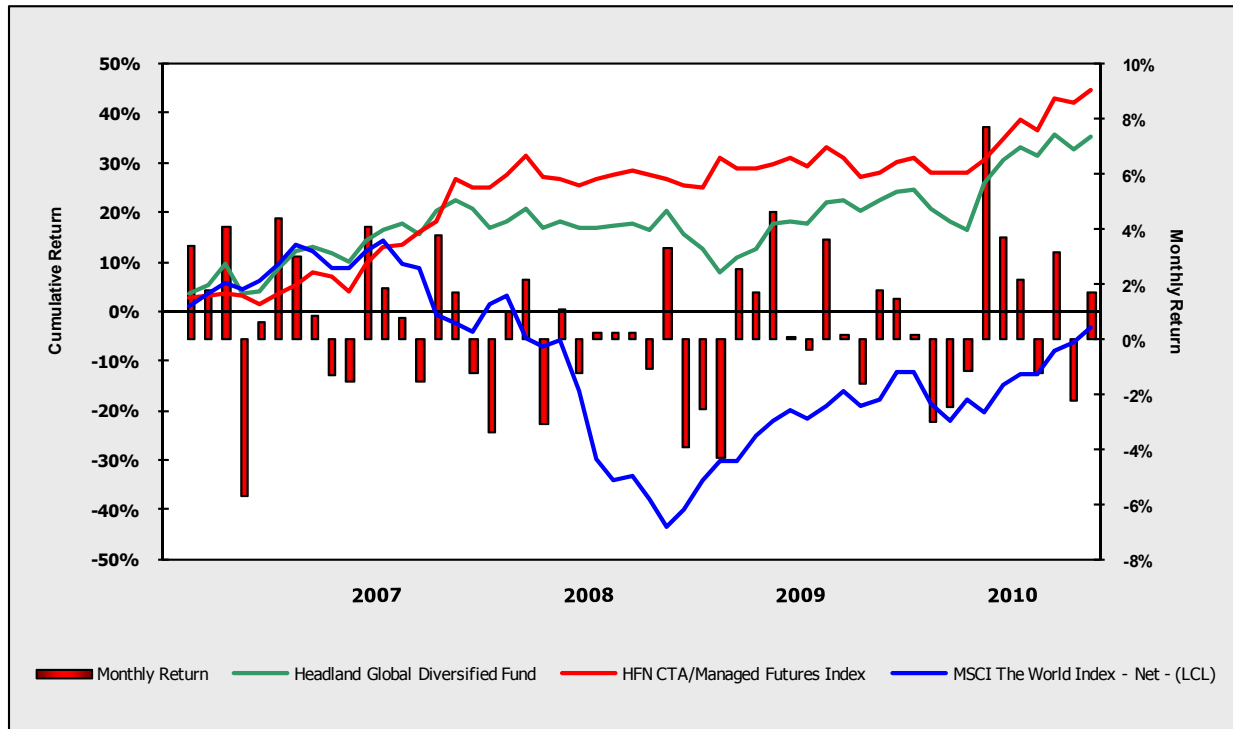
Graph 1 shows Fund performance compared to the broader equity market and to the HFN CTA/Managed Futures Index and the MSCI The World Index – Net (LCL), representing global equity performance in USD.

The cumulative return on an initial investment \$1,000 since inception in the Fund would now be worth \$1,351, while an investment in the global equity index would be worth \$966 and an investment into the HFN CTA/Managed

Futures Index would be worth \$1,446.

What we witness in this graph is a return path of the Fund that is demonstrably different to global equity markets. While the Fund has underperformed the CTA/Managed Futures Index we recognise that 2007 was the perfect environment for short term CTA strategies. This demonstrates that Headland has a fund that is not highly correlated to short term trend followers. Such an observation provides evidence that the Fund can be added to portfolios with existing allocations to CTA funds.

Graph 1: Fund Performance Analysis



PERFORMANCE ANALYSIS

Table 1: Monthly Performance Table

Year	Monthly Performance (%) Net of Fees												Year	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
2011	(2.21)%	1.74%												(0.51)%
2010	(1.58)%	1.84%	1.49%	0.22%	(2.97)%	(2.43)%	(1.13)%	7.73%	3.75%	2.20%	(1.23)%	3.20%		11.11%
2009	(1.02)%	3.38%	(3.90)%	(2.53)%	(4.31)%	2.59%	1.76%	4.68%	0.09%	(0.33)%	3.68%	0.22%		3.90%
2008	3.78%	1.76%	(1.21)%	(3.32)%	1.06%	2.15%	(3.03)%	1.08%	(1.18)%	0.24%	0.27%	0.23%		1.61%
2007	4.15%	(5.63)%	0.67%	4.40%	3.06%	0.84%	(1.27)%	(1.50)%	4.15%	1.85%	0.79%	(1.49)%		9.96%
2006														5.30%

Headland Global Diversified Fund risk adjusts its positions in order to realize a consistent level of portfolio volatility whilst targeting Alpha from diversified sources. The monthly performance table above is testament to the determination in providing long term positive returns.

Table 2 below highlights the returns of the Fund and the downside protection of the investment style. Since inception the long term trend following fund has a cumulative return

of 35.11% which is in contrast to the MSCI The World Index – Net (LCL) which has lost 3.32%. The HFN CTA/Managed Futures Index has provided 44.64%. While the futures index has outperformed we note that the Fund has a low correlation to that index 0.49 and negligible correlation from the global equity index. We believe that this lack of correlation provides a strong case to consider the Fund in a well diversified portfolio.

As we would expect from a trend following manager, the best month performance is far similar to that of the futures index, and as it excludes equities from its process we would not expect its best and worst returns to mirror that of the MSCI The World Index.

Table 2: Return Summary

Return	Fund	HFN CTA/Managed Futures Index	MSCI The World Index - Net - (LCL)
Compound ROR	7.19%	8.89%	(0.78)%
Cumulative Return	35.11%	44.64%	(3.32)%
Best Month	7.73%	7.25%	10.33%
Worst Month	(5.63)%	(3.28)%	(16.37)%
% Positive Months	63.46%	55.77%	55.77%

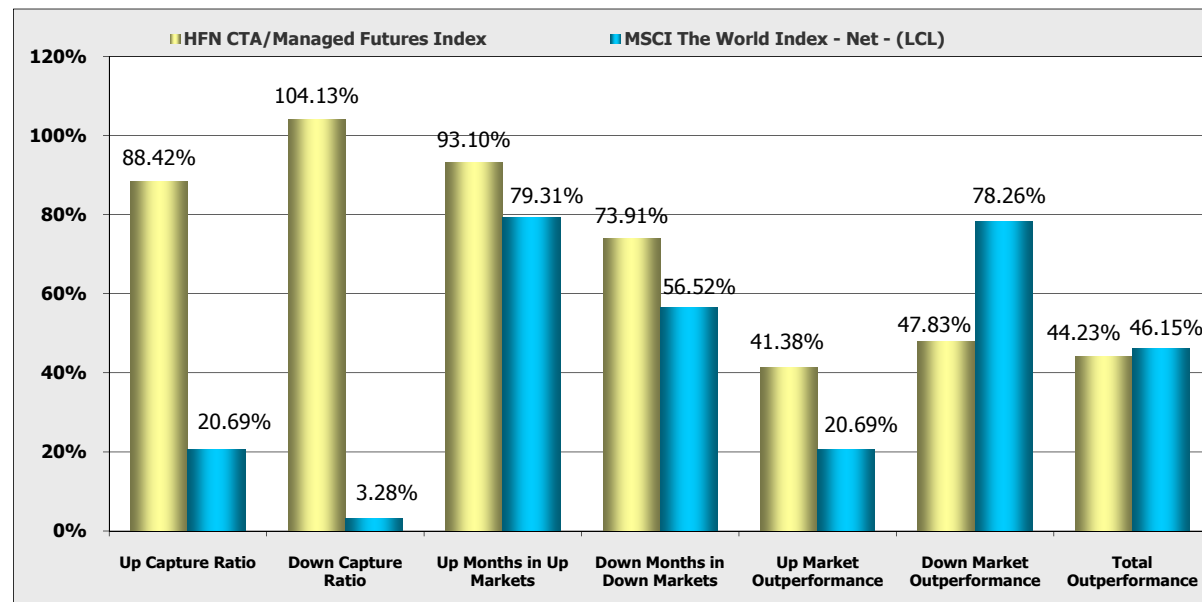
Comparison to Benchmark(s)	HFN CTA/Managed Futures Index	MSCI The World Index - Net - (LCL)
Alpha	0.17%	0.61%
Annualised Alpha	2.03%	7.63%
Beta	0.61	0.02
Correlation	0.49	0.04
R-Squared	0.24	0.00

Latest Returns	Fund	HFN CTA/Managed Futures Index	MSCI The World Index - Net - (LCL)
Last Month	1.74%	1.81%	2.92%
Last Quarter	2.68%	5.85%	10.85%
Last Year	10.29%	13.06%	17.46%
2-year	5.94%	6.85%	30.98%
3-Year	3.38%	4.56%	(0.39)%

CONSISTENCY ANALYSIS

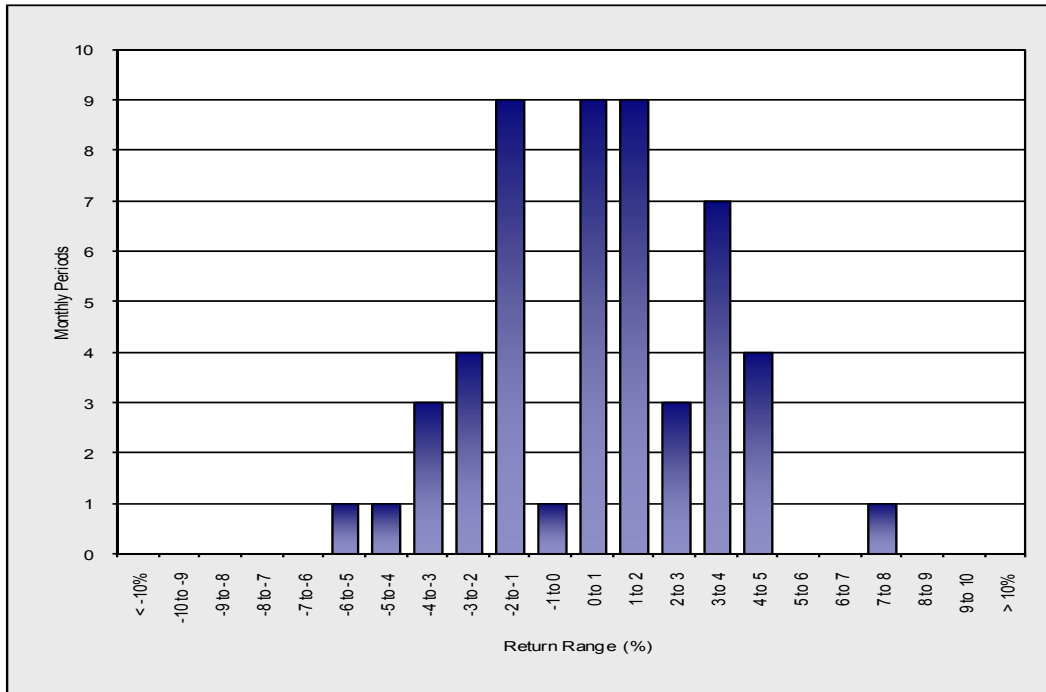
The consistency analysis, Graph 2, is interesting. The Manager captures 88.42% of the HFN CTA/Managed Futures Index upside, and as to be expected captured only 20.69% of the equity market upside. The 104.13% of down capture of the returns of the futures index highlights the Fund providing similar returns on the downside as that index. Further in the history of the Fund it has barely been affected by global equity market downturns.

Graph 2: Consistency Analysis



Graph 3, has a skewness of 0, indicating that the values are evenly distributed about the mean and suggests that the return series is symmetric. We note that there return series to date displays a very low Kurtosis:- most of the returns are clustered around the mean return of 0.62% per month. Given the statistic of percentage of positive months table 2 of 63.46% we can begin to suggest that the Manager's trend identification and risk management process is working.

Graph 3: Distribution of Returns



RISK/RETURN ANALYSIS

The Fund's Sharpe Ratio, a commonly applied metric of investment risk/return is not high at 0.27 indicating that it has delivered some excess for its underlying volatility. This compares to both the broader MSCI The World Index – Net of (-.22%) and the HFN CTA/Managed Futures index of 0.52. While the Fund has not achieved the same risk return statistics as the Managed Futures Index we note that unlike many constituents of the HFN CTA/Managed Futures Index trade short term trades with the period since the financial crisis being perfect time for short to medium term trend follows and as such distorts the statistics to favour the index. The Fund's Key Risk/Return Data is included in Table 3.

We expect long term trend following strategies to have a higher volatility than shorter term programs and we can see this demonstrated in the standard deviation of the Fund versus the HFN CTA/ Managed Futures Index.

Table 3: Key Risk/Return

Risk	Fund	HFN CTA/Managed Futures Index	MSCI The World Index - Net - (LCL)
Standard Deviation	9.32%	7.49%	18.08%
Sharpe Ratio (5%)	0.27	0.52	-0.22
Sortino Ratio (10%)	-0.38	-0.21	-0.68
Downside Deviation (10%)	6.94%	4.94%	15.31%
Max Drawdown	(11.76)%	(4.75)%	(50.77)%
Months in Maximum Drawdown	15.00	10.00	16.00
Months to Recover	9.00	7.00	0.00

STRUCTURE & OWNERSHIP

Organisation

Headland Global Investment Management Pty Ltd (“Headland” or the “Manager”) was founded in July 2006 by Jerry Pressnell. The Manager commenced investment using the global diversified investment process with the principal’s capital.

The Manager obtained its Australian Financial Service Licence (AFSL) in March 2008 and the managed account was moved into a unit trust structure.

The Manager’s main investment programme is called the Headland Global Diversified Fund and is available through a information memorandum and as such is a wholesale unregistered managed investment scheme. The Manager can only issue units in the Fund to wholesale clients as defined by the Corporations Act 2001.

Diversa Ltd (ASX: DVA), a Australian listed wealth management company acquired a minority interest (40%) in the Manager in April 2010.

Investment Personnel

As at the March 2011 Headland employed four people.

Jerry Pressnell, Founder, Managing Director of the Investment Manager. Prior to founding Headland Jerry was responsible for the research and development of quantitative investment strategies for Suncorp Investment Management (“SIM”)A \$300 million global macro fund. He joined SIM in 1997 as the Portfolio Manager for the A\$5 billion Australian Fixed Income Fund. The Fixed Income Fund was rated in the top three performing fixed income funds over the next five years. His prior experience was in derivative sales with JP Morgan and Barclays, and included periods working on the floors of the London and Sydney Futures Exchanges.

Neil Detering, Founder, Director and Chair of Headland Compliance Committee. Prior to founding Headland Neil was a founder of IRESS Market Technology Limited in June 1993. IRESS is an Australia listed company with a market capitalisation in excess of \$800 million. He is an experienced chief operating officer, with familiarity across aspects of company operations, product development and corporate strategy. He has an intimate understanding of financial market operations, including trading desks, settlement and back

office functions.

Vincent Parrott, Director. Vincent is head of Funds Management at Diversa Ltd, an Australian listed financial services company and minority shareholder in Headland.

Prior roles include Senior Australian Equities Manager at AMP, Head of Australian Equities at Swiss Bank Corporation (Australia) Funds Management, Business Development and Chief Investment Officer at EquitiLink and then Aberdeen Asset Management. Vincent was a founder of Souls Funds Management in November 2001 and was Managing Director until August 2008.

His experience covers most aspects of the funds management industry including investment research, portfolio management, client service, marketing and general management.

Lisa Domagala, Risk and Compliance Manager. Prior to joining Headland, Lisa, was Manager of Investment Dealing at Suncorp Investment Management. There she was responsible for the execution of investment strategy in both physical equities and derivatives. She was also responsible for the management of SIM’s Absolute Return equities strategy. Prior to this she was with Equinet Pty Ltd and McIntosh Hamson Hoare Govett.

While the Manager has a small amount of asset under management it does have a strong team with diversified experiences within the financial services industry. The combination of individuals who have successfully developed larger businesses from start-up with institutional experience in managing fund and compliance provides Zenith with a degree of comfort for future success.

Investment Process

The Fund’s objective is to provide investors with a non-correlated return series and long term positive growth and a low correlation to equity markets. The Fund looks to achieve this objective by investing in long-term global trends in global bond, currency and commodity markets identified through a quantitative process. Once identified the Manager uses exchange traded derivatives to express these views.

The Fund aims to realise an annualised return of 12% - 14% with an annualised volatility of 8% to 10% with little equity market exposure.

The adoption of the longer term trends is a direct output of the Manager’s investment philosophy – persistent inefficiencies in the prices of financial assets can be exploited. In particular the Manger believes that it can harvest returns from the following inefficiencies:

- Serial correlation in asset prices, whereby the price of an asset will continue to trend in the same direction as the observed price trend; and

- Serial correlation in asset price volatility, whereby volatility will continue at similar levels as the prior period.

The Manager believes that that these two inefficiencies are fundamental to the nature and structure of the financial markets and further they cannot be arbitrated away.

Quantitative models are used to identify price trends and analyse the current volatility and correlation of the investment universe. The model produces a deal ticket that is then executed by the portfolio team.

Whilst the Fund's research process is discretionary, models are developed within strict development guidelines. Approved models are added to the investment process and followed with out deviation.

Zenith believes that the process is robust and as it is systematic, should continue to behave in a non-correlated fashion with equities.

Security Selection

The Manager only trades in liquid futures contracts in global fixed income, highly traded currencies and major commodities - such as energies, metals and agriculture.

The investment style is longer term and is not at all similar to short term trading. In fact the Manager believes the process is closer to tactical asset allocation. The result is that the investment process selects liquid futures contracts that best capture this longer time frame.

The issue with using longer time frames is that the more liquid futures contracts tend to be in the front months and require rolling before delivery dates. The Manager has built this into the process and slippage for the moment appears under control. There are some improvements to be made in reporting rolling trades in the reconciliation process, however, at the moment the system as it now stands prompts additional enquiries between operations and the Portfolio Manager.

The Fund will not select assets where a position exceeds 5% of the average daily turnover of that security. Zenith believes that this will ensure that the Fund is liquid, in most scenarios.

Portfolio Construction

The Manager selects the strongest trends and looks to build an optimised portfolio that is constrained to ensure diversification and to

avoid concentration to any single asset (fixed income, currencies or commodities). The Fund explicitly avoids equities.

Assets are considered based on the correlation between other assets in the portfolio. In addition the manager forecasts volatility for each proposed member of a portfolio; this is based on a model that estimates the daily price range for each security. The optimisation process then allocates based on risk, more volatile securities are assigned a lower portfolio weight such that each asset in the portfolio adds similar risk to the Fund.

The Manager contends that this scaling is an important aspect to the process as it allows the Fund to maximise its benefit from diversification.

The Manager recognises that correlations between investments are dynamic and thus has adopted an approach of exponentially weighting a moving average of the sample correlation matrix. In practice this means that more weight is given to recent observations. This process provides the Fund with some extra responsiveness as a result of recent events while still remaining exposed to longer term trends. Importantly as the dynamic correlation between securities increases the Fund reduces exposure to them and hence reduces risk in the portfolio.

Typically the margin requirement of the Fund is 15%, the other 85% of the Funds assets are held in cash.

While the Fund typically invests in futures contracts that are not based in A\$, the margin requirements and cash are held in A\$. This reduces the currency risk and negates the need for currency hedging. Importantly the Manager accounts for currency movements on a daily basis in its portfolio construction calculations.

Risk Management

Risk management is an important part of the process, providing the basis for portfolio construction. Maximum exposure is scaled for each asset in accordance with the Fund's risk and return profile. The following are the VaR parameters within the portfolio.

All risks are monitored daily and are included in the Compliance Reports.

Risk Metric	Risk Limit
Maximum daily VaR limit – portfolio level	1.60%
Maximum daily VaR limit – interest rate theme	0.64%
Maximum daily VaR limit – commodity theme	0.96%
Maximum daily VaR limit – FX theme	0.64%
Maximum daily VaR limit – single asset	0.20%
Maximum daily VaR loss – portfolio	4.75%
Maximum daily VaR loss – interest rate theme	1.90%
Maximum daily VaR loss – commodity theme	2.85%
Maximum daily VaR loss – FX theme	1.90%
Maximum daily VaR loss – single asset	0.55%
Maximum calendar month draw down	4.00%
Maximum peak to trough draw down	20.00%

The Manager has built a process that deals with “correlation one” scenarios, a situation where all assets tend to move in the same direction at the same time. The Fund uses Extreme Value Theory to calculate price range thresholds that are the boundary to which the Manager expects the security to trade within. Stop losses are placed at these points to reduce the portfolio’s extreme price exposure.

The overall risk management is overseen by Lisa Domagala, who is independent of the investment process.

Risks of the Fund

While this Fund invests in liquid markets it must be noted that it does not share the same level of market risk as long funds owing to its risk aware investment style. However, despite this the Fund does contain a number of risks.

Global Markets tend to be dominated by macro scenarios and Headland is able to hedge against the direction of the underlying markets while at the same time attempting to exploit inefficiencies between them. As a result, like its hedge fund peers, this Fund’s primary risk comes from risks associated with leverage and derivatives as opposed to market risk.

Derivative contracts are subject to particular risks as listed below:

- Market risk - Significant losses from derivative contracts may occur in the event of extreme market moves. The Fund’s risk management disciplines are designed to minimise this risk through the use of stop-losses.
- Counterparty (credit) risk - Derivative transactions may be subject to the risk that a counterparty to the transactions

will wholly/partially fail to perform their contractual obligations under the arrangement. The exclusive use of exchange traded derivatives and their associated clearing house mitigates some of the risk.

- Liquidity risk - With regards to liquidity the Manager is expected to trade predominately in liquid instruments and although Zenith is comfortable in the team’s ability to manage liquidity risks, we note that markets can become illiquid.
- A further risk relates to leverage. Leverage increases the Fund’s exposure to movements in the instruments and markets in which it invests and returns will therefore either be increased or decreased in proportion to the amount of leverage employed. Leverage is actively used in the Fund’s operation. The extent of the leverage depends on the underlying volatility of the instruments traded and the risk allocated to the trade. It is important however to note that the team does not simply gauge risk in the portfolio by focusing purely on gross leverage. The Fund trades multiple asset classes with varying level of volatility in asset prices and therefore using dollar exposures of the portfolio is somewhat misleading. As a result the Manager sizes each position by Value at Risk (VaR) contribution.
- Capacity Risk, Headland expects the Fund’s capacity to be around A\$1.0 billion. The Manager will continue to review capacity as it grows in size as it prefers to assess capacity by looking at its ability to unwind the portfolio. Zenith is satisfied with Headland’s approach to managing its capacity.

Key Person Risk and Business Risk

The Headland team is small and is remunerated according to the success of raising AUM and as a function of performance. We believe that it is crucial that the Manager captures significant inflows in the next three years in order to continue running the business. While AUM remains small, distractions to pursue other fee earning activities must remain a risk. This adds to the usual key person risk of a small boutique manager.

The addition of Diversa to the shareholders register provides significant comfort, not just in terms of additional working capital and access to inflows through its related entities but also from the extensive business experience it brings.

The Manager has instructed procedures to deal with a situation where Jerry Pressnell is incapacitated.

Fund Risk

The Fund can be terminated or the trustee can be replaced under certain conditions. Zenith also notes that investment terms can also be changed/

There are additional risks outlined in the Fund's offering documents.

Applications of the Fund

While this Fund invests in liquid markets it does so by being directional, but it can be long or short and therefore should not be compared with long only products. Global macro managers and trend following styles in particular tend to be dominated by major global themes and thus can be used to shift risk in portfolios in a dynamic fashion.

It should be noted that the Fund's absolute volatility is targeted at 8 - 10%p.a. which is considerably below the historical volatility of the world equity market.

The Fund has a broad investment universe and a strategy that produces a portfolio with a broad array of long and short positions across asset classes, regions and sectors. This results in the Fund typically exhibiting low correlation with other major asset classes such as equities and fixed income. The Fund therefore is expected to provide a strong diversification benefit and improve the risk/return profile of an investor's diversified portfolio.

This fund is suitable for those investors with a high risk profile seeking an attractive investment designed to provide additional portfolio returns. Zenith encourages investors to adopt a medium to longer term investment timeframe of 5+ years when investing in this Fund.

FEES

Fees payable include a management fee of 1.5%p.a. and a performance fee of 20% of positive performance, subject to high water mark and the RBA Cash Rate hurdle.

Zenith considers the fees payable to be reasonable given the considerable alpha that the Fund is expected to continue to produce.

ADMINISTRATION & OPERATIONS

Operations

There is a dedicated external resource that looks after the back and middle office functions, together with the fund administrator, are responsible for trade reconciliations. Reconciliations of the internal systems to confirmations and the Administrator are performed daily, weekly and monthly. This includes position analysis, NAV reporting, cash balances. All trade breaks are reviewed and appropriately escalated for resolution.

Service Providers

Headland has appointed the following respected independent service providers.

Australian Executor Trustees ("AET") are the appointed Custodian of the Fund under the Custodian Agreement; AET has agreed to hold and maintain the legal title of the Assets in the name of AET and continue to record those assets as Fund assets and held separately from property of the Trustee. AET is part of Australian Wealth Management, which in turn is part of IOOF Holdings Ltd ("IOOF"). IOOF is a listed Australian corporate providing service to over 700,000 clients Australia wide.

The Fund is advised in Australia by McCullough Robertson.

The administrator of the Fund is DDH Graham Ltd. DDH Graham Limited is a Brisbane based funds management firm. DDH was established in 1981 with various business areas spanning financial services, including fund administration.

Interactive brokers are the Fund's futures executing broker and clearer.

Pricing

All holdings of the Fund are valued at least daily by the Manager using automatic market data feeds from third party vendors. On a monthly basis the Administrator prepares independent valuation. Any differences are resolved before the Manager publicly releases monthly NAV.

Under the terms of the Fund's constitution the Manager has the ability to determine the valuation of assets with the default method being market value. While the Fund trades liquid assets we are not overly concerned with the structure. There is no intention for the Manager to trade illiquid securities, in fact the risk management process prohibits trading them and as such Zenith is not overly concerned about the pricing policy as it is.

Transparency

The Manager provides good quality information on the exposures within the Fund. This includes sector, country and concentration information. In addition the risk system allows the Manager to report accurate historical exposures and is able to demonstrate shocks to the portfolio through scenario analysis.

Disaster recovery

The Manager has a detailed business continuity and disaster recovery plan.

There are offsite servers that allow the Manager to be fully operational within hours.

Personal trading

At the time of the review the Manager allowed personal

account dealing in assets or instruments in which the Manager has an interest providing that no benefit is derived through knowledge of trading activity or potential trading activity of the Manger. However, at the review we suggested that this could be tightened and we believe that in the future all staff will be required to have written approval from the Managing Director prior to trading financial securities that are not on the restricted list.

Compliance

Headland holds an Australian Financial Services Licence (No: 321548). The licence holds that there are two authorised people who can deal in securities for the purpose of carrying out investment management.

The Manager has a Compliance Committee that is chaired by Neil Detering and members of this Committee are Jerry Pressnell and Lisa Domagala (who is an Independent Compliance Consultant).

The Committee meets monthly.

On a daily basis the Manager and an external consultant fill the role of a dedicated Compliance Officer.

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