

Overview

Merricks Capital is an Australian Based Funds Manager established in 2007. The Merricks Capital Long/Short Equity Fund (Fund) focuses on the 600 largest and most liquid listed industrial, materials, energy and food companies in the developed markets of Asia primarily being Australia, Japan and Hong Kong.

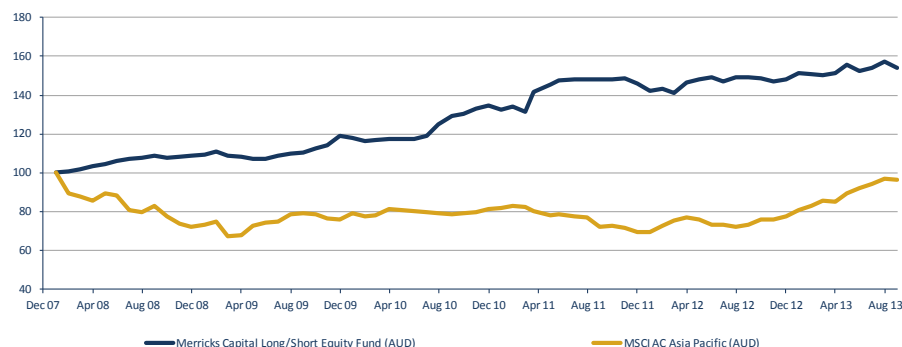
The Fund's investment approach is long/short market neutral with strict country and industry exposure limits allowing investors to get exposure to the best/worst large companies in Asia, without taking on the Asian market exposure.

The Fund isolates risk by actively hedging out any unwanted risk and by making investments based on our fundamental research-driven views in our areas of expertise where we maintain an informational edge.

Performance

Merricks Capital Long/Short Equity Fund AUD (Net of management and performance fees)

Performance	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2008	0.44%	1.37%	1.25%	1.21%	1.44%	1.11%	0.52%	1.11%	-1.03%	0.69%	0.40%	0.42%	9.29%
2009	1.44%	-2.10%	-0.11%	-1.32%	-0.10%	1.94%	0.98%	0.40%	2.00%	1.32%	4.02%	-0.60%	7.98%
2010	-1.60%	0.60%	0.40%	0.00%	0.13%	1.34%	4.80%	3.80%	0.84%	1.68%	1.42%	-1.52%	12.35%
2011	1.22%	-2.17%	8.06%	2.32%	1.47%	0.54%	0.00%	0.11%	-0.02%	0.27%	-1.64%	-2.78%	7.19%
2012	0.69%	-1.29%	3.69%	0.96%	0.87%	-1.33%	1.39%	0.05%	-0.56%	-1.06%	0.94%	2.10%	6.52%
2013	-0.56%	-0.19%	0.79%	2.86%	-2.31%	1.06%	2.25%	-1.92%					1.88%



Since Inception **54.23%**

Top Monthly Performers

Best Performers	Worst Performers
Arrium Ltd	Origin Energy Ltd
Santos Ltd	Yanzhou Coal Ltd
China Resources Cement	Fortescue Metals Group Ltd
AGL Energy Ltd	Bluescope Steel Ltd

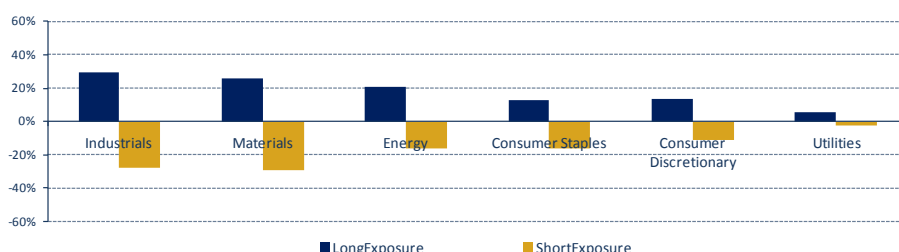
Portfolio Parameters

Positions	Parameters	Exposure Limits
Number of Positions	40 to 90	Target Volatility 8 -12% pa
Number of Longs	25 to 45	Beta ± 0.1
Number of Shorts	25 to 45	Systematic Risk Up to 20%
Illiquid Assets	None	Factor Risk Up to 7.5%
		Gross Exposure Up to 4 times
		Typical Gross Exposure 2 to 3 times
		Net Exposure Up to 10%
		Net Country Up to 7.5%

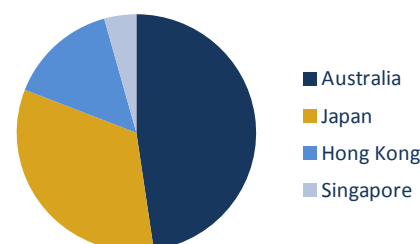
Exposures

Exposures	% of NAV
Long Exposure	107.7%
Short Exposure	-102.2%
Gross Exposure	209.9%
Net Exposure	5.4%

Exposure



Country Allocation



Fund Service Providers

Prime Broker	Merrill Lynch/Morgan Stanley/UBS
Auditor	Ernst & Young
Administrator	Citco Fund Services

Fund Information

Strategy Inception Date	January 2008
Management Fees	2% pa
Performance Fees	20% subject to high water mark

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Disclaimer

These figures are for the AUD Merricks Capital Long/Short Equity Fund (Fund) since April 2011 and prior to that are the performance attribution of the Long/Short Industrial Strategy of the Merricks Capital Multi-Strategy Fund. The actual performance for your account will be provided in your monthly statement. Actual performance will vary for investments made in different classes, or at different times throughout the year. This newsletter is intended to provide general background information only. Nothing in this document constitutes legal, tax or investment advice or any other form of advice or recommendation nor is it to be relied upon when making an investment or other decision. You should access whether this information is appropriate for you and consider seeking professional advice before making any decision to acquire, continue to hold or dispose of units in the Fund. The Information Memorandum contains important information about the Fund and any investment decision must be based solely upon the information contained in the Information Memorandum or any supplement to that document. Market, exchange rate movements and other variables may cause the value of the Fund to decrease as well as increase and no guarantee is given against loss resulting from an investment in the Fund. Past performance is not a reliable indicator of future performance. While all reasonable care has been taken to ensure that the information in this document is complete and correct, no representation or warranty is given as to the accuracy of any of the information provided, including any forecasts. To the maximum extent permitted by law, Merricks Capital Pty Limited ACN 126 528 005, its related bodies corporate, directors, or employees are not liable and take no responsibility for the accuracy or completeness of this document or for any loss or damage of any kind (whether foreseeable or not) that may arise from any person acting on any statements contained in this document.

Portfolio Commentary

Performance Summary

The Merricks Capital Long/Short Equities Fund returned -1.92% (after fees) for the month, underperformed the MSCI Asia Pacific Index -1.26% (-0.61% in AUD terms following further depreciation in the AUD). Regionally the Japan TPX (-2.24%) and the Hong Kong HSI (-0.43%) were weak whilst the Australian AS51 Index outperformed (+2.82%), all in local currency terms.

Portfolio Performance

Benchmark	Aug 13	YTD
MC Long/Short Equity Fund (AUD)	-1.92%	1.88%
MSCI World Index	-2.06%	12.23%
MSCI Asia Pacific Index (AUD)	-0.60%	19.66%
ASX 300 Index	2.81%	14.47%
S&P GSCI Agriculture Index	0.35%	-11.27%
HFRX Global Hedge Fund Index	-0.86%	3.30%
Bond Indices Aus Govt 7-10yr TR	-0.88%	-2.25%

- Santos Ltd (STO AU) Long +71bps: STO earnings to triple by 2016E**

Up 10.3% for the month, our STO long position was our biggest positive contributor to performance and we remain optimistic about its outlook. Our positive thesis revolves around recent visits to STO's world class asset base, the strong volume growth profile we expect (10% CAGR during the next 4 years and one of the strongest in Asia) and its dominant position as Eastern Australia's largest gas supplier (15% of market) to the domestic. Combined with the recent break out in A\$ oil price (STO has A\$ costs) and the benefit of a structural upward change in Australian gas prices as the three east coast LNG projects change the supply and demand dynamic, STO is well positioned for explosive earnings growth over the next 3 years.

- China Resources Cement (1313 HK), +35bps**

Although up 18% for the month following strong H1 results, well ahead of consensus estimates, we see another 15% upside based on strong volume growth (+29% YoY) and improving gross margins driven by lower coal prices (input cost) and the on-set of higher selling prices. In addition, the market has been concerned about over capacity being constructed in China Resources Cement's key markets however based on our visits to China and through discussions with industry consultants we believe this risk is over estimated by the market.

- Australian energy utility company short, -59bps**

One of our large short positions, the stock rallied strongly during the month, up 13% despite reporting in line results and being unprepared to provide any future guidance because of the uncertainty of the Australian economy and competition. Despite the rally, our conviction has increased given our in depth analysis which suggests the stock trades at an unsustainable premium to its best pure play comparables Santos Ltd, in upstream oil & gas and AGL Ltd, in energy retail & generation. Applying the EV/EBIT multiple STO currently trades on in FY18 (both companies are developing large LNG projects at full capacity by FY18) of 5.0x EV/EBIT and applying the 10.5x EV/EBIT AGL trades on in FY14 we believe our short position is trading at a 25% premium to its best peers.

- Fuji Heavy Industries Ltd (7270 JP), -28bps**

Although down for the month, Fuji, manufacturer of the Subaru car brand, has been a core long position and is up over 130% for the year. We like Subaru's strategy of rather than expanding capacity, focusing on improved mix to expand margins versus other auto manufacturers, however with much of this now factored into the price we have begun to reduce our long position.

Monthly stock highlight – Marubeni Corp (8002 JP)

Marubeni is a Japanese trading company and is one of our highest conviction long positions in the portfolio and we look forward to meeting with the company this month at the BofA Merrill Lynch Tokyo conference next week to further strengthen our thesis. The key components to our Marubeni thesis are:

- Consensus is underestimating earnings by at least 20% this year:** the company has conservatively guided to Y121/sh in EPS for FY14/3, only +2% growth YoY despite the weaker yen and acquisition of the Gavilon grain trading and storage business which will contribute over the remainder of the FY (not in Q1). Despite achieving 31% of full year guidance in Q1, the market is still only looking for Y124/sh and Gavilon alone is expected to contribute +Y9/sh for 9mths (Y14/sh annually on our estimates) and taking our EPS forecast to Y159/sh and putting the company on less than 5x PER.
- Gavilon 20% accretive to EPS:** the trading companies in Japan tend to trade on EPS momentum. Based on our research Gavilon should contribute EBITDA of c.US\$600Mpa or Y57Bn @ 95/USD (19% higher than at time of acquisition). Flowing this through, less depreciation and 2% financing cost on US\$5.6Bn acquisition price adds Y14/sh (10%) to FY14/3 consensus earnings.
- Trading on an unsustainable discount to peers:** Our price target is based on 7x FY2014/3 earnings, a 10% discount to the benchmark trading company peer, Mitsubishi Corp (8058 JP). Although 8058 JP is considered a "premium" company in Japan, we expect the risk to consensus EPS growth of 15% is to the downside for Mitsubishi Corp and hence more likely trading on 8x PER.

Portfolio Positioning

We are looking for opportunities to grow leverage as market participants return from Northern Hemisphere holidays and we expect liquidity to improve, though at present are maintaining leverage at around 1.5x NAV (Net Asset Value or AUM). Portfolio volatility has decreased slightly to 4.7% from closer to 5% and at present the portfolio is running only +9% beta, and 85% stock specific idiosyncratic risk. This month we will do over 50 face to face meetings in Japan as we attend conferences and meet with companies in their offices leading to increasing conviction and idea generation. Although we remain optimistic on Japan emerging from many years of low growth, we are also becoming more optimistic on the outlook for China as economic policy is becoming more stimulatory.