

Kohinoor Series Three Fund

From 36 South Capital Advisors LLP – June 2014

Aim

The Fund is a global macro/ long volatility strategy which aims to achieve 15% return per annum with commensurate risk over a medium to long term investment period. It is designed to generate performance in most market environments as the fund managers have developed an edge in identifying mis-valued assets whilst maintaining a mix of bullish and bearish positions.

Key benefits

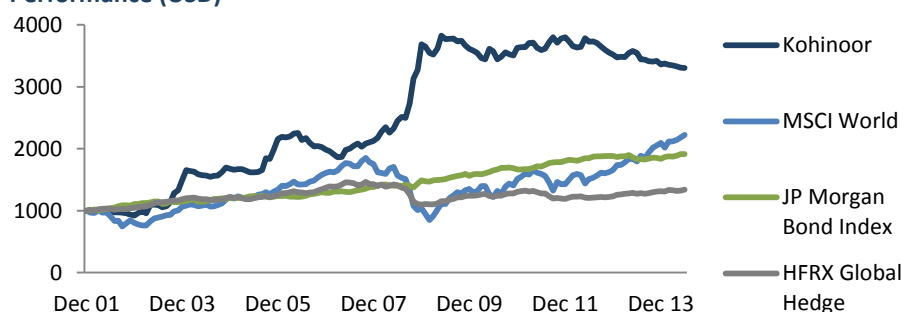
The portfolio provides diversified exposure to niche investment opportunities in the options markets screening the global universe of volatility assets. The Fund offers:

- Innovative options strategies seeking value opportunities in the long end of the volatility curve.
- Dedicated long volatility, buy and hold ideas benefiting from both volatility and directional moves.
- Risk adjusted returns with limited downside risk and low correlation to traditional and alternative assets.
- Liquidity and a robust risk management methodology.

Investment instruments

The Fund mainly invests in options. It buys and holds a diversified portfolio of puts and calls on global commodities, equities, interest rates and currencies.

Performance (USD)*



Fund facts

Domicile	Ireland
Subscriptions/Redemptions	Monthly
Notice period	1 month
Kohinoor Strategy AUM	\$621 million
Firm AUM	\$705 million

USD share class

NAV (USD) \$907.51

GBP share class

NAV (GBP) £912.80

EUR share class

NAV (EUR) €909.79

Volatility and ratios

Annualised volatility	12.39%
Downside volatility	4.23%
Sharpe ratio	0.832
Sortino ratio	2.436
Average monthly Theta	-0.42%

Correlation since inception

MSCI World TR index	-0.10
JP Morgan US Agg. bonds index	0.04
HFRX Global Hedge	-0.18

Fees

Please contact 36 South for details.

USD	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2014	0.39%	-0.53%	-0.32%	-0.50%	-0.63%	-0.17%							-1.75%
2013	-1.36%	0.43%	-0.16%	1.93%	0.77%	-0.78%	-2.97%	-0.17%	-0.69%	-0.14%	0.22%	-1.60%	-4.50%
2012	-1.80%	-2.09%	-0.62%	0.32%	3.87%	-1.54%	0.21%	-0.78%	-1.47%	-1.46%	-1.27%	-0.90%	-7.41%
2011	0.25%	-0.06%	1.90%	0.11%	-2.27%	-1.01%	0.64%	3.01%	2.00%	-2.22%	1.77%	0.59%	4.66%
2010	-0.88%	-0.97%	-2.46%	-0.50%	4.90%	-1.14%	-3.55%	1.08%	2.12%	-0.87%	-0.55%	3.58%	0.44%
2009	-0.99%	-2.77%	-0.71%	2.81%	5.63%	-1.51%	0.16%	0.20%	-1.29%	0.33%	-2.04%	-1.40%	-1.87%
2008	2.36%	4.49%	3.35%	-3.80%	2.98%	5.21%	2.53%	-0.62%	9.43%	14.81%	4.32%	12.64%	73.30%
2007	-1.33%	-2.54%	-2.52%	0.20%	6.18%	1.18%	2.29%	1.62%	-2.39%	2.56%	0.86%	1.08%	7.06%
2006	1.51%	-0.40%	0.80%	2.10%	0.39%	-4.99%	1.32%	-3.60%	-2.61%	0.19%	-0.57%	-2.18%	-7.99%
2005	-0.91%	0.68%	-0.18%	-1.51%	-1.53%	0.06%	0.33%	1.92%	11.40%	-0.37%	8.41%	8.34%	28.82%
2004	11.17%	-1.00%	-0.66%	-2.71%	-0.84%	-0.28%	-1.42%	1.02%	0.43%	3.59%	4.31%	-1.13%	12.39%
2003	4.10%	2.81%	-3.10%	14.32%	0.38%	-0.78%	-3.34%	1.47%	5.86%	13.52%	3.59%	11.94%	61.36%
2002	1.40%	-1.36%	-0.38%	-0.13%	-0.83%	-0.44%	-1.05%	0.30%	-0.64%	-1.35%	-2.26%	-1.17%	-7.66%
Annualised returns since inception													10.02%
GBP	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2014	0.36%	-0.50%	-0.30%	-0.48%	-0.61%	-0.14%							-1.67%
2013	-1.30%	0.45%	-0.17%	1.94%	0.81%	-0.78%	-2.97%	-0.12%	-0.65%	-0.09%	0.19%	-1.58%	-4.29%
2012	-1.74%	-2.07%	-0.51%	0.29%	4.10%	-1.49%	0.22%	-0.76%	-1.43%	-1.46%	-1.26%	-0.92%	-6.93%
2011	0.19%	-0.08%	1.06%	-0.39%	-1.89%	-1.00%	0.73%	3.23%	2.12%	-2.23%	1.83%	0.82%	4.33%
2010	-1.12%	-0.94%	-2.42%	-0.44%	4.92%	-1.13%	-3.35%	1.15%	2.05%	-0.92%	-0.52%	3.59%	0.56%
2009											-0.66%	-1.07%	-1.73%
EUR	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2014	0.36%	-0.53%	-0.32%	-0.50%	-0.63%	-0.16%							-1.78%
2013	-1.34%	0.41%	-0.18%	1.88%	0.76%	-0.81%	-2.94%	-0.17%	-0.69%	-0.14%	0.20%	-1.59%	-4.59%
2012	-1.80%	-2.07%	-0.52%	0.30%	4.14%	-1.51%	0.18%	-0.77%	-1.47%	-1.48%	-1.30%	-0.95%	-7.15%
2011			0.92%	-0.76%	-1.24%	-0.93%	0.74%	3.18%	2.19%	-2.23%	1.92%	0.81%	4.56%

Returns for the Kohinoor Series One Fund shown in grey. Returns for the Kohinoor Series Two Fund shown in blue. Please see disclaimer at end of factsheet.

All performance is reported net of fees. Source for above charts: 36 South Capital Advisors LLP as at 30th June 2014

Risk analysis

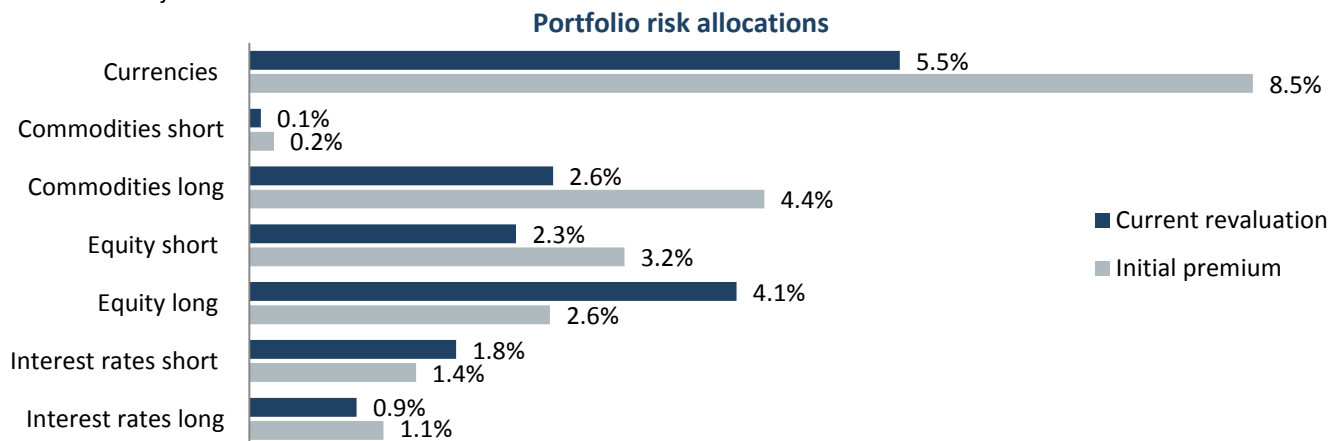
The table below depicts the Value at Risk (VaR) by asset class for Kohinoor Series Three Fund Class A (EUR) at 95% confidence over a one day horizon.

Asset Class	Theta Monthly % Fund NAV	Vega % Fund NAV (Base +10%)	VAR 95% One Day Horizon
Commodities	-0.029%	0.707%	0.111%
Equities	-0.226%	0.638%	0.169%
FX	-0.066%	1.565%	0.376%
Interest rates	0.099%	0.160%	0.256%
Total	-0.221%	3.071%	0.317%

Source: 36 South Capital Advisors LLP as at 30th June 2014

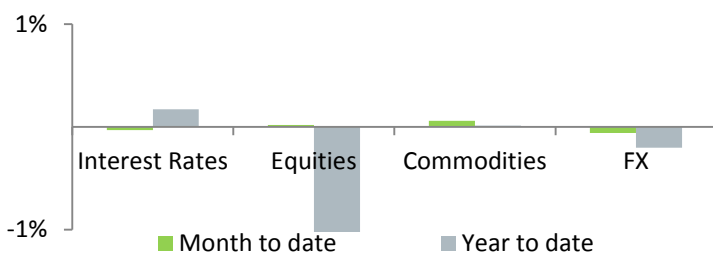
Investment process

The Fund incorporates the best ideas emanating from 36 South's bottom up, proprietary market scanning methodology "the Quadrivium approach" along with the top down GIVIX allocation formula. These positions are then sized and risk managed to suit the investment objective.



Please note cash and German government bonds account for the remaining 76.8% of initial premium and 82.8% of current valuation. This illustrates the directional exposures of the invested portfolio only. Portfolio is always net long volatility.

Performance attribution



The attribution above shows only the P/L attributable to the 4 asset classes above and does not show other profits and losses including expenses, fees and FX. Differences in final performance between share classes result from fluctuations in currencies.

Source for above charts: 36 South Capital Advisors LLP as at 30th June 2014.

Drawdown analysis

Depth	Length	Recovery	Peak	Valley
-17.45%	10	11	May-06	Mar-07
-8.94%	11	4	Jan-02	Dec-02
-6.73%	6	4	Jan-04	Jul-04
-4.52%	6	4	Nov-04	May-05

Best month	Worst Month	% of positive months
14.81%	-4.99%	49%

Strategy commentary

The Kohinoor Series Three Fund was down 0.17% in June with asset classes diverging significantly over the period. Interest rates lost slightly as swap rates continued to rise with estimates for the first rate hike edging closer based on some-what more hawkish comments from Fed members (not Janet Yellen). The majority of this mark to market loss was in USD receivers. Equity calls outperformed puts for the month with long dated European stocks contributing 60% of the gain. Equity puts were relatively flat for the month as theta and delta losses on the portfolio were offset by gains in Coach puts as the luxury goods seller reported poor earnings.

A real bright spot for the month was the long dated oil calls in the portfolio which began to perform after many months of falling volatility and lower forward curves. Implied volatility has barely shifted but forward prices began to move significantly. Both WTI and Brent 7 year forwards were up 6 USD barrel. The offset to this came in FX where long dated EURUSD volatility dropped markedly some 0.7% vega in 7 year out money puts and 0.3% vega on out the money calls. Long dated AUDJPY call vol also fell significantly around 0.3% vega accompanied by 5 big figure drop in CNH from 6.25 to 6.2 and lower implied volatility in USDCNH rounding up a poor month for FX positions. The EURUSD accounted for 50% of the asset class loss.

36 South views

My wife, the central banker

Most people on this planet have a currency, their own personal currency; credit. Every time we write a cheque (admittedly, rare these days), we are printing our own currency. If there was no stale date i.e. 6 months after signing, it would be identical to a currency. We could hold Warren Buffet's cash cheque forever knowing he is good for it.

Consider a family with a breadwinner and a resource allocator. The resource allocator normally controls the finances in a family much the same way as central banks do. In the old days, the breadwinner would stipulate an allowance which could be spent by the resource allocator on family matters i.e. a budget. In the same way, governments are given an allowance (taxes) which is then spent against a budget. We modernised a bit and introduced (almost simultaneously) the credit card and the government bond. These two "improvements" allow the resource allocator access to credit WITHOUT implicit permission of the breadwinner.

Uh oh. History should have been fairly predictable at this point. Both the resource allocator and government overspent massively leaving the family/economy up to their ears in debt, and didn't really tell the breadwinner the truth, the whole truth and nothing but the truth.

Along comes an extreme event e.g. retrenchment for the family, 2008 for the government. Normally credit evaporates leaving a vapour trail where "money" used to be. Cash or present money becomes very valuable and everybody starts selling assets to accumulate cash, all at the same time.

We tell ourselves 'this time it was/is different' which is a godsend to everybody up to their yingyang in debt! By blaming external events and not ourselves we give ourselves permission to reduce interest rates to zero thus minimising our repayments to near zero. In a rare feat of mental gymnastics we argue MORE debt is the solution and thus we start maxing both the credit card (family) and the issuance of government debt (government).

This still isn't enough... we are sliding down the slippery slope of the debt black hole. The resource allocator goes back to the drawing board and in a Eureka moment decides to write cheques not only to cover expenses but also to repay the credit card! Quantitative ease people! Monetise our credit/currency! That way the breadwinner doesn't have to work, the resource allocator doesn't have to save and the credit card gets repaid. Simple!

At this stage the breadwinner suspects things are too good to be true but having money for nothing feels good so it seems best not to ask too many questions, especially as everyone else is doing it. Cheques are going out of the chequebook like hummingbird wings...

Next comes the coup de grâce. The resource allocator, knowing the breadwinner smells a rat, lets him/her into the game and says "Honestly darling there is no need to worry, you don't have to work, I will just write cheques for whatever we need." Government in turn, starts reducing taxes, just like interest rates, to zero making up the deficit by monetisation. Both under the pretence they need to get the economy/family going again. But it becomes normal and the couple/government realise over time they just have to monetise their expenses and debt repayments and they can live happily ever after.

Where are we going on holiday this year dear?

If you would like to know more about the Fund please contact the sub investment manager:

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Kohinoor Series Track Record Disclaimer

The Kohinoor Series One Fund launched in January 2002. This was a NZD denominated fund and was managed by 36 South Investment Managers Limited who were not required to register as a CPO with the NFA as there were no US investors in the pool. In the displayed track record Kohinoor Series One Fund's NZD returns from January 2002 to July 2005 have been converted to USD, and adjusted to match the Kohinoor Series Two and Kohinoor Series Three fee and tax structure. The Kohinoor Series One Fund charged management fees of 1% and performance fees of 10% and paid tax of 33% while Kohinoor Series Two and Kohinoor Series Three funds charge/d management fee of 1.75% and performance fee of 20%. Further explanation of the methodology is available on request. Although the Kohinoor Series One performance is based upon actual results, due to these adjustments, the results are considered hypothetical and as such, the following disclaimer is provided: these results are based on simulated or hypothetical performance results that have certain inherent limitations. Unlike the results shown in an actual performance record, these results do not represent actual trading. Also, because these trades have not actually been executed, these results may have under- or over-compensated for the impact, if any, of certain market factors, such as lack of liquidity. Simulated or hypothetical trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will or is likely to achieve profits or losses similar to these being shown. The Kohinoor Series One Fund continued to run for New Zealand based investors until it was closed in March 2008. The August 2005 to March 2008 performance is available on request, it is not displayed here as we are trying to represent a continuous investment in the Kohinoor Series strategy.

Kohinoor Series Two Fund Limited ran from August 2005 to February 2011. This was a USD denominated fund with USD and GBP share classes (GBP share class launched November 2009). These returns are displayed and have not been adjusted. The Kohinoor Series Two Fund Limited was managed by 36 South Investment Managers Limited who registered voluntarily with the NFA as a CTA in August 2006 as the NZ Securities Commission required alternative investment managers in New Zealand to register with a body they recognized, in the absence of an equivalent regulatory body for alternative managers in New Zealand. 36 South Investment Managers Limited were exempt from registering as a CPO under CFTC Exemption 4.13 (a)4. The Kohinoor Series Two Fund Limited was registered as an exempt pool under exemption 4.13(a)(4) in 2010 – it was not required to register before this time as it did not have any US investors. On 28 February 2011 the Fund was closed and its portfolio was transferred in specie to begin the Kohinoor Series Three Fund on 1 March 2011.

From March 2011 Kohinoor Series Three Fund returns reflect returns to an investor in the USD share class. This is a EUR denominated fund with EUR, USD and GBP share classes (all launched March 2011). The Kohinoor Series Three Fund launched in March 2011 and is managed by 36 South Investment Managers (Ireland) Ltd following the closure of 36 South Investment Managers Ltd. 36 South Investment Managers (Ireland) Ltd registered with the NFA as a CPO as at 1 Jan 2013. 36 South Investment Managers (Ireland) Ltd delegated the portfolio management to 36 South Capital Advisors LLP.

More detailed information on the Fund, its structure and management is available upon request.

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Risk Warnings

Shares in the funds may or may not be suitable for all investors. 36 South Capital Advisors LLP does not guarantee the performance of the shares or funds. Any actual fund that 36 South Capital Advisors LLP manage will invest in different economic conditions, during periods with different volatility and in different securities than those incorporated in the hypothetical and other performance data used in this document. There is no representation that any fund that 36 South Capital Advisors LLP manage will perform as the hypothetical or other performance data indicate. The price of the investments (which may trade in limited markets) may go up or down and the investor may not get back the amount invested. Your income is not fixed and may fluctuate. You may lose all of your investment in funds managed by 36 South Capital Advisors LLP.

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