Tiburon Taurus Fund

TIBURON PARTNERS

# Tiburon Taurus Fund monthly report

September 2012

UCITS Hedge Awards 2010

Best Long/Short Equity Asia Fund
Tiburon Taurus Fund

## In brief

Investment objective: To maximise absolute returns with moderate volatility by investing long and synthetically short in listed equities of issuers in Asia including Australasia but excluding Japan.

| | Class 'A' USD | Class 'B' EUR | Class 'C' GBP | Class 'D' GBP (un-hedged) |
|---|---|---|---|---|
| Net asset value per share | 1,035.4905 | 1,029.3349 | 1,033.8209 | 967.9682 |
| Month to date | 2.44% | 2.35% | 2.43% | 0.77% |
| Year to date | 4.08% | 3.72% | 4.07% | 0.16% |
| Since inception | 87.88% | 72.68% | 3.38% | -3.20% |

Inception: 6th May 2010 – Classes 'A', 'B', 'C' & 'D'

Source: Northern Trust (figures shown net of all fees).

Notes:
1. Performance for periods up to and including April 2010 is for Tiburon Tiger Fund, a Cayman incorporated monthly dealing fund with the same mandate as Tiburon Taurus Fund.
2. The figures in the above table refer to past performance which is not a reliable indicator of future results. An investment in the Fund would place an investor's capital at risk.

## Manager's commentary

The transformation in market perception of Central Bankers over the last few weeks has been nothing short of remarkable. Bernanke wandered into Jackson Hole as a financial Clark Kent, but re-emerged two days later wearing red underpants and a cape, all by adding the 'U' word (unlimited) to his statement. Draghi has also decided that 'unlimited' purchases of peripheral bonds is the way to go, and providing the Bundestag pick up the baton from the Constitutional Court and allow more than the €192 bn deemed the currently acceptable limit, the printing presses will roll. Even the Japanese have got in on the act and increased their open market activity. Yet the ECB's statement that bond markets are returning to 'normality' beggars belief – unless we are living in a parallel universe where it is normally the case that the only buyer or Spanish or Italian debt is the Central Bank. We would also caution against assuming that the political calculus in Germany favours issuing a blank cheque to Super Mario. Half of the German electorate is very wary of current policy, and Ms Merkel is well aware of the fact. The single biggest policy mistake of the last few decades was Greenspan's loose monetary policy in the wake of the dot-com bubble, when he should have allowed a modest recession to purge the asset market excesses of the late 90s expansion. Instead he lit the fuse on the Semtex of the GFC. We have clearly learnt nothing from recent history, and we are likely to be recommending wheelbarrow manufacturers as good investments if these policies persist. They will not ignite economies or produce jobs – just like the prior efforts have failed in this regard. They may continue to inflate asset prices, though we would regard the 20% plus move in markets over the last few months as the QE3 rally, and feel inclined to sell on the news, having bought on the rumour earlier. They will, ultimately, be highly inflationary when transmission mechanisms falter into life, and at that point the ability of policy makers to tighten monetary conditions will be hugely compromised. Think what even a 'normal' level of interest rate (given current inflation of circa 2.5%) would do to Western economies and house prices. Then imagine a period of genuinely tight policy in a period of higher inflation. Can you remember 10% interest rates? They were all the fashion only 20 years ago, but seem unthinkable now – and in an era of highly politicised monetary policy, they are. We are rapidly approaching a tipping point in global monetary policy that commits politicians to an increasingly interventionist stance, with all that implies for 'financial repression', capital controls and the like. The 'Man of Steel' has feet of clay.

The depressing saga of South African mining goes on, with venal politicians and rabble-rousing union officials conspiring to beat the golden goose of the country's geology senseless, even if they have yet to administer the coup de grace. While we sympathise with the miner's claims of poor salaries relative to the danger and tough working environment, the reality is that the mining industry is only marginally if at all profitable, and current returns are woefully insufficient to support any economic case for fresh investment. Platinum has been the touchstone of this trend, but the same conclusions can be drawn for several other commodities. The most interesting to us is Mineral Sands, where Rio, Exarro (now part of Tronox) and Iluka (in Australia) enjoy an oligopoly supply position. Current negative sentiment is bound up with the ability of the industry to sustain price by stockpiling ore (feasible given the recent track record of Iluka and the strong balance sheets of the big players) and a weak demand picture for zircon from Chinese tile manufacturers (which is an issue, but only for approximately 20% of Iluka's output. Valuations are very low, the companies are financially strong and the long term demand/ supply situation is improving. One of the few remaining bargains in the commodity arena after the QE3 rally of the last few months.

Baidu (the Chinese Google) is now starting to resemble its US peer and erstwhile competitor in more than just business model – the valuations are now within 15% of each other, despite Baidu's growth being nearly 3x that of Google. The recent de-rating started as concerns over the variable interest entity or VIE structure (which many dominant media-type companies use) and access to full audit data for US based accounting firms mounted, and has been further exacerbated by worries over user migration to the less profitable mobile platforms and away from the PC. The 'perfect storm' was completed by Qihoo announcing a competing search product as an extension of its browser, which took 7-8% share in its first few weeks. We are more sanguine. The VIE structure may be clunky and unattractive, but will not be cancelled in a hurry. De-listing all the Chinese stocks due to audit issues could happen, but would irritate a lot of US investors and Baidu already has a Singapore quote, albeit one with no current

## Manager's commentary (continued)

liquidity. All search engines are faced with the 'mobile dilemma', but the China market has far more organic growth potential in both fixed and mobile than virtually any other, and there are already several competing search engines. Indeed, we reckon the majority of surfers use Microsoft's browser, but still search through Google rather than Bing. 18x 2013 earnings is too cheap for 30% growth.

September has been a stellar month for equity returns, though if one forgot about Central Bank actions and concentrated on the deterioration of relations between the Middle East and the West, the increasingly self-confident foreign policy of China in the sundry contested rocks in the South and East China Seas, the rising tide of protectionist rhetoric and actions between the US and China (TVs, car parts etc), a rising oil price and a flood of large placings from inside investors (AIA, Axiata, Longfor, Lenovo, Brilliance, Sing Tel, Samsonite and many others), you may be forgiven for wondering why. Global markets are up around 15% YTD, yet the health of the global economy has deteriorated. We remain extremely sceptical over the economic prospects for the West, though we are more optimistic than the consensus over China, where it has become fashionable to adopt increasingly apocalyptic views over the unsustainability of the investment led, export supported model. China, unlike the US, UK or Europe still has a monetary policy that is 'fit for purpose' – i.e. one that can influence the real economy – that works with a normal 12 month or so time lag. Easing started around a year ago, and we would expect a modest acceleration in growth with the trough being around now or early in Q4. The complacency in Europe after a sharp rise in risk asset prices is the inverse of domestic Chinese sentiment where the stockmarket is within 15% of its 2008 low and a third of the 2007 high, though we cheerfully concede the bubble-like nature of valuations then extant. Expect a better articulated policy from the party over the next few months as the new generation of leaders are given their executive washroom keys, and the market realises that economic Armageddon is at least postponed if not avoided. We have for the first time taken a position in the Chinese 'A' share ETF in expectation of improved local sentiment over the next few months.

## The portfolio in summary

as at 28 September 2012

| | |
|---|---|
| Gross market exposure | 128.37% |
| Net market exposure | 21.13% |
| Long positions | 74.75% (48 stocks) |
| Short positions | 53.62% (22 stocks) |

### CLASS 'A' USD

| Performance % | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2003 | | | | | | | | | | | | 0.03 | 0.03 |
| 2004 | 2.22 | 2.02 | 0.54 | 0.92 | -0.36 | -1.45 | 0.01 | 3.25 | 0.80 | 0.88 | 2.50 | 0.76 | 12.69 |
| 2005 | 2.26 | 0.77 | -1.45 | -0.48 | -0.12 | 2.03 | 1.78 | -0.33 | -0.85 | -2.85 | 2.13 | 1.82 | 4.65 |
| 2006 | 1.16 | 1.03 | 1.18 | 2.42 | -0.90 | 0.98 | 1.11 | 0.10 | 1.00 | 1.99 | 2.89 | -0.04 | 13.66 |
| 2007 | 2.01 | 4.01 | 2.06 | 2.51 | 2.48 | 1.57 | 0.80 | -4.13 | 5.19 | 3.72 | -2.49 | 1.42 | 20.45 |
| 2008 | -1.42 | 5.73 | -5.77 | 7.53 | 1.11 | -5.81 | -0.58 | -5.45 | -18.71 | -28.04 | 0.44 | 19.72 | -33.49 |
| 2009 | 0.75 | -2.51 | 11.83 | 15.24 | 12.74 | 5.16 | 3.46 | 2.00 | 1.62 | 0.22 | 0.47 | 0.49 | 62.85 |
| 2010 | 0.74 | -2.06 | 2.87 | 2.20 | -2.39 | -0.43 | 8.10 | -0.83 | 6.28 | 0.72 | 0.82 | 3.04 | 20.17 |
| 2011 | -0.45 | -1.20 | 3.64 | 0.61 | -2.19 | -0.85 | 0.04 | -3.27 | -10.23 | 11.56 | -8.83 | -2.27 | -14.12 |
| 2012 | 6.05 | 6.32 | 0.36 | -1.94 | -5.32 | -3.40 | -1.19 | 1.30 | 2.44 | | | | 4.08 |

### CLASS 'B' EUR

| Performance % | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2003 | | | | | | | | | | | | 0.07 | 0.07 |
| 2004 | 2.33 | 2.01 | 0.59 | 1.01 | -0.31 | -1.41 | 0.04 | 3.26 | 0.77 | 0.88 | 2.42 | 0.75 | 12.97 |
| 2005 | 2.27 | 0.71 | -1.51 | -0.53 | -0.19 | 2.00 | 1.73 | -0.43 | -0.96 | -2.99 | 2.06 | 1.68 | 3.75 |
| 2006 | 0.97 | 0.93 | 0.99 | 2.21 | -0.98 | 0.81 | 0.96 | -0.07 | 0.88 | 1.79 | 2.57 | -0.04 | 11.52 |
| 2007 | 1.83 | 3.87 | 1.90 | 2.36 | 2.40 | 1.49 | 0.71 | -4.18 | 4.86 | 3.63 | -2.48 | 1.30 | 18.80 |
| 2008 | -1.52 | 5.82 | -5.62 | 7.75 | 1.12 | -5.72 | -0.48 | -5.39 | -19.17 | -29.90 | 0.36 | 18.25 | -36.03 |
| 2009 | 0.76 | -2.48 | 11.10 | 15.19 | 12.47 | 5.19 | 4.20 | 2.10 | 1.58 | 0.22 | 0.45 | 0.51 | 62.70 |
| 2010 | 0.68 | -2.07 | 2.89 | 2.24 | -2.49 | -0.46 | 8.11 | -0.89 | 6.21 | 0.71 | 0.85 | 3.02 | 19.88 |
| 2011 | -0.39 | -1.20 | 3.63 | 0.65 | -2.14 | -0.76 | 0.17 | -3.22 | -10.33 | 11.46 | -9.00 | -2.34 | -14.14 |
| 2012 | 5.95 | 6.29 | 0.38 | -1.94 | -5.42 | -3.39 | -1.19 | 1.26 | 2.35 | | | | 3.72 |

### CLASS 'C' GBP

| Performance % | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2010 | | | | | -2.52 | -0.52 | 8.09 | -0.88 | 6.29 | 0.72 | 0.84 | 3.05 | 15.58 |
| 2011 | -0.41 | -1.17 | 3.63 | 0.63 | -2.15 | -0.81 | 0.09 | -3.30 | -10.23 | 11.49 | -8.90 | -2.23 | -14.06 |
| 2012 | 6.01 | 6.31 | 0.42 | -1.89 | -5.38 | -3.39 | -1.18 | 1.29 | 2.43 | | | | 4.07 |

### CLASS 'D' GBP (un-hedged)

| Performance % | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2010 | | | | | 0.85 | -3.57 | 4.17 | 0.68 | 4.11 | -0.47 | 2.99 | 2.57 | 11.65 |
| 2011 | -2.65 | -2.71 | 5.65 | -2.96 | -1.62 | 1.57 | -2.16 | -2.48 | -6.17 | 7.65 | -6.41 | -1.10 | -13.45 |
| 2012 | 4.44 | 5.02 | 0.34 | -3.51 | -0.11 | -5.20 | -1.09 | -0.07 | 0.77 | | | | 0.16 |

Source: Northern Trust (figures shown net of all fees).

Notes:
1. Performance for periods up to and including April 2010 is for Tiburon Tiger Fund, a Cayman incorporated monthly dealing fund with the same mandate as Tiburon Taurus Fund.
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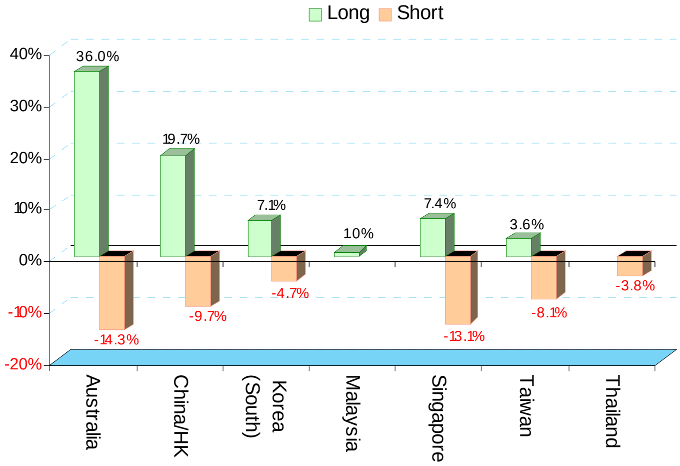
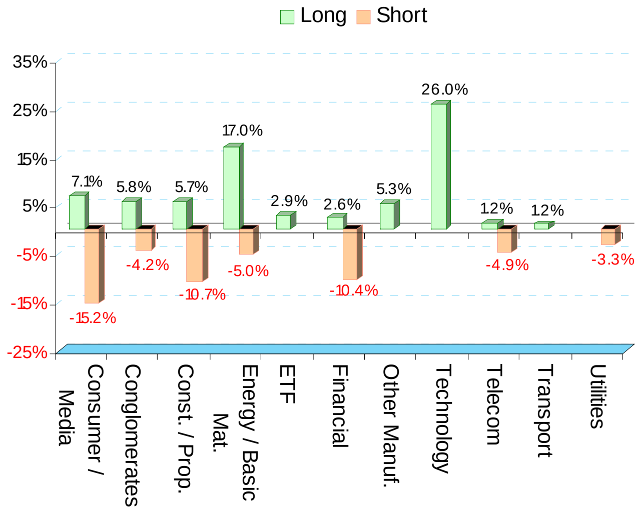
## The portfolio in summary (continued)

### Country exposure % of NAV




### Sector exposure % of NAV




## Terms

| | | | |
|---|---|---|---|
| Denomination: | US dollar / Euro / Sterling | Management fee: | 1.5% |
| Launch date: | 6th May 2010 – Classes ‘A’, ‘B’, ‘C’ & ‘D’ | Performance fee: | 20% subject to a high water mark |
| Launch price: | Class ‘A’ USD1,000 / Class ‘B’ EUR1,000 / Class ‘C’ GBP1,000 / Class ‘D’ GBP1,000 | Investment Manager: | Tiburon Partners LLP |
| Type: | Irish incorporated, UCITS, Dublin listed, Asia ex-Japan equity long / short | Fund Administrator: | Northern Trust |
| Subscriptions: | Daily | Custodian: | Northern Trust |
| Redemptions: | Daily | Fund Auditors: | Pricewaterhouse Coopers |

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