

Prodigal Equity Relative Value Fund

September 2010

The Prodigal Equity Relative Value Fund ("Fund") is a Cayman Island exempted company with limited liability offering shares under a Private Placement Memorandum (PPM). While the Fund didn't commence trading until August 2009, the underlying strategy was a sub portfolio within the Prodigal Absolute Cayman Fund between January 2008 and July 2009.

The Fund deploys a relative value, Asian "pairs" strategy which seeks to profit from spread volatility. Operating a model driven approach, the Fund is targeting an absolute return from a high frequency of trades which are expected to add incremental value. The portfolio is market, sector and currency neutral and comprises exposure to 50-80 highly liquid large capitalisation stocks and is expected to have turnover of circa 12 times per annum.

The Investment Manager, Prodigal, was founded by Chief Investment Officer, Michael Munns, who was a 10 year veteran at Merrill Lynch, his role immediately before establishing his own hedge fund was as Global Head of Equity Linked Trading in London. His "right hand man" is Jeff Lee (Head of Risk) with whom he has been working with at Prodigal since 2007 following their paths having crossed at Merrill Lynch. Prior to joining Prodigal, Lee was Managing Director of Emerging European, African and Latin American in local market trading and credit derivatives. In Zenith's opinion Munns and Lee perfectly complement each other in terms of experience, expertise and their individual roles. Importantly both are also "locked in" with significant equity – Munns (65%) and Lee (20%). While Munns and Lee are the two critical investment personnel, Andrew Kempe, has played an integral role in portfolio management and infrastructure development since joining Prodigal in February 2006. He also heads up the London office, which Prodigal established in 2009. This office opening occurred despite the manager's relatively small size, illustrating a willingness to re-invest in the business and "not run with the crowd". Prodigal is one of a limited few Australian-based hedge funds who have established a multi-jurisdictional organisational structure to assist its operational, execution and marketing efforts.

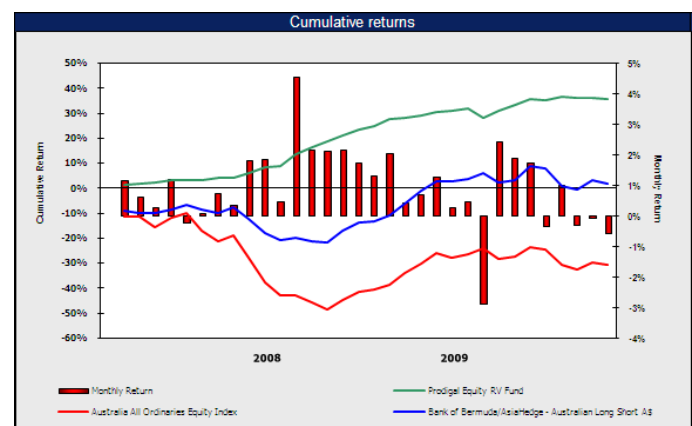
While Prodigal's market neutral strategy flew through 2008 with flying colours, delivering 13.68%, largely due to its beta-neutral, sector-neutral and currency-neutral strategy and solid risk management, it's Absolute Cayman Fund

fell -20.38%. This period tested the Manager and is a testament to it, with the manager remaining committed to its proven investment process despite falling AUM which sunk to circa \$20 million. Furthermore its strong recovery of losses validated this discipline and through the entire GFC period it refused to put up "gates" and remained open to redemption risk.

The Fund seeks to offer investors access to unleveraged, highly liquid (monthly; 20 days), low volatility, low beta strategies within a risk controlled framework and is a solid offering in the market. Accordingly Zenith has rated the Prodigal Equity Relative Value Fund Recommended.

Key Features	Description
Fund size	US\$36 million
Strategy size	US\$67 million
Capacity	US\$400 million, likely "soft close" to occur.
Firm size	Approx. US\$100 million
Fund inception	August 2009
Domicile	Cayman Island
Open	Yes
Management Fee	2% excluding GST
Performance Fee	20% excluding GST
Hurdle rate	None
High watermark	Yes
Subscription notice period	1 day
Subscription minimum	US\$1,000,000
Subsequent minimum	US\$100,000
Subscription frequency	Monthly
Redemption notice	Monthly, with 20 day notice period
Redemption fee	None
Redemption gate	None
Lock-up	None
Reference currency	US\$
Fiscal year-end	30 June
Distributions	Annually
Leverage	None

PERFORMANCE ANALYSIS



BM1 = Australian All Ordinaries Equity Index
BM2 = Bank of Bermuda / Asia Hedge Australian Long Short \$A

Year	Monthly Performance (%) Net of Fees												Year	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
2010	2.45%	1.90%	1.73%	(0.33)%	1.03%	(0.31)%	(0.08)%	(0.58)%						5.91%
2009	2.18%	2.13%	2.19%	1.74%	1.33%	2.06%	0.44%	0.70%	1.28%	0.29%	0.48%	(2.87)%		12.50%
2008	1.18%	0.63%	0.28%	1.20%	(0.21)%	0.09%	0.75%	0.35%	1.83%	1.86%	0.46%	4.57%		13.69%

Return	Fund	BM1	BM2
Compound ROR	12.06%	(12.93)%	0.63%
Cumulative Return	35.47%	(30.87)%	1.70%
Best Month	4.57%	7.64%	5.86%
Worst Month	(2.87)%	(14.00)%	(8.92)%
% Positive Months	81.25%	46.88%	50.00%

Comparison to Benchmark(s)			
Alpha		0.94%	0.96%
Annualised Alpha		11.84%	12.20%
Beta		-0.02	-0.02
Correlation		-0.11	-0.06
R-Squared		0.01	0.00

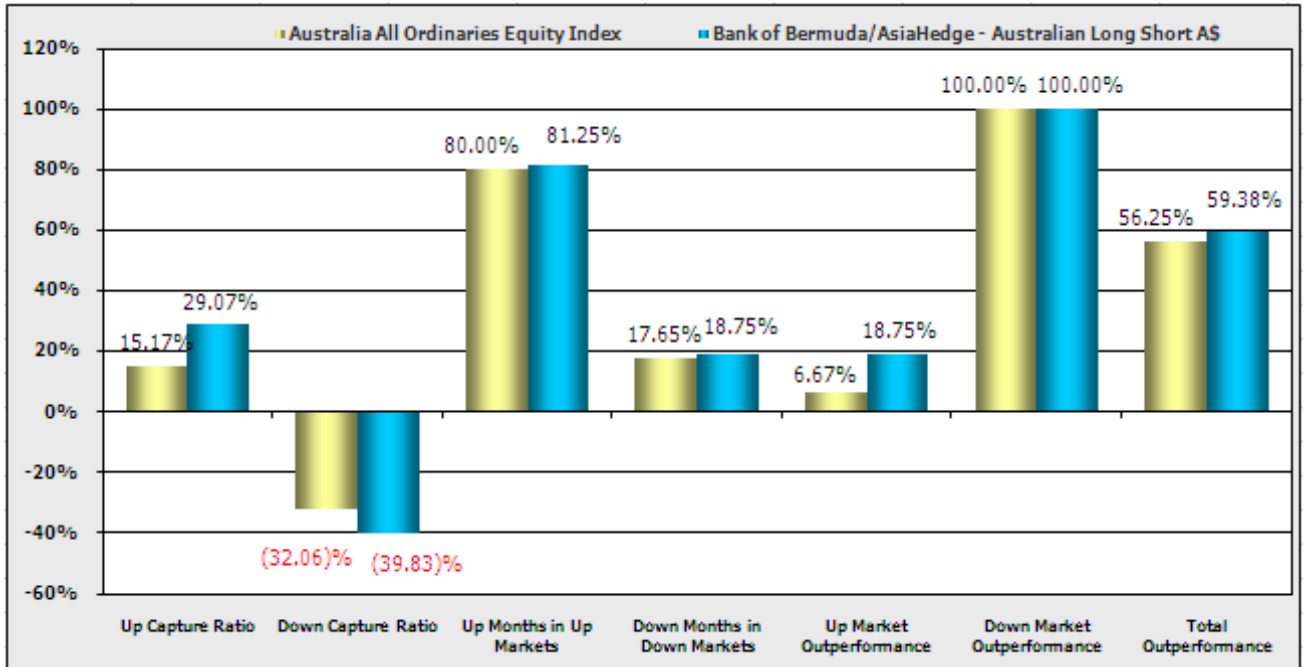
Note that the performance prior to August 2009 was generated by the strategy as a sub portfolio of the Prodigal Absolute Cayman Fund.

Performance of the strategy since inception has been solid with a compound annualised rate of return of 12.06% p.a. The only significant “blimp” on the radar was -2.87% monthly in December 2009 and a difficult quarter ending August 2010 (-0.97%). Despite the more challenging recent market conditions, the strategy since inception still has a very respectable 81.25% of months in positive territory, illustrating solid persistency of return.

Correlation of the strategy with the All Ordinaries Equity Index and the Bank of Bermuda / Asia Hedge Long Short \$A index is negative, which is an excellent result.

Since “going live” with a standalone fund, performance has more subdued relative to the strategy’s pre August 2009 results and Zenith would like to see this improve overtime.

CONSISTENCY ANALYSIS

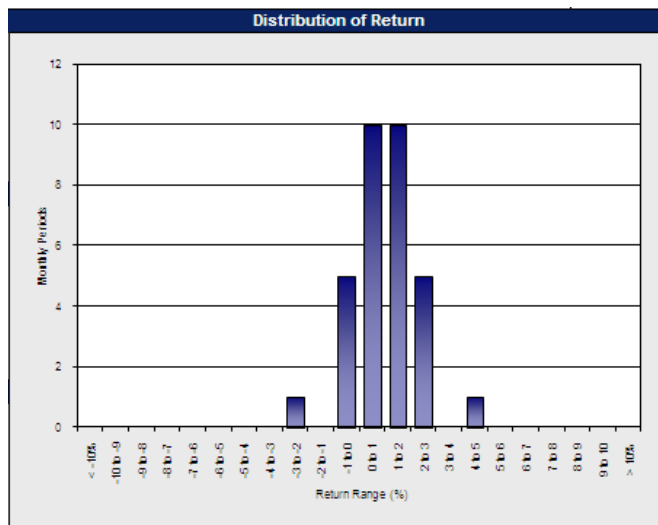


The Up Capture Ratio in the chart above measures the strategy’s compound return when the benchmark was positive. The chart clearly shows the strategy outperforming the Australian All Ordinaries Equity Index and Bank of Bermuda / Asia Hedge Australian Long Short \$A Index, by 15.17% and 29.07% respectively during up months. In addition the strategy is not “catching” the same degree of poor performance during down months,

as indicated by the Down Capture Ratio which is circa a 1/3rd of the magnitude of the benchmarks.

As expected with a market neutral strategy, Prodigal has outperformed both benchmarks on every monthly occasion they have posted negative returns and has typically only posted a negative return on 1 in every 5 months when the benchmark is lower.

Overall the strategy outperforms its relative benchmarks on 50% -60% of occasions.



No large negative outliers are present on the distribution of returns chart above and it exhibits a positive skewness. The chart illustrates a near normal distribution of returns, which is what we would expect from a systematic and factor driven research process.

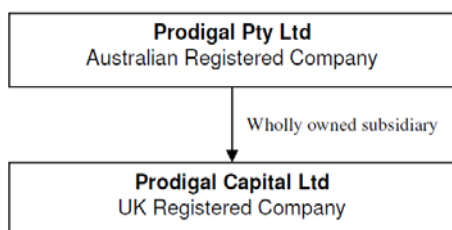
RISK / RETURN ANALYSIS

Risk	Fund	BM1	BM2
Standard Deviation	4.43%	20.37%	12.94%
Sharpe Ratio (5%)	1.50	-0.81	-0.27
Sortino Ratio (10%)	0.66	-1.24	-0.82
Downside Deviation (10%)	2.82%	18.79%	10.88%
Max Drawdown	(2.87)%	(48.65)%	(21.64)%
Months in Maximum Drawdown	1.00	14.00	14.00
Months to Recover	2.00	0.00	7.00

The strategy's Sharpe ratio is solid at 1.50, although it must be reiterated that the first 20 months of this was as part of a sub-strategy within another fund. The strategy's volatility at < 5% is excellent and significantly lower than either benchmark.

The strategy's small maximum drawdown is testament to its conservative, risk focused approach which is even more impressive when you consider the analysis includes the events of 2008.

COMPANY STRUCTURE



Prodigal Pty Ltd is an Australian registered company, operating under an Australian Financial Services Licence (AFSL 284826) and regulated by the Australian Securities and Investment Commission (ASIC).

Prodigal Capital Ltd is 100% owned by Prodigal Pty Ltd and is regulated by the Financial Services Authority (FSA). This entity enables Prodigal to act like a UK hedge fund although it has no current plans to launch a fund in this jurisdiction.

Prodigal established a UK presence in June 2009 and while a significant commitment for a boutique manager, it regards it as critical if to run a hedge fund predominately from Australia.

Structure of the Fund

The Fund is a Cayman Islands exempted company with limited liability, established in August 2009 although the strategy has a history dating back to January 2008. Prior to August 2009 the strategy was a sub-portfolio of the Prodigal Absolute Cayman Fund.

Under an Investment Management Agreement, the Prodigal Equity Relative Value Fund appoints Prodigal Pty Ltd to act as investment manager under an initial term ending July 2014 and thereafter automatically renewable for subsequent one-year terms.

The fund has two share classes – Class A for all external investors and Class B for seed investors only. Class B shares maintains a consistent investment objective and strategy to Class A but can be leveraged up to 200% of net asset value (NAV) and were established for seeding purposes. Legal segregation exists between Class A and Class B ensuring the assets of Class A cannot be used to fund margin calls or any default events of Class B. The Fund is offered under a Private Placement Memorandum (PPM) with a minimum initial subscription of US\$ 1 million.

No side letters for fees or redemption facilities exist on Class B units.

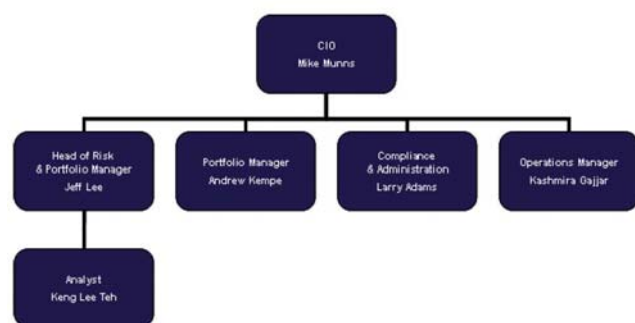
Investment Manager

The Investment Manager to the Fund is Prodigal Pty Ltd, a global hedge fund with approximately US\$100 million in funds under management established by Mike Munns (Managing Director) in January 2004. It runs two funds – the Prodigal Equity Relative Value Fund and the Prodigal Absolute Cayman Fund. The former is the fund which is being discussed in this report and deploys a relative value, Asian “pairs” strategy while the latter is a multi strategy fund blending model trading (i.e. this strategy) with convertible arbitrage and risk arbitrage strategies.

In addition to Munns, Jeff Lee (Head of Risk) joined the firm at the end of 2007 having worked with Munns previously at Merrill Lynch over an extended period. The firm is majority owned by Munns, who is the sole director

with approximately 65% equity ownership. Lee with approximately 20% ownership and Liquid Capital, a UK-based market maker, with approximately 15% ownership, own the balance. Liquid Capital helped seed the multi-strategy fund and Munns has a strong connection with the firm as its former Managing Director in Asia.

Prior to establishing Prodigal, Munns was with Merrill Lynch in a variety of roles spanning almost 10 years. Starting out as a Trader of Australian Equity Derivatives



at the firm in March 1994 Munns later moved offshore into a role heading up European operations of Equity Linked Product and Emerging Markets (Mar 1998 – Sept 2001) before becoming Global Head of Equity Linked Trading in September 2001, a London-based role he held until his departure in December 2003. Prior to Munns initial Australian based role with Merrill Lynch, he was a portfolio manager at County NatWest Investment Management (Jul 1990 – Mar 1994).

Jeff Lee started with Prodigal in 2007 having moved back to Australia in early 2004 to work in Foreign Exchange and Commodities for National Australia Bank. Before that he was in London for 4 years (Mar 1999 – Jan 2003) with Merrill Lynch, his last role as Managing Director of Emerging European, African and Latin American local market trading and credit derivatives. A citizen of the United States, Lee was spent several years working abroad in New York and London.

In June 2009 Prodigal opened a London office, which is currently headed up by Andrew Kempe, the firm's first employee, having joined in February 2006. Kempe's role is primarily focused on technology and execution although it is planned he will take on more of a client service role going forward. His role prior to joining Prodigal was General Manager, Solutions First (June 2004 – January 2006), a niche IT company providing administration consulting to the commercial and government sectors.

Turnover of staff has been minimal and not within senior ranks (three departures since 2005). Two of these departures were analysts (single role) although the current employee in this position, Keng Lee Teh, has been with the firm since December 2008. The other departure was a sales / marketing role (David Cambridge), with the firm

deciding this role could no longer be carried in-house, post 2008. In mid 2009 Prodigal formed a relationship with Parker Point, a third party marketing business, to assist in the organising of road shows / initial meetings and general capital introduction.

Two non investment roles exist within Prodigal - a compliance and administration role (Larry Adams, Australian based) and an Operations Manager (Kashmira Gajjar, London based).

Overall Zenith is of the opinion the organisational structure of the firm is solid with the two key investment personnel having worked alongside each other for many years and having complimentary skills. While Munns is more trading / market savvy and tends to take the lead on arbitrage trades, Lee is more detail orientated and tends to take the lead on convertibles. The firm's London presence gives it an "edge" over many of its local peers in terms of proximity to the important European market (in terms of capital introduction) and its capability in trading ADR's / cross border M&A activity.

Importantly Prodigal principals are invested alongside other investors in the same underlying strategy, albeit in a different unit class which provides greater leverage, to the tune of circa \$5 million.

Investment Philosophy

The Fund seeks to offer investors access to unleveraged, highly liquid (monthly; 20 days), low volatility, low beta strategies via a relative value approach applied to the Asian markets. The Fund is targeting absolute returns rather than those linked to any particular benchmark portfolio. The Fund's investment strategy is based on a belief that through a thorough understanding of all available securities, and through rigorous analysis, a portfolio can be created that is biased towards positive outcomes.

Aiming to profit from the spread volatility of highly correlated equity pairs using proprietary models, the Fund typically comprises exposure to over 50 highly liquid large capitalisations stocks. At the "heart of it", it's a mean reversion strategy.

The Fund is essentially the "Model Trading" component "carved out" of its absolute, multi-strategy fund. The other two strategies traded in the multi-strategy fund are Convertible Arbitrage (20-25 positions across Asia, ex Japan, diversified across equity and credit exposures) and Risk Arbitrage (15 – 20 deals, investing only in M&A post deal announcement). Being a model trading system, there is no human intervention.

Investment Process

The strategy starts by analysing the approximate 400 "pairs" contained within its proprietary database. Of these roughly 150 "pairs" are fundamentally or statistically

correlated and form the investible pool from which trades will be identified. Not all trades are strict pairs, a trade can be two stocks against a single stock.

While the name of the Fund may suggest otherwise, Prodigal is not “value” driven in this strategy but rather driven by historical and social factors. For example what are the assets, who owns them and are they fundamentally correlated.

Examples of trades in this strategy may include:

- two listed entities which own the same underlying assets;
- a parent and wholly owned subsidiary but separately listed;
- non-fungible American Deposit Receipts (ADR's).

Factors assessed on these trades include:

- how stable is the relationship (any drift, if large don't invest, tends to examine a minimum 5 years, in many cases 10 years+);
- how volatile (normal number 30%); and
- the profile of its mean revision (the faster it mean reverts the greater the opportunity typically, typically biggest driver of P&L).

Prodigal has found the majority of the opportunities in this strategy exist in Asia, often as a result of a greater volatility.

The Manager is typically targeting a 10% return target from each trade for new positions, although it would consider an opportunity below this level if it added to portfolio diversification.

Portfolio Construction

While the fund is predominately focused on all Asian markets, it can trade other markets (for example the US, UK and Europe) where Asian based companies may have listed ADR's, common equity or preference shares. Furthermore while it will comprise of a majority of common equity, it may also hold positions in preference shares, ADR's and GDR's. It does not however use any other instrument types (i.e. derivatives) except in the situation where some assets are held in vanilla equity swaps in markets where shorting rules may otherwise encumber efficient trading (typically approximately maximum 5 at any point in time). These swaps are not used for the provision of leverage.

From the investment process approximately 25-40 pairs with an average market capitalisation of over US\$10 billion are identified.

The Fund's biggest opportunities exist in Hong Kong and Japan (the latter being cheap and liquid) while it doesn't trade India, given it's unable to “short”.

As at 31 July 2010 the Fund's gross country exposure was as follows – Hong Kong (32.5%), Japan (30.4%), South Korea (13.8%), Singapore (10.3%), US (3.9%), Taiwan (2.6%), Malaysia (2.3%), Australia (1.8%), Europe (1.2%) and Indonesia (1.2%). The Fund tends to not invest across Emerging Asia countries such as Vietnam, Philippines and Cambodia.

The Fund's total exposure comprised 50.99% in “shorts” and 49.02% in “longs”, giving it net exposure of 1.97%. The Fund's average gross exposure has historically been 70% and as low as 40%.

As at 31 July 2010 the Fund's gross sector exposure was Consumer Discretionary (26.7%), Industrials (22.4%), Financials (16.0%), Telecommunication Services (16.5%), Utilities (11.6%), Materials (6.3%) and Energy (0.6%).

Capital is typically allocated roughly evenly between trades of the portfolio. Deviations from equal weight are influenced by the risk return profile of each trade and largely based on historical back testing. Typically trades are between 3% - 7% of at risk capital allocated.

Cost is a parameter on how much / often the strategy trades. The Fund pays on average 0.04% per trade with the biggest cost being stamp duty (5 – 15 bps a “side”, Korea / Taiwan / Hong Kong / Singapore). Like most high frequency strategies a significant proportion of each trade is “paid away” on brokerage and stamp duty (estimated circa 20% of profit).

While the Manager doesn't foresee its strategy being arbitrated away, it does recognise that their are capacity limits on the strategy that will cap FUM.

The Fund has no beta exposure and is fully hedged for foreign currency. The Manager believes current capacity constraints will exist at approximately US\$400 million. Trade frequency is daily across the portfolio (with over 1/3rd of trades adjusted each day), with portfolio turnover averaging 12 times per annum.

Risk Management

One of the key risk management tools the Manager utilises is the fundamental relationship which is the subject of the spread trade and this must have been in existence for several years and give every indication of existing indefinitely. To this extent the Manager will back test every capital structure on the same basis as used in the live portfolio. In addition each position within the portfolio is monitored for potential changes in the fundamental relationship by examination of management discussion and analysis, news and third party research.

Other risk management measures include:

- Net exposure of the Fund typically doesn't move beyond 5% (on average < 2%);
- No leverage used on USD Class A units (which is what investors will invest into);
- Solid liquidity is maintained across portfolio given all instruments exchange listed and traded, targeted minimum average daily trading volume US\$ 10 million and a large capitalisation focus (i.e. average market cap US\$10 billion);
- Trade positions are typically evenly weighted and any deviations are generally limited to a maximum 7.5% weight (normally between 3% - 7%);
- The Manager actively manages sector and country diversification;
- The Manager considers sovereign risk and broadly speaking breaks this down into 3 categories – high, medium and low risk. Low risk countries such as Japan, Hong Kong, Singapore and Australia have no portfolio limits placed on them and can comprise up to 100% of the portfolio. Medium risk limited up to 25% of the portfolio and high risk (i.e. Indonesia, Malaysia, onshore China) and can comprise up to 10% of the portfolio; and
- Stop loss on trades – set at twice expected spread;

In Zenith's opinion risk management on the Fund is a strong blend of the qualitative and quantitatively defined measures and is the responsibility of Head of Risk, Jeff Lee. Woven into the fabric of portfolio construction the risk management discipline is an important component of the Fund, if it is to maintain its beta-neutral, sector-neutral and currency-neutral strategy.

Risks of the Fund

Key person risk – while Fund's process is a "model" driven approach, the founder Mike Munns is the driving force behind its capability and his departure would trigger a re-examination of any endorsement.

Manager risk - ability for Prodigal to deliver on its stated fund objective through the successful implementation and execution of its investment process.

Capacity risk – while the strategy is still significantly under its \$US400 million capacity, the manager is sensitive to the capacity limits of the strategy and the potential for lower strategy returns if the capacity threshold is breached.

Performance risk – while the Fund is looking for a large number of small incremental winning trades, the Manager expects 90% -95% of trades to be profitable which is a high success rate and an inability to achieve this may pose a significant performance risk.

Business risk – with only circa US\$100 million in FUM across the Group, Prodigal is considered boutique and emerging. In existence since 2004 it is yet to achieve any real critical mass in terms of size which brings with it greater business certainty.

Leverage risk – the Fund may pledge its securities in order to borrow funds and leverage Class B units, importantly there is complete legal segregation between Class A and Class B of the fund ensuring that assets of Class A can not be used to fund margin calls or any default events of Class B.

Liquidity risk – under certain market conditions liquidity of a particular market or security may be restricted thus affecting the performance of the Fund. To assist in mitigating this, the fund concentrates on listed securities and considers trading volumes and market capitalisation. Furthermore we witnessed during 2008 Prodigal kept open all funds during the financial crisis, whereas many in the marketplace utilised "lock ups" and "gates".

Track record – while the Fund has only been in existence since August 2009 and doesn't have a long track record, Zenith does take some comfort in the fact that the strategy has been run as a sub portfolio in the Prodigal Absolute Cayman Fund since January 2008.

Market / Economic risk – the Fund is subject to the vagaries of market and economic conditions (i.e. interest rates, political developments, currency, inflation etc) and the affect these may have on fund performance.

This is not meant to be an exhaustive list of all risks associated with the Fund and investors should consult the Private Placement Memorandum (PPM) for further detail on risks factors.

Fees

The Investment Manager is entitled to a 2% per annum management fee, payable monthly in arrears. A performance fee equal to 20% of the increase in NAV is accrued monthly and paid semi-annually. A high water mark exists on the performance fee.

ADMINISTRATION & OPERATIONS

Operations

The Directors of the Fund have overall authority over, and responsibility for, the operations and management of the Fund. The Directors accordingly do not take part in the day to day operations and administration of the Fund but review on a periodic basis the performance of the Investment Manager and Administrator.

The two directors of the fund are Abali Holett and Alison Martinson, both Vice Presidents at Walkers Fund Services Limited, a licensed Cayman Islands Trust Company and Mutual Fund Administrator. Walker Funds Services is part of the broader Walkers Group, which was

founded in 1964, employs some 500 staff in eight offices worldwide and specialises in legal and management services to global corporations and financial institutions, capital markets participants, investment fund managers and middle market companies.

Service Providers

The Fund's key service providers are listed below:

Prime Broker – Merrill Lynch International, London. All settlement and custody is carried out by the Prime Broker.

Auditor – Deloitte & Touche, Cayman Islands. The year end for the fund is 30th June and the audit is carried out soon thereafter.

Fund Administrator – Citco Fund Services, Cayman Islands. Fund pricing and asset reconciliations are performed monthly by the administrator. The fund has put in place anti money laundering procedures which are maintained by the administrator with oversight from Larry Adams and Andrew Kempe from Prodigal.

Legal Counsel – DLA Phillips Fox.

Pricing

Fund pricing is carried out monthly by the administrator (Citco Fund Services) in accordance with the PPM. As the fund administrator Citco is responsible for verifying the price and quantity of all assets held in the fund. In addition, cash amounts in the application and redemption account are held by Citco, these are the only assets of the fund not held by the Prime Broker.

Transparency

The Manager provides investors with monthly reporting and is able to send out weekly estimates of fund returns upon request. Large potential and current investors can also access various ad hoc risk reports upon request.

Disaster Recovery

The Manager undertakes an onsite daily backup, offsite daily backup and maintains an onsite mirrored server (which backs up the main server every 5 minutes). Onsite and offsite back ups are stored in daily increments and can be restored to any day within the last 120 days. The Manager also ensures that all month end backups are kept permanently. A disaster recovery site is maintained 5 km for the Prodigal office by Solutions First, this allows for full management of the Fund. Furthermore the Fund can be managed in whole or part by either the Sydney or London office interchangeably.

Trading

The Investment Manager utilises Trading Screen (via Morgan Stanley and Credit Suisse) and Newport (owned by Nomura, ability to trade spreads). The Investment Manager has a preference for DMA trading with the majority of trades carried out via these platforms,

provided by several brokers. The Investment Manager also utilises pair algorithms provided by a variety of brokers.

Compliance

Within Australia the responsible compliance officer for the Investment Manager is Larry Adams, supported by external legal advisors, DLA Phillips Fox. Prodigal maintains a written compliance manual in line with ASIC requirements and deals with personal accounts and dealing, compliance breaches etc.

In the UK, Andrew Kempe is the authorised representative and compliance officer for Prodigal Capital Limited. The company maintains a written compliance manual and a compliance monitoring program with periodic testing of all compliance procedures.

Risk Management

Risk is monitored primarily in real time using an internal proprietary system (previously used external system, Imagine). Daily reports are provided by the Prime Broker and used as an independent check on internal systems. The Investment Manager carries out cash and asset reconciliations daily.

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