



## Auscap Long Short Australian Equities Fund Newsletter – December 2014

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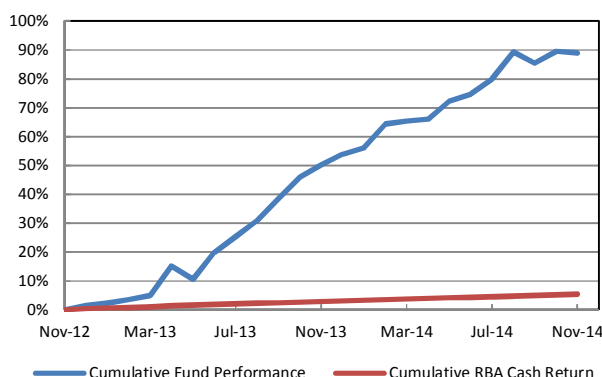
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**Welcome**

Welcome to the Auscap newsletter, an opportunity for us to report the performance of the Auscap Long Short Australian Equities Fund (Fund+) to current and prospective investors. In each publication we will also discuss a subject that we have found interesting in our research and analysis of the market. We hope that you enjoy reading these snippets and encourage any feedback. In this edition we look at a few key consumer indicators as we enter the important end of year retail trading period.

**Fund Performance**

The Fund returned minus 0.43% net of fees during November 2014. This compares with the benchmark return of 0.21%. Average gross capital employed by the Fund was 149.2% long and 30.6% short. Average net exposure over the month was +118.6%. At the end of the month the Fund had 35 long positions and 9 short positions. The Fund's biggest stock exposures at month end were spread across the financials, consumer discretionary, healthcare, telecommunications and materials sectors.



**Fund Returns**

Period	Auscap	Benchmark
November 2014	(0.43%)	0.21%
Financial Year to date	8.00%	1.05%
Calendar Year to date	22.64%	2.30%
Since inception	88.80%	5.41%

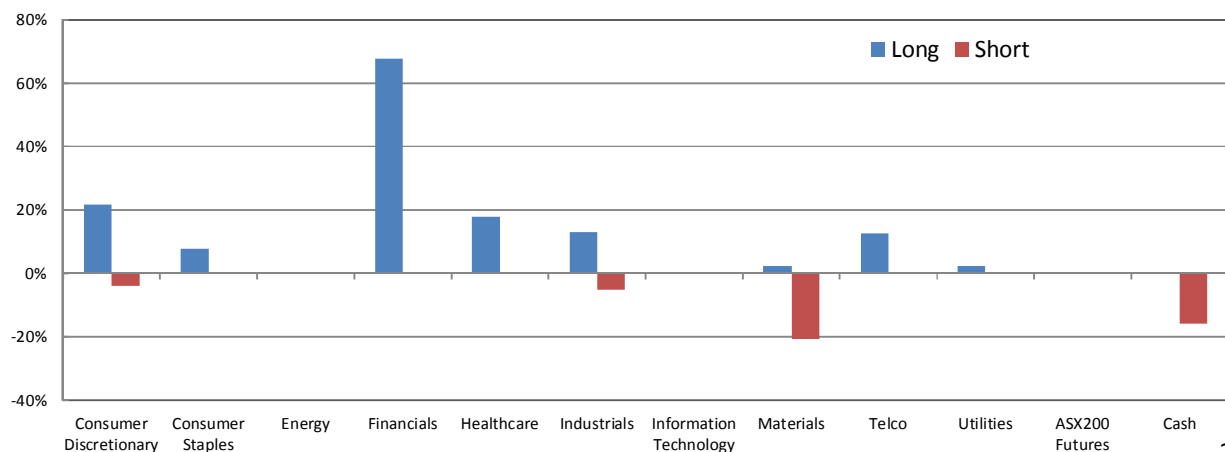
**Fund Exposure**

November 2014 Average	% NAV	Positions
Gross Long	149.2%	32
Gross Short	30.6%	9
Gross Total	179.8%	41
Net / Beta Adjusted Net	118.6%	89.8%

**Fund Monthly Returns**

Year	Jul %	Aug %	Sep %	Oct %	Nov %	Dec %	Jan %	Feb %	Mar %	Apr %	May %	Jun %	YTD
FY13						1.35	0.74	1.23	1.46	9.83	(4.05)	8.32	19.72
FY14	4.70	4.28	5.84	5.46	2.86	2.57	1.32	5.32	0.70	0.29	3.82	1.48	46.01
FY15	2.95	5.24	(2.09)	2.25	(0.43)								8.00

**Sector Exposure - 30 November 2014**

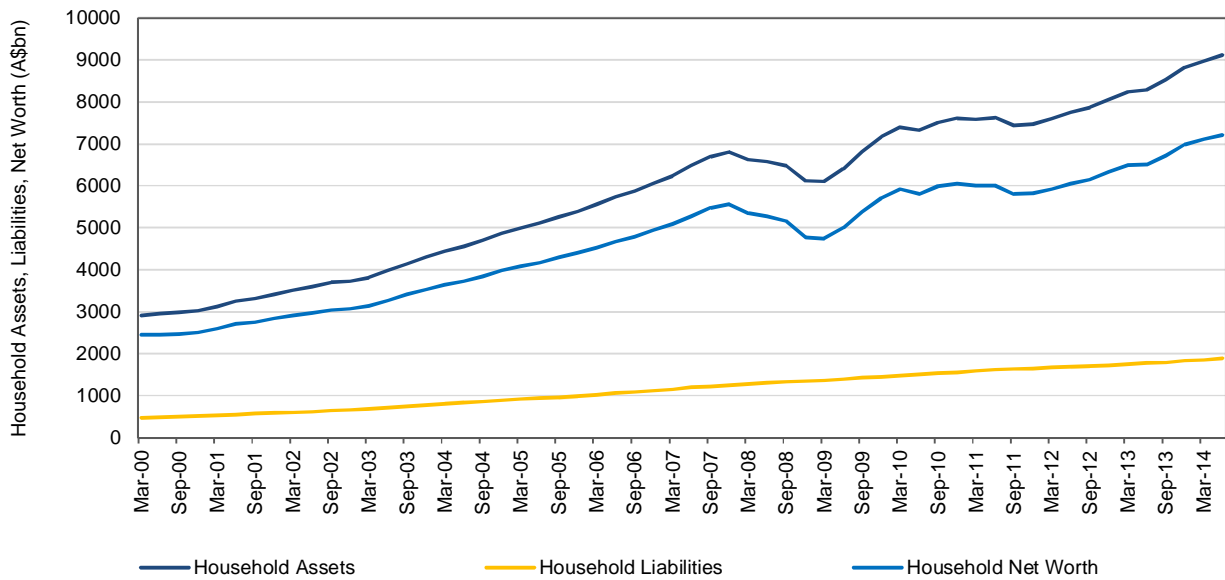


## Time To Go Shopping? A Few Consumer Observations

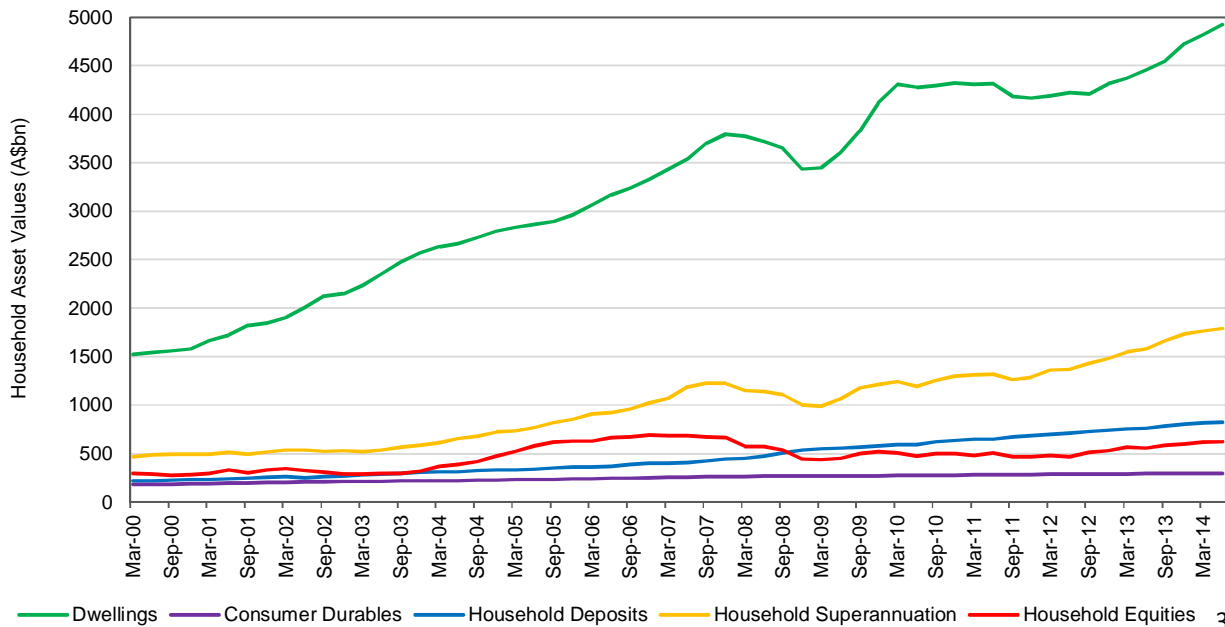
The festive season is a critically important period for retailers. A significant proportion of their profits come from the pre- and post-Christmas period. Generally forecasts for this season have been negative and expectations low. In that context we thought it worthwhile to analyse some of the key metrics affecting consumer sales to draw a few general conclusions with respect to the current trading environment. These indicators include household wealth, unemployment, consumer confidence, interest rates, household debt and oil prices.

### The Positives

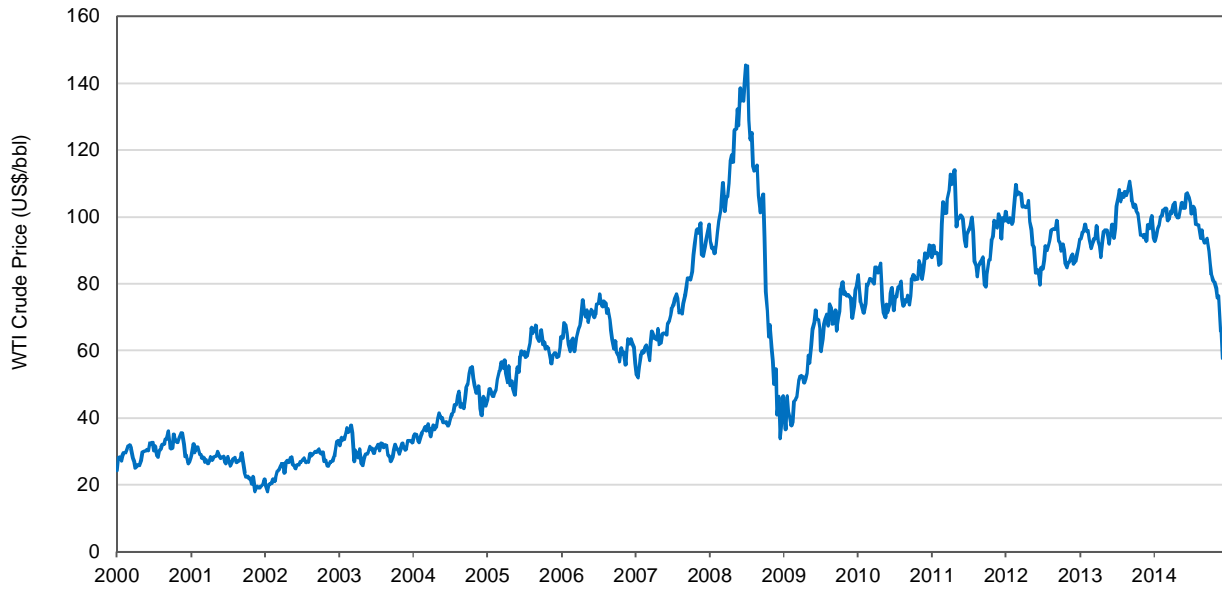
**Australian Household Net Worth** has risen consistently over recent years.



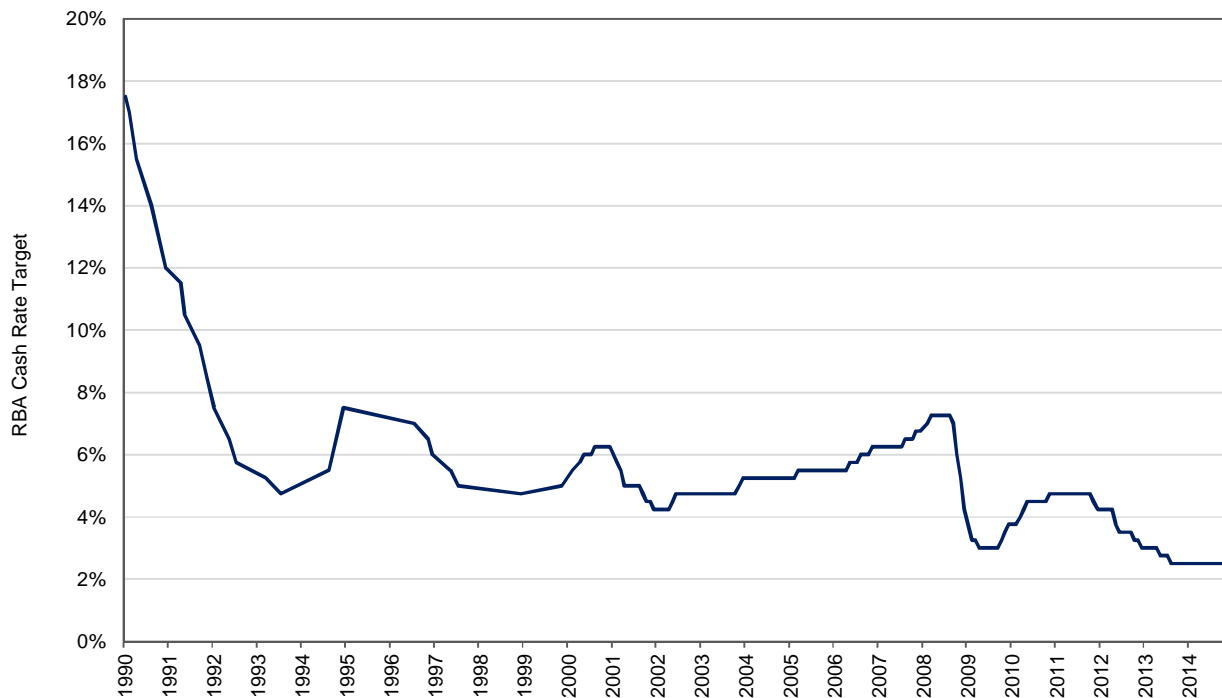
**Australian Household Assets** have been increasing with rising dwelling prices. Superannuation and household deposits have also increased meaningfully to boost average household net worth.



**Falling oil prices** should be good for the consumer.



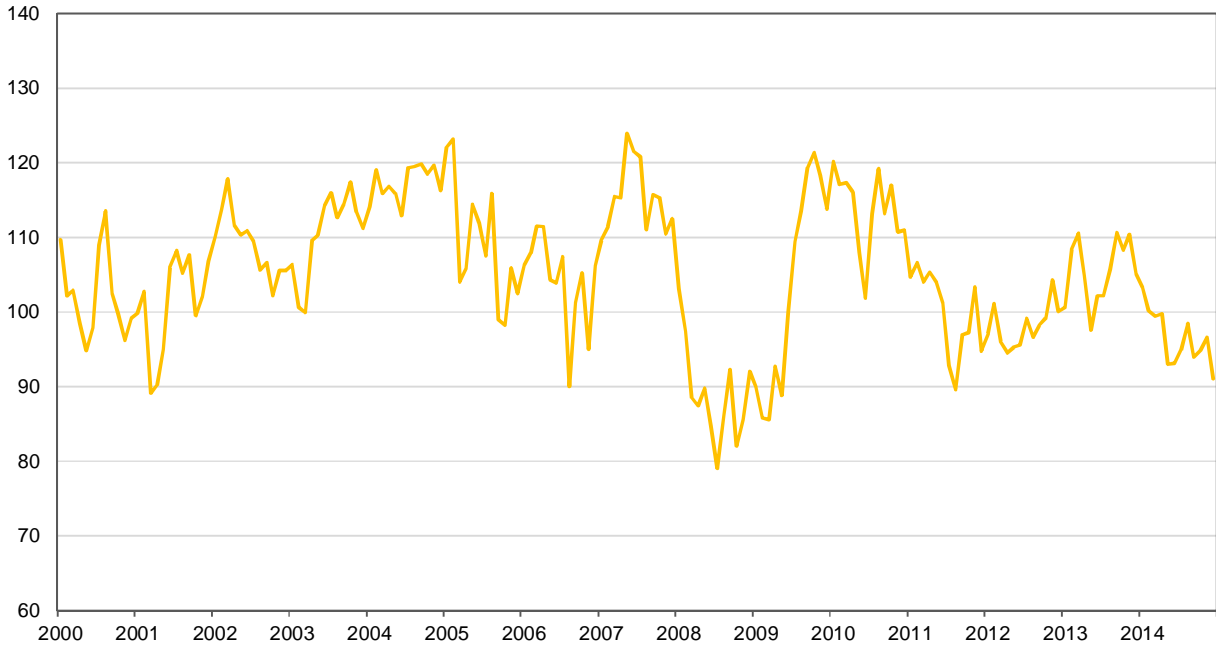
**The RBA Cash Rate** is low, thereby reducing household borrowing costs.



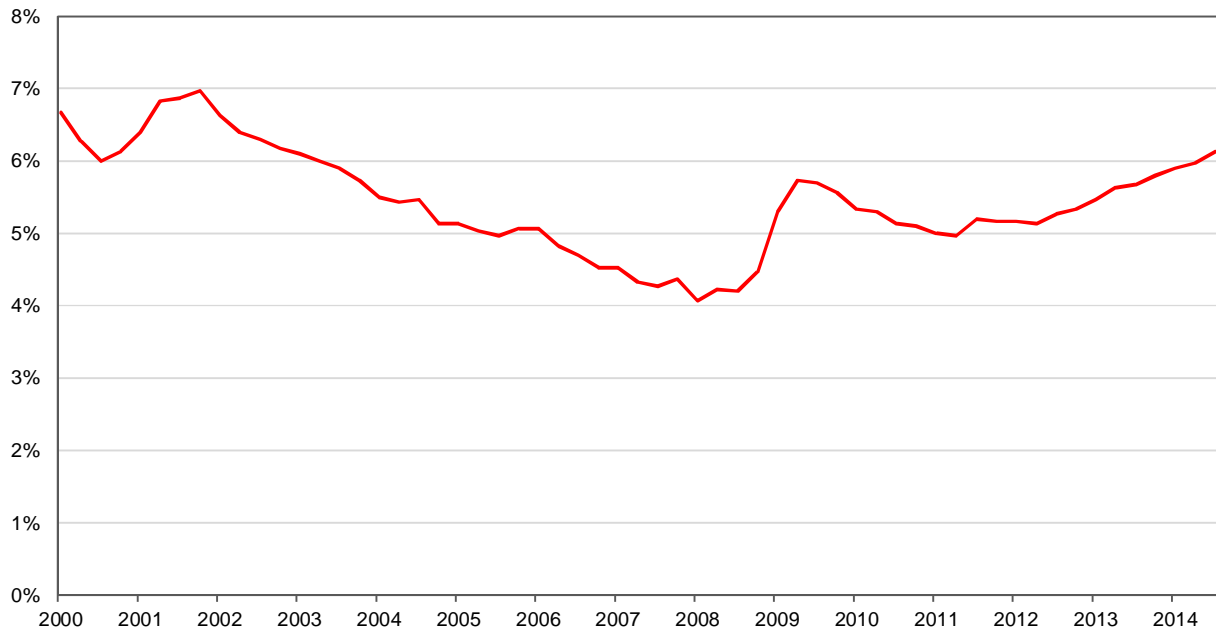
Growing household wealth, stimulatory monetary policy settings and increasing discretionary income are all positive for consumer spend. Conversely, there are also some considerable near term and frequently discussed headwinds for the domestic economy that include low consumer confidence, rising unemployment and rising debt.

**The Negatives**

The **Westpac Consumer Confidence** indicator demonstrates broadly negative sentiment.

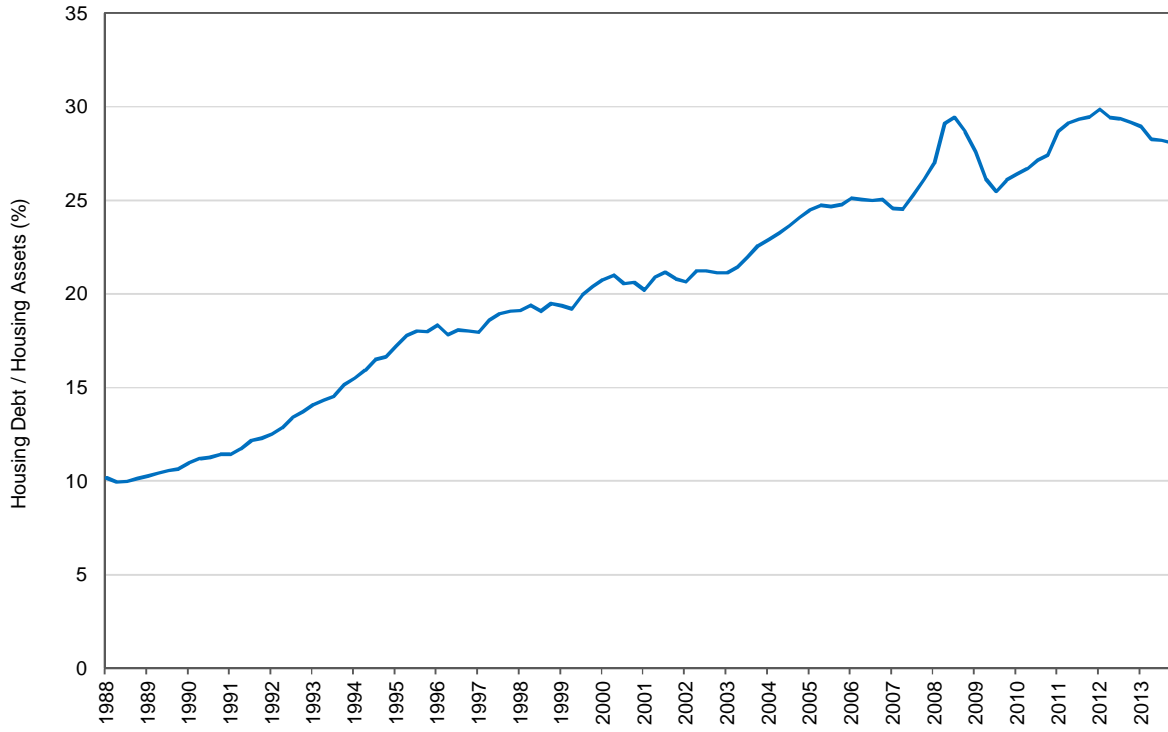


The **Australian Unemployment Rate** has been rising and is predicted to continue rising.

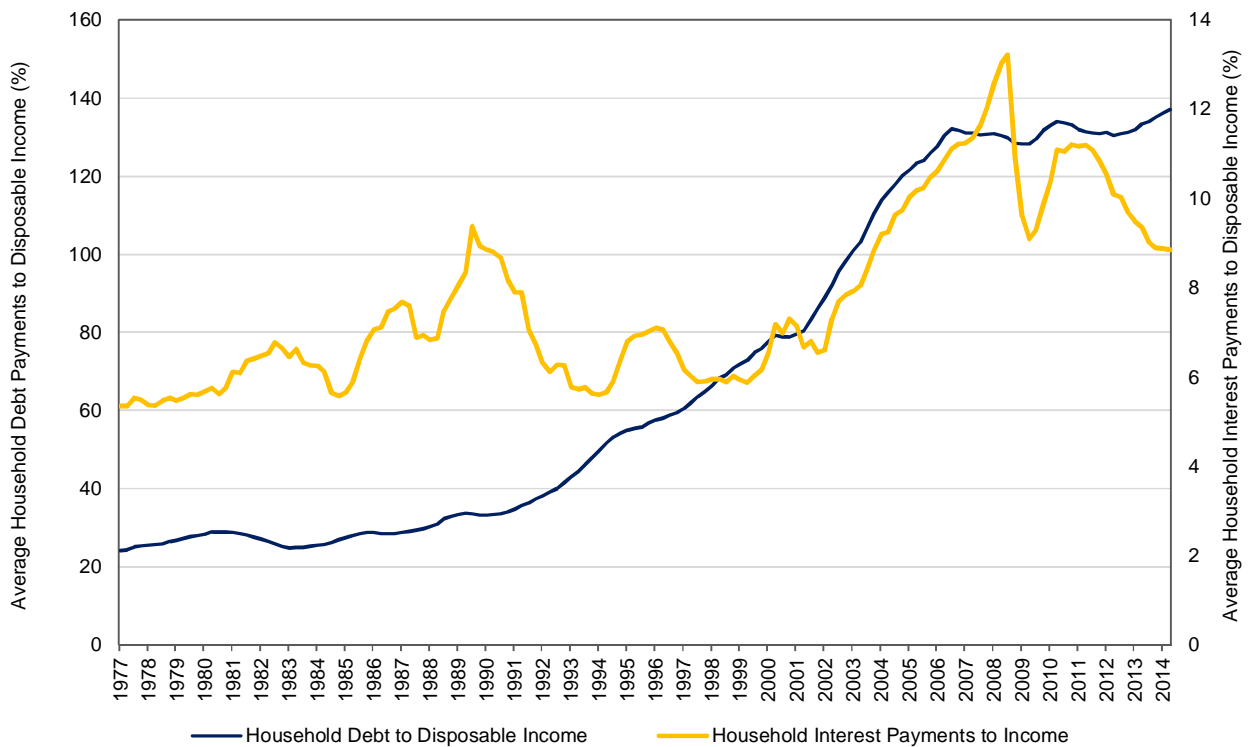


While consumer confidence is prone to significant swings, arresting the rise in unemployment will require longer term solutions. The tailwinds that drove Australia's GDP growth over the last decade . mining investment and mining exports . are now acting in reverse and continue to act as a headwind to growth and, potentially, employment.

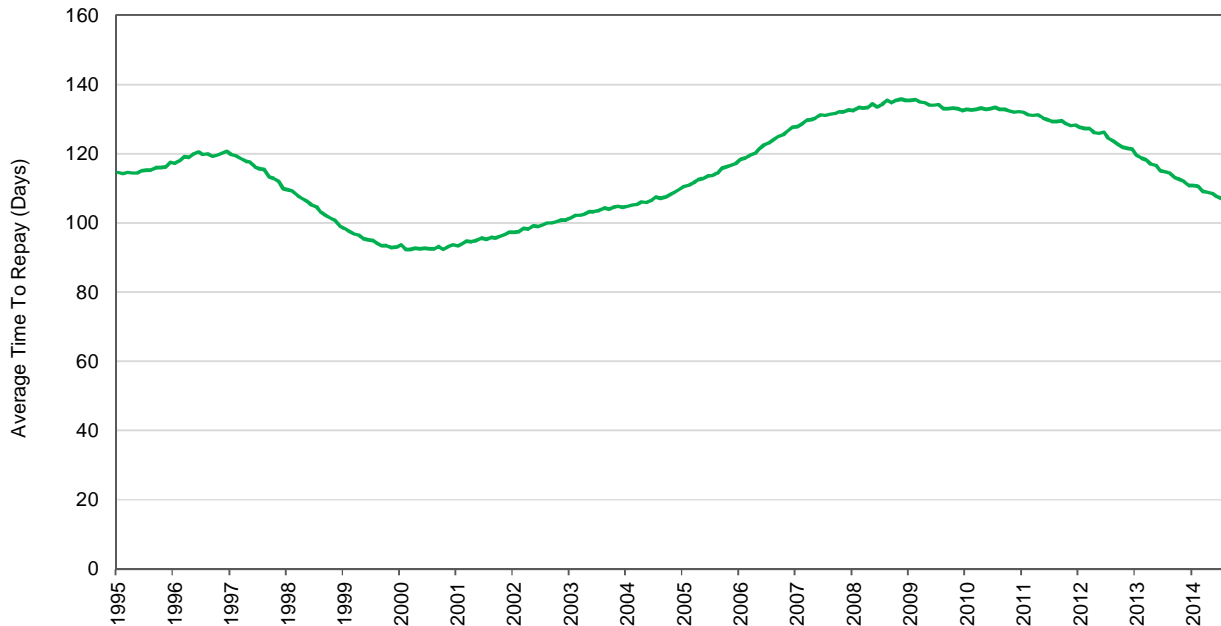
**Housing Debt to Housing Assets** has been increasing.



**Household Debt to Disposable Income** is at historically high levels. However interest payments are not excessive in the context of household income due to low interest rates.



And the **Average Time It Takes To Repay Credit Card Debt** has been falling.



The conflicting consumer signals make it difficult to assess the state of the consumer discretionary market. Retailers will be hoping for a strong end to the year. Markets appear to be pricing in a subdued trading environment. What will happen to the stock market in 2015? We don't know and do not try to predict its direction. As the economist John Kenneth Galbraith stated so eloquently, "there are two types of forecasters: those who don't know, and those who don't know they don't know." We will continue to analyse investment opportunities focusing on buying high quality cash producing businesses when they happen to trade at attractive prices.

As this is the last newsletter for 2014 we would like to wish all of our staff, service providers, investors and newsletter readers a happy and safe festive season! We appreciate your continued support and readership and hope that 2015 is an enjoyable, healthy and prosperous one for all. We look forward to communicating with you in the new year.

***If you do not currently receive the Auscap Newsletter automatically, we invite you to register.*** To register please go to the website [www.auscapam.com](http://www.auscapam.com) and follow the registration link on the home page. Interested wholesale investors can download a copy of the Auscap Long Short Australian Equities Fund Information Memorandum at [www.auscapam.com/information-memorandum](http://www.auscapam.com/information-memorandum). We welcome any feedback, comments or enquiries. Please direct them to [info@auscapam.com](mailto:info@auscapam.com).

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