



Auscap Newsletter

Auscap Long Short Australian Equities Fund

NOVEMBER 2020

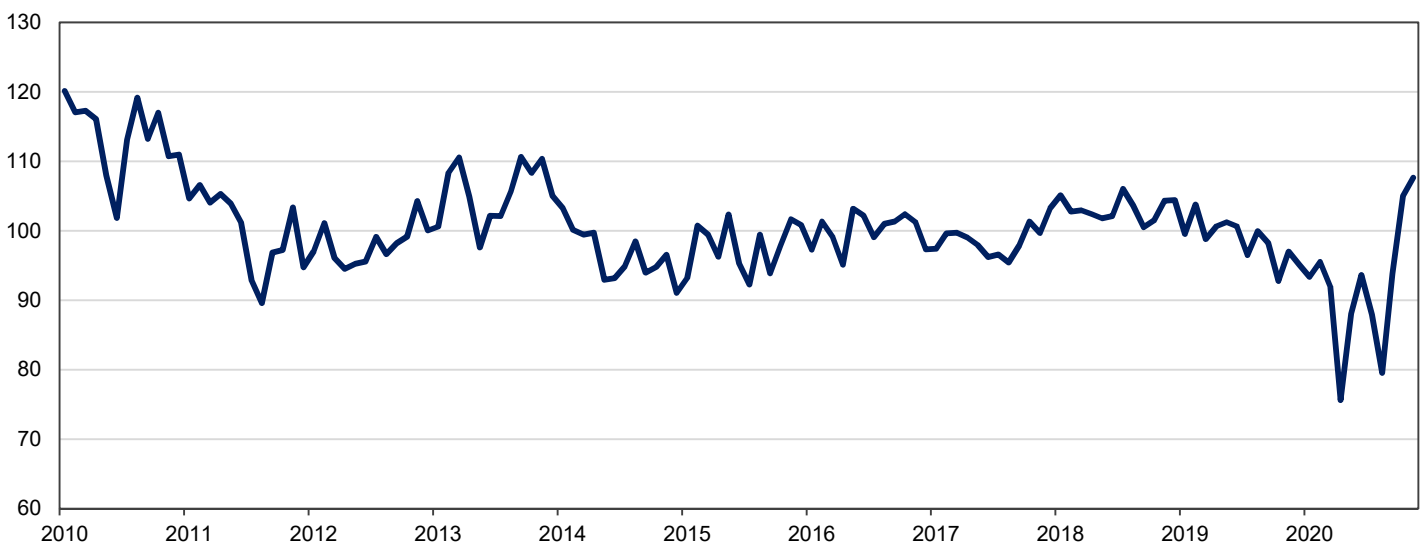
AUSCAP ASSET MANAGEMENT

Can Confidence Create The Conditions For Growth?

Australia’s improving domestic management of the COVID-19 pandemic, an end to the lockdowns in Victoria and Melbourne in particular, vaccine progress, fiscal stimulus and political developments in the United States over the last few months appear to have provided a very significant boost to consumer and business confidence. Whether this is enough to see animal spirits emerge and economic growth prosper in 2021 only time will tell. However, the correlation between some of these confidence indicators and economic indicators suggest there are reasons for optimism.

The Westpac Melbourne Institute’s Consumer Confidence Index has seen a significant improvement with the most recent reading of 107.66 being the highest reading since 2013.

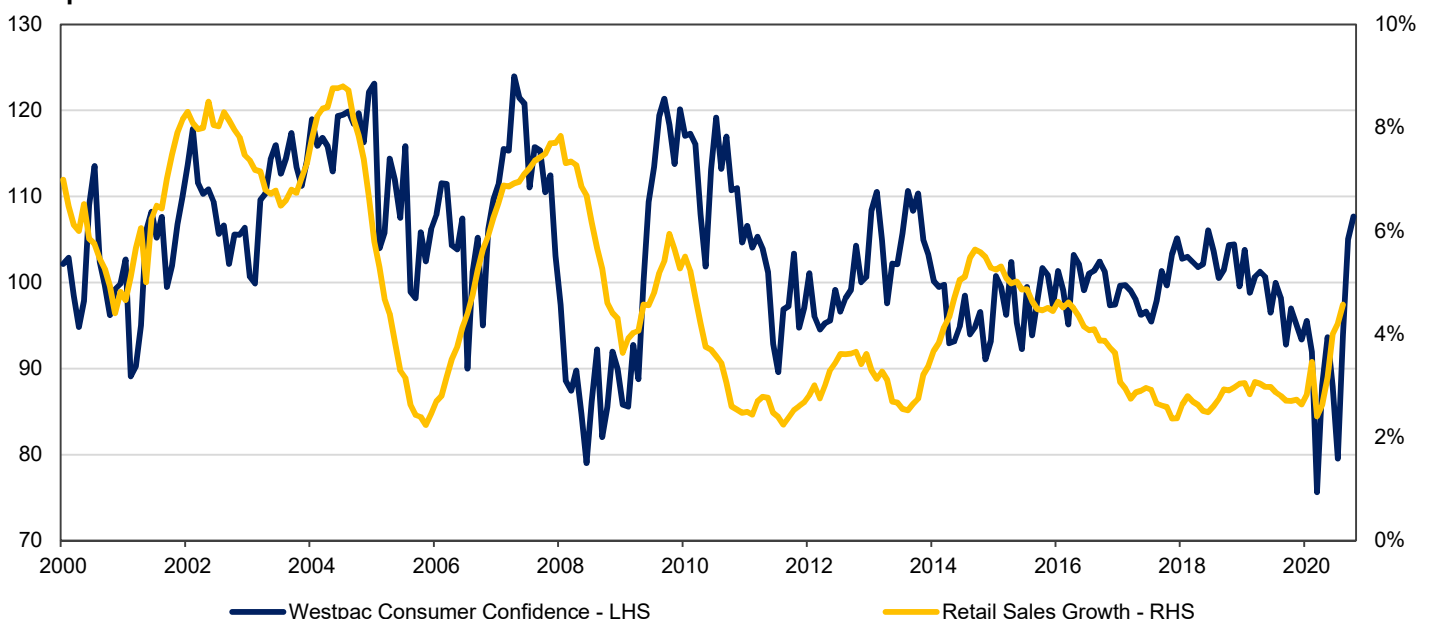
Westpac Melbourne Institute Consumer Confidence Index



Source: Bloomberg, Auscap

Consumer confidence has been a reasonable lead indicator for retail sales historically, specifically when the changes in consumer confidence have been significant. This is important given consumption is the largest component of Australia’s Gross Domestic Product (GDP).

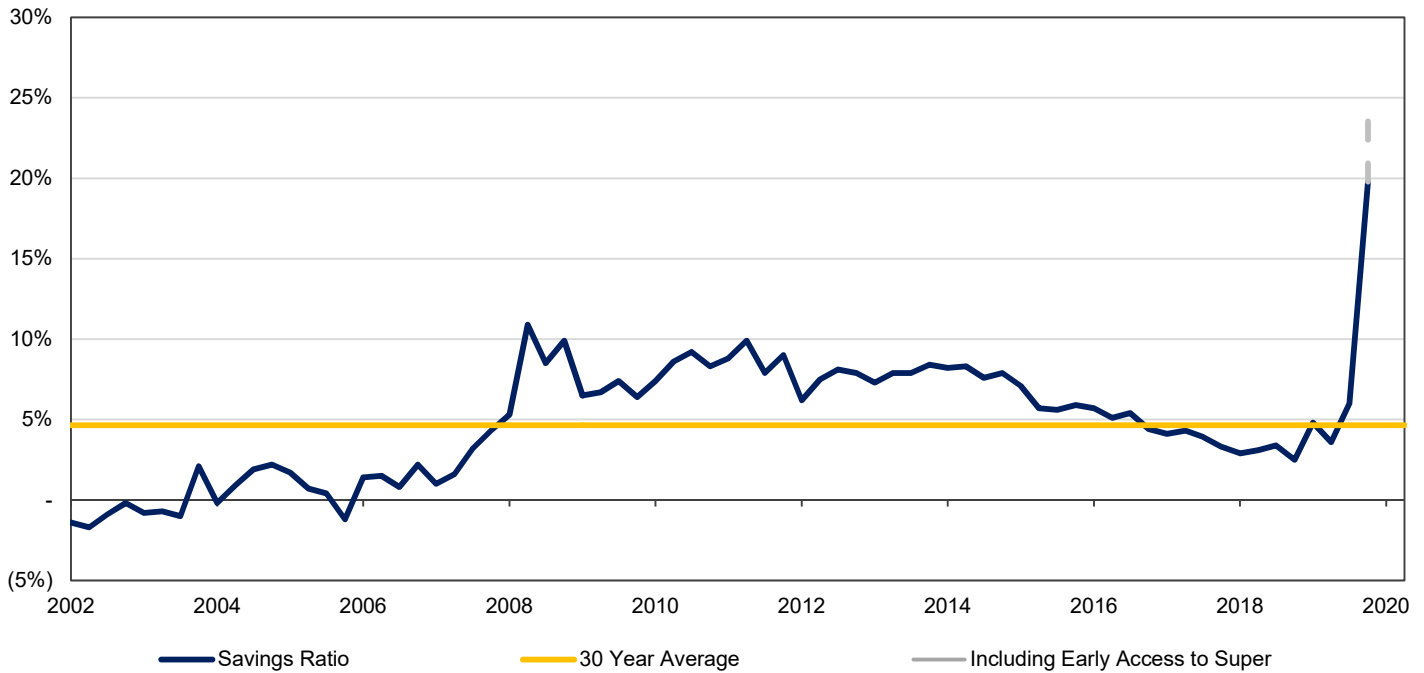
Westpac Consumer Confidence Index vs Retail Sales Growth



Source: Australian Bureau of Statistics, Bloomberg, Auscap

The Household Savings Ratio has lifted in the last 6 months to 19.8%, or 24.8% if superannuation withdrawals are included, allowing significant household balance sheet repair.

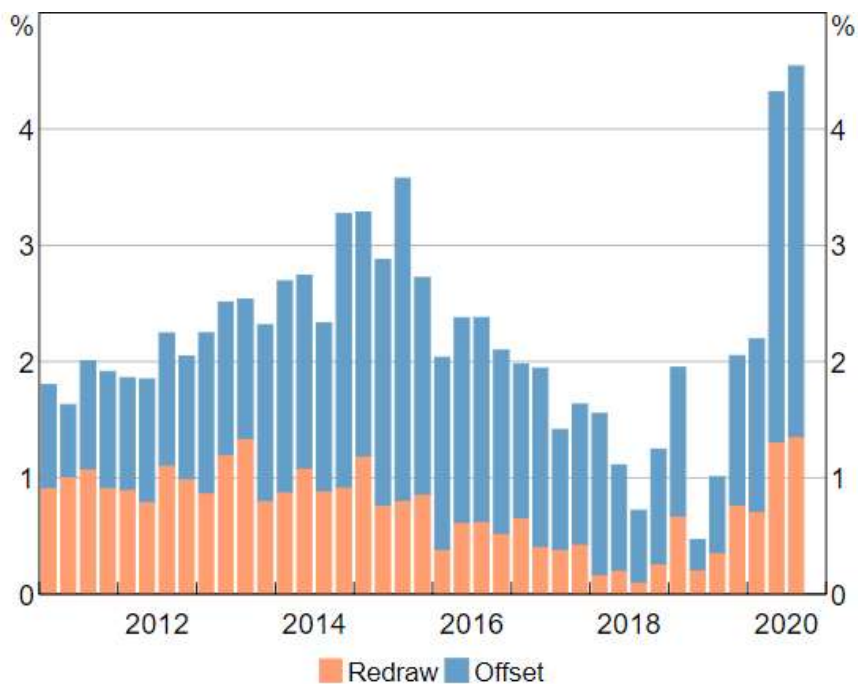
Household Saving Ratio



Source: Australian Bureau of Statistics, Auscap

The Reserve Bank of Australia has estimated that around 5% of household disposable income has flowed into offset and redraw accounts since March 2020, providing households with a savings cushion in the event of further unforeseen economic disruption.

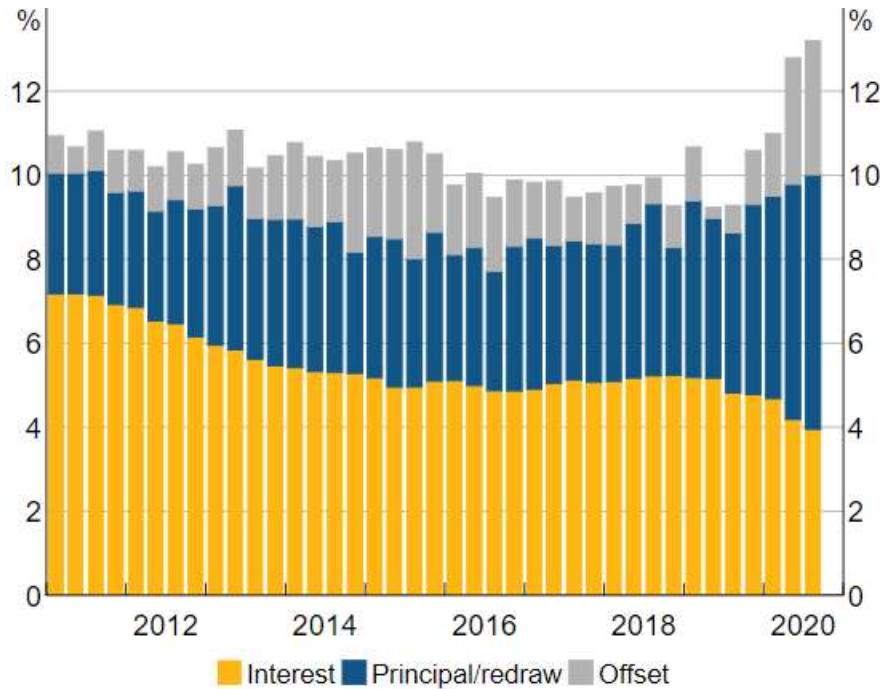
Flows Into Offset and Redraw Accounts (Share of Disposable Income)



Source: Reserve Bank of Australia

Reductions in interest rates have resulted in lower interest payments and higher housing loan principal repayments.

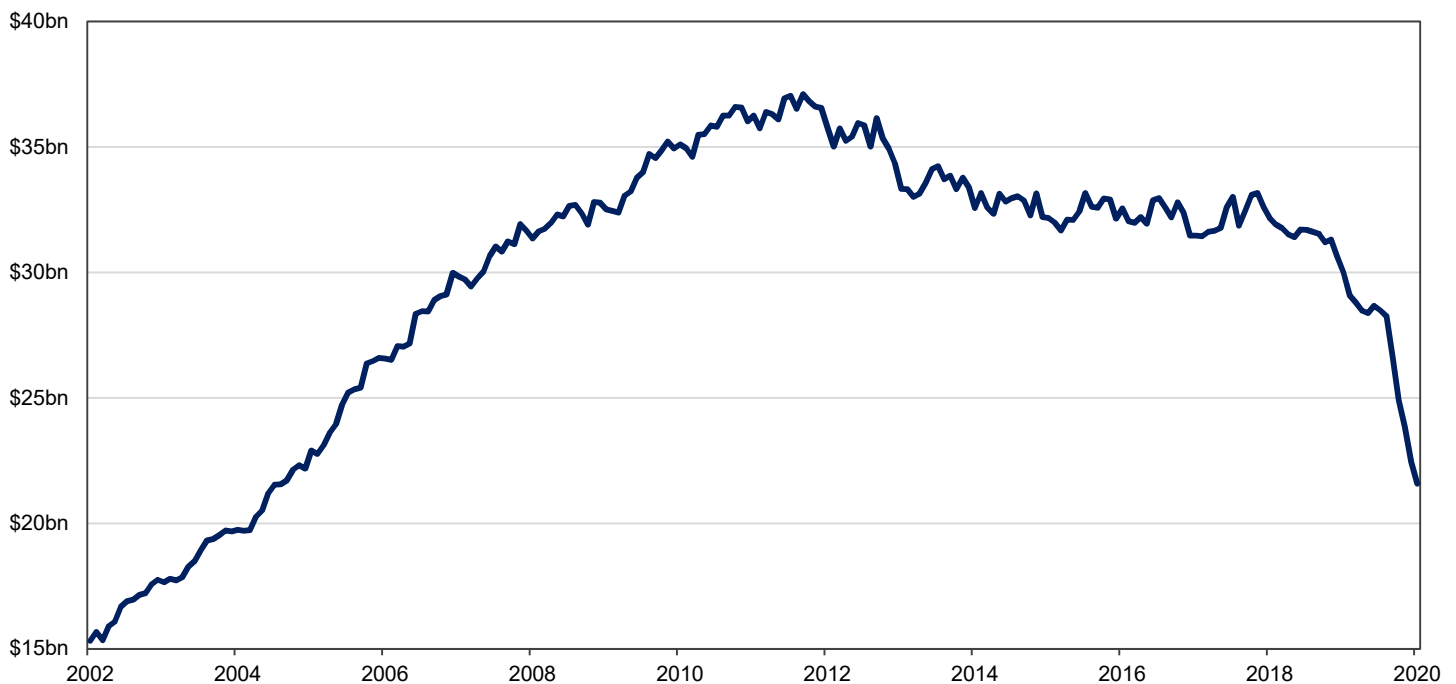
**Flows Into Housing Loan and Offset Accounts
(Share of Disposable Income)**



Source: Reserve Bank of Australia

Credit card repayments have also been a feature of 2020. Higher savings, falling housing debt balances and lower outstanding credit card balances provide ample capacity for retail consumption to increase in an economic recovery.

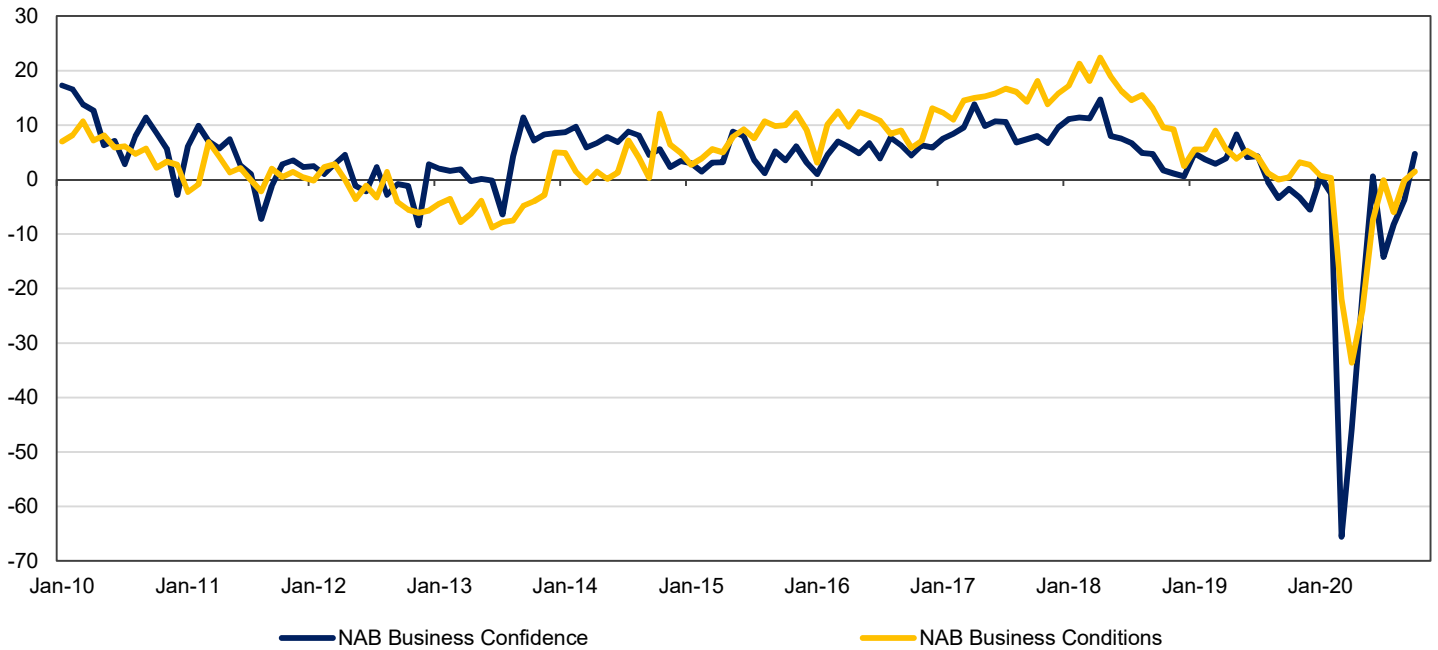
Australian Credit Card Balances Accruing Interest



Source: Reserve Bank of Australia, Auscap

National Australia Bank’s Business Confidence Index has also seen a material improvement in the last few data points, suggesting that businesses are feeling more optimistic about the economic outlook. This rise has been matched by an improvement in the Business Conditions Index suggesting that the fiscal and monetary policy support is having a positive impact on business operating conditions. Trading conditions, profitability, forward orders and capacity utilisation have all shown improvement in recent months.

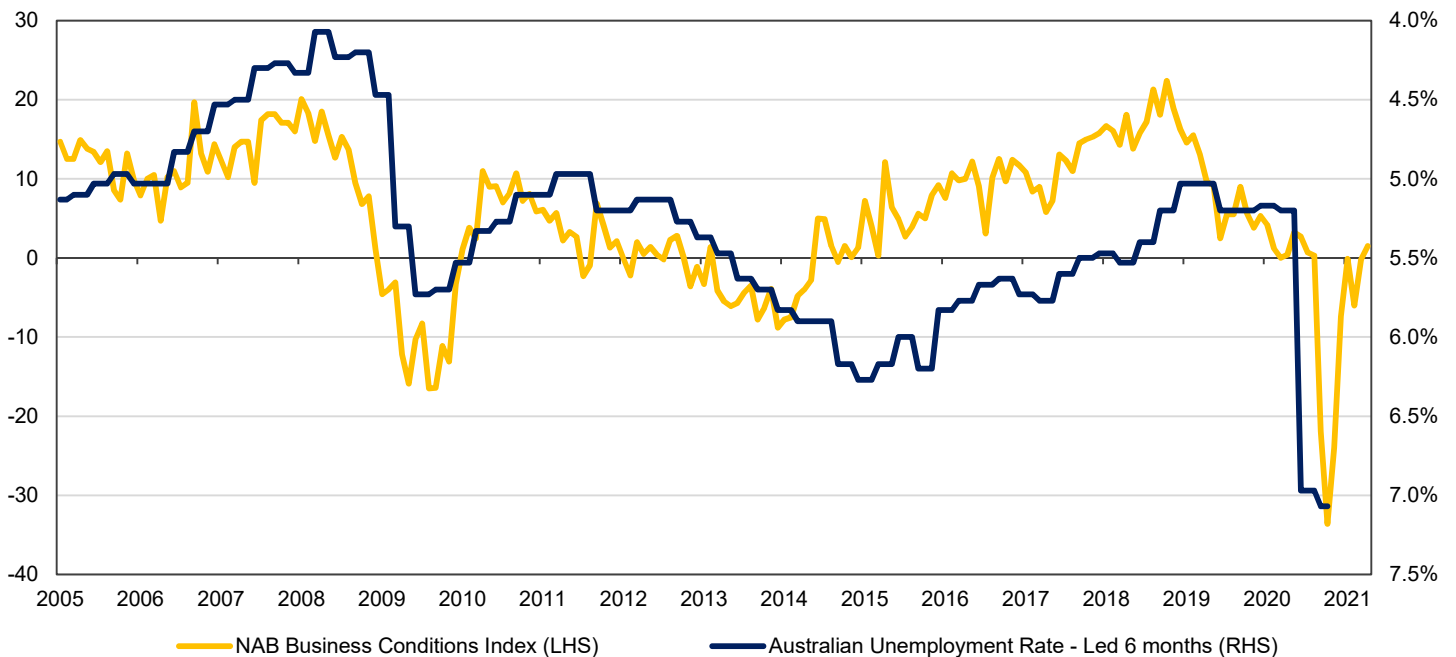
National Australia Bank Business Confidence and Conditions Indices



Source: Bloomberg, Auscap

This could potentially be good news for unemployment. Historically the NAB Business Conditions Index has been a reasonable lead indicator for a fall in the unemployment rate.

The NAB Business Conditions Index Leads Changes In The Unemployment Rate



Source: Bloomberg, Auscap

There are a variety of positive signs emerging for the Australian economy as we look forward to 2021. As Reserve Bank of Australia Governor Dr Philip Lowe said on the 16th of November, “*the recent data have been better than expected and the easing of restrictions has lifted spirits*”. We will be discussing these economic indicators and providing an update on the Auscap Long Short Australian Equities Fund at 2pm on Thursday 19 November. We would be delighted for you to join us.



Please join Tim Carleton - Principal & Portfolio Manager

for a webinar followed by Q&A on the following topics:

What is the outlook for the economy coming out of the COVID-19 recession?

How the portfolio is positioned

To register your interest,

please visit our website www.auscapam.com/upcoming-events.

Please register to access the live webinar
and the recording available post the event.

Thank you to those who have already registered.

Please use Firefox, Safari or Google Chrome for registration and viewing.

Auscap Long Short Australian Equities Fund

Fund Performance*

Period	Auscap	All Ords
October 2020	7.7%	2.1%
Financial Year To Date	19.6%	3.3%
Since Inception	159.9%	92.8%
Annualised Returns	12.8%	8.7%

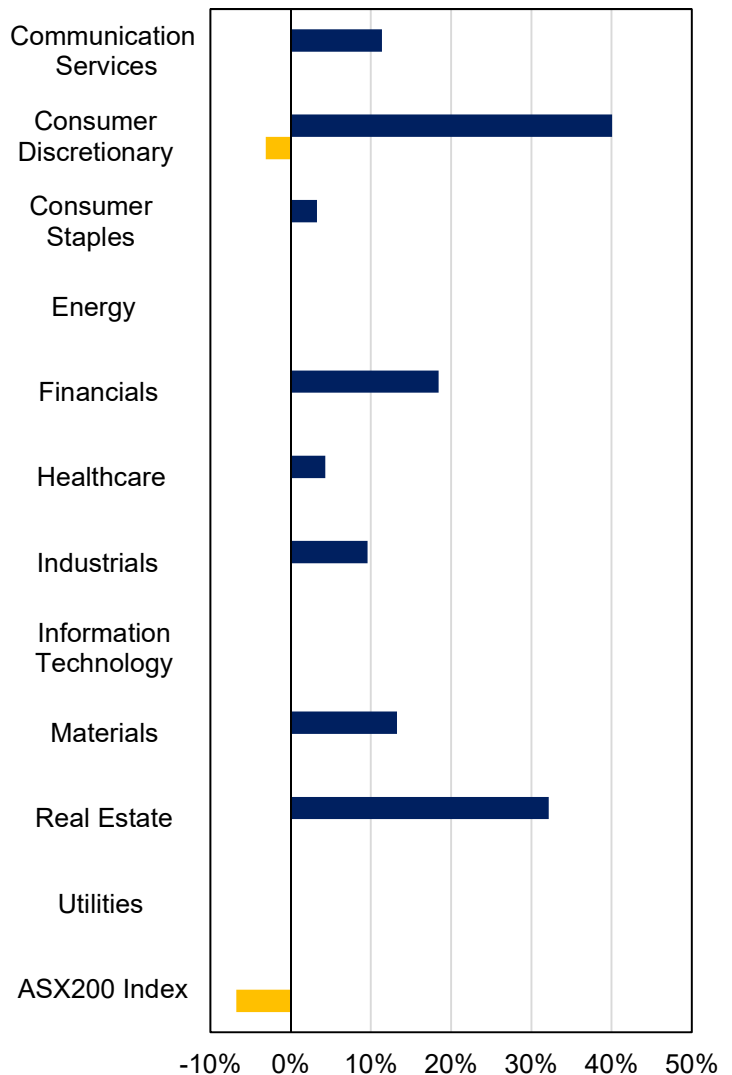
Fund Exposures

October 2020 Average	% NAV	Positions
Gross Long	131.0%	53
Gross Short	9.8%	3
Gross Total	140.8%	56
Net / Beta Adjusted Net	121.2%	144.8%

Portfolio Commentary

The Fund returned 7.7% net of fees during October 2020. This compares with the All Ordinaries Accumulation Index return of 2.1%. Average gross capital employed by the Fund was 131.0% long and 9.8% short. Average net exposure over the month was 121.2%. Over the month the Fund had on average 53 long positions and 3 short positions. The Fund’s biggest exposures over the month were spread across the consumer discretionary, real estate, financials and communication sectors.

Sector Exposure - October 2020



Top 10 Investments[^]

Aventus Group	Motorcycle Holdings
Carsales.com	Nick Scali
Eagers Automotive	NZME
GDI Property Group	Super Retail Group
Mineral Resources	Virgin Money UK PLC

Fund Financial Year Returns*

FY13	19.7%	FY18	12.7%
FY14	46.0%	FY19	(9.2)%
FY15	16.8%	FY20	(19.9)%
FY16	20.1%	FY21	19.6%
FY17	8.0%		

* Performance figures are calculated for the lead series net of all fees and expenses assuming the reinvestment of all distributions. Past performance is not a reliable indicator of future performance.

[^] Top 10 long investments in alphabetical order as at 31 October 2020.

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