

# Auscap Long Short Australian Equities Fund

## Newsletter – November 2019

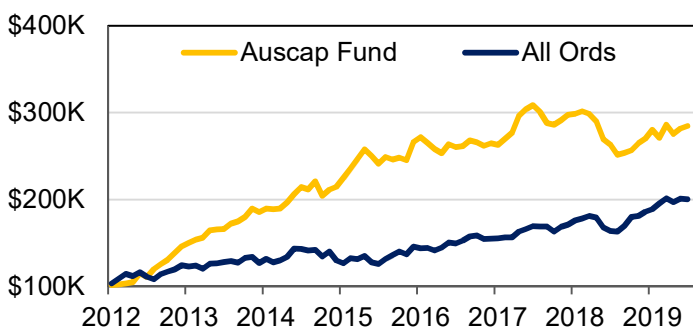
### Fund Performance\*

Period	Auscap	All Ords
October 2019	1.1%	(0.4%)
Financial Year To Date	5.0%	2.4%
Since Inception	184.7%	100.1%
Annualised Returns	16.3%	10.6%

### Portfolio Commentary

The Fund returned 1.1% net of fees during October 2019. This compares with the All Ordinaries Accumulation Index return of negative 0.4%. Average gross capital employed by the Fund was 120.4% long and 7.9% short. Average net exposure over the month was 112.5%. Over the month the Fund had on average 29 long positions and 5 short positions. The Fund's biggest stock exposures at month end were spread across the real estate, consumer, financials, communication services and materials sectors.

### Fund Performance\*



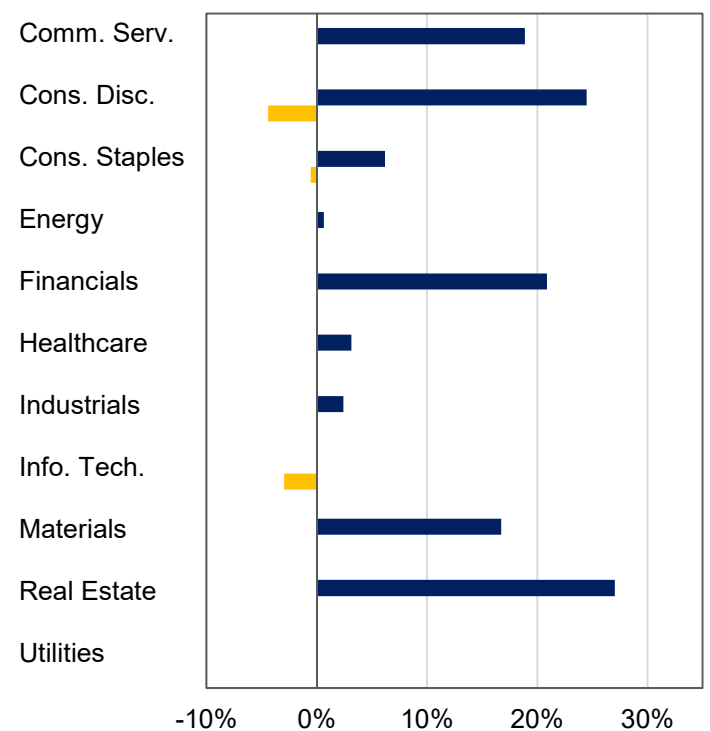
### Fund Financial Year Returns\*

FY13	19.7%	FY18	12.7%
FY14	46.0%	FY19	(9.2%)
FY15	16.8%	FY20 (YTD)	5.0%
FY16	20.1%	CY19	13.2%
FY17	8.0%		

### Fund Exposures

October 2019 Average	% NAV	Positions
Gross Long	120.4%	29
Gross Short	7.9%	5
Gross Total	128.3%	34
Net / Beta Adjusted Net	112.5%	99.0%

### Sector Exposure - October 2019



### Top 10 Investments^

Blackmores	Mineral Resources
CYBG	National Australia Bank
GDI Property Group	Nine Entertainment
JB Hi-Fi	Super Retail Group
Macquarie Group	Unibail-Rodamco-Westfield

\* 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 2019.

## Opportunities For The Global Value Investor

### Auscap Global Equities Fund launched!

After many years of consideration and preparation, the exciting opportunities that we are seeing in various global markets have driven our decision to launch the Auscap Global Equities Fund (Global Fund) as of 1 November 2019.

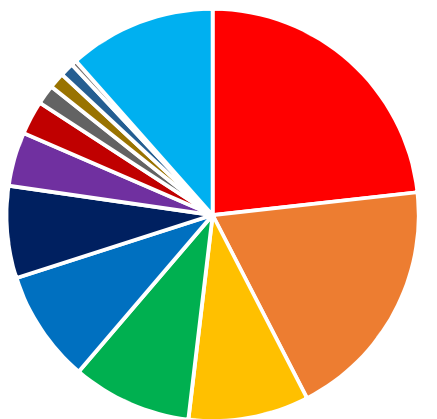
#### Why global?

More than ever before we live in a connected world. Australians are typically consumers of global brands and are able to access these brands locally. What is happening on a global scale is increasingly relevant for Australian consumers, businesses and investors. Paying attention to global trends, themes, disruption and developments can uncover significant investment opportunities abroad and is becoming more important for successful domestic investing. Major trends are often identified in other markets before we witness them in Australia. Focusing solely on an investment universe of Australian listed companies can risk being ignorant of developments that will positively or negatively affect Australian businesses.

Australian investors are under-invested in international companies. According to the September 2018 SuperConcepts self-managed super fund (SMSF) investment patterns survey, the average SMSF allocation to global equities is only 15.2% compared to 36.2% for Australian equities. Part of the reason for this lower allocation comes from the difficulty of investing directly into international equities. Dealing with the different exchanges, currencies and the administration requirements of foreign markets can be challenging, time consuming and cumbersome. We hope that the Auscap Global Equities Fund provides a path for eligible investors to access high quality international businesses that we believe represent compelling value.

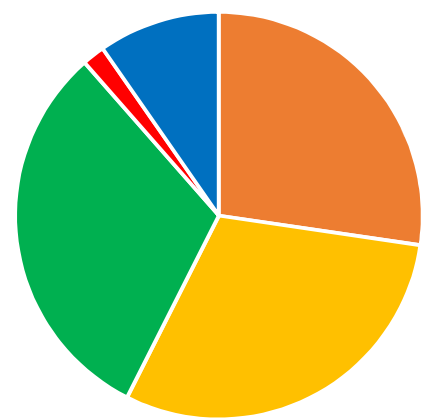
The Auscap Global Equities Fund will have a strong value and quality bias. The Auscap Global Equities Fund's current exposure by country of listing and by market capitalisation classification is shown below. The portfolio will be diversified by region and sector, with a bias towards large capitalisation and often well known companies. It is anticipated that the Global Fund will have a developed market bias.

**Auscap Global Equities Fund Geographic Exposure**



- United Kingdom
- USA
- Hong Kong
- France
- Netherlands
- Australia
- Spain
- Germany
- Sweden
- Canada
- South Korea
- India
- Cash

**Auscap Global Equities Fund Long Investments**

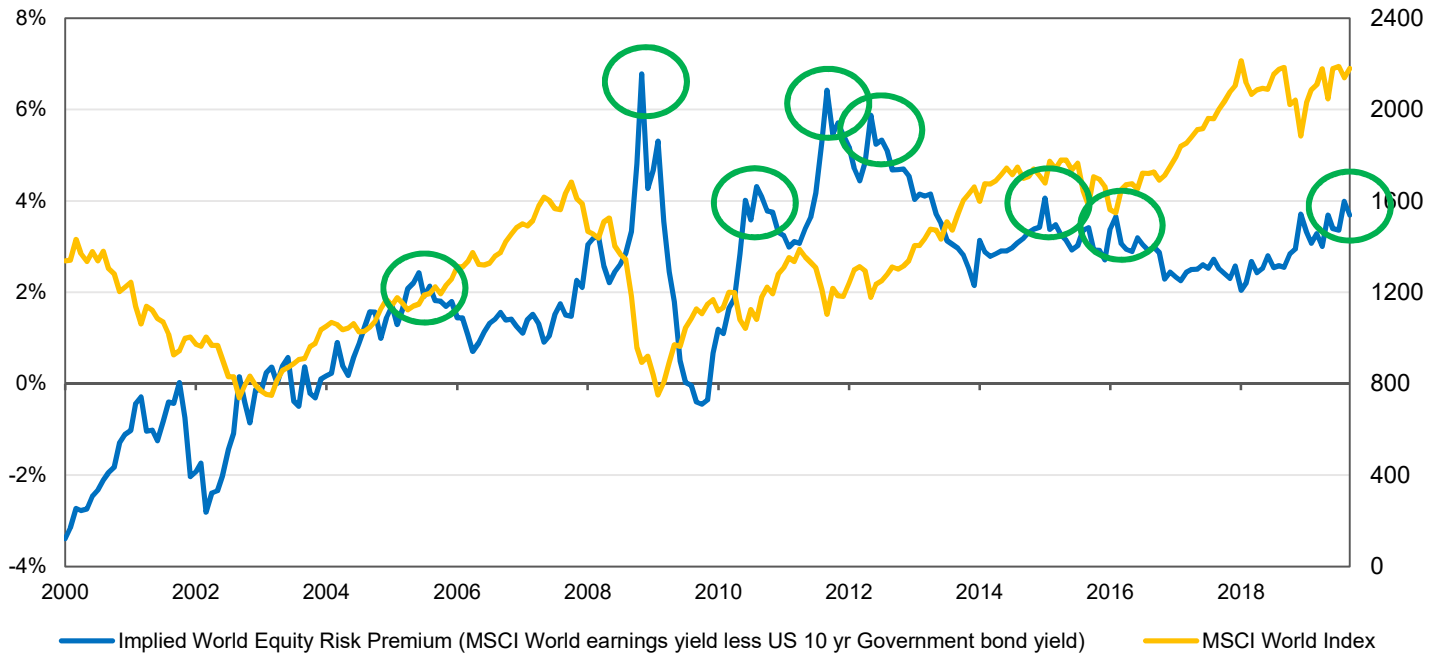


- Mega-cap (> A\$100bn)
- Large-cap (A\$10bn-A\$100bn)
- Mid-cap (A\$2bn-A\$10bn)
- Small-cap (<A\$2bn)
- Cash

#### Why now?

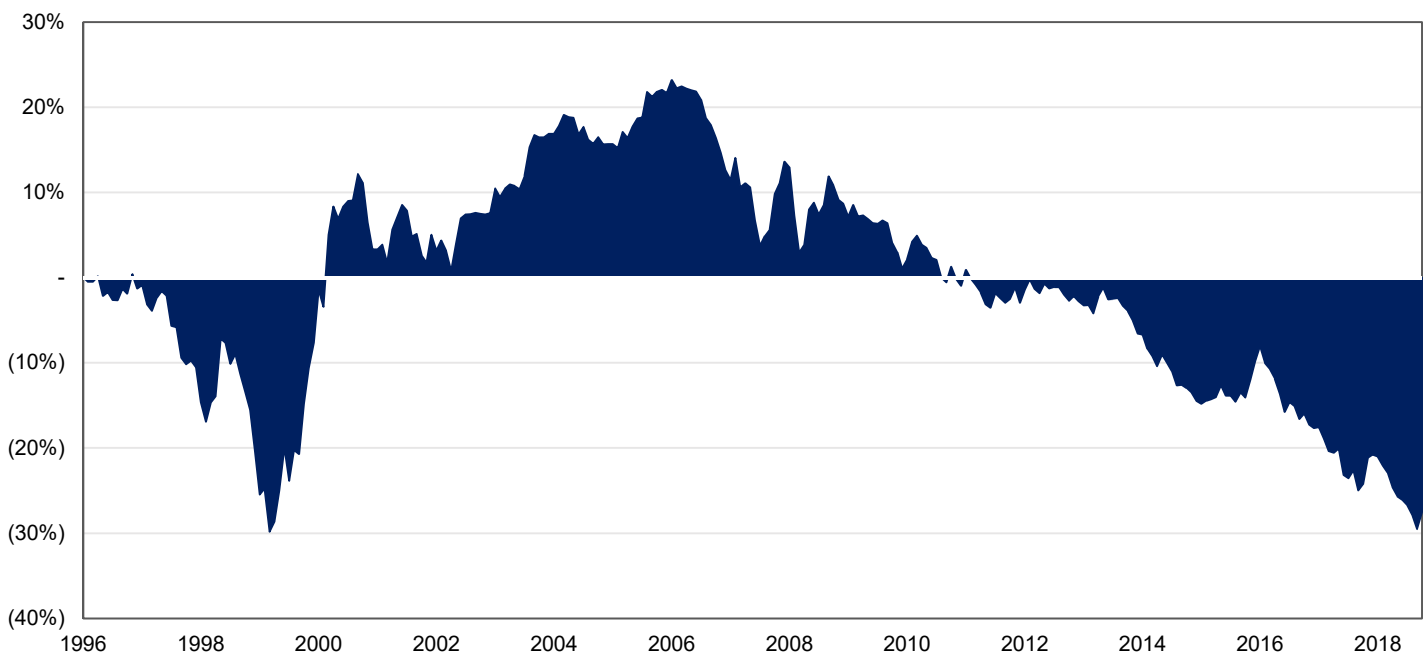
With the recent decline in global interest rates, the implied equity market risk premium, or the amount an investor is being paid to compensate for the risk of investing in equities over Government bonds, is elevated. Apart from the height of the Global Financial Crisis of 2009 and the Eurozone crises of 2011 and 2012, buying stocks when the equity risk premium has been as high as it is today has historically been a profitable exercise. Of course, the equity risk premium can decline as a result of either stock prices rising, bond yields rising, or both.

## Equity Market Risk and Yield Premiums



Further, it is well known that value investing has underperformed growth investing as a strategy for a long time. This trend is most clearly illustrated by analysing the relative performance of the MSCI World Value and the MSCI World Growth Indices shown below. A rising chart indicates value outperforming growth, a falling chart the converse. Value as a strategy has now underperformed to the same order of magnitude as it had at the height of the dotcom boom of the late 1990s, with growth outperformance peaking in February 2000, while the Nasdaq peaked one month later in March 2000.

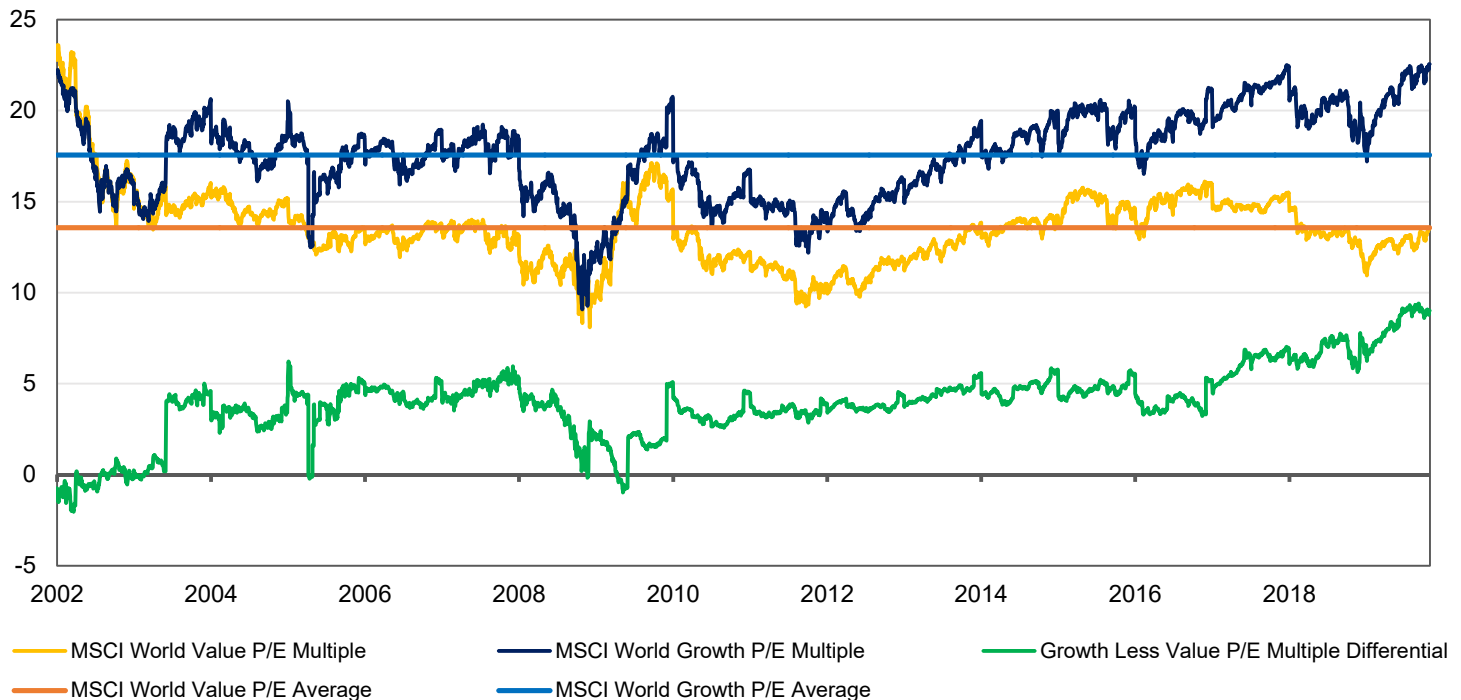
## MSCI World Value vs Growth Relative Performance (%)



It should be noted that the relative outperformance of growth over value tells you nothing about the prospects of each investment style going forward. However, when coupled with other indicators it might suggest that a sensible approach at this point in the cycle is to tilt portfolios in favour of more attractively priced companies.











Today the Price to Earnings (P/E) multiples paid for “growth” companies are as elevated as they have been since the dotcom boom. By contrast, the P/E multiples for “value” stocks remain below the long term average. The differential between the P/E multiple of the two indices is as wide as it has been since the turn of the century.

## MSCI Growth vs Value Indices



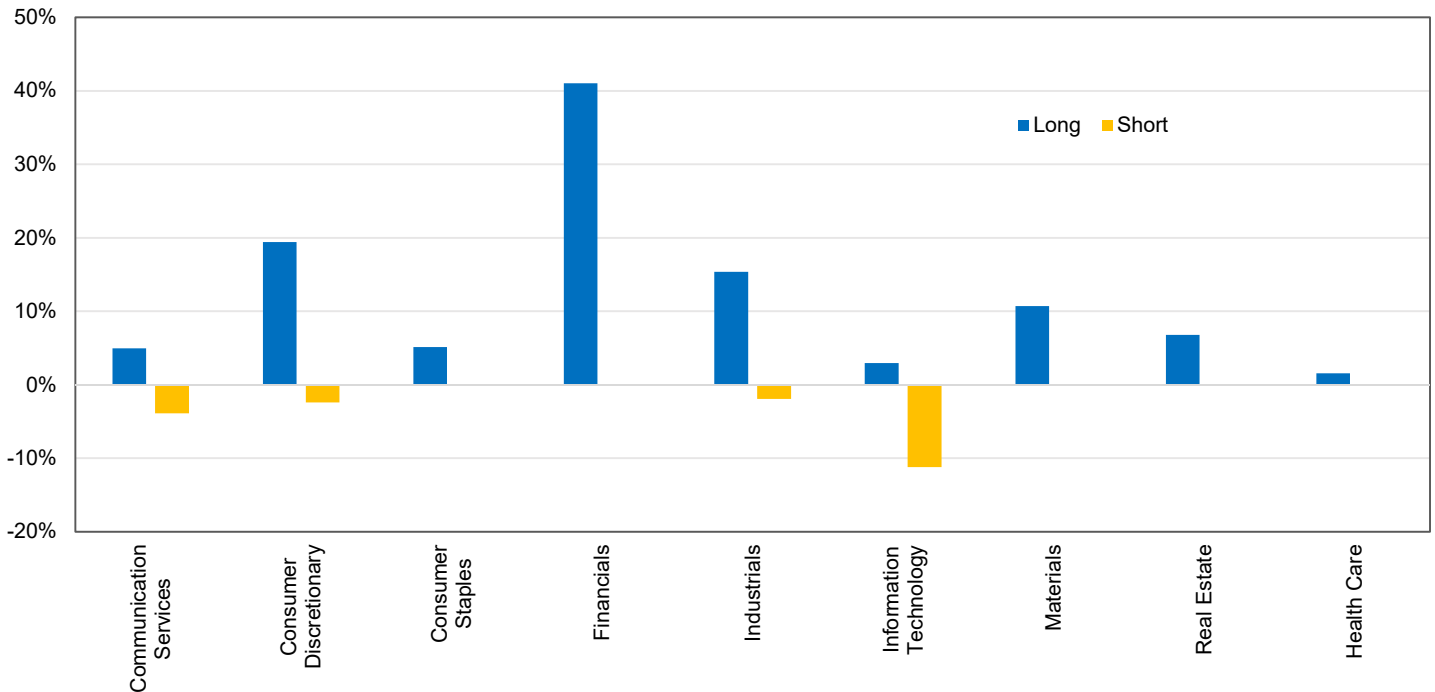
## What does the current portfolio look like?

As at the date of this newsletter the Auscap Global Equities Fund has 52 investments across 12 markets with a weighted average market capitalisation of AU\$160bn. The top ten largest investments are listed in alphabetical order below:

Company	Market Cap (AU\$bn)	Domicile	Sector
Alphabet 	1,351	USA	Communication Services
American Express 	145	USA	Financials
Banco Santander 	97	Spain	Financials
BNP Paribas 	103	France	Financials
Capri 	8	USA	Consumer Discretionary
Howdens 	7	United Kingdom	Industrials
Lloyds 	79	United Kingdom	Financials
Macquarie Infrastructure Corporation 	5	USA	Industrials
Mineral Resources 	3	Australia	Materials
Unibail Rodamco Westfield 	32	Netherlands	Real Estate

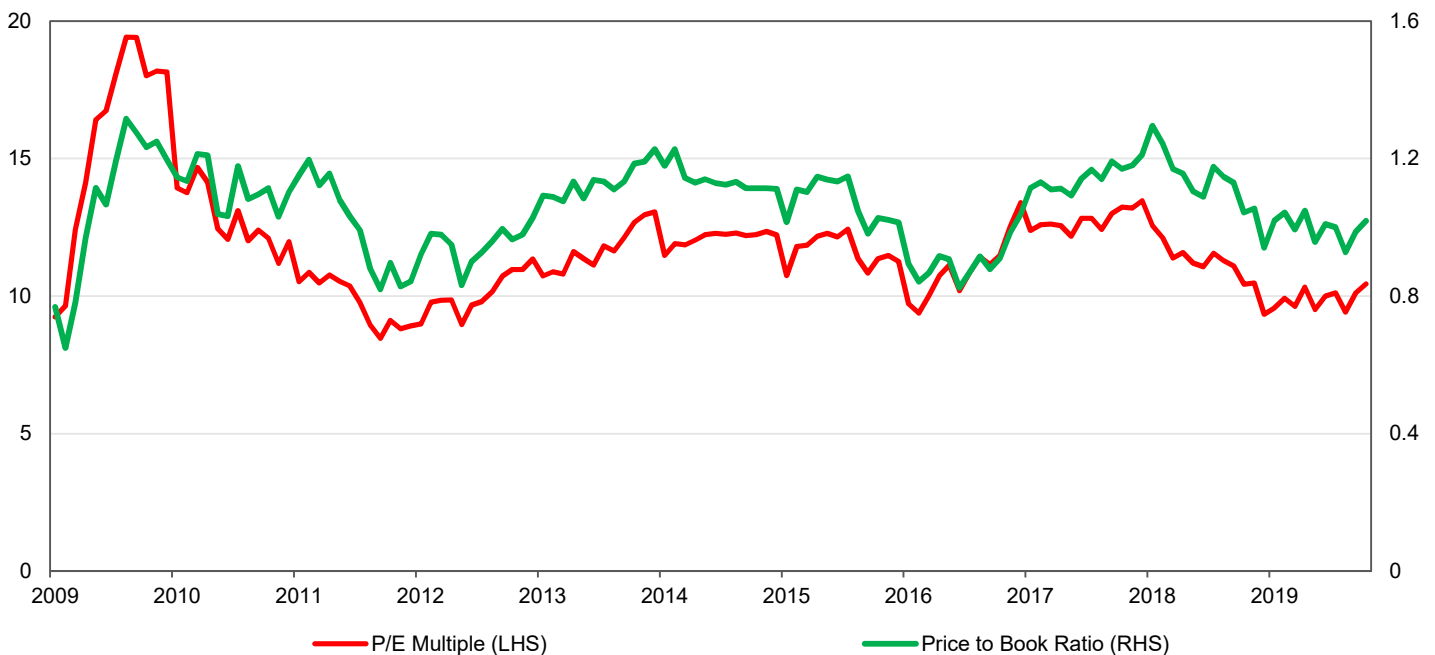
The Fund's sector exposures are highlighted below:

## Auscap Global Equities Fund Sector Exposures



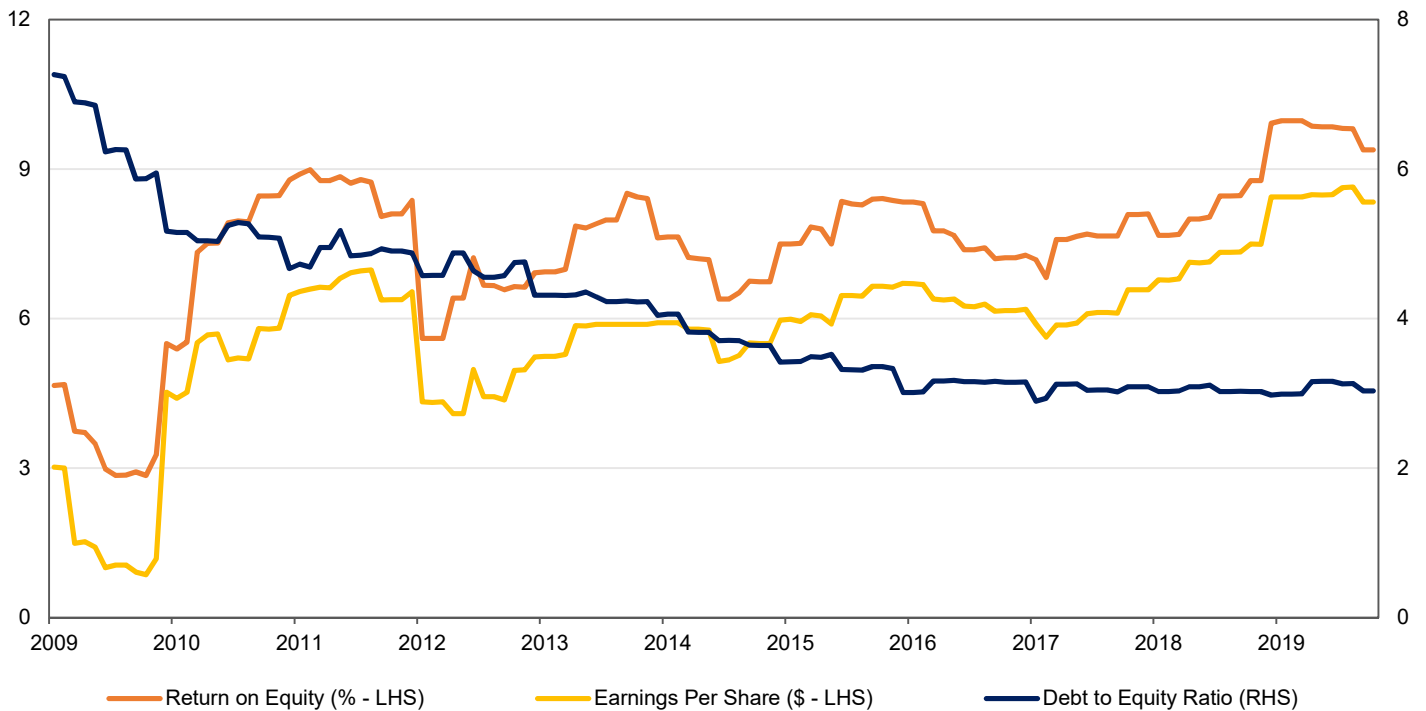
The Fund's largest sector exposure is to financial companies, and in particular banks. Bank shares fall into the "value" camp globally and we believe are currently attractively priced, with the MSCI Global Bank index trading on a price to earnings multiple of around 10x, which is close to the bottom of its historic ten year range, and a price to book ratio of just over 1.0x.

## MSCI World Bank Index Metrics



This is despite a significant improvement in return on equity over the last decade and reasonable growth in earnings per share. This is particularly impressive in the context of bank leverage more than halving since the Global Financial Crisis.

## MSCI World Bank Index Metrics



The financial sector is one of a number of sectors globally where we see considerable opportunity to invest at attractive valuations in good businesses with large competitive moats that are growing earnings, improving return on capital and generating substantial cashflow.

We are excited by the opportunities present in both the domestic and global stockmarkets. As a result both the Auscap Long Short Australian Equities Fund and the Auscap Global Equities Fund are reasonably fully invested.

The Auscap Global Equities Fund is now open for investors who qualify as wholesale investors in Australia and New Zealand. If you would like further information, please contact a member of the team on (02) 8378 0800 or email [info@auscapam.com](mailto:info@auscapam.com). We look forward to welcoming interested wholesale investors into the Global Fund.

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## Disclaimer

*This newsletter contains performance figures and information in relation to the Auscap Long Short Australian Equities Fund ARSN 615 542 213 and Auscap Global Equities Fund (Funds) from inception of the Funds. The actual performance for your account will be provided in your monthly statement. Actual performance may differ for investments made in different classes or at different times throughout the year. This newsletter is intended to provide general background information only. It is not a Product Disclosure Statement under the Corporations Act 2001 (Cth), nor does it constitute investment, tax, legal or any other form of advice or recommendation to be relied upon when making an investment or other decision. The content of this document does not constitute an offer or solicitation to subscribe for units in the Funds or an offer to buy or sell any financial product. Past performance is not a reliable indicator of future performance. While all reasonable care has been taken to ensure that the information in this document is complete and correct, no representation or warranty is given as to the accuracy of any of the information provided, including any forecasts. To the maximum extent permitted by law, Auscap Asset Management Limited ACN 158 929 143 AFSL 428014, its related bodies corporate, directors, employees and representatives are not liable and take no responsibility for the accuracy or completeness of this document. No investment in either of the Funds should be made without fully reviewing the information, the disclosures and the disclaimers contained in the relevant disclosure document, a copy of which is available at [www.auscapam.com](http://www.auscapam.com), or any supplement to that document and obtaining investment, legal, tax and accounting advice appropriate to your circumstances. You are receiving this newsletter because we hold personal information about you, namely your contact details. You should view Auscap's Privacy Policy to understand how your personal information will be used and processed. No part of this material may be reproduced or disclosed, in whole or in part, without the prior written consent of Auscap Asset Management Limited.*

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