



Auscap Newsletter

DECEMBER 2019

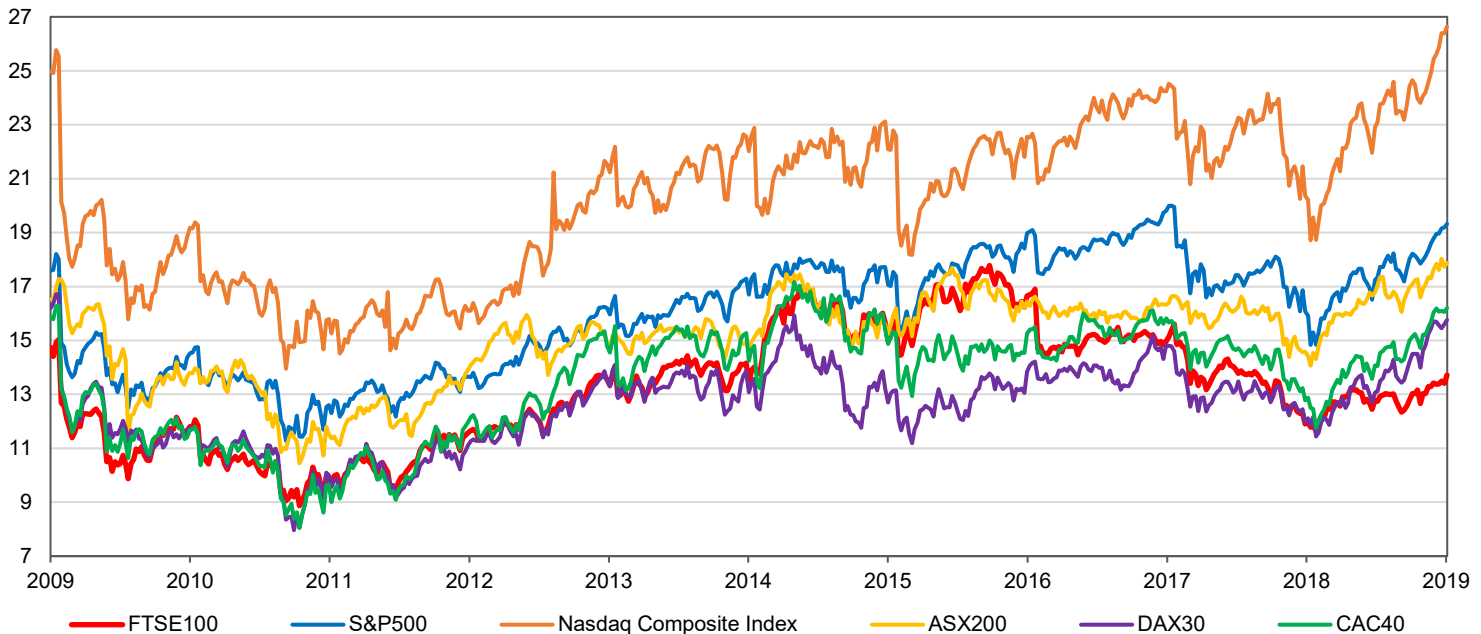
AUSCAP ASSET MANAGEMENT

Boris The Builder: Can He Brexit?

The Boris Johnson led Conservative Party, in securing an 80 seat majority in the United Kingdom (UK) parliament, has won a mandate to “Get Brexit done”. But what does this mean for UK equities and Australian equities with exposure to the UK economy? And are there still opportunities in UK exposed companies given some of the considerable moves following the election?

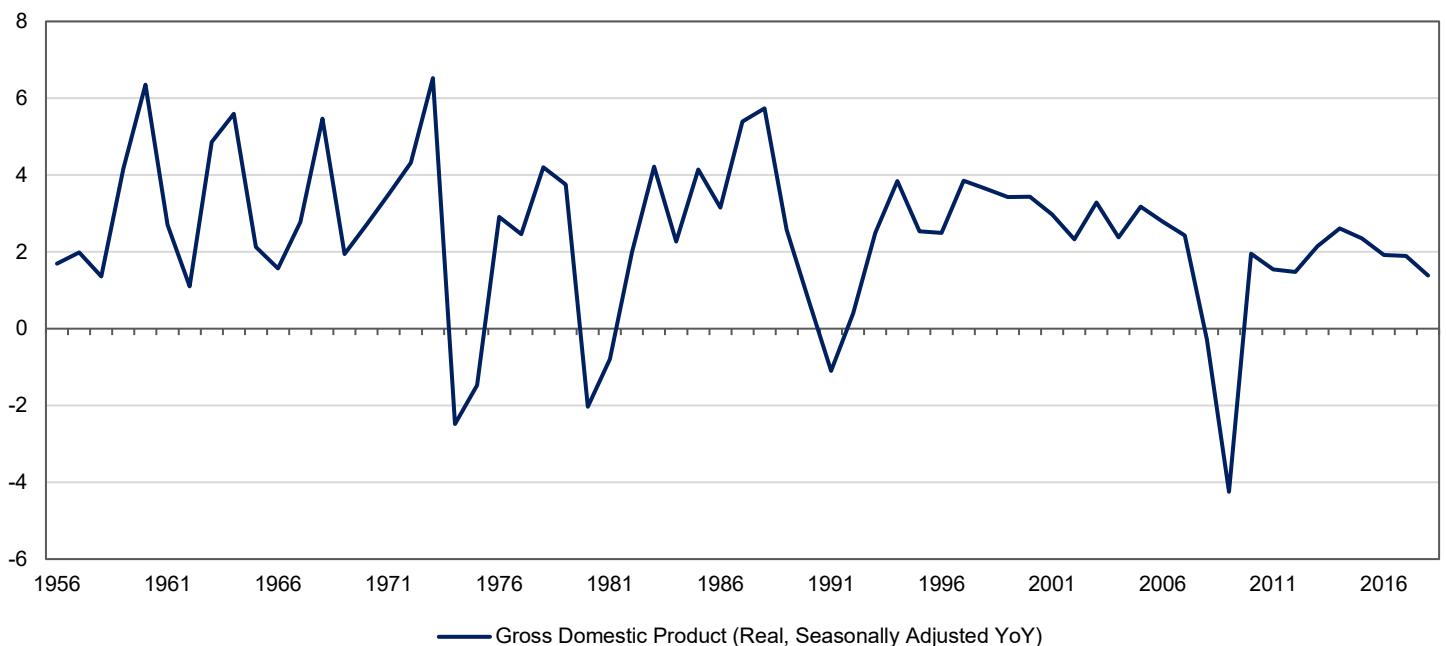
Comparatively, the UK equities market is offering compelling absolute and relative value. The forward Price to Earnings ratio of the UK equities market, as represented by the FTSE100, the predominant UK equities index, is trading at a significant discount to most other developed markets.

Forward Price to Earnings Ratios - Select Indices



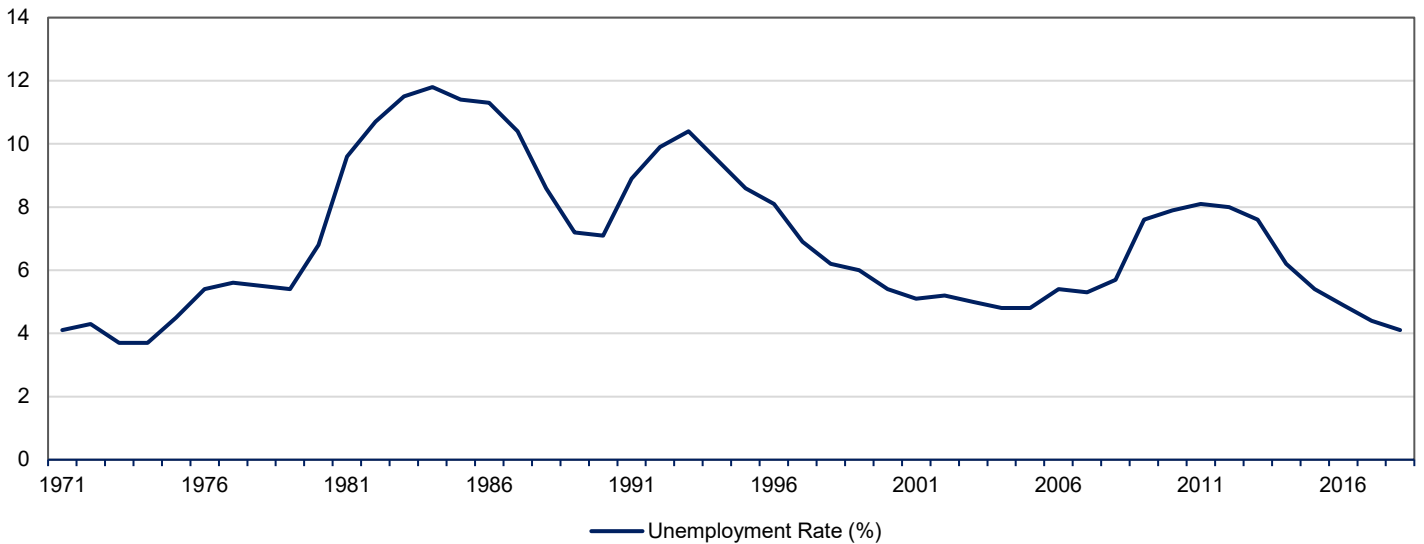
UK real gross domestic product growth has been running slightly below the long term average but has remained positive despite the impact of Brexit-related uncertainty on the economy.

UK Gross Domestic Product Growth



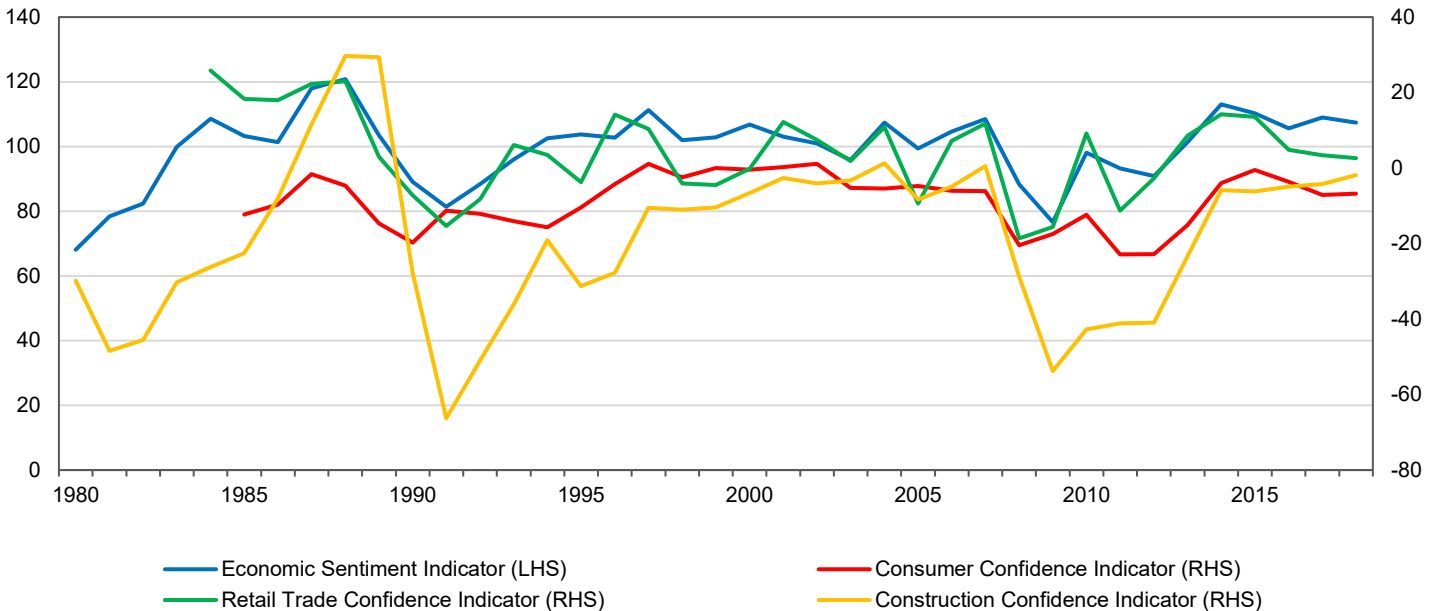
Employment is particularly strong, with unemployment levels the lowest they have been since the mid 1970s.

UK Unemployment



Business, consumer, retail trade and construction confidence have also held up reasonably well.

UK Economic Sentiment Indicator

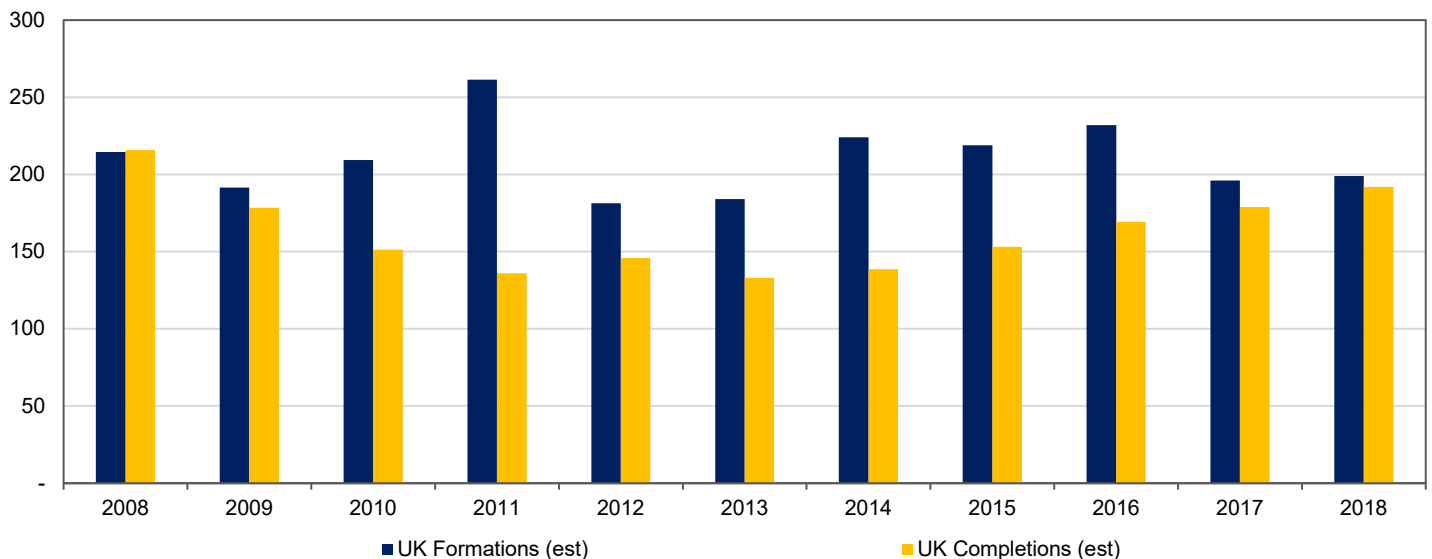


It might be expected that the removal of Brexit-related uncertainty should see a general pickup in UK economic activity. With a lot of the details around trade still to be negotiated, it is difficult to clearly identify the winners and losers in any reconfiguration of the terms of trade between the UK and Europe, or between the UK and any of its other trading partners who might now look to forge individual trade deals, including Australia.

What is apparent is that the clear parliamentary majority will enable the Conservatives to enact a range of its other policies which should result in tailwinds for multiple sectors. In particular, the building and construction sectors may prove to be significant beneficiaries. While much of the focus throughout the election has been on Brexit, the Conservative Party has promised to invest £29bn on strategic roads, and invest significantly in rail, including a final decision on the HS2 rail project at a cost of at least £80bn. This infrastructure expenditure should be positive for construction companies.

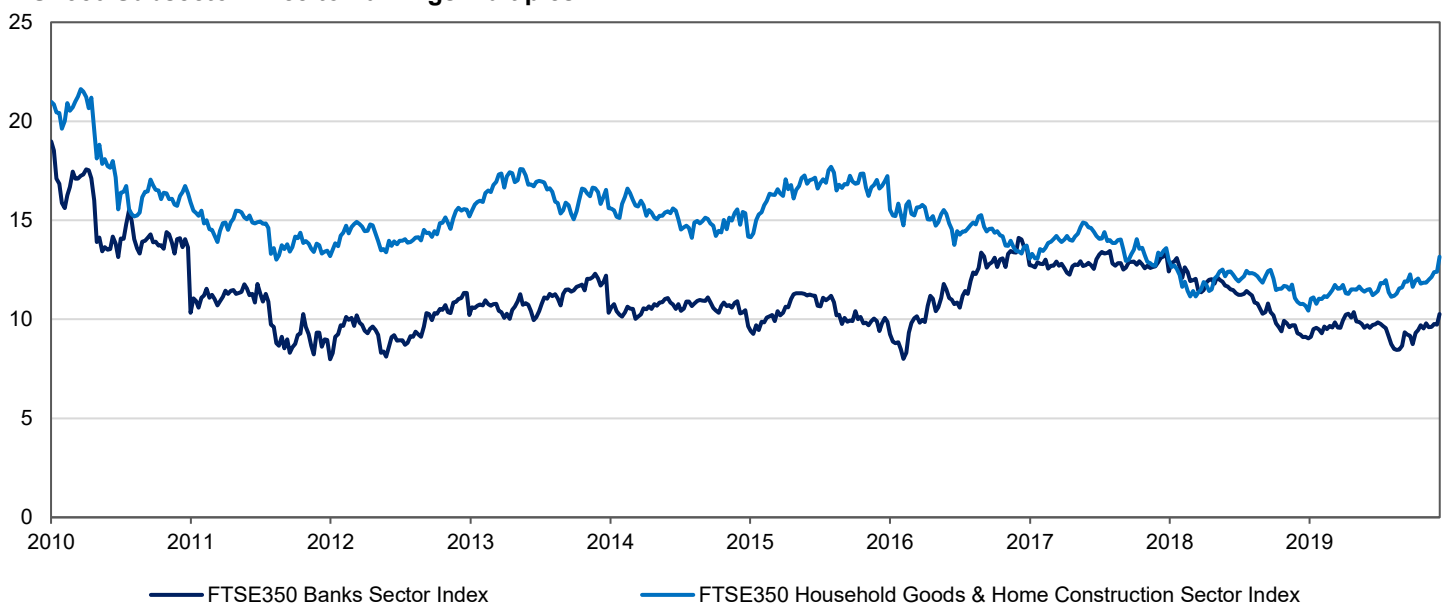
The Conservatives have also discussed increasing the rate of property construction towards the “target of 300,000 houses built a year by the mid 2020s”, and to build “at least a million new homes” during the next parliament, implying a target of at least 200,000 houses a year. These targets compare to 192,000 housing completions in 2018. Over the last decade, housing completions have consistently lagged household formation, leading to an aggregate housing shortfall of approximately 500,000 homes.

UK Household Formations & Completions (000s)



Any increase in infrastructure and housing expenditure should be positive for a range of construction, housing and finance related companies, including building materials suppliers, property developers and banks. The Auscap Long Short Australian Equities Fund and the Auscap Global Equities Fund both have exposure to these types of companies. Any increase in construction activity should provide potential upside to what are already attractively priced equities, as shown in the chart below. As we have discussed frequently in the past, extremely bearish investor sentiment often provides wonderful opportunities for the patient investor. We will look to capitalise on such opportunities as we find them.

FTSE350 Subsector Price to Earnings Multiples



We wish all of our readers a happy, safe and relaxing festive season. We look forward to what 2020 brings.

Auscap Long Short Australian Equities Fund

Fund Performance*

Period	Auscap	All Ords
November 2019	2.3%	3.1%
Financial Year To Date	7.4%	5.6%
Since Inception	191.4%	106.4%
Annualised Returns	16.5%	10.9%

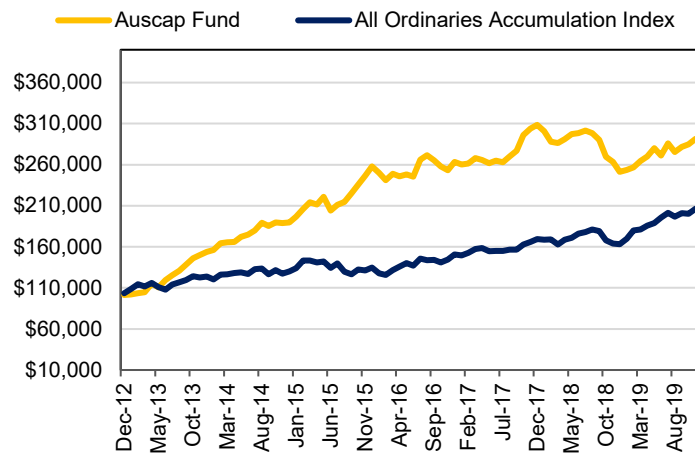
Fund Exposures

November 2019 Average	% NAV	Positions
Gross Long	126.9%	30
Gross Short	8.7%	7
Gross Total	135.6%	37
Net / Beta Adjusted Net	118.2%	105.9%

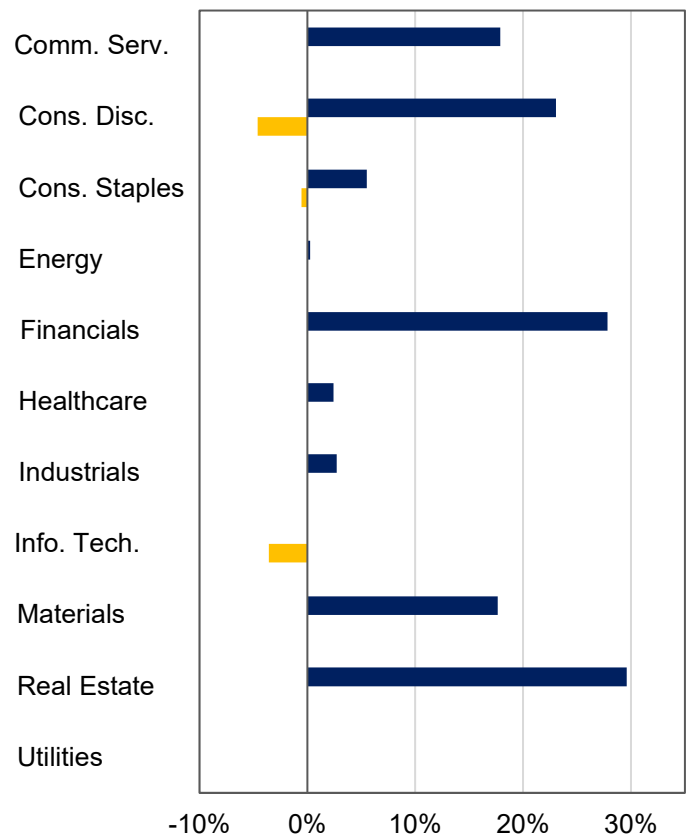
Portfolio Commentary

The Fund returned 2.3% net of fees during November 2019. This compares with the All Ordinaries Accumulation Index return of 3.1%. Average gross capital employed by the Fund was 126.9% long and 8.7% short. Average net exposure over the month was 118.2%. Over the month the Fund had on average 30 long positions and 7 short positions. The Fund's biggest stock exposures at month end were spread across the real estate, financials, consumer discretionary, materials and communication services sectors.

Fund Performance*



Sector Exposure - November 2019



Fund Financial Year Returns*

FY13	19.7%	FY18	12.7%
FY14	46.0%	FY19	(9.2%)
FY15	16.8%	FY20 (YTD)	7.4%
FY16	20.1%	CY19 (YTD)	15.9%
FY17	8.0%		

Top 10 Investments^

ANZ Banking Group	Nine Entertainment
Blackmores	Super Retail Group
GDI Property Group	Unibail-Rodamco-Westfield
Mineral Resources	Virgin Money UK
National Australia Bank	Westpac Banking Group

* 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.

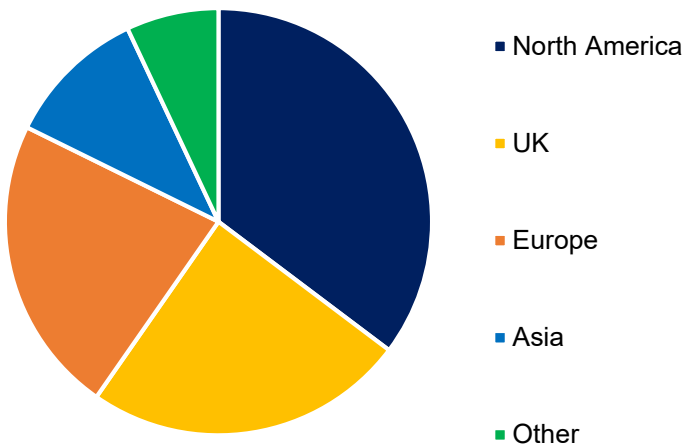
^ Top 10 long investments in alphabetical order as at 30 November 2019.

Auscap Global Equities Fund

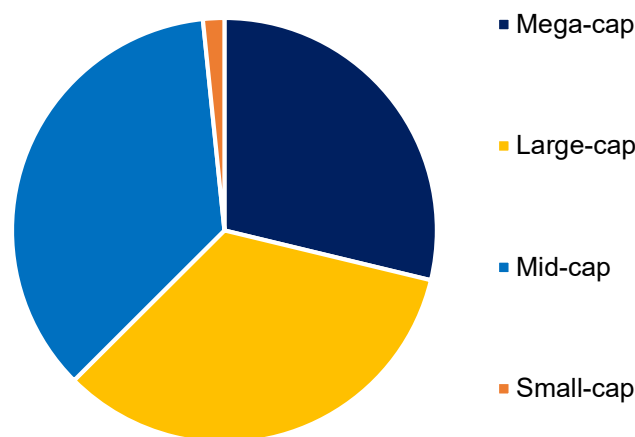
Portfolio Commentary

The Fund returned 3.0% net of fees during November 2019. Average gross capital employed by the Fund was 107.0% long and 17.0% short. Average net exposure over the month was 90.0%. Over the month the Fund had on average 39 long positions and 12 short positions. The Fund's biggest stock exposures at month end were spread across the financials, consumer discretionary, industrials and materials sectors.

Exposure by Region



Exposure by Company Size



Fund Performance*

Period	Auscap
November 2019	3.0%
Financial Year To Date	3.0%
Since Inception	3.0%

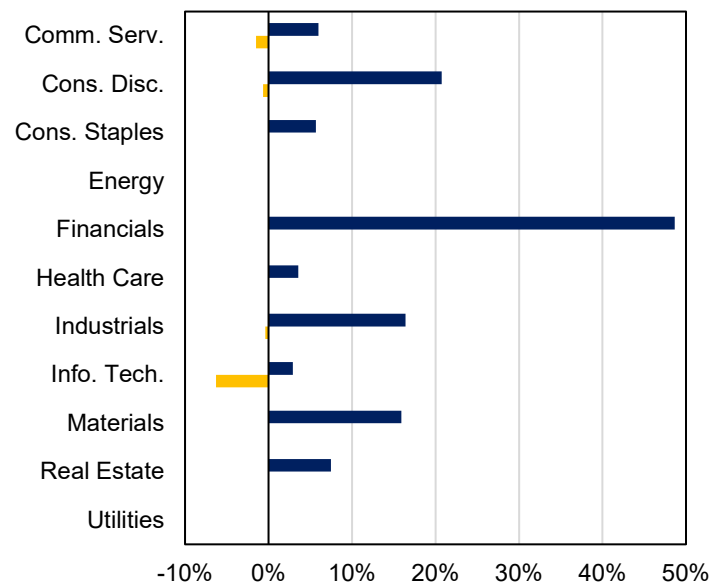
Fund Exposures

November 2019 Average	% NAV
Gross Long	107.0%
Gross Short	17.0%
Net	90.0%
Beta Adjusted Net	89.1%

Top 10 Investments^

Alphabet	Lloyds Banking Group
American Express	Macquarie Infrastructure
BNP Paribas	Mineral Resources
Capri Holdings	Royal Bank of Scotland
Howden Joinery	Unibail-Rodamco-Westfield

Sector Exposure - November 2019



* Performance figures are calculated 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 30 November 2019.

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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, 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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