



# Auscap Newsletter

Auscap Long Short Australian Equities Fund

SEPTEMBER 2020

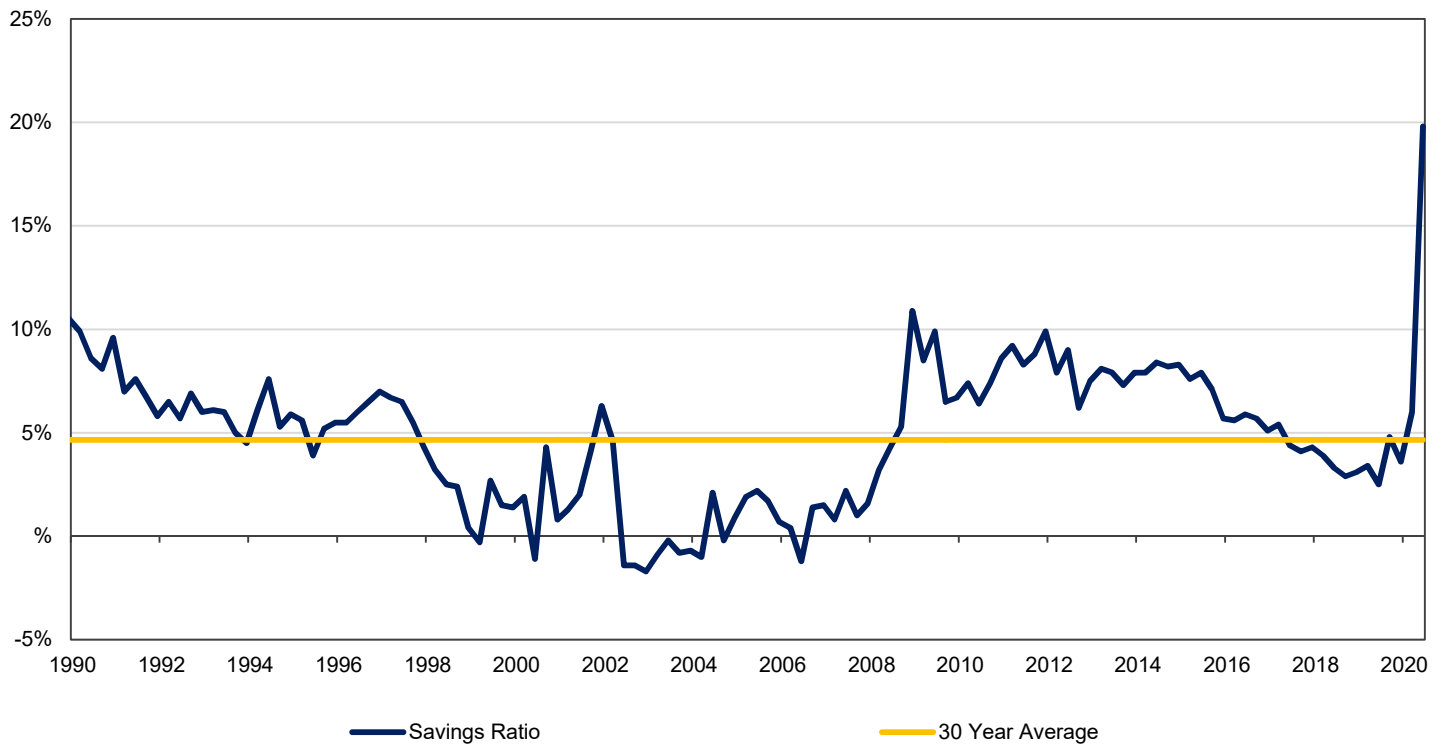
AUSCAP ASSET MANAGEMENT

## Are Aussies Splashing Or Stashing Their Cash?

The last six months has been a uniquely challenging period, with the COVID-19 disruption being significant enough to bring Australia’s 29 year recession-free streak to an end. Despite this, one notable bright spot has emerged: spending on consumer goods. This spending has been particularly strong in categories such as furniture, home improvement and electronics. The strength in these categories, which has clearly been supported by government stimulus, will inevitably decelerate from current levels over time. But are there reasons to be more optimistic on the outlook for consumer spending than the media headlines might lead us to believe? This newsletter covers recent data points which suggest that some optimism might be warranted.

Over the last 30 years, Australian households have saved an average of 4.7% of their net disposable income per annum. In the June quarter just gone, this rate rose to 19.8%, the highest level recorded in 40 years. This extraordinary \$42bn increase in household net savings was due to a \$35.2 billion fall in household spending and a \$7.1bn increase in income due to the Government’s income assistance measures. If the early access to superannuation scheme were included as a savings measure, the household savings ratio would have jumped to 24.8%.

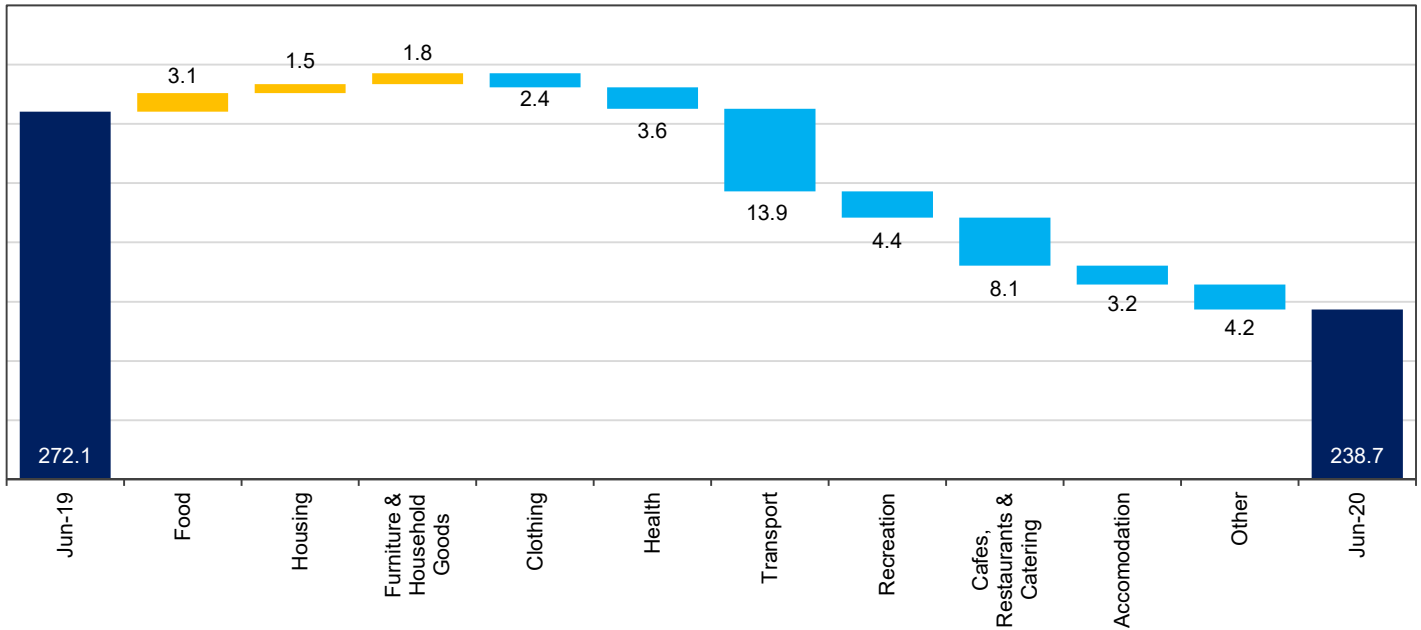
### Household Saving Ratio



Source: Australian Bureau of Statistics, Auscap Asset Management

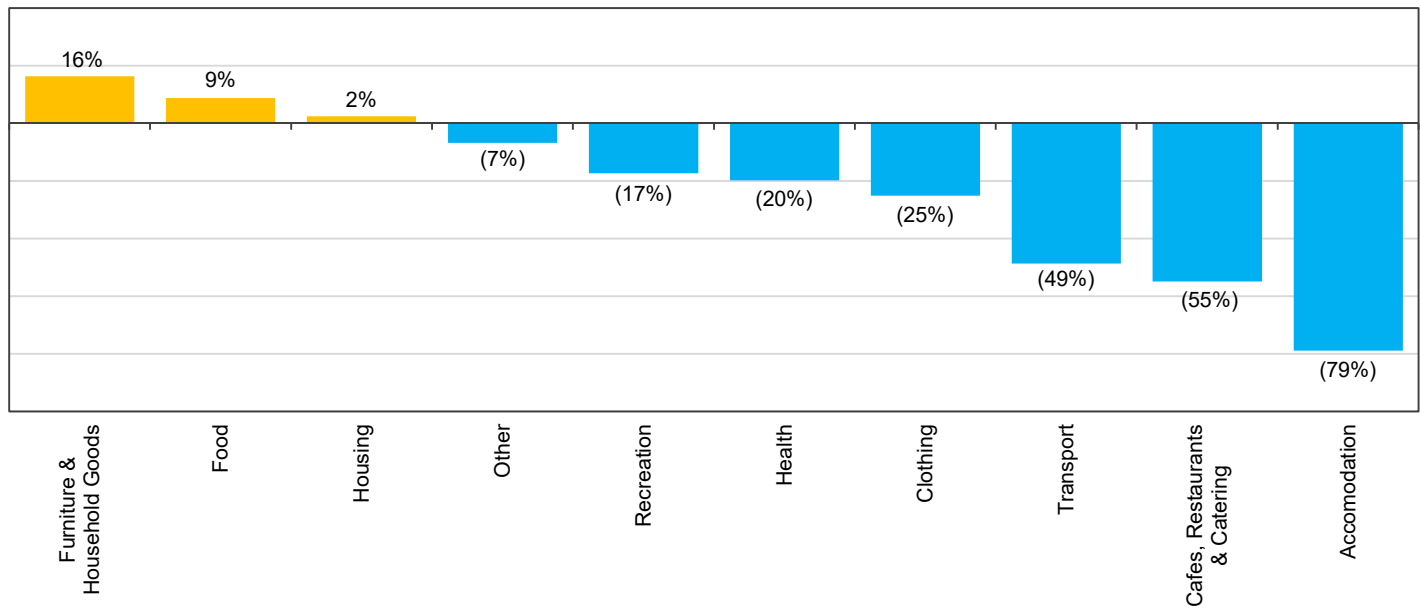
Whilst there has been much commentary on the acceleration of consumer spending on household items, it is worth putting this strength in context. Australian Bureau of Statistics (ABS) data suggests furniture and household goods spending accelerated by \$1.8bn in the June quarter. However, this increase appears relatively minor in the context of material declines in most other major categories of expenditure, with a net reduction in expenditure of over \$33bn.

## Quarterly Household Consumption Expenditure Changes - June 19 to June 20 (\$bn)



Source: Australian Bureau of Statistics, Auscap Asset Management

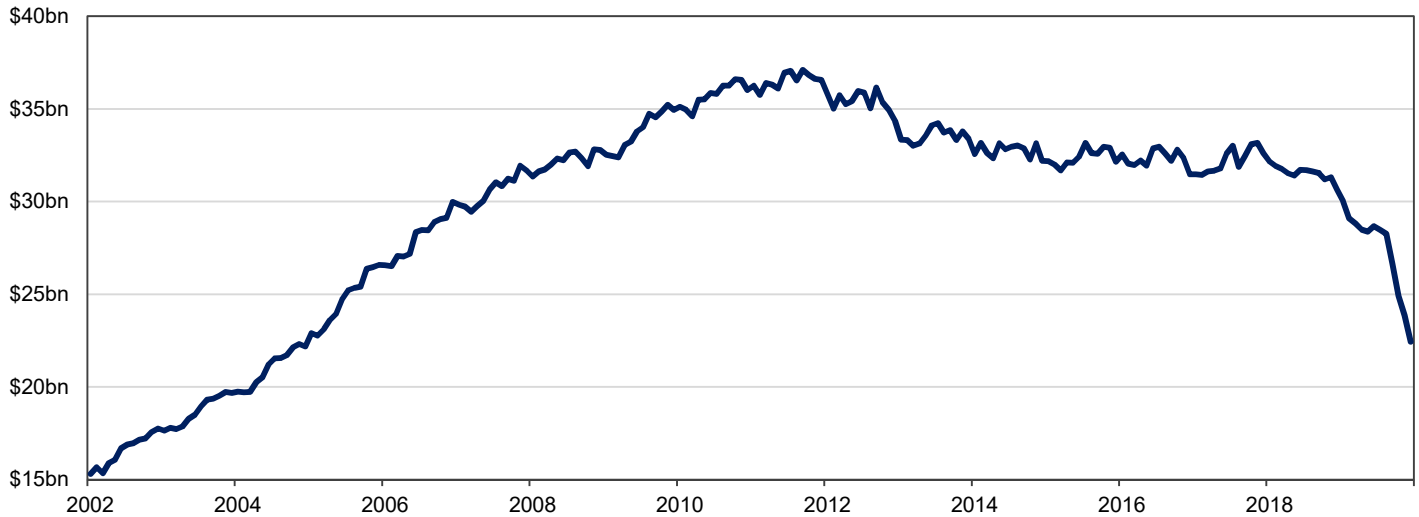
## Quarterly Household Consumption Expenditure Changes - June 19 to June 20 (%)



Source: Australian Bureau of Statistics, Auscap Asset Management

Rather than using the Government’s income support and reduced expenditure in categories such as travel and transport to splurge on discretionary goods, it appears that the majority of households have prudently decided to improve their personal balance sheets. Australian credit card debt has fallen over 20% to \$22.4bn in June 2020 from \$28.4bn in December 2019, as shown in the following chart. The Commonwealth Bank of Australia has reported that its savings accounts and term deposit balances have grown 5% between January and July 2020. Similarly, leading alternative finance company Zip has seen its customer repayment rate increase from 13% in December 2019 to a high of 16% in May 2020. Clearly, a number of Australians are using COVID-19 as an opportunity to save.

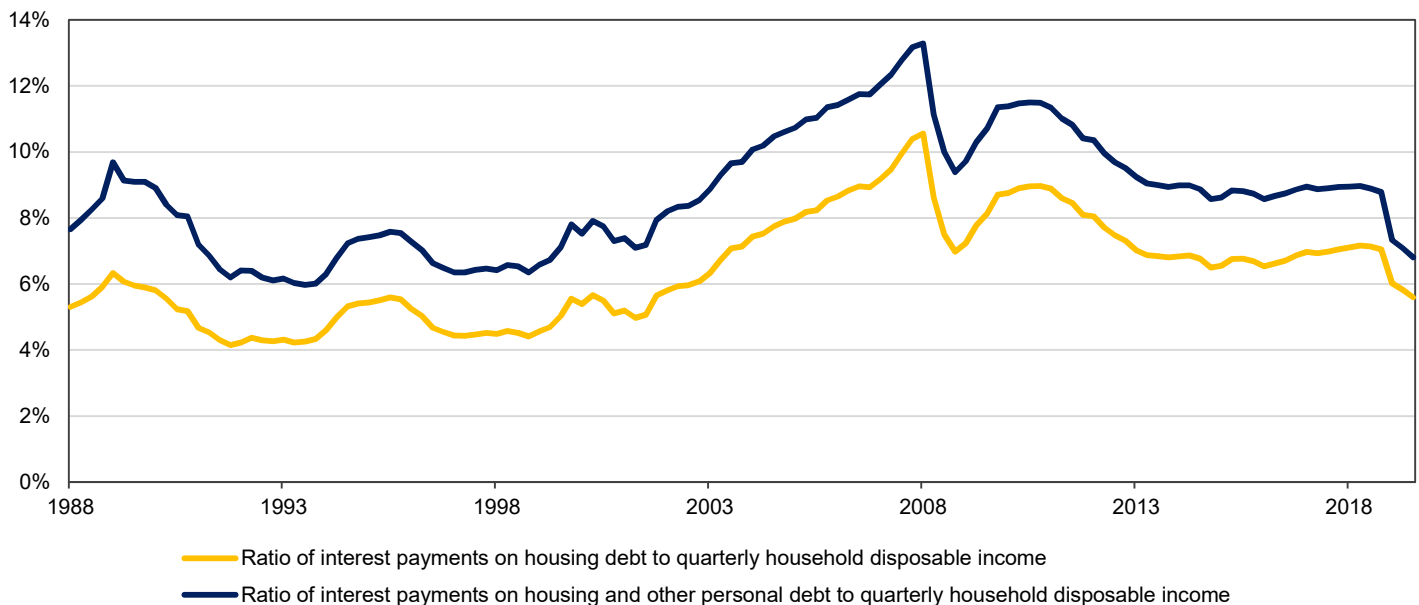
## Value Of Credit Card Balances Accruing Interest



Source: Reserve Bank of Australia, Auscap Asset Management

While it is positive to see consumers reducing their high-interest bearing credit card debt, most Australian household debt relates to housing. With the Reserve Bank of Australia cutting the cash rate to a record low 0.25% and providing forward guidance that they are unlikely to increase this rate for “at least three years”, housing debt interest serviceability has dropped to 5.6%, a level not seen since 2002. Total interest payments as a percentage of household disposable income now sits at 6.8%, the lowest level in two decades.

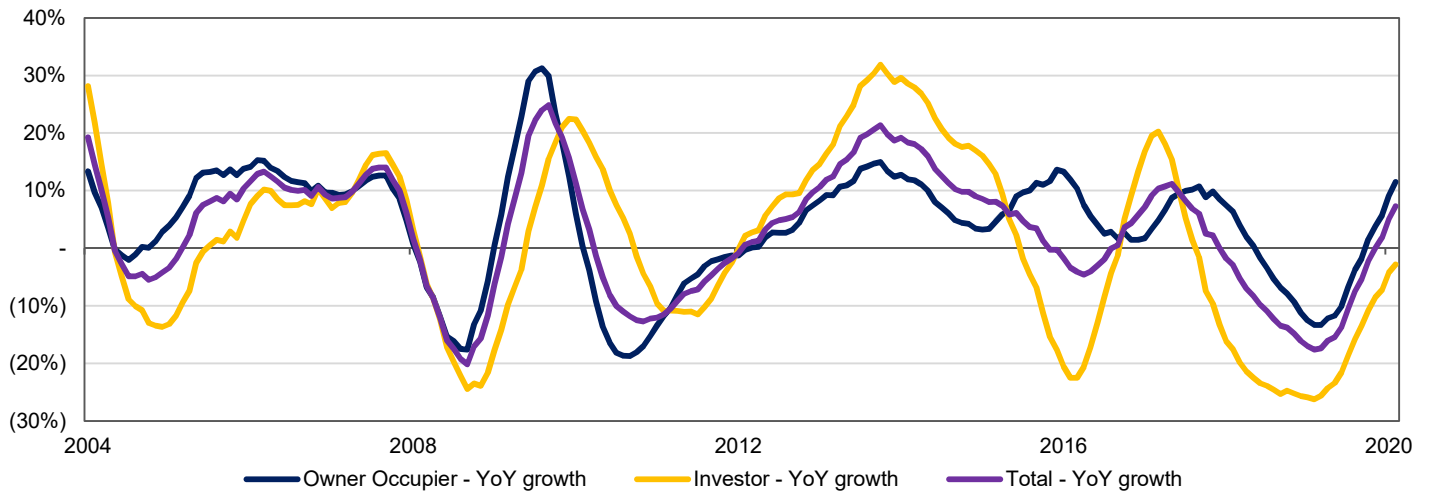
## Household Debt Servicability



Source: Reserve Bank of Australia, Auscap Asset Management

Given the low interest rate environment and improving consumer balance sheets, interest amongst Australians in investing in property, particularly in the owner-occupier category, looks to be re-emerging. New housing loan commitments rose 8.9% on a seasonally adjusted basis in July, which the ABS called out as “the largest month-on-month rise in the history of the series”. This data is shown in the following graph on a twelve-month rolling basis.

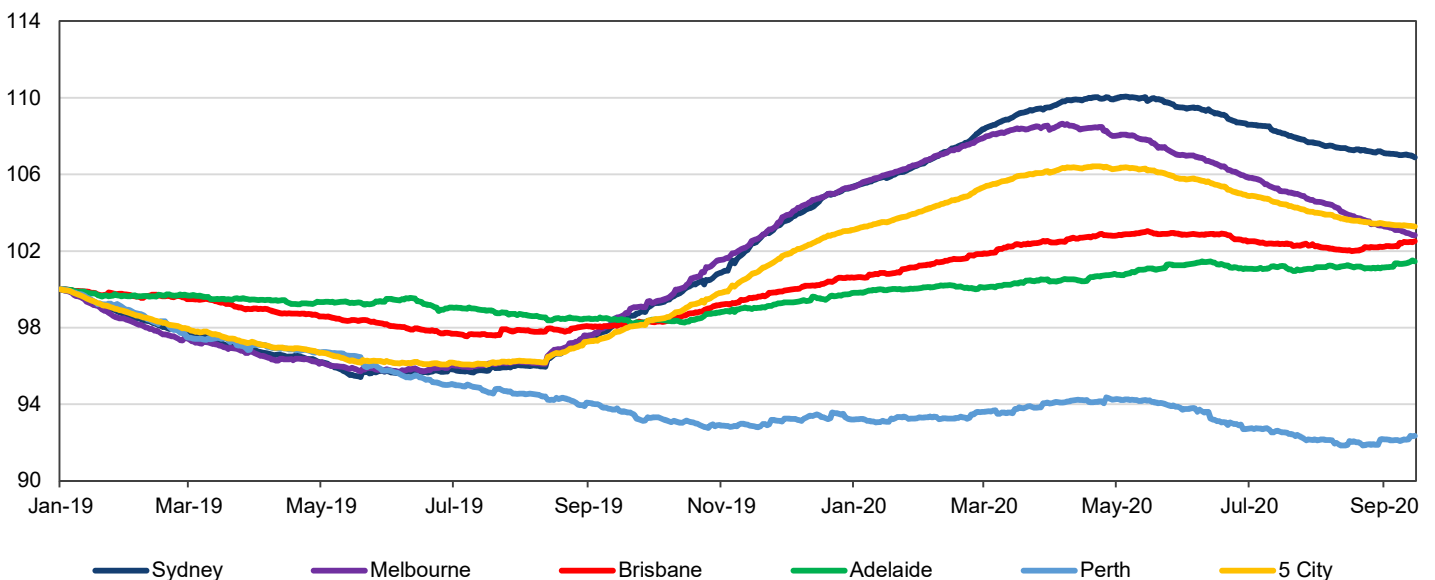
## Housing Finance Commitments Ex Refinancing (YoY growth)



Source: Australian Bureau of Statistics, Auscap Asset Management

At the height of COVID-19 uncertainty, market economists overwhelmingly predicted double digit falls in Australian house prices. Corelogic property price data indicates that capital city house prices have fallen circa 3% from the April 2020 high. However, this only puts house prices back to January 2020 levels, and the recent moderation in declines suggests that the probability of widespread “negative equity” in the case of defaults is currently low, absent a further significant fall in property prices.

## Corelogic Property Index - Rebased to 100 (Since Jan-19)



Source: Corelogic, Auscap Asset Management

The market is justifiably focused on a pull-forward of consumer demand and elevated spending in some categories, the rise in unemployment and the impact of the gradual withdrawal of stimulus. However, the household balance sheet repair and serviceability of household debt provide reasons to be optimistic about the medium term outlook for consumer demand.

## Auscap Long Short Australian Equities Fund

### Fund Performance\*

Period	Auscap	All Ords
August 2020	12.4%	3.7%
Financial Year To Date	14.0%	4.7%
Since Inception	147.7%	95.5%
Annualised Returns	12.4%	9.0%

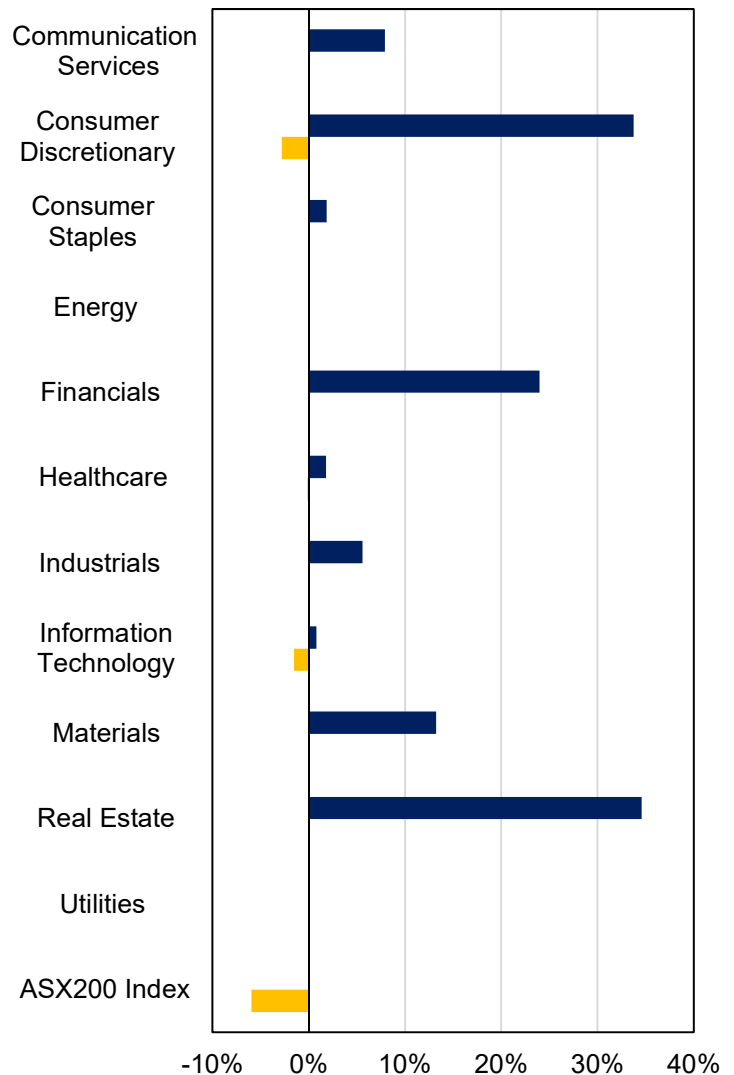
### Fund Exposures

August 2020 Average	% NAV	Positions
Gross Long	122.1%	45
Gross Short	10.5%	4
Gross Total	132.6%	49
Net / Beta Adjusted Net	111.6%	133.0%

### Portfolio Commentary

The Fund returned 12.4% net of fees during August 2020. This compares with the All Ordinaries Accumulation Index return of 3.7%. Average gross capital employed by the Fund was 122.1% long and 10.5% short. Average net exposure over the month was 111.6%. Over the month the Fund had on average 45 long positions and 4 short positions. The Fund's biggest exposures over the month were spread across the real estate, consumer discretionary and financials sectors.

### Sector Exposure - August 2020



### Top 10 Investments<sup>^</sup>

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

### 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	14.0%
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.

<sup>^</sup> Top 10 long investments in alphabetical order as at 31 August 2020.

© Auscap Asset Management Limited

## Disclaimer

*This newsletter contains performance figures and information in relation to the Auscap Long Short Australian Equities Fund ARSN 615 542 213 (Fund) from inception of the Fund. 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 Fund 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 the Fund 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.*

### Hong Kong

*This newsletter has not been reviewed or approved by any regulatory authority in Hong Kong. This newsletter does not constitute an offer or invitation to the public in Hong Kong to acquire the units in the Fund. Accordingly, unless permitted by the securities laws of Hong Kong, no person may issue or have in its possession for the purposes of issue, this newsletter or any advertisement, invitation or document relating to the units in the Fund, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong other than in relation to the units of the Fund that are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" (as such term is defined in the Securities and Futures Ordinance of Hong Kong (Cap. 571) and the subsidiary legislation made thereunder).*

### Singapore

*This newsletter is being furnished to you on the basis that you are an "institutional investor" (as defined in the Securities and Futures Act (Chapter 289) of Singapore) and on a confidential basis, solely for your information. This newsletter may not be reproduced, disclosed, or distributed to any other person in Singapore. Auscap Asset Management Limited, as the responsible entity and manager for the Fund has not taken any steps to ensure that the capital markets products referred to in this newsletter are suitable for any particular investor, and will not treat recipients as its customers by virtue of their receiving this document.*

*This newsletter has not been, and will not be, registered as a prospectus with the Monetary Authority of Singapore and this newsletter is not intended to constitute an offering, and is not regulated by any financial supervisory authority pursuant to any legislation in Singapore. The investments or services referred to in this newsletter may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this document constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you.*

### United Kingdom

*This newsletter may be distributed in the United Kingdom only to persons who: (i) have professional experience in matters relating to investments in accordance with Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) ("FPO"); or (ii) to whom this document may otherwise be lawfully distributed (all such persons together being referred to as "Relevant Persons"). This newsletter is only directed at, or available to, Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this document relates is available only to, and will be engaged in only with, Relevant Persons.*

### United States

*This newsletter may not be distributed in the United States and does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States. Any securities described in this newsletter have not been, and will not be, registered under the US Securities Act of 1933 and may not be offered or sold in the United States except in transactions exempt from the registration of the US Securities Act, the US Investment Company Act of 1940 and applicable US state securities laws.*

**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 investors can download a copy of the PDS for the Auscap Long Short Australian Equities Fund at [www.auscapam.com/auscap-fund/pds](http://www.auscapam.com/auscap-fund/pds). We welcome any feedback, comments or enquiries. Please direct them to [info@auscapam.com](mailto:info@auscapam.com).

## Auscap Asset Management Limited

ACN 158 929 143 AFSL 428014  
Lvl 30, 9 Castlereagh St, Sydney

Email: [info@auscapam.com](mailto:info@auscapam.com)  
Web: [www.auscapam.com](http://www.auscapam.com)

## Service Providers

Prime Brokerage: Citi Global Markets  
Administration: Link Fund Solutions

Tax & Audit: Ernst & Young