



Auscap Long Short Australian Equities Fund Newsletter – June 2015

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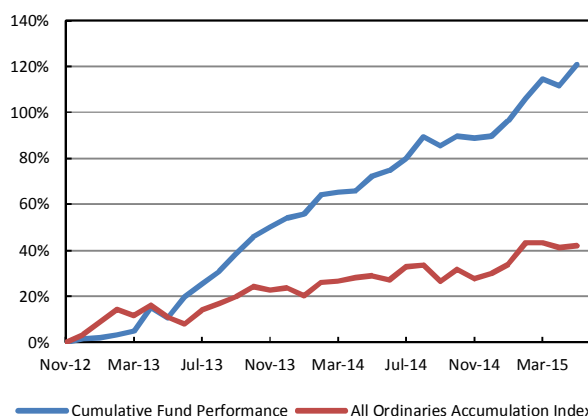
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Welcome

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 highlight a few more of Warren Buffett's and Charlie Munger's quotes on business culture, brands and buybacks from the 50th Berkshire Hathaway AGM.

Fund Performance

The Fund returned 4.43% net of fees during May 2015. This compares with the All Ordinaries Accumulation Index return of 0.58%. Average gross capital employed by the Fund was 141.3% long and 24.7% short. Average net exposure over the month was 116.6%. At the end of the month the Fund had 39 long positions and 8 short positions. The Fund's biggest stock exposures at month end were spread across the financials, consumer discretionary, healthcare, industrials, consumer staples, energy and materials sectors.



Fund Returns

Period	Auscap	All Ords
May 2015	4.43%	0.58%
Financial Year to date	26.34%	11.70%
Calendar Year to date	16.47%	9.22%
Since inception	120.86%	41.95%

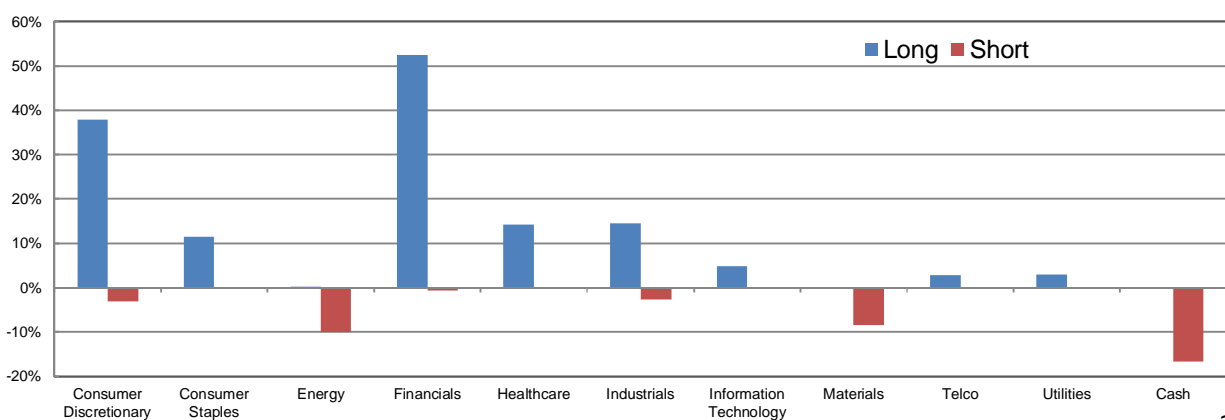
Fund Exposure

May 2015 Average	% NAV	Positions
Gross Long	141.3%	39
Gross Short	24.7%	8
Gross Total	166.0%	47
Net / Beta Adjusted Net	116.6%	86.4%

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)	0.44	3.65	4.90	3.98	(1.36)	4.43		26.34

Sector Exposure - May 2015



A Buffet(t) Of Business Culture, Brands & Buybacks

Last month we discussed our trip to the 50th Berkshire Hathaway Annual General Meeting. In this edition we continue with a few more select quotes from the event. These comments broadly cover thoughts from Warren Buffett and Charlie Munger on topics including: why Mr Buffett had early success; the importance of a strong business culture; the value of iconic brands; corporate action considerations; and the current investment landscape. Again we hope you enjoy the quotes and apologise to Mr Buffett and Mr Munger for any transcription and/or attribution errors.

On why Warren Buffett had so much early success

- I had a great teacher [Benjamin Graham], I had exceptional focus and I had the right emotional qualities. *Warren Buffett*
- We've had a lot of fun. If you're enjoying what you're doing you're likely to get a better result than if you're going to work with your teeth clenched every morning. *Warren Buffett*

On raising money

- We didn't do very well until we had a winning record. *Warren Buffett*

On business culture

- Berkshire's culture runs about as deep as any large company in the world. *Warren Buffett*
- Culture has to come from the top. *Warren Buffett*
- People see how those above them behave and they move in that direction. *Warren Buffett*
- We work all the time at trying to behave with other people as if our positions were reversed. *Warren Buffett*
- Decide you are going to be a person that you yourself would like. *Warren Buffett*
- That's all Berkshire does, it copies the right people. *Charlie Munger*

On incentives

- When they get their ego involved, people do things that they shouldn't do. So we try to eliminate incentives that would cause people to misbehave not only for financial rewards but ego satisfaction. *Warren Buffett*

On the importance of a company having a strong brand

- A strong brand is really potent stuff. You will always have a fight between the retailer and the brand, and the retailer is going to use all the pressure they have and therefore the brand has to stand for something in the consumer's mind because in the end the retailer will want to shift to the house brand or to private label... the brand has to stand for promises in people's minds. *Warren Buffett*

On Coca-Cola's longevity in an age of potentially declining sugar consumption

- There will be 1.9 billion eight-ounce servings of Coca-Cola products, not Coca-Cola but Coca-Cola products, consumed in the world today... I think you will see all food and beverage companies adjust to the expressed preferences of consumers as they go along. No company ever does well ignoring its consumers... But I will predict that twenty years from now ... there will be more Coca-Cola cases consumed than there are now by some margin. Back in the late 1930s, *Fortune* ran an article saying that the growth of Coca-Cola was all over. And when we bought our Coca-Cola stock in 1988 people were not that enthused about opportunities for the products. *Warren Buffett*
- I sit here as somebody who, in the last 30 years, one quarter of all the calories I have consumed have come from Coca-Cola. That is not an exaggeration. I am one quarter Coca-Cola...I'm not sure which quarter... I think there's a lot to be said about being happy with what you're doing. If I'd been eating broccoli and brussel sprouts all my life I don't think I would have lived this long. Every meal I would have cooked thinking it's like going to jail or something. Charlie's 91 and his habits aren't that different to mine. *Warren Buffett*
- I don't see smiles on the faces of people at Whole Foods. *Warren Buffett*

On synergies from acquisitions

- You always have things investment bankers will tell you create synergies but that's not normally the case. *Warren Buffett*

On buybacks and activism

- It's a very simple decision in life as to whether to repurchase your shares. You purchase them if you've taken care of the needs of the business and your stock is selling for less than it's worth. *Warren Buffett*
- We would love to buy Berkshire stock at 120% of book because it's worth a lot more than that... but we won't buy it at 200% of book. *Warren Buffett*
- Activists are urging companies to buy stock back... even though its selling for more than it's worth. This is not a constructive activity and it's not a desirable change and it's not a very responsible activity. *Charlie Munger*
- The best defence against activism is performance. *Warren Buffett*
- We should be a place where people can dump their activists. *Warren Buffett*
- I don't think this is a great age, this age of activism. *Charlie Munger*
You want to expand on that? *Warren Buffett*
I can't think of any activists I want to marry into the family. *Charlie Munger*
I better stop before he names names. *Warren Buffett*

On dealing with activism when Warren and Charlie are no longer around

- I reject such defeatism [that they won't be around forever]. *Warren Buffett*

On breaking up Berkshire Hathaway

- I think it's unlikely that on any long term basis or intermediate term basis that the value of the parts will be greater than the value of the whole. *Warren Buffett*

On cost reduction

- I would never advocate running a business at a loss. *Warren Buffett*
- At no point have we ever said that a business should have more staff than it needs. *Warren Buffett*

On luck

- We made some of our own luck being curious and seeking wisdom and we certainly recommend that to anybody else. *Charlie Munger*
- My deceased wife used to say, you can't accomplish much in one generation. We owe a considerable amount, both of us, to the families we were raised in. I think the families' values helped us to identify the good people more easily than we would have if we had a more disadvantaged background. *Charlie Munger*
- There's nothing that brings wisdom more thoroughly than really getting your own nose whacked hard and making a mistake and we had a fair bit of that. *Charlie Munger*

On Forecasting

- We know we don't know what the next 12 or 24 months is going to look like, but it doesn't really make any difference if you're buying a business you're going to hold for the next 100 years. *Warren Buffett*

On marriage

- Charlie has said the most important thing in selecting a marriage partner is that you don't look for someone with intelligence... or humour... or character... You look for someone with low expectations. *Warren Buffett*

On Economists

- We think any company that has an economist certainly has one employee too many. *Warren Buffett*

On the current investment landscape

- Profits are worth a whole lot more if the government bond yield is 1% than they're worth if the government bond yield is 5%. *Warren Buffett*
- If we get back to what are normal interest rates, stocks at these prices will look pretty high. If we continue with these kind of interest rates, stocks will look very cheap. *Warren Buffett*
- It's so hard for me to see how if you toss money from helicopters that eventually you don't have inflation. Certainly if the money supply grows faster and faster relative to the output of goods and services something like that is supposed to happen. *Warren Buffett*

We think that part of the genius of Warren Buffett and Charlie Munger is their ability to express their thoughts on complex matters, especially those relating to financial investment in the stockmarket, in a simple, concise and logical manner. They have been generous in sharing their accumulated wisdom to the benefit of the broader financial community. Given they are managers with a very long track record of outperformance against the broader indices, we believe their teachings warrant careful analysis. At Auscap, as value managers, we try to learn from their investment philosophy. As Sir Isaac Newton remarked in 1676, “If I have seen further it is by standing on the shoulders of giants.”

INVITATION | Auscap Events in June

Auscap invites you to: Opportunities & Risks to the Value Investor

We will be discussing topics including:

- Are we anchored to historical risk free rates?
- What are reasonable oil price expectations?
- Should we extrapolate steel demand growth?
- Noise around household consumption

The dates for the events are as follows:

- Sydney . 17 & 18 June 2015 . 5.30pm
- Melbourne . 23 June 2015 . 5.30pm
- Brisbane . 25 June 2015 . 5.30pm
- Perth . 2 July 2015 . 5.30pm

You're invited! We would like to extend an invitation to these events to our investors and newsletter subscribers.

If you wish to attend please email info@auscapam.com and we will send you further information. We look forward to seeing many of you at the presentations.



If you do not currently receive the Auscap Newsletter automatically, we invite you to register. To register please go to the website 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. We welcome any feedback, comments or enquiries. Please direct them to info@auscapam.com.

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