



Auscap Long Short Australian Equities Fund Newsletter – April 2015

© Auscap Asset Management Pty Ltd

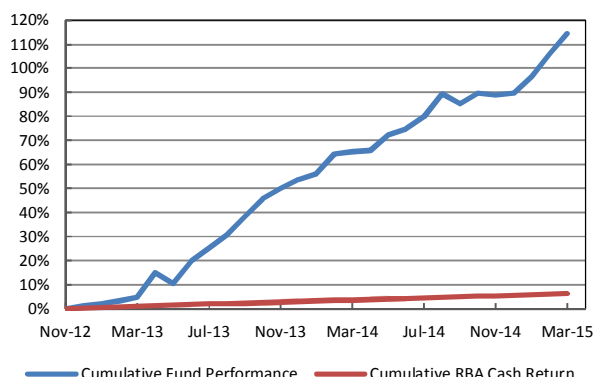
Disclaimer: This newsletter contains performance figures and information in relation to the Auscap Long Short Australian Equities Fund from inception of the Fund. The actual performance for your account will be provided in your monthly statement. Actual performance may differ for investments made in 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. 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 Pty Ltd 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 Information Memorandum or any supplement to that document and obtaining investment, legal, tax and accounting advice appropriate to your circumstances.

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 analyse a few broad valuation measures that might be useful in evaluating whether or not the market is currently expensive.

Fund Performance

The Fund returned 3.98% net of fees during March 2015. This compares with the benchmark return of 0.19%. Average gross capital employed by the Fund was 105.6% long and 30.2% short. Average net exposure over the month was +75.4%. At the end of the month the Fund had 32 long positions and 10 short positions. The Fund's biggest stock exposures at month end were spread across the financials, consumer discretionary, consumer staples, materials and energy sectors.



Fund Returns

Period	Auscap	Benchmark
March 2015	3.98%	0.19%
Financial Year to date	22.65%	1.83%
Calendar Year to date	13.06%	0.57%
Since inception	114.40%	6.23%

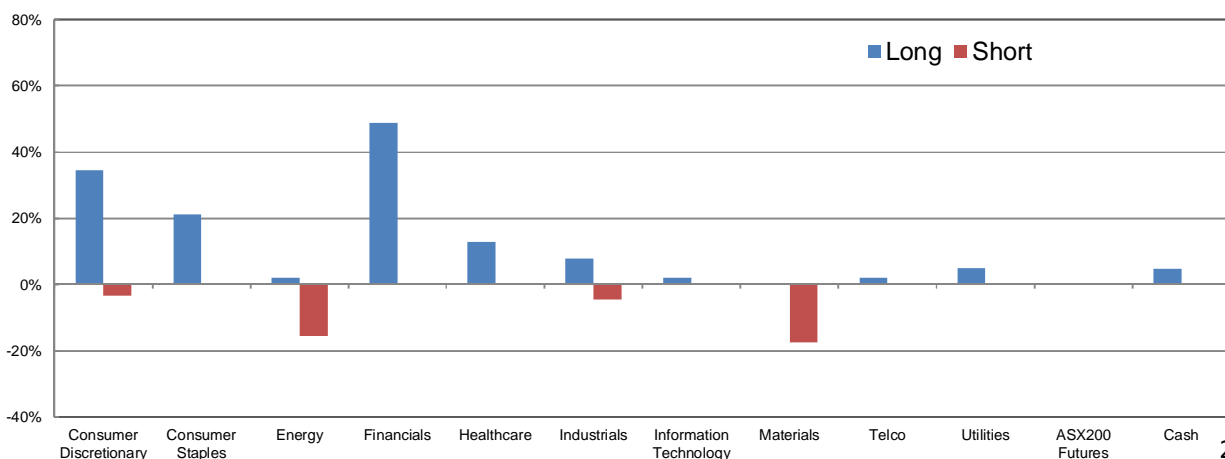
Fund Exposure

March 2015 Average	% NAV	Positions
Gross Long	105.6%	30
Gross Short	30.2%	10
Gross Total	135.8%	40
Net / Beta Adjusted Net	75.4%	51.5%

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				22.65

Sector Exposure - 31 March 2015

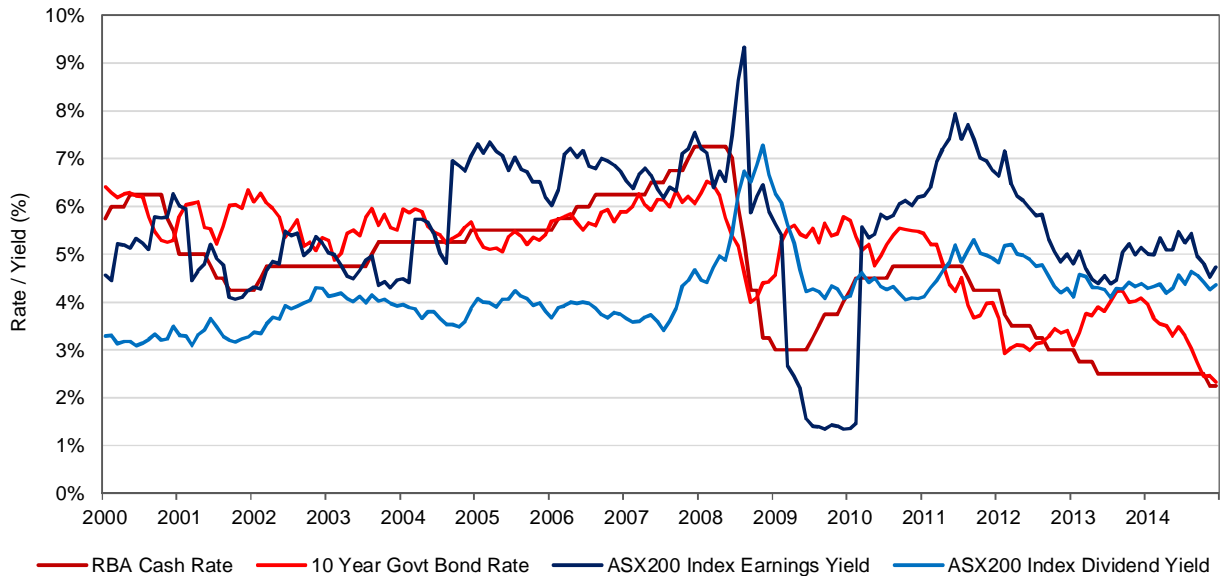


A Time To Be Alert But Not Alarmed?

We are frequently asked whether or not we consider the stock market to be expensive. Typically it is not a question we spend a great deal of time concerning ourselves with unless we are of the view that the market is close to one extreme or the other. We are not convinced that this is currently the case. While we have no particular view on where the broader market is heading over the next three, six or twelve months, there are a number of indicators that we consider to be useful when analysing the relative merits of different asset classes.

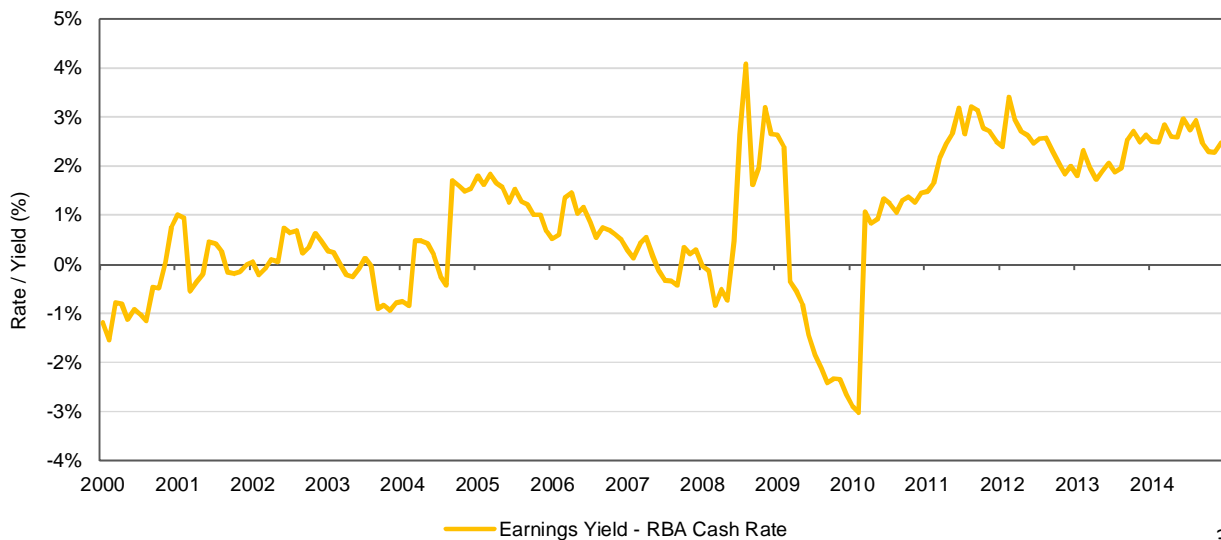
Equities on an earnings and dividend yield basis look attractive against cash and government bond alternatives.

Cash and bond rates compared with equities earnings and dividend yields



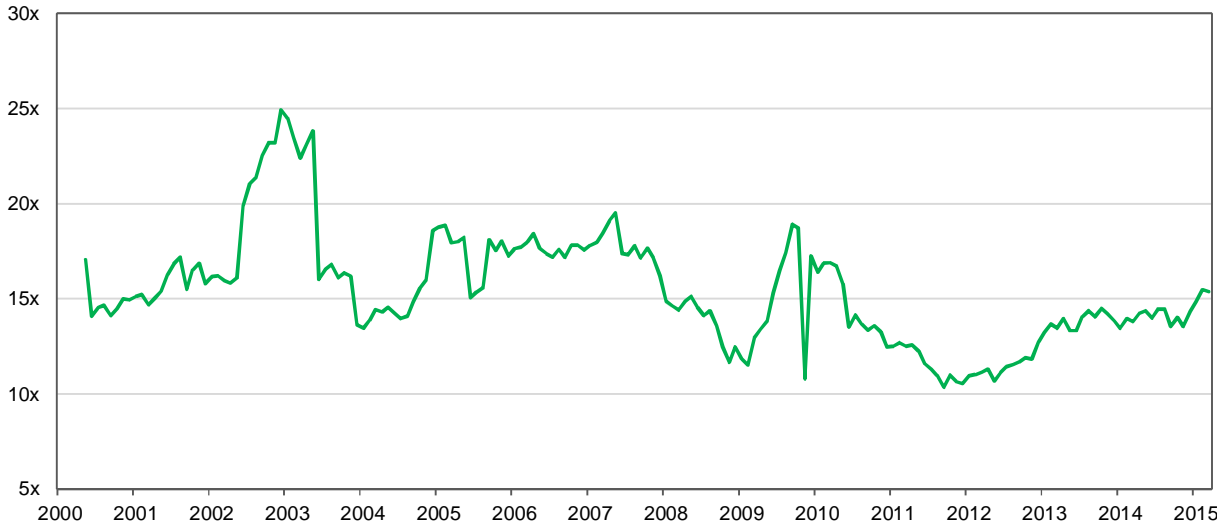
This is reflected in an ASX200 Index earnings yield premium over the cash rate near the highest level it has been over the last 15 years. We focus on the earnings yield spread rather than the dividend yield spread to remove any impact of changing payout ratios (the percentage of earnings paid out as dividends).

ASX200 Index Earnings Yield Premium To RBA Cash Rate



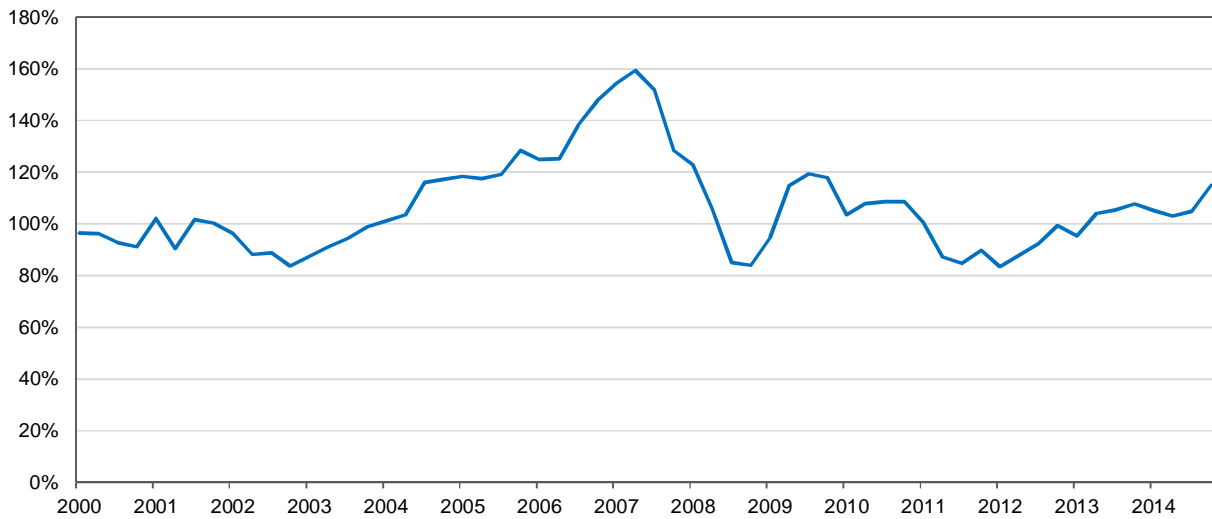
On an absolute basis, the market is priced near the average of the valuation range over the last 15 years. The Enterprise Value to Earnings Before Interest and Tax (EV to EBIT) multiple avoids distortions in pricing that result from market wide changes in listed company capital structures as they occur from time to time.

ASX200 Index Enterprise Value to EBIT Multiple



If we turn to one of Warren Buffett's favourite measures, the total market capitalisation to Gross National Income ratio, the market also appears to be in the range that would most likely be considered fairly priced. Gross National Income is Gross Domestic Product plus income earned from residents operating overseas less income earned by offshore residents operating domestically.

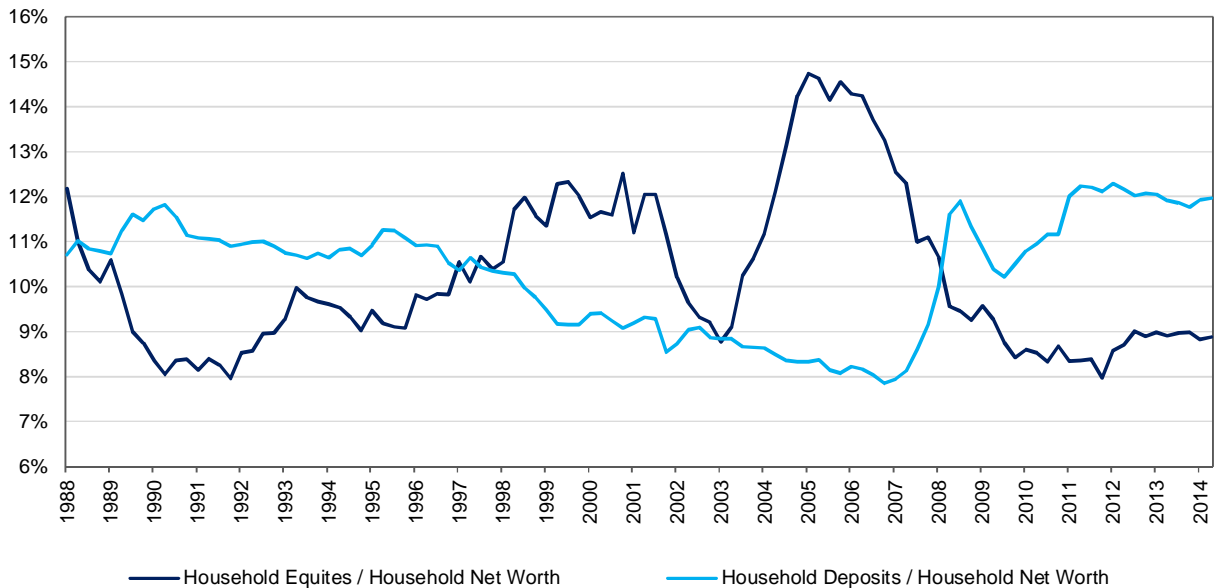
All Ordinaries Index Market Capitalisation to Gross National Income Ratio



The broad measures above do not suggest that the market is particularly expensive in absolute terms, albeit we acknowledge that these measures give no consideration to actual or anticipated growth in earnings, which is currently a focus for many investors given the headwinds facing the Australian economy.

Market participants are undoubtedly concerned with market valuation. Perhaps this consideration actually provides us with a valuable insight. One of Warren Buffett's most famous quotes is "the less prudence with which others conduct their affairs, the greater prudence with which we should conduct our own affairs." Could there be a corollary to this, that wariness about paying excessive prices for assets and thoughtful market-wide consideration of potential bubbles is the best tonic for keeping the valuation of assets in a sensible range? We suggest that it would be unusual for a market peak coincide with widespread caution. Investors behave according to their emotional response to the current set of circumstances. The current commentary is conservative if not outright bearish, and as a result cash levels are high.

Australian Household Balance Sheets: Relative Asset Weightings



While there will no doubt be the occasional market retracement (and historically May is as good a month as any!), we consider it is unlikely that we currently have the requisite conditions in place for a major market peak. The absence of any sense of euphoria is a noticeable missing ingredient. To us, equities continue to look reasonably priced in absolute terms and attractive relative to alternative asset classes. While there are a myriad of macroeconomic concerns to be aware of, we are of the opinion that carefully chosen equity investments represent an attractive total return proposition, particularly when positioned appropriately in a long short portfolio.

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.

Auscap Asset Management

ACN 158 929 143 AFSL 428014
Lvl 24, 9 Castlereagh St, Sydney

Email: info@auscapam.com
Web: www.auscapam.com

Service Providers

Prime Brokerage: Citi Global Markets
Administration: White Outsourcing

Tax & Audit: Ernst & Young
Legal: Henry Davis York