



Auscap Long Short Australian Equities Fund Newsletter – August 2018

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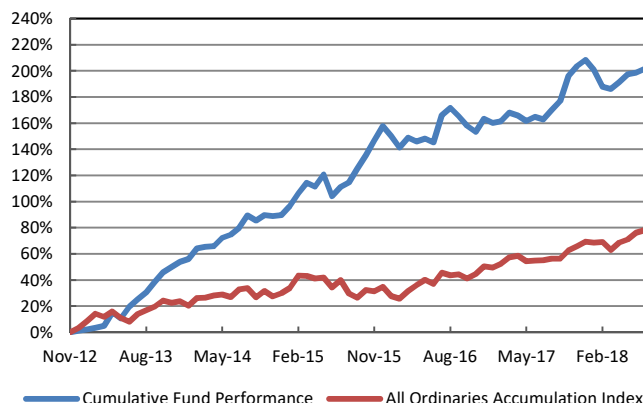
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Welcome

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 discuss the performance of the Fund during FY18.

Fund Performance

The Fund returned 1.02% net of fees during July 2018. This compares with the All Ordinaries Accumulation Index return of 1.22%. Average gross capital employed by the Fund was 83.8% long and 31.8% short. Average net exposure over the month was 52.0%. Over the month the Fund had on average 24 long positions and 13 short positions. The Fund's biggest stock exposures at month end were spread across the consumer, financials and real estate sectors.



Fund Returns

Period	Auscap	All Ords
July 2018	1.02%	1.22%
Financial Year to date	1.02%	1.22%
Calendar Year to date	(2.25%)	5.31%
Since inception	201.57%	78.23%

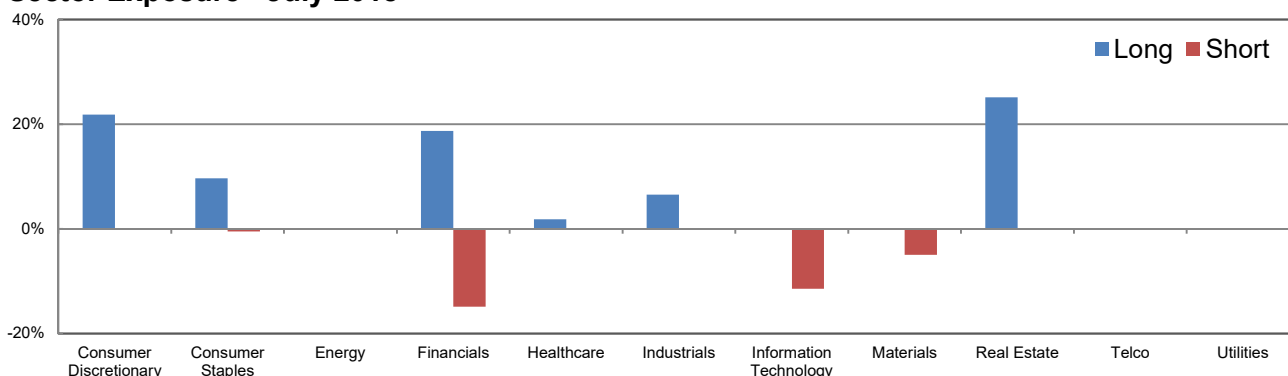
Fund Exposure

July 2018 Average	% NAV	Positions
Gross Long	83.8%	24
Gross Short	31.8%	13
Gross Total	115.6%	37
Net / Beta Adjusted Net	52.0%	28.1%

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	(7.55)	16.81
FY16	3.46	1.64	4.82	4.65	4.69	4.56	(3.01)	(3.54)	3.22	(1.24)	0.96	(1.19)	20.13
FY17	8.48	2.13	(2.37)	(2.72)	(1.83)	4.00	(1.20)	0.42	2.52	(0.81)	(1.53)	1.18	7.97
FY18	(0.77)	2.75	2.53	6.96	2.58	1.56	(2.50)	(4.31)	(0.56)	1.75	2.11	0.39	12.71
FY19	1.02												1.02

Sector Exposure - July 2018



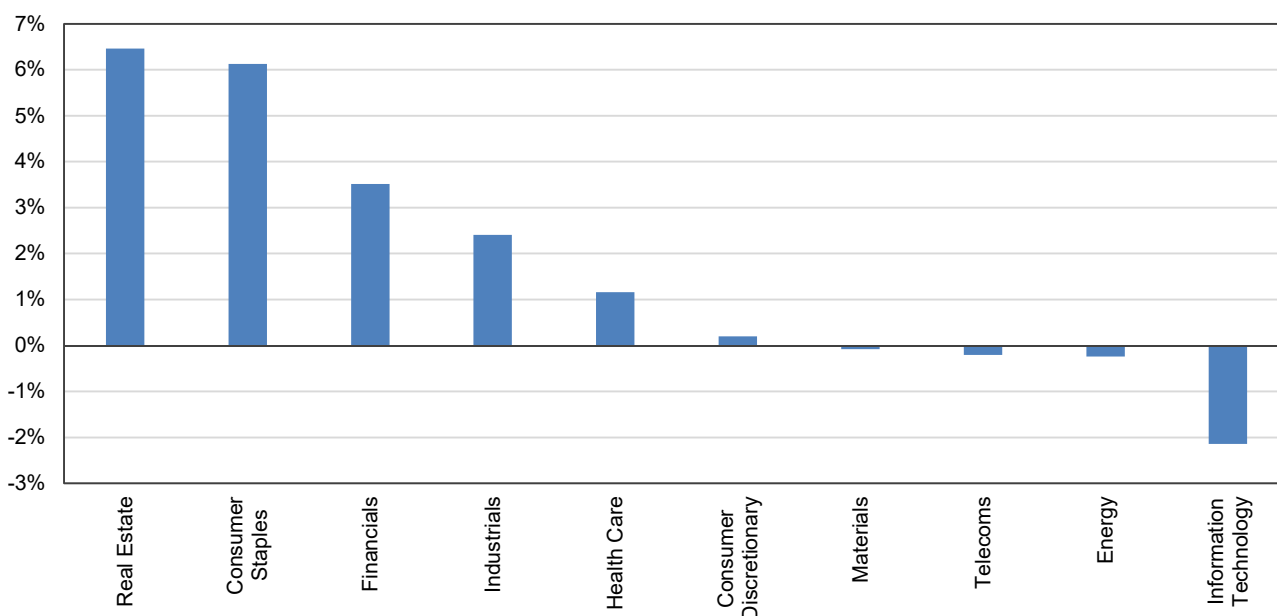
Analysing FY18 Fund Returns

The Fund delivered 12.71% net to investors during FY18. Long term investors and readers of this newsletter will remember that each year we reserve the September newsletter for a candid assessment of the Fund's performance in the prior financial year and lessons learnt or reiterated. We have decided to bring this forward one month from this year to August so that the assessment is closer to the end of the financial year.

The past year was characterised by the following features:

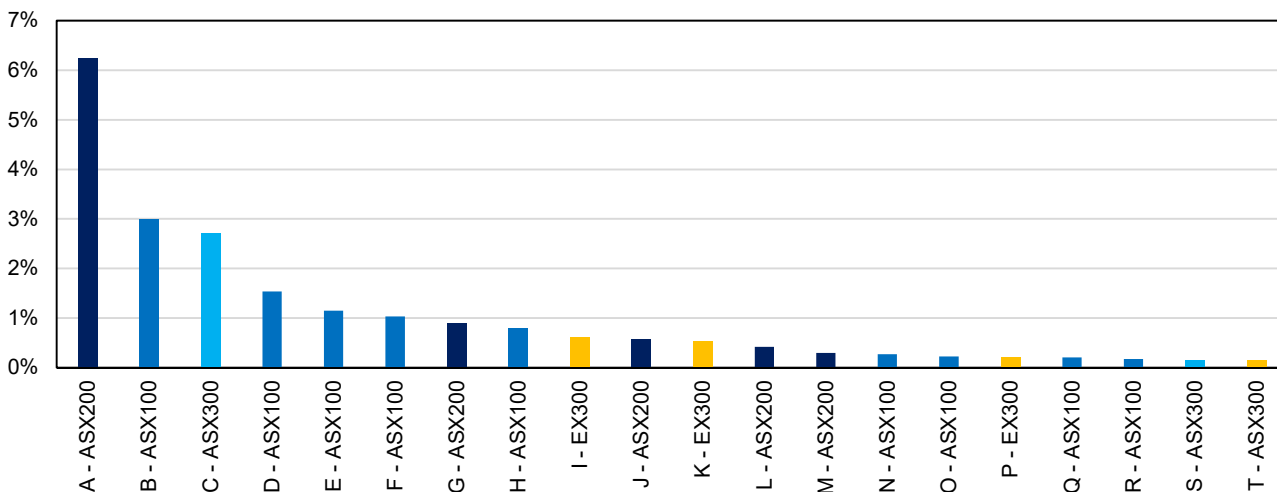
- strong returns from a reasonable number of core holdings across a variety of sectors within the Fund;
- a considerable contribution from our real estate investment trusts and consumer staples exposures; and
- a small negative contribution to returns from short positions, largely caused by our short exposure in the information technology sector.

Gross Fund Returns by Sector



At an individual stock level there were a few stocks which made significant contributions to the total return delivered by the Fund.

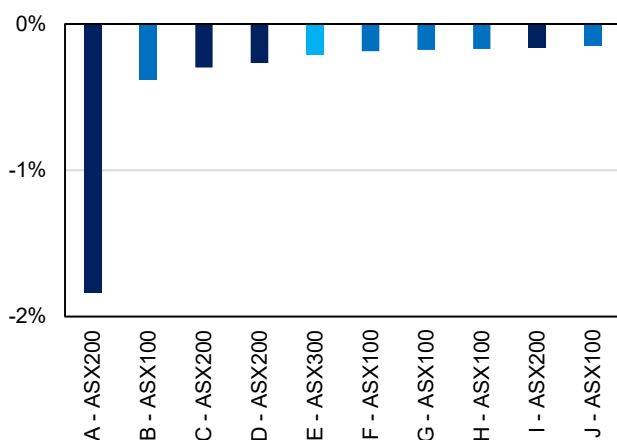
Best 20 Single Stock Contributions to Gross Fund Performance



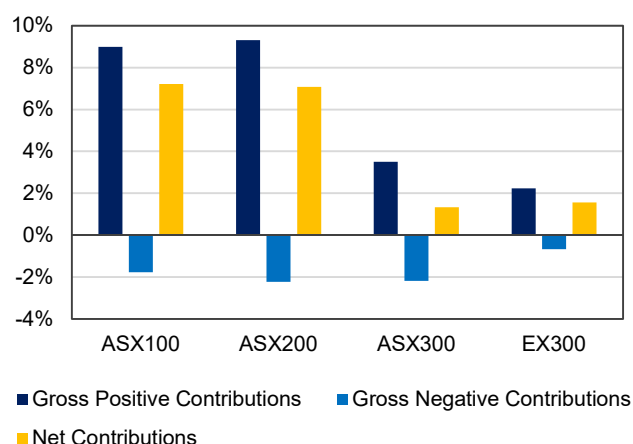
The Fund's largest *contributor* to performance in FY18 was the second largest *detractor* from performance in FY17. The aggregate contribution from this company to performance has been strongly positive over the life of the Fund. Sometimes companies will go through periods where their stock prices are declining. As long term investors in the businesses we own, we cannot predict when these periods of underperformance will occur, nor do we try. The benefits of long term ownership of good businesses that are growing value for their shareholders over time are clear. However the nature of the returns from individual companies each year will be considerably more variable.

The Fund had one significant detractor from performance during the financial year, a short position in the information technology sector. The majority of Fund returns came from stocks within the ASX200. This is not surprising given the Fund's concentration of exposure towards large and mid capitalisation companies.

Worst 10 Single Stock Contributions to Gross Fund Performance



Gross Fund Returns by Index



We often reflect on lessons learnt, typically from mistakes made over the course of the prior year. This is healthy for an investment manager to do and is an opportunity for honesty and transparency with our investors. Mistakes can be active and result in actual losses, or passive where it is the opportunity cost that is worth considering. Our lessons from FY18 include the following:

- Be reluctant to reduce exposure to good companies, wait until they are considerably expensive before selling. Good companies increase in value over time. Often what appears marginally expensive today in a growing business bought at an attractive price will become fair value or better in a short period of time.
- Be wary of shorting companies in sectors experiencing a bull market until the music has stopped. In these environments, even companies that have reported issues that are more negative than market participants expected can often continue to rise. As the aphorism goes, *a rising tide lifts all boats*.
- To quote Warren Buffett, *“it's far better to buy a wonderful company at a fair price than a fair company at a wonderful price.”* This is a lesson we have been slow to learn over time. Too often we wait for bargain basement prices. Actually, today's fair price will be a bargain price in just a few short years for a company strongly growing earnings organically over time.

We continue to look for companies that are characterised by a number of features. These include high cash generation, a strong return on invested capital, a sensibly geared balance sheet, a simple business model delivering services or products that we are familiar with, a good management team and most importantly a purchase price that will afford our investors an attractive return on their capital over time. We look forward to the opportunities presented in the coming year.

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 and follow the registration link on the home page. Interested investors can download a copy of the PDS at www.auscapam.com/auscap-fund/pds. We welcome any feedback, comments or enquiries. Please direct them to info@auscapam.com.

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