Auscap Long Short Australian Equities Fund Newsletter – December 2017

The Auscap Long Short Australian Equities Fund has been rated "Recommended" by Zenith and Lonsec. Interested wholesale and professional investors can download a copy of each report from the Auscap website www.auscapam.com.

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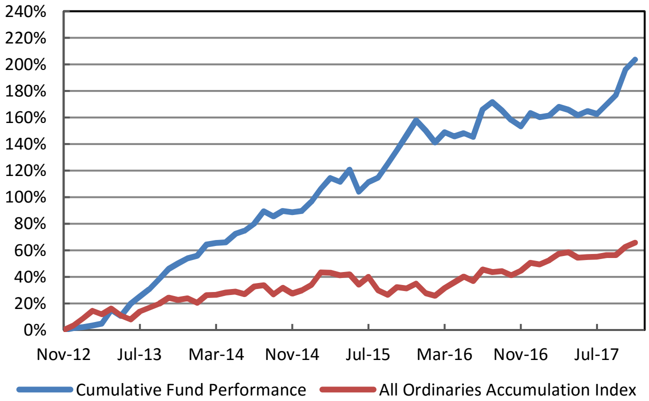
Welcome

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 how dividends are a crucial component of the total return delivered by owning a share portfolio.

Fund Performance

The Fund returned 2.58% net of fees during November 2017. This compares with the All Ordinaries Accumulation Index return of 1.91%. Average gross capital employed by the Fund was 111.2% long and 2.2% short. Average net exposure over the month was 109.0%. Over the month the Fund had on average 32 long positions and 5 short positions. The Fund's biggest stock exposures at month end were spread across the real estate, financials and consumer sectors.



Fund Returns

Period	Auscap	All Ords
November 2017	2.58%	1.91%
Financial Year to date	14.70%	7.13%
Calendar Year to date	15.31%	10.15%
Since inception	203.77%	65.87%

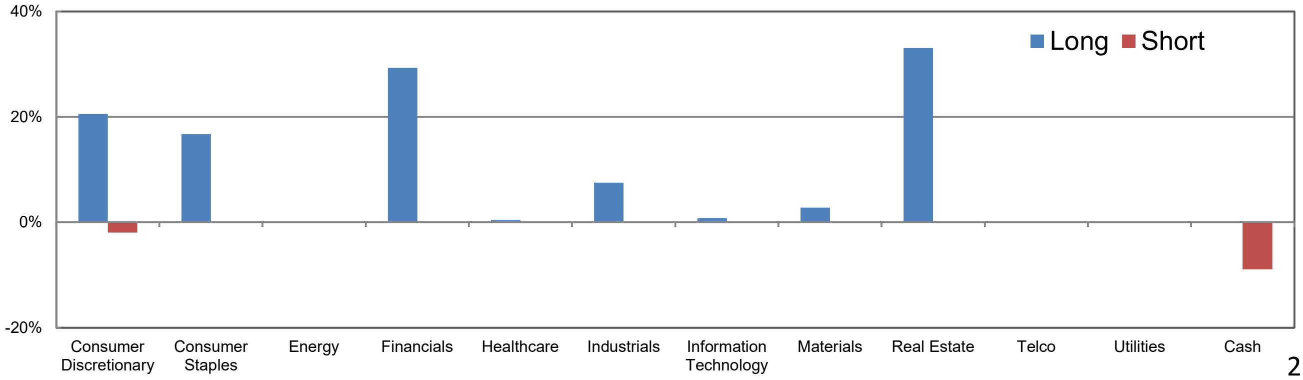
Fund Exposure

November 2017 Average	% NAV	Positions
Gross Long	111.2%	32
Gross Short	2.2%	5
Gross Total	113.4%	37
Net / Beta Adjusted Net	109.0%	78.7%

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								14.70

Sector Exposure - November 2017



All I Want For Christmas Is A Dividend Or Two

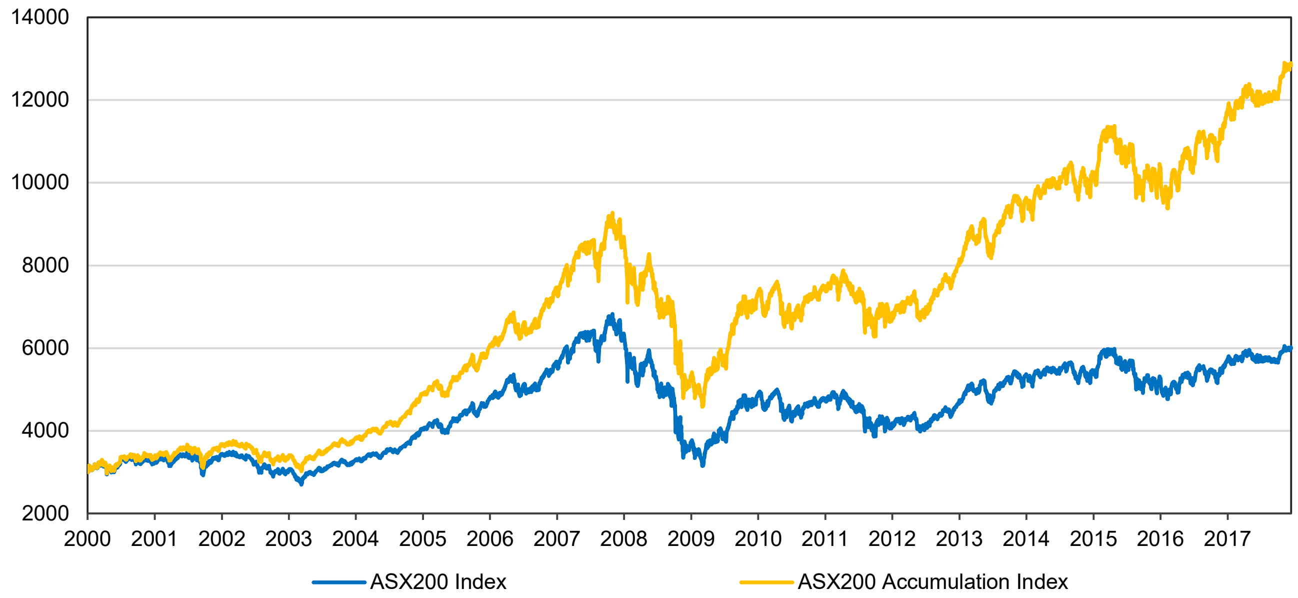
The Auscap Fund reached its five year milestone at the end of November. As the manager, we are delighted with the Fund's performance to date, having delivered an average return of 24.9% per annum post fees since inception. It provides a clear demonstration of the power of compounding, with initial investors up slightly over 200% on their investment in that five year period. It is also a useful time to remind our current and potential investors that we have considerably more modest objectives. We focus on what we perceive to be lower-than-market-risk opportunities that we believe will deliver 10 to 15% per annum at the stock level. As a result we would be pleased if the Fund delivered returns over time that were in line with this stock level expectation.

As our regular readers would know, we like to invest in companies that generate lots of cash. And because they generate lots of cash after all business operating expenditures, they pay us healthy dividends. Most of the largest companies in the stockmarket are strong cash generators and pay good dividends. We think there is a lot to be said for owning a basket of these companies for a long time. Not only do earnings typically grow for these businesses over time, but investors collect the cash dividends along the way.

One thing we constantly read about is the sideways nature of the Australian stockmarket over the last decade. Much is made of the fact that the ASX200 and All Ordinaries Indices are still well below their 2007 peaks, implying that those investors who chose exactly the wrong time to invest back in late 2007 are still underwater on their investment, assuming they invested in an index product. This is quite misleading as these indices do not include dividends that are paid to shareholders. The dividend yield of the domestic indices is normally quite a substantial component of the total return. Investors need to look at the equivalent accumulation indices, which includes the value of the dividends and assumes they are reinvested when received, to get an accurate picture.

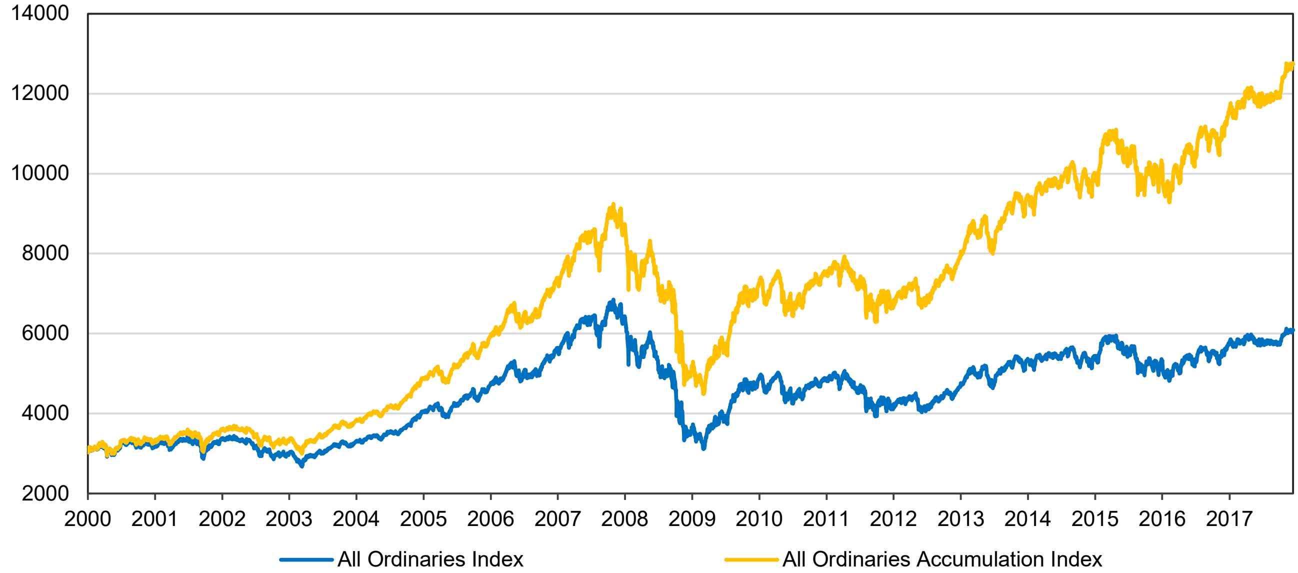
We have selected a couple of the popular Australian stockmarket indices, the ASX200 Index and the All Ordinaries Index, to illustrate the difference. At the time of writing, the ASX200 Index is still 12% below its 2007 peak, but when dividends are included we see that the ASX200 Accumulation Index is over 38% higher than this peak. If you invested in the index, simply looking at the price index would be misleading and may encourage you to avoid stocks. A simple price index does not take into account the substantial benefit of the cash dividends.

The Dividend Difference: ASX200 Indices Performance



Similarly, the All Ordinaries Index is still more than 11% below its 2007 high, but the true measure of index performance, the All Ordinaries Accumulation Index, is up over 37%.

The Dividend Difference: All Ordinaries Indices Performance



It should come as no surprise therefore that we constantly stress to our investors that there is a lot to be said for owning great companies that generate significant amounts of cash after all operating expenses for a long period of time. The company is more valuable to the investor every day, with another day's cash profit in the bank. As a result the investor gets paid handsomely for their patient investing. A good example is our exposure to the real estate investment trust (REIT) sector, a sector where the business model is straightforward, has few moving parts and is very profitable. While in recent years there might not have been significant stock price appreciation, we have collected significant cash distributions through our ownership of various companies in the commercial real estate sector. These cash distributions will continue shortly after Christmas when many of the real estate companies we own go ex-dividend.

It is also worth highlighting that the dividend payout ratio in Australia is much higher than in many other markets, such as the US. This is largely a function of the differing tax treatment of dividends in different countries. With dividend imputation in place in Australia, corporate profits are taxed at the company level but then the shareholders do not get taxed again if companies choose to pay dividends. The shareholders receive a credit for the tax already paid by the company. So Australian companies actually have a reason to pay dividends in that they utilise the company's franking credit balance. By contrast, many foreign markets do not have dividend imputation. This double taxation of dividends means that other methods of utilising surplus cash are more popular. Such measures include share buybacks, which have the effect of further pushing up share prices, adding to the price gains of the indices. So comparing an Australian index that does not incorporate the value of dividends with a foreign index where buybacks are more popular would be misleading. It would ignore the very real value of the dividends paid to shareholders over time.

Thank you to all of our readers for your interest over the last year. We wish our investors, service providers and readers a happy and safe festive season and all the very best for 2018.

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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