



Auscap Long Short Australian Equities Fund Newsletter – September 2016

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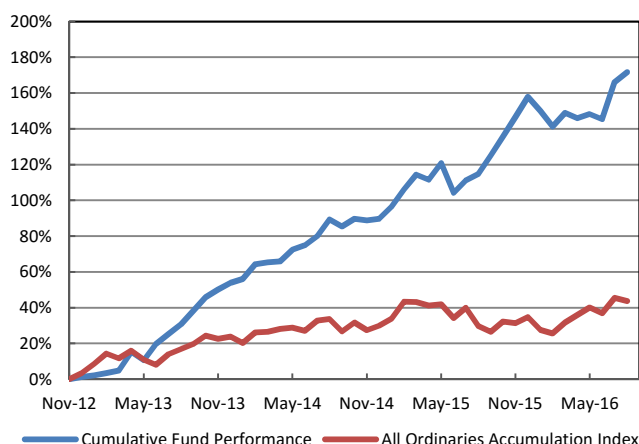
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Welcome

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 analyse the returns delivered by the Fund in FY16 in terms of single stock and sector contributions.

Fund Performance

The Fund returned 2.13% net of fees during August 2016. This compares with the All Ordinaries Accumulation Index return of negative 1.33%. Average gross capital employed by the Fund was 110.6% long and 5.5% short. Average net exposure over the month was 105.1%. At the end of the month the Fund had 33 long positions and 7 short positions. The Fund's biggest stock exposures at month end were spread across the financials, real estate, consumer discretionary, consumer staples and telecommunications sectors.



Fund Returns

Period	Auscap	All Ords
August 2016	2.13%	[1.33%]
Financial Year to date	10.78%	4.88%
Calendar Year to date	5.40%	6.51%
Since inception	171.74%	43.61%

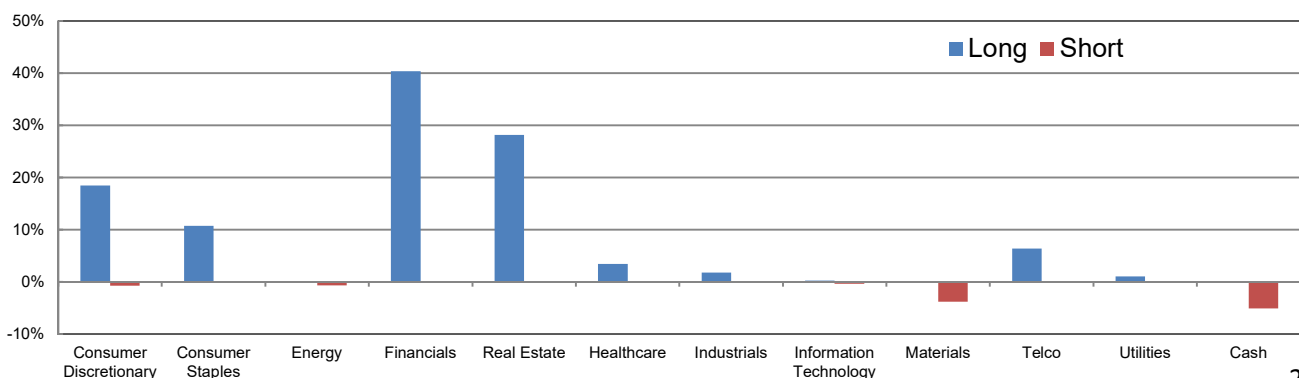
Fund Exposure

August 2016 Average	% NAV	Positions
Gross Long	110.6%	33
Gross Short	5.5%	6
Gross Total	116.1%	39
Net / Beta Adjusted Net	105.1%	85.1%

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											10.78

Sector Exposure - August 2016

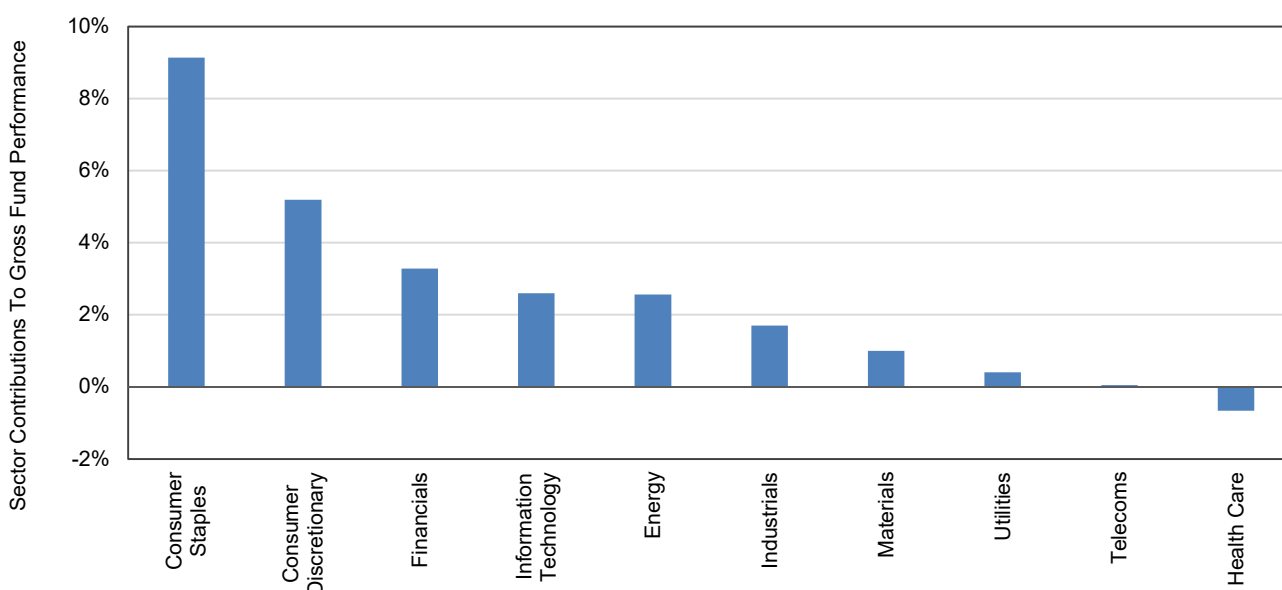


Analysing FY16 Fund Returns

FY16 was a strong year for the Auscap Fund, delivering a 20.13% return net of fees to investors, substantially above the All Ordinaries Accumulation Index return of 1.98%. To consistently provide transparency about returns to our investors, each year we dedicate the September newsletter to an analysis of the Fund’s returns in the prior fiscal year. We believe it is important that we demonstrate transparency in the way our returns have been generated.

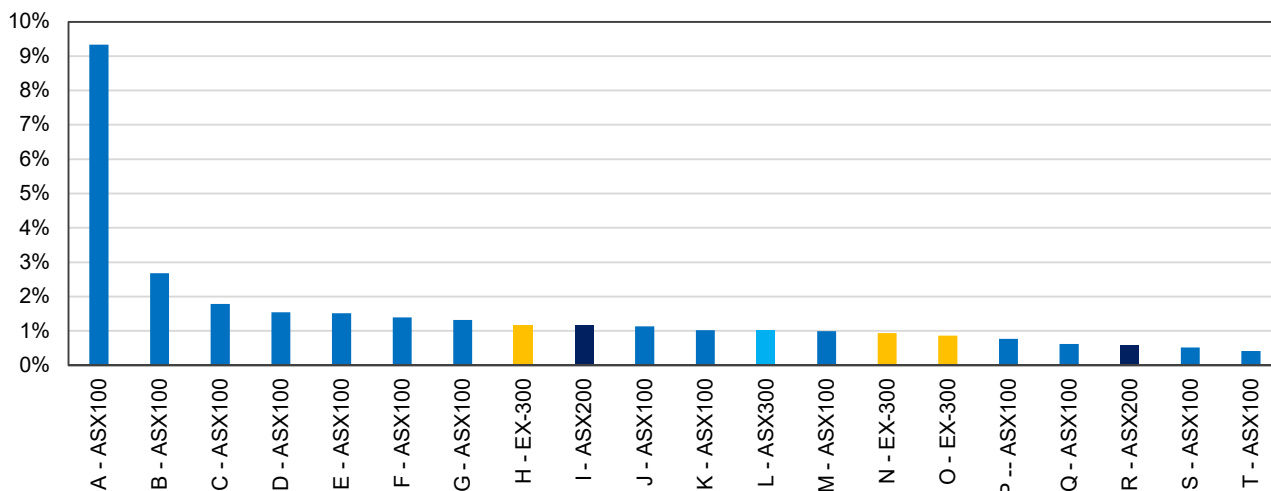
Positive returns were generated across a variety of sectors. The consumer staples, consumer discretionary and financials sectors contributed the most to the Fund’s performance. 81.5% of the gross Fund returns were generated from long investments, 18.5% from short positions.

Gross Fund Returns by Sector



From a single stock perspective, one stock delivered outsized returns for the Fund, while there were many other positions that contributed between 1 and 3%.

Best 20 Single Stock Contributions to Gross Fund Performance

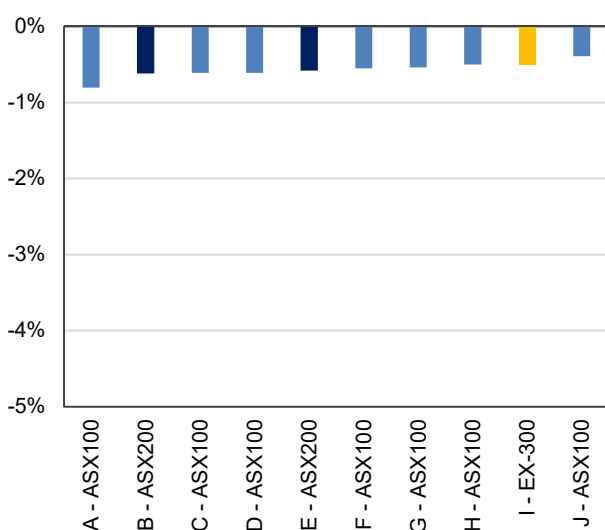


We were pleased with the extent to which we minimised the effect of mistakes on fund performance. There was no individual security that detracted more than 1% of gross performance. This was despite the fact that it was a reasonably volatile year and there was considerable dispersion within single stock returns. While this is far from a perfect indicator of error, especially in arbitrarily choosing the financial year over which to conduct the analysis, we do so because internally we focus on trying to minimise the number of stocks that detract significantly from performance due to errors in analysis and action.

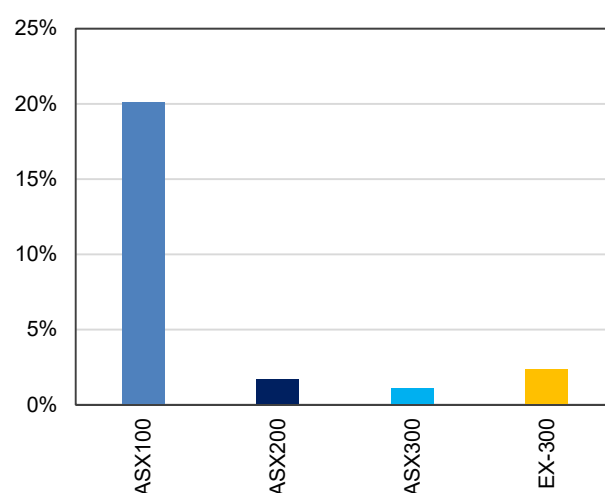
It is also worth noting that the Fund was not heavily exposed to stocks outside the ASX200 during the year. Approximately 80% of the Fund’s returns came from stocks within the ASX100. This in a year when the small capitalisation indices did extraordinarily well. To put it in context, the ASX100 Accumulation Index returned negative 0.4% in FY16, compared to positive 14.4% for the ASX Small Cap Ordinaries Accumulation Index.

We weren’t able to find many compelling opportunities in small capitalisation companies at the start of FY16 that met our return and risk metrics, so it should be no surprise that this is even more the case today given many of the constituent stocks are now trading at substantially higher valuations than a year ago. At the end of August, circa 70% of the Fund’s assets were invested in ASX100 companies. Most of the Fund’s significant investments are in large and mid-capitalisation securities, a bias we expect will remain should current conditions continue to prevail.

Worst 10 Single Stock Contributions



Gross Fund Returns By Index



The biggest mistakes made over the course of the year were actually errors of omission rather than action. These were mistakes we made by not investing in a few high quality, cash producing, large and mid-capitalisation stocks that we know reasonably well and did not purchase at times when the market afforded us a compelling opportunity. While these mistakes do not get recorded in the performance ledger, hindsight has demonstrated that they were quite costly. We will endeavour to learn from these mistakes and take advantage of such opportunities in the future in areas where we feel we have relative competence.

As always, we will continue to look for companies that have some defining characteristics. These characteristics include high levels of free cash flow, a track record of attractive return on invested capital, a sensibly geared balance sheet, the supply of products and/or services that we are somewhat familiar with, management we like, and most importantly a purchase price that should afford our investors an attractive return on their capital over time.

If you do not currently receive the Auscap Newsletter automatically, we invite you to register. To register please go to the website <http://www.auscapam.com> 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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