



Advisers Big Day Out 2018

Auscap Long Short Australian Equities Fund

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1. Who are we?
2. What are absolute and relative return strategies?
3. The differences between absolute and relative return strategies
4. The benefits of absolute return strategies
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Who are we?

Auscap Asset Management is a value based long short Australian equities investment manager established in 2012. Auscap Asset Management is the Responsible Entity and Investment Manager for the Auscap Long Short Australian Equities Fund.

Auscap Fund

- Value based long short Australian equities fund
- The Auscap Fund is a registered managed investment scheme
- Funds under management ~\$570m
- Accessible to Retail investors and available on a number of platforms

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Who are we?

Long position characteristics

- Target attractive low-risk total return (income + growth) opportunities
- Cash producing businesses with strong return on invested capital trading at attractive prices
- Transparent business models, with products/services that we are familiar with
- High ROA, stable balance sheets and quality management

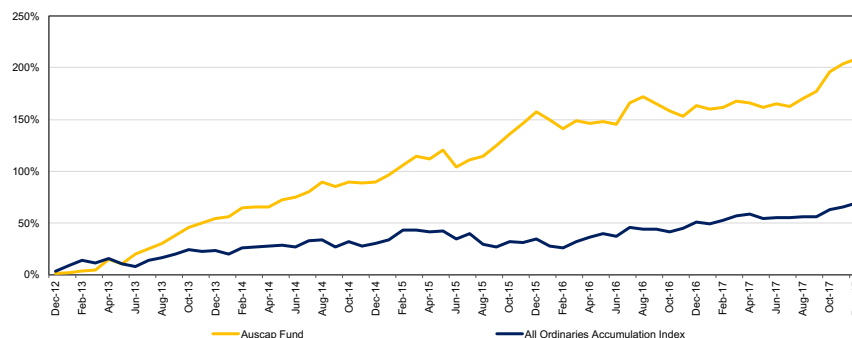
Short position characteristics

- Low quality earnings, poor or negative cash generation
- Complex business model and multiple assumptions required to meet growth targets
- Low ROIC, stressed balance sheets and inexperienced or promotional management
- Earnings in a downgrade cycle

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Auscap performance*

Auscap Long Short Australian Equities Fund vs All Ordinaries Accumulation Index*



	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	FYTD
FY13						1.4%	0.7%	1.2%	1.5%	9.8%	-4.0%	8.3%	19.7%
FY14	4.7%	4.3%	5.8%	5.5%	2.9%	2.6%	1.3%	5.3%	0.7%	0.3%	3.8%	1.5%	46.0%
FY15	3.0%	5.2%	-2.1%	2.2%	-0.4%	0.4%	3.7%	4.9%	4.0%	-1.4%	4.4%	-7.5%	16.8%
FY16	3.5%	1.6%	4.8%	4.6%	4.7%	4.6%	-3.0%	-3.5%	3.2%	-1.2%	1.0%	-1.2%	20.1%
FY17	8.5%	2.1%	-2.4%	-2.7%	-1.8%	4.0%	-1.2%	0.4%	2.5%	-0.8%	-1.5%	1.2%	8.0%
FY18	-0.8%	2.8%	2.5%	7.0%	2.6%	1.6%							16.5%

* Performance figures are calculated for the lead series net of all fees and expenses and assuming the reinvestment of all distributions. Actual performance may differ for investments made in different classes or series. Past performance is not a reliable indicator of future performance.

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What are absolute and relative return strategies?

Relative return funds

Most funds are relative return focused - they aim to generate higher returns than the market.

Absolute return funds

Absolute return funds are generally market agnostic - they aim to generate positive returns irrespective of market conditions.

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How is an absolute return strategy different?

Differences

- Focused on absolute returns and absolute risks
- Do not have to be fully invested, can hold cash
- Index unaware
- Can invest long or short
- Positions are sized by conviction
- Can invest in alternative instruments

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What are the benefits of absolute return strategies?

Difference

- Focused on absolute returns and absolute risks

Benefit

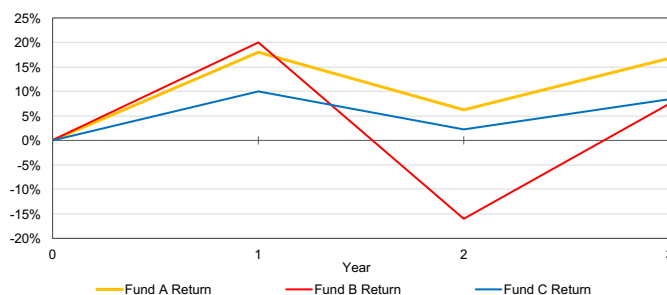
- Can deliver better risk adjusted returns

Risk

- Can underperform in a rising market

Year	Fund A	Fund B	Fund C
Year 1 Return	+18%	+20%	+10%
Year 2 Return	-10%	-30%	-7%
Year 3 Return	+10%	+28%	+6%
Simple Average Return	+6%	+6%	+3%
Average Compound Annual Return	+5.3%	+2.4%	+2.7%

Compound Returns for Funds A, B & C



Source: Auscap

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What are the benefits of absolute return strategies?

Difference

- Do not have to be fully invested, can hold cash

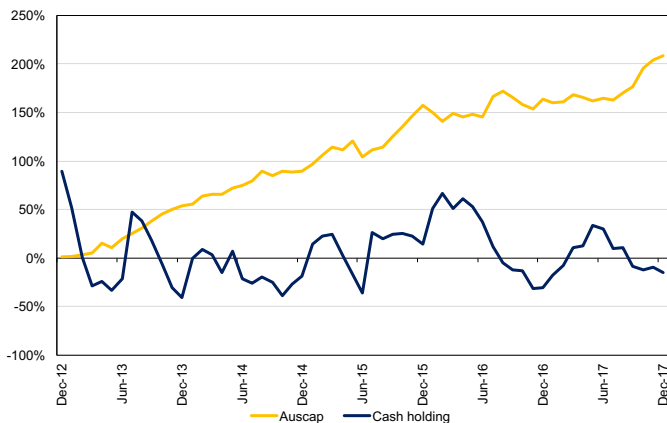
Benefit

- Preserves capital and gives optionality

Risk

- Can underperform in a rising market

Auscap performance* and cash holding



Source: Auscap

* Performance is based on the lead series net of all fees and expenses and assuming the reinvestment of all distributions. Actual performance may differ for investments made in different classes or series. Past performance is not a reliable indicator of future performance.

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What are the benefits of absolute return strategies?

Difference

- Index unaware

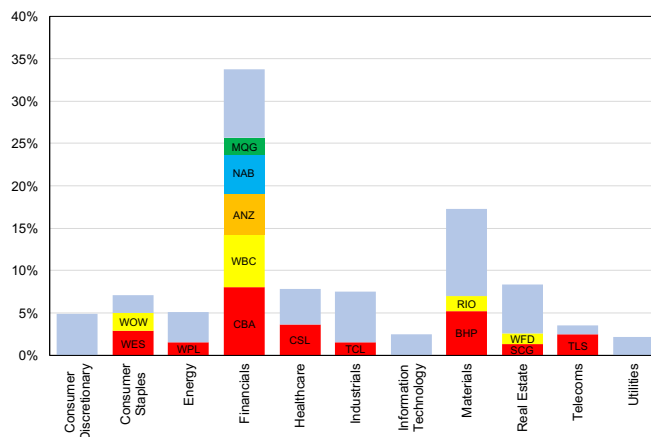
Benefit

- No passive positions

Risk

- Can underperform in a market where sectors that aren't held do well for the broader market

ASX200 Index Concentration



Source: IRESS, Auscap

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What are the benefits of absolute return strategies?

Difference

- Can invest long or short

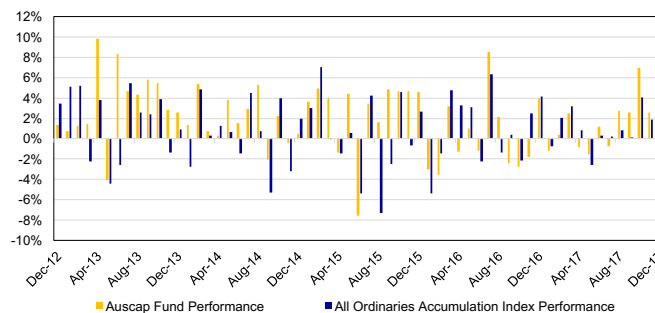
Benefit

- Broadens opportunities to generate returns/protect capital

Risk

- Asymmetry of risk on short positions

Auscap Long Short Australian Equities Fund vs All Ordinaries Accumulation Index*



	Auscap	All Ords
Average annual returns	24.8%	10.9%
Annualised standard deviation	11.3%	11.2%
Average positive months	2.8%	2.8%
Average negative months	0.2%	-2.7%
Number of positive months	45	40
Number of negative months	16	21

Source: IRESS, Auscap

* Performance is based on the lead series net of all fees and expenses and assuming the reinvestment of all distributions. Actual performance may differ for investments made in different classes or series. Past performance is not a reliable indicator of future performance.

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What are the benefits of absolute return strategies?

Difference

- Can invest in alternative instruments

Benefit

- Additional ways to add to returns

Risk

- Increased risk from liquidity, leverage and participation in alternative asset classes

Auscap invests only in Australian shares and cash

Alternative Instruments

- Equity/Index futures and options
- Commodities
- Unlisted securities
- Foreign exchange
- Interest rate derivatives
- Pre-IPO companies
- Exotic/OTC derivatives
- Fixed Income securities
- Hybrids/Convertibles

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What are the benefits of absolute return strategies?

Difference

- Positions are sized by conviction

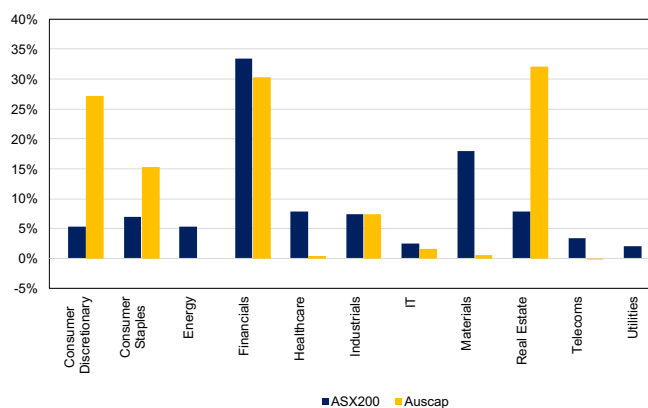
Benefit

- Highest portfolio weightings in best ideas

Risk

- Some concentration risk

Active management: Auscap (December 2017) vs SMSF 12

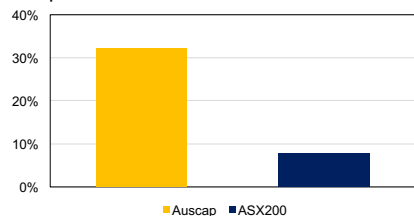


Source: IRESS, Auscap

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Auscap: REITs

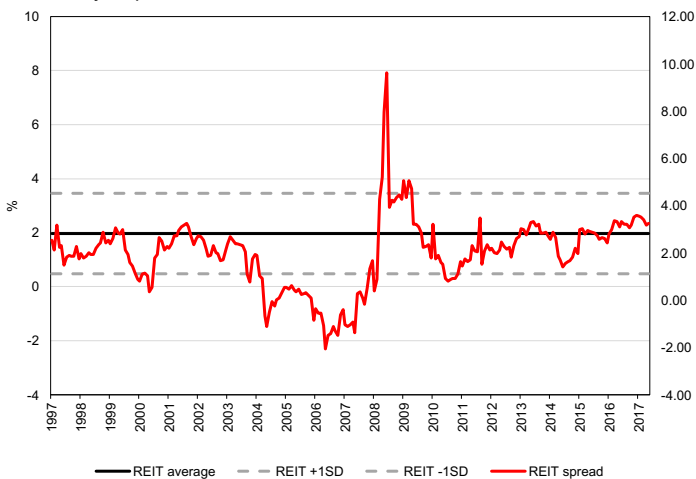
Auscap December 2017 Portfolio - REITs



Auscap REITs

Premium (Discount to NTA)	(1.6%)
Yield	7.2%
Gearing	27.0%
WALE	5.9 Years
Sector:	
Office	44%
Retail	42%
Other	14%

REIT dividend yield spread over RBA Cash Rate

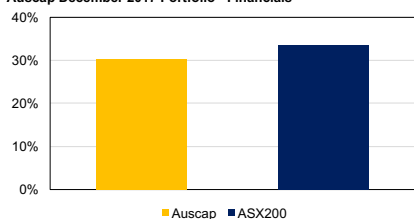


Source: IRESS, Auscap

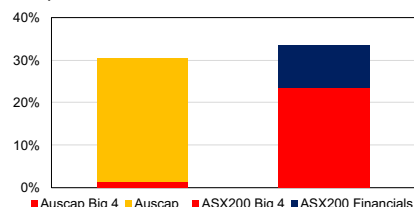
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Auscap: Financials

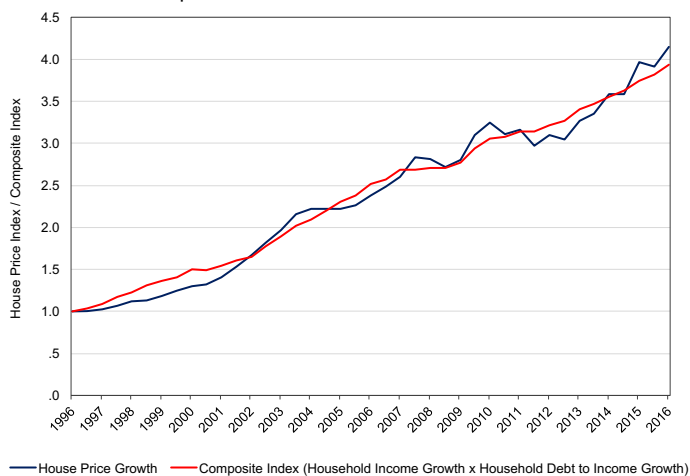
Auscap December 2017 Portfolio - Financials



Auscap December 2017 Portfolio - Financials



House Price Growth vs Composite Index

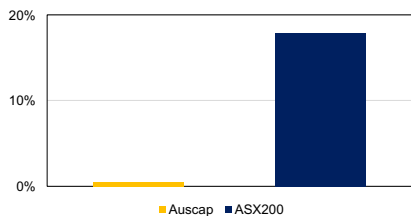


Source: ABS, IRESS, Auscap

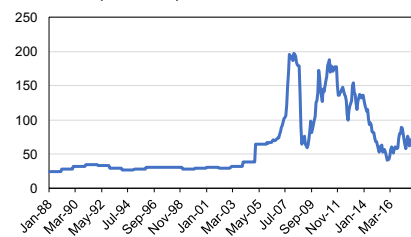
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Auscap: Materials

Auscap December 2017 Portfolio - Materials

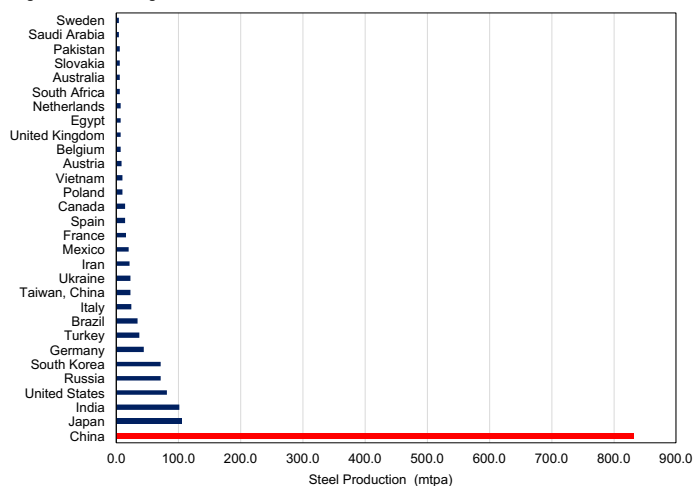


Iron Ore Price (US\$/t Fines)



Source: IRESS, World Steel Org., Auscap

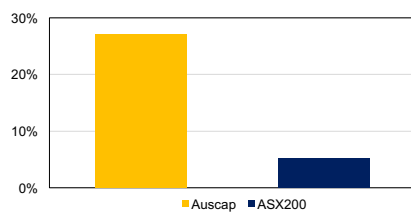
Largest Steel Producing Countries - 2017



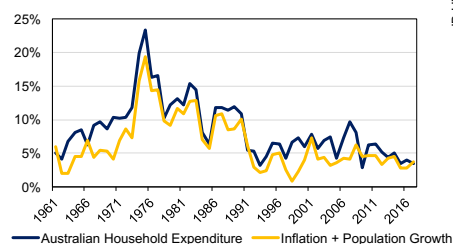
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Auscap: Consumer Discretionary

Auscap December 2017 Portfolio - Consumer Discretionary



Growth in Australian Household Expenditure 1960-2017



Source: ABS, IRESS, Auscap

Amazon and JB Hi-fi



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Benefits

- Can deliver better risk adjusted returns
- Can preserve capital and gives optionality
- No passive positions – every investment considered on its merits
- Broadens opportunity to generate returns and protect capital
- Highest portfolio weightings in best ideas
- Additional ways to add to returns

Risks

- Can underperform in a rising market
- Can underperform in a rising market
- Can underperform in a market where sectors that aren't held do well for a broader market
- Asymmetry of risk on short positions
- Some concentration risk
- Increased risk from liquidity leverage and participation in alternative asset classes

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Fund details

Investment Vehicle	Australian domiciled registered managed investment scheme
Fund Holdings	25 – 45 positions
Fund Administrator	Link Fund Solutions
Custodian & Prime Broker	Citigroup Global Markets Limited
Tax & Audit	Ernst & Young
Maximum Gross/Net Exposure	200% / 150%
Minimum Investment	\$100,000
Commenced Date	3 rd December 2012
Management Fee	1.5% of FUM ^[1] pa
Performance Fee	15% of outperformance over RBA Cash Rate ^[2]
Withdrawal Rights	Monthly, with 1 month notice
Bid/Ask Spread	0.2% / 0.2%
Distribution	Annually, following financial year end

^[1] Management fee payable monthly.

^[2] Performance Fee is calculated as 15% of the total gross return less expenses and management fees in excess of the RBA Cash Rate over the performance period, payable semi-annually for the series class and monthly for the platform class. The performance fee is subject to a high water mark with respect to previous performance.

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