

Atlantic Pacific Australian Equity Fund

ARSN 158 861 155

Fund Monthly May 2021

Return Summary (To May 2021)

Period	1 mth	3 mth	6 mth	1 yr	3 yr (pa)	5 yr (pa)	Cumulative	Per Annum
Fund Return	0.73%	-3.6%	-6.0%	-6.6%	4.8%	3.8%	84.0%	7.8%
S&P/ASX200 Acc.	2.34%	8.5%	11.7%	28.2%	9.9%	10.1%	102.3%	9.1%
Excess return	-1.61%	-12.0%	-17.7%	-34.9%	-5.1%	-6.4%	-18.2%	-1.3%

Fund Returns are prepared on a redemption unit price basis after management and performance fees inclusive of GST. Distributions are assumed to be re-invested at the mid unit price. Individual tax is not taken into account in deriving Fund Returns. In calculating the NTA, the Atlantic Pacific Australian Equity Fund ("Fund") asset values have been calculated using unaudited price and income estimates for the month being reported. Past performance is not indicative of future performance.

Cumulative Returns of \$100,000

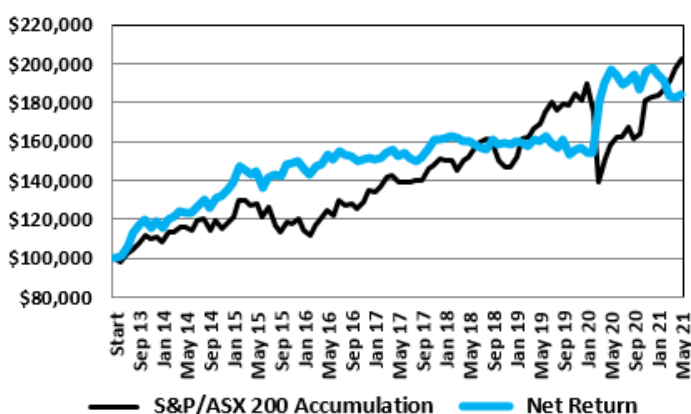
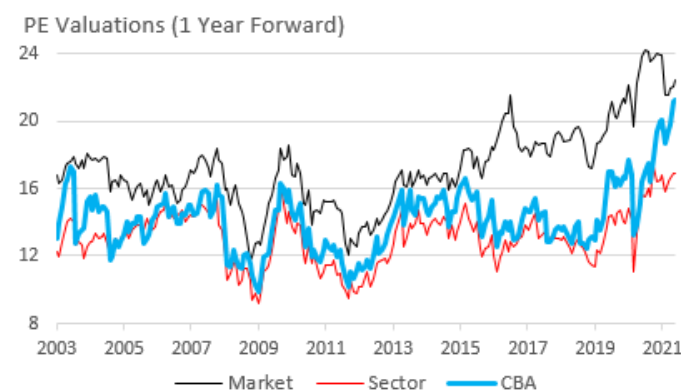


Chart of the Month

CBA Forward Valuations: Something is not right



Portfolio Activity

In a market where value is not obvious, it takes a little patience to either accumulate fortuitously or in our world of Long/Short, manage this via relative valuation arbitrage. As we note above for Commonwealth Bank (CBA), the forward valuations relative to history are now over 3.5 standard deviations or 50% above where they have sat on average. This is quite perplexing. On the one hand, expectations for an improvement in payout ratios has driven their price to all time highs. However, from an earnings perspective when looking out over coming years, EPS projections still remain under prior highs achieved. It would take a very brave analyst to forecast a 50% improvement in earnings to explain the share price level, given the interest rate curve, and while the provision cycle is improving it can't improve by that much. As such, during the month, we have initiated a long ANZ position against slowly accumulating a short position in CBA. At the time of writing, CBA had exploded to the upside recently and more recently has fallen over 7% from recent highs. Very peculiar indeed. Otherwise, there have been a few opportunities that presented as value during the month that we took advantage of. Seven West Media (SWM) we accumulated around 40c. This is against a backdrop of improving revenue share (which the market has some visibility on) as well as improved programming for the rest of the year include the Tokyo Olympics and the Ashes Test series, each of which, generally dominate advertising spending. The company has recently reported better cost management as well. So for a company on 5-6x forward valuations and improving earnings dynamics, we are confident that the deep value state the company is in will reward unitholders over the coming year. Similarly, we opportunistically accumulated AP Eagers (APE) prior to their intra-month announcement around \$14.40. The idea here being that while the government support measures have created a shortfall of supply in new vehicles with a backlog of 6-12mths for some vehicles, this has had the added benefit of supporting prices in the used car market as well. This is likely to persist for quite some time and earnings will remain strong opening up capital management opportunities for the Board.

Value Long / Short

Government Support

Long

During the month, there were a number of companies that have drifted downwards from March 2021 highs which we have taken advantage of. This was against the backdrop of an expected extension of further government support for economically sensitive sectors including consumer electronics and as well as consumer goods related to the property cycle. We reversed our short position in Harvey Norman (HVN), which we sold during the prior month, and accumulated a long position near month lows around \$5.11. While the performance to date is nothing to write home about, we expect moving through the next reporting season, there is likely to be a continuation of upwards revisions in earnings and consequently improvement in prices.

Portfolio Positioning

During the month of May 2021, we made the most of tax loss selling as prices for some equities had reverted quite aggressively to the downside. However, it appears the underperformers of last year have now seen their lows during May 2021 with some reverting quite aggressively during June 2021 - we had been expecting further downward drift during June 2021 which is disappointing. The performance year to date in the Australian market has been breathtaking in our view with valuations now reaching levels we could never fathom. So we remain cautious on accumulating market exposure and prefer to pursue the laggards as opposed to buying the trend. The next reporting season is shaping up well for most domestic orientated companies. We will provide more detail on this over coming months as to how we expect to make the most of this period.

Fund Strategy

The Fund is a long-bias equity market product which typically buys or short sells Australian listed securities and derivatives. Net and Gross market exposure is maintained within a range of 0-100% and 0-200%, respectively. The Investment manager employs its Quadruple Alpha Investment Strategy which focuses on outperforming overall market cycles by capturing upside returns while minimising downside risk. The objective of the Fund is to outperform the benchmark after fees and expenses over a 5-7 year time frame.

Risk Statistics (As at May 2021)

	Fund		S&P/ASX 200 AI	
	3 Year	Inception	5 Year	Inception
Alpha (%pa)	-5.1%	-1.3%		
Downside Capture	-11%	21%		
Standard Deviation	12.6%	10.1%	17.4%	13.7%
Sharpe ratio	0.3	0.7	0.7	0.6
Sortino		1.3		1.5
Largest Drawdown	-7.7%	-7.7%	-26.7%	-26.7%
Correlation	-42%	5%	100%	100%

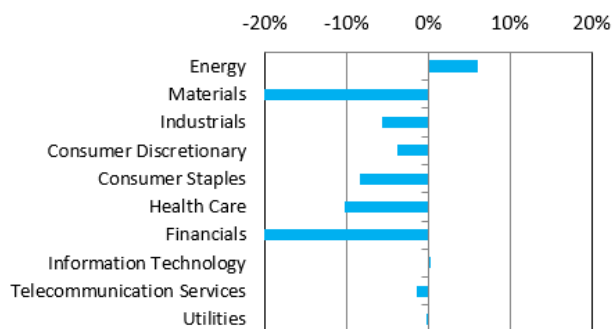
Exposure

	Long	Short	Net	Gross
Equity	53.8%	-1.8%	52.0%	55.6%
Index Futures	0.0%	0.0%	0.0%	0.0%
Net	53.8%	-1.8%	52.0%	55.6%
Cash			48.0%	

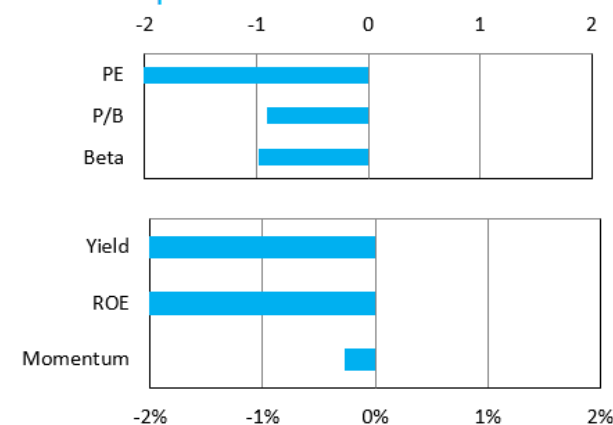
Contribution

Positive	Negative
Altium (Long)	Mesoblast (Long)
Computershare (Long)	Norwood Systems (Long)
Inghams Group (Long)	Sydney Airports (Long)
Terracom (Long)	Woodside Petroleum (Long)

Sector Exposure



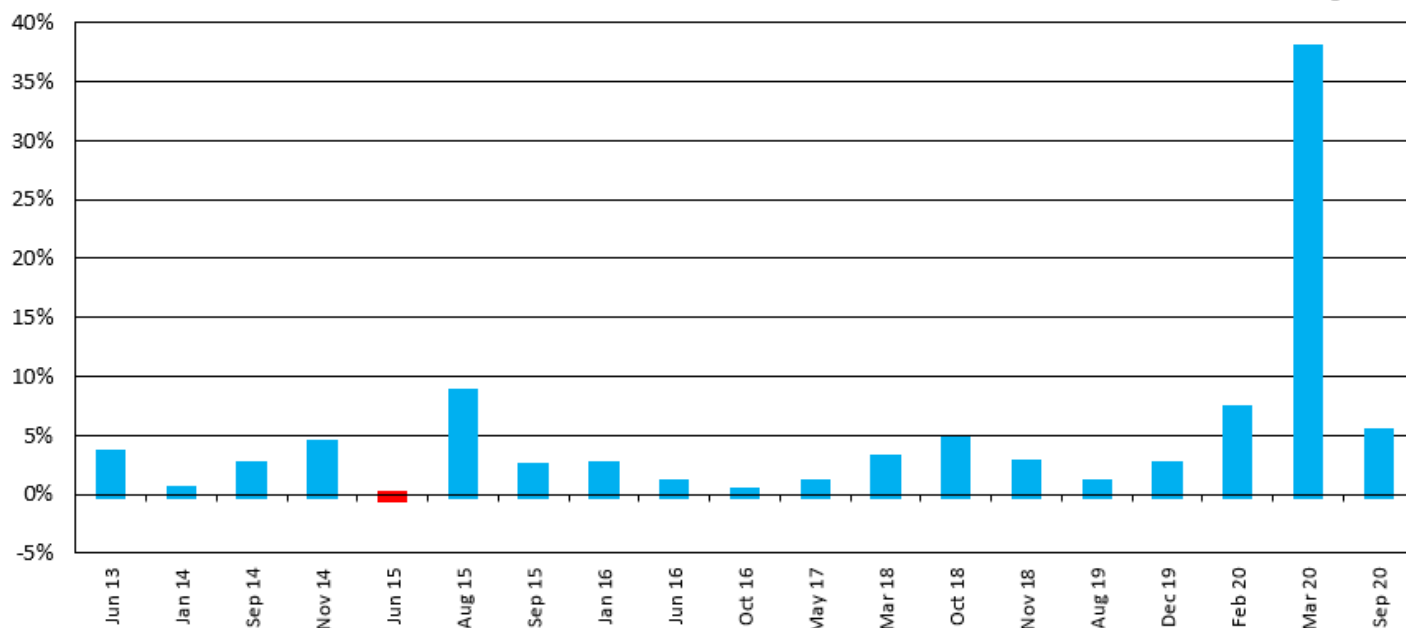
Factor Exposure



Source: APSEC Funds Management

APAEF Relative Returns (From Inception)

When the market is down more than -2%



Source: APSEC Funds Management

Fund Information (As at May 2021)

APIR Code	OMF0003AU	Responsible Entity	Equity Trustees Ltd
Inception	1 June 2013	Investment Manager	APSEC Funds Management
Minimum Investment	\$10,000	Administrator	Mainstream Group Holdings Ltd
Application/Redemption	Monthly	Custodian	Mainstream Group Holdings Ltd
Management Fee	2.0%	Prime Broker	Interactive Brokers LLC
Benchmark	S&P/ASX200 Accumulation	Auditor	PriceWaterhouseCoopers
Performance Fee	15% above S&P/ASX 200 Accumulation + 3%pa subject to a high water mark		
Mid Unit Price	1.1800	Application Price	1.1812
		Redemption Price	1.1788

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Important information

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