

Atlantic Pacific Australian Equity Fund

ARSN 158 861 155

Fund Monthly December 2020

Return Summary (To December 2020)

Period	1 mth	3 mth	6 mth	1 yr	3 yr (pa)	5 yr (pa)	Cumulative	Per Annum
Fund Return	1.11%	1.8%	1.8%	26.4%	7.2%	5.7%	98.0%	9.3%
S&P/ASX200 Acc.	1.21%	13.7%	13.2%	1.4%	6.7%	8.7%	83.2%	8.2%
Excess return	-0.10%	-11.9%	-11.4%	25.0%	0.4%	-3.1%	14.8%	1.1%

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

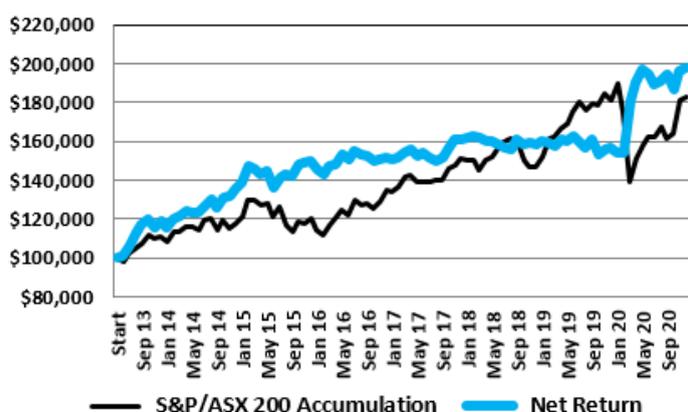
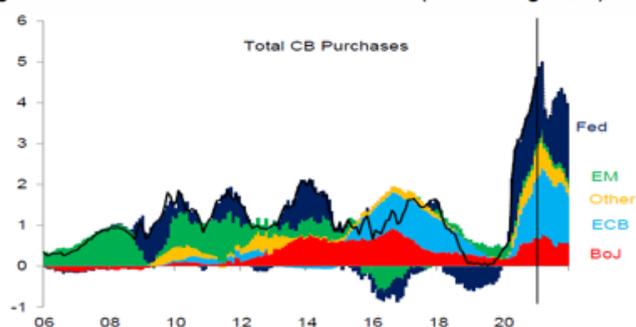


Chart of the Month

Another Taper-Tantrum coming?

Figure 8. Total Global Central Bank Purchases (12m Rolling In \$tn)



Portfolio Activity

Generally when yields start to rise ie in anticipation of a reflationary environment, certain sectors are more likely to outperform. We have selectively been buying up Australian Banks recently which has been counter to our positioning since inception of the Fund. Similarly, resource companies are likely to be a beneficiary of the environment, particularly companies exposed to industrial and energy commodities. The one overlooked commodity laggard has been Thermal coal which has now risen faster than most other commodities up 50% over the past 3 months. We expect this commodity to remain elevated as the world reflates which should bode well for our position in Terracom (TER:ASX), and their superior cost curve position. Natural long bond beneficiaries also include companies with long-tail liabilities (eg Insurers) and companies who earn a float-return on cash they hold on behalf of others (eg Computershare).

Long Bond Yields **Long**

As with opportunity on the long side, there is opportunity on the short side. We have maintained a short on Gold as a necessary consequence of reflation. History has shown that gold prices perform well in a "hoarding environment" ie when real rates are negative. If we are right on inflation accelerating, gold will materially underperform as it has over the past 3 months. Similarly, consumer staples, having outperformed considerably over the past year due to covid-related expenditure patterns, are a natural short sector. Valuations are extreme and reducing forecast EPS levels don't make sense to not short. We are also selectively looking at extreme valuation companies across the board to short. As bond yields rise, company valuations are extremely sensitive and if we are able to predict an earnings shortfall during reporting season it is likely that Fund investors we will be well rewarded. In effect, we are taking a strategic decision to sell everything that everyone has bought over the past 3-4 years.

Long Bond Yields **Short**

Portfolio Positioning

Global valuations are euphoric. Nothing has changed from last month other than to provide reflection on what occurred when Central Bank policy changed last time post the GFC. There is no doubt that very large monetary aggregates have driven growth stocks to levels at which they sit now. With the start of a global inoculation phase, we are of the view that economies will reflate faster than expectations. Could this mean a more hawkish US Fed leading to another "Taper Tantrum"? Will the US Fed be able to stop the steepening of bond yields globally? We suspect if they did, the USD will come under increasing pressure to devalue. This has significant implications for portfolio positioning if indeed the end of the bond bull market has come to an end. We have started to position the portfolio accordingly into relative value, commodities and long yield beneficiaries keeping in mind that markets could revert. Cost push Inflation is what we are looking out for. This will set the stage for higher bond yields if they accelerate.

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 December 2020)

	Fund		S&P/ASX 200 AI	
	3 Year	Inception	5 Year	Inception
Alpha (%pa)	0.4%	1.1%		
Downside Capture	0%	21%		
Standard Deviation	12.2%	10.2%	17.6%	14.1%
Sharpe ratio	0.5	0.8	0.6	0.5
Sortino		1.6		1.4
Largest Drawdown	-5.6%	-7.1%	-26.7%	-26.7%

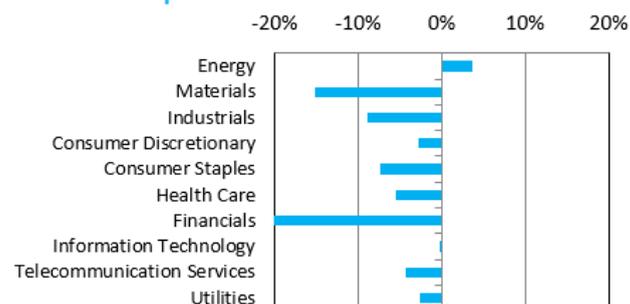
Exposure

	Long	Short	Net	Gross
Equity	39.2%	-9.7%	29.5%	48.8%
Index Futures	0.0%	-22.6%	-22.6%	22.6%
Net	39.2%	-32.3%	6.9%	71.4%
Cash			93.1%	

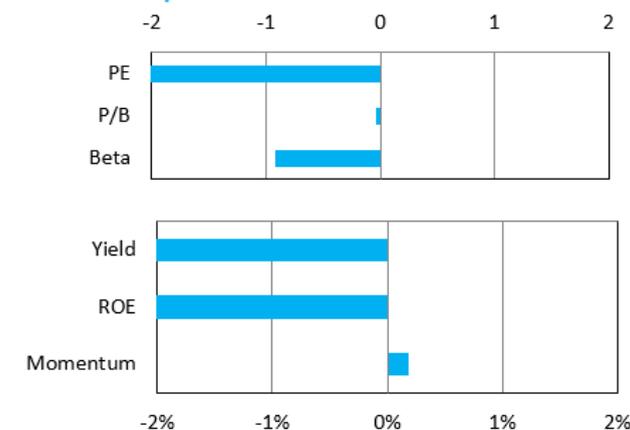
Contribution

Positive	Negative
City Chic Collective (Long)	Electro Optic Systems (Long)
Fortescue Metals (Long)	Mesoblast (Long)
Iluka (Long)	
Terracom (Long)	

Sector Exposure



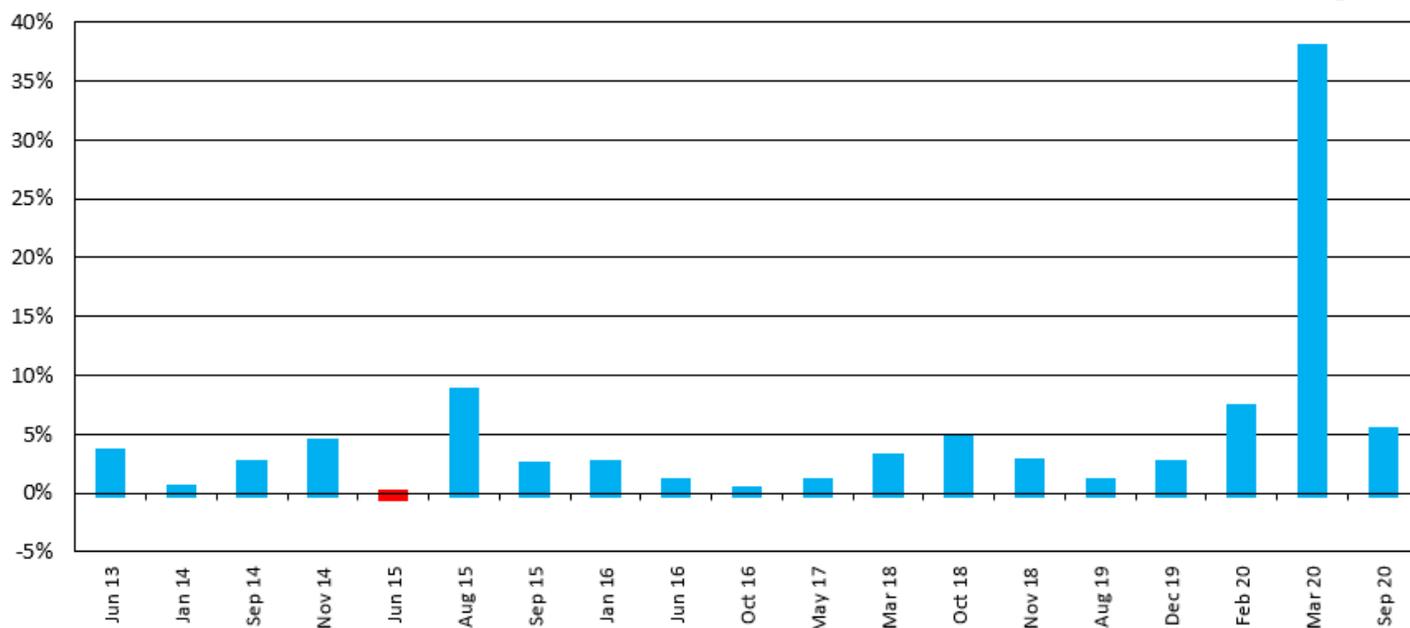
Factor Exposure



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 December 2020)

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	1.2694	Application Price	1.2707
		Redemption Price	1.2681

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Important information

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