

# Atlantic Pacific Australian Equity Fund

ARSN 158 861 155

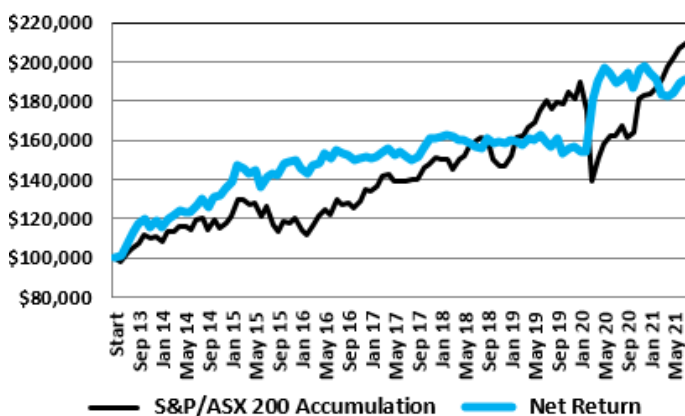
## Fund Monthly July 2021

### Return Summary (To July 2021)

Period	1 mth	3 mth	6 mth	1 yr	3 yr (pa)	5 yr (pa)	Cumulative	Per Annum
Fund Return	0.95%	4.7%	-1.5%	0.9%	6.8%	4.2%	91.2%	8.2%
S&P/ASX200 Acc.	1.10%	5.8%	13.8%	28.6%	9.5%	10.0%	109.1%	9.4%
Excess return	-0.15%	-1.1%	-15.2%	-27.7%	-2.7%	-5.8%	-17.9%	-1.2%

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

Time to get out of Iron Ore or Short sell? Yes, in the short term.



### Portfolio Activity

Iron Ore	Short	Strong Iron Ore pricing and translation to the underlying equities (since November 2020) has been a significant driver of Australian market returns with Rio Tinto (RIO:ASX), Fortescue Metals Group (FMG:ASX) and BHP Billiton (BHP:ASX) leading the charge. This all seems quite normal against the backdrop of substantial cashflows being paid by these companies but there comes a time when all of this is priced in. We took the tactical decision during the month to liquidate our holding in BHP (a major contributor to Fund returns during July 2021) while at the same time accumulate a short position in RIO. It was well known that RIO would pay out a significant amount of cash and we believed the equity had been bid up by income chasing investors. This was against a backdrop of Chinese steel production rolling recently, well telegraphed through analyst reports, which meant that Iron Ore prices were likely to come under pressure in the short term. And indeed they have. The prices shorted are shown in the Chart of the Month, an example of pristine prices around \$134.50. Despite the large expected dividend to be paid, we believe a fairer price for RIO is closer to \$100 given Iron Ore prices have retreated circa 20-25% (depending on the market reviewed, either cash or futures) since the short was placed. We are currently sitting on a 6% gain and expect closer to 20% to be realised over coming months. And while we remain bullish on commodities in general as infrastructure spending starts to accelerate, in the short term we are bearish on Iron Ore.
Insurance	Long	The only other major change to the portfolio during July 2021 was the inclusion of Insurance Australia Group (IAG:ASX) where a position was accumulated around \$4.85. In many respects the General Insurers have been continually beaten up for a number of years due to natural hazards (fires and floods in particular) and in our view have increasingly looked like value against a backdrop of rising bond yields, or at least expectations therein. If it is the case that natural hazards normalise somewhat ie the future has less extreme events, then the general insurers will be able to improve their operating margins substantially. We expect this position to be a long term position. Post report on the 11th August 2021, the company has confirmed a significant improvement to profits and an expected improvement in margins moving through the FY2022. We remain confident, subject to natural hazards observed in real time, of a continued firming in prices.

### Portfolio Positioning

During the month of July 2021, Fund activity was low historically as we have let the positions run. We remain neutral on market exposure ie have much lower exposure as markets move through the current reporting period. We have seen various companies, at the time of writing, rally into their reports with very little performance expected post reporting. This is certainly a feature of high-dividend paying stocks being held up relative to fundamentals as described above in relation to Rio Tinto (RIO:ASX) for example and more recently ex-reporting for Commonwealth Bank (CBA:ASX) post their much expected off-market buyback. We always find tendered off-market buy-backs a little bit of an anomaly when it comes to pricing post event as they tend to be beneficial to only the zero tax paying entities. The Fund paid a minute distribution this year due to overall losses during Fiscal Year 2021. This was in due to specific unrealised losses related to Terracom (TER:ASX). In this shares case, we are now seeing a reversion to where the equity should be priced now that their re-financing program is coming to an end. Given the outlook for revenues due to elevated prices in thermal coal markets we expect this equity to reprice significantly over coming months.

## 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 July 2021)

	Fund		S&P/ASX 200 AI	
	3 Year	Inception	5 Year	Inception
Alpha (%pa)	-2.7%	-1.2%		
Downside Capture	-15%	21%		
Standard Deviation	12.6%	10.0%	17.3%	13.6%
Sharpe ratio	0.4	0.7	0.7	0.6
Sortino		1.3		1.6
Largest Drawdown	<b>-7.7%</b>	<b>-7.7%</b>	<b>-26.7%</b>	<b>-26.7%</b>
Correlation	<b>-41%</b>	5%	100%	100%

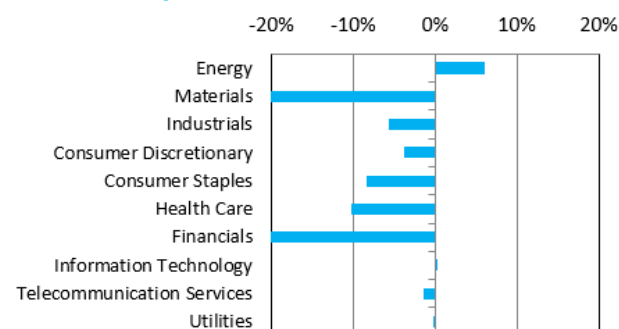
## Exposure

	Long	Short	Net	Gross
Equity	45.7%	-5.8%	39.9%	51.5%
Index Futures	0.0%	-18.6%	-18.6%	18.6%
Net	45.7%	-24.4%	21.3%	70.1%
Cash			78.7%	

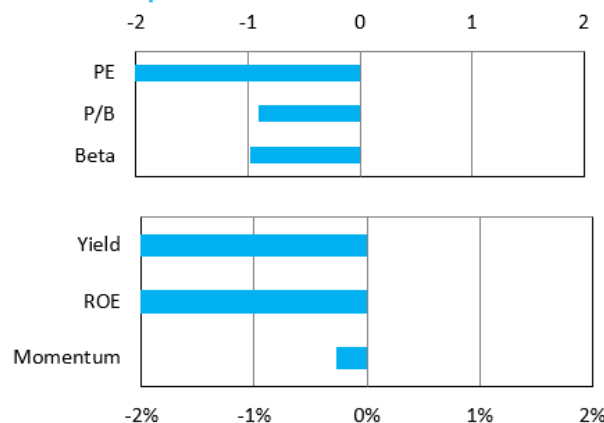
## Contribution

Positive	Negative
BHP Group (Long)	CSR (Long)
Norwood Systems (Long)	McMillan Shakespeare (Long)
OZ Minerals (Long)	Mesoblast (Long)
Terracom (Long)	Resmed (Short)

## Sector Exposure



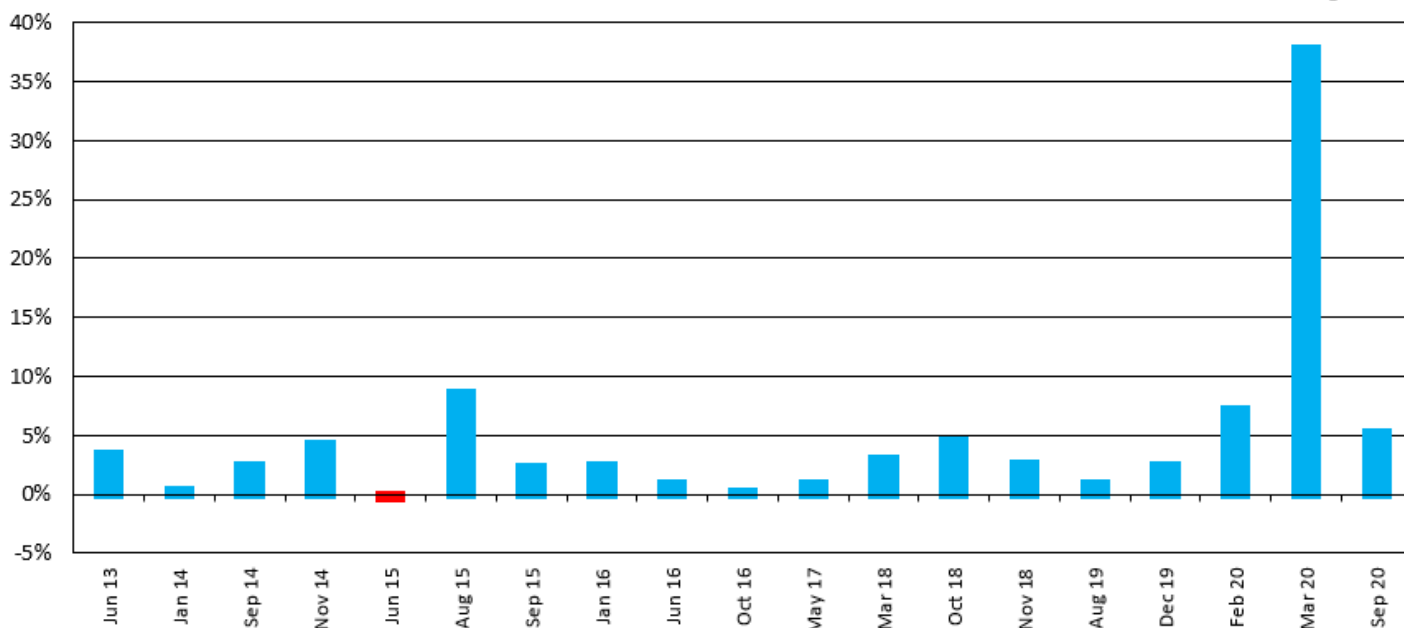
## Factor Exposure



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 July 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	1.2251	Application Price	1.2263
		Redemption Price	1.2239

## Contact Information

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## Important information

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