

Atlantic Pacific Australian Equity Fund

ARSN 158 861 155

Fund Monthly August 2021

Return Summary (To August 2021)

Period	1 mth	3 mth	6 mth	1 yr	3 yr (pa)	5 yr (pa)	Cumulative	Per Annum
Fund Return	2.42%	6.4%	2.6%	2.4%	7.9%	5.0%	95.8%	8.4%
S&P/ASX200 Acc.	2.50%	6.0%	15.0%	28.1%	9.9%	10.9%	114.4%	9.6%
Excess return	-0.09%	0.4%	-12.3%	-25.8%	-1.9%	-6.0%	-18.5%	-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

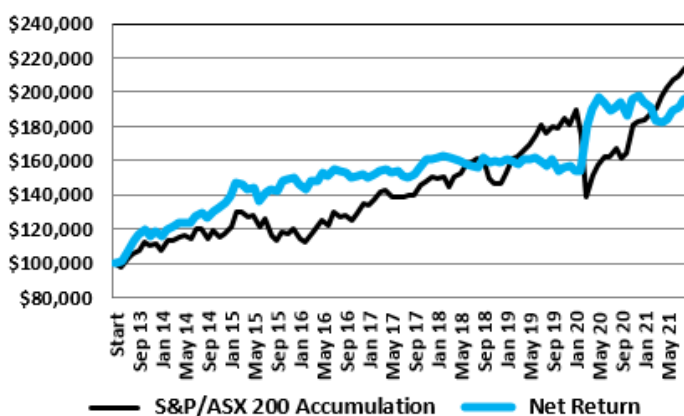


Chart of the Month

Rio Tinto: Peak Iron Ore Earnings?



Portfolio Activity

AS we mentioned last month, we have moved bearish on Iron Ore. This has translated to moving away from substantially overexposed positions in this commodity. We removed our exposure to Deterra Royalties (DRR:ASX) which was spun-out of Iluka Resources (ILU:ASX). In our view, all companies in this space have hit peak earnings (as per the chart of the month), brought about by the serendipity of extreme prices which are now down almost 40% from peak. While we noted last month that the slowing in Chinese steel demand had been the catalyst for the eventual unwinding of extreme prices, the more you dig into the story the more it appears to us that the prices of these equities are heading in only one direction for the foreseeable future. The Australian producers have been the beneficiary of particular competitive dynamics over recent times with Brazilian producers succumbing to natural disasters and COVID related shutdowns. In our view, the delta is on the upside for more supply coming from this region. Further, as has happened on many occasions, China will close down industry as we head into the end of the year due to the excessive smog that is manifest in and around Beijing, the home of 2022 Winter Olympics. Offsetting this is a rebound in global economic demand post the short term pressure off COVID-delta which should support demand through next year. Under this scenario, we think it is more prudent to look next year, if at all.

Iron Ore Short

We have been looking for shorts for quite some time as we head into September, being a slower period for equity markets generally. After such an extensive and steady upswing in global equity prices, at some point, the euphoria has to end. We are not sure for how long though! To that end, we shorted Blackmores (BKL:ASX) on the last day of the month post their result after having risen 25%. It certainly appeared curious to us that the price was being ramped into month end. These sorts of opportunities are short term in nature and contrarian. We don't expect to hold this short too long.

Blackmores (BKL:ASX) Short

Portfolio Positioning

Generally, portfolio turnover has been quite low over the past 6 months. We have moved into more of a holding pattern and letting our positions at least have time to ferment. Having said that our overall exposure remains quite low and has been for quite some time partly in response to our expectation that bond rates will rise over the medium term leading to some washout in equity markets and other asset markets for that matter. It is true very high valuation companies have been the main driver of global equity markets which are the antithesis of rising bond yields. However, given the short term downward dynamics in global activity, this rising bond thematic will most likely re-ignite next year subject to inflation scares, wages or otherwise. Post the Australian Reporting Season, there hasn't been anything of note to chase on the positive side of revisions. From a revisions spread perspective (positive vs negative revisions), the historical negative bias has re-asserted itself which to us means the we need to be careful and see some retracement in markets before lifting exposure to any great extent. This is consistent with our overall risk management framework that we have pursued since inception.

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 August 2021)

	Fund		S&P/ASX 200 AI	
	3 Year	Inception	5 Year	Inception
Alpha (%pa)	-1.9%	-1.2%		
Downside Capture	-18%	21%		
Standard Deviation	12.6%	10.0%	17.3%	13.6%
Sharpe ratio	0.4	0.7	0.7	0.6
Sortino		1.4		1.6
Largest Drawdown	-7.7%	-7.7%	-26.7%	-26.7%
Correlation	-40%	6%	100%	100%

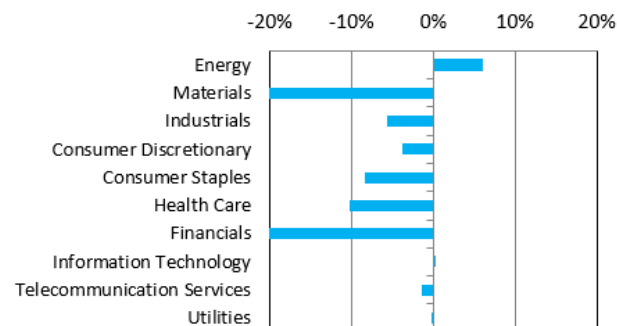
Exposure

	Long	Short	Net	Gross
Equity	45.4%	-5.6%	39.8%	51.0%
Index Futures	0.0%	-18.7%	-18.7%	18.7%
Net	45.4%	-24.3%	21.1%	69.7%
Implied Cash			78.9%	

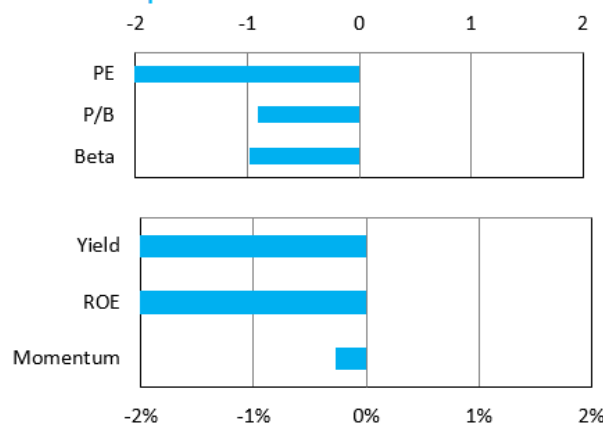
Contribution

Positive	Negative
Australian Strategic Materials (Long)	Adairs (Long)
Insurance Australia Group (Long)	AGL Energy (Long)
Rio Tinto (Short)	Mesoblast (Long)
Terracom (Long)	Woodside Petroleum (Long)

Sector Exposure



Factor Exposure

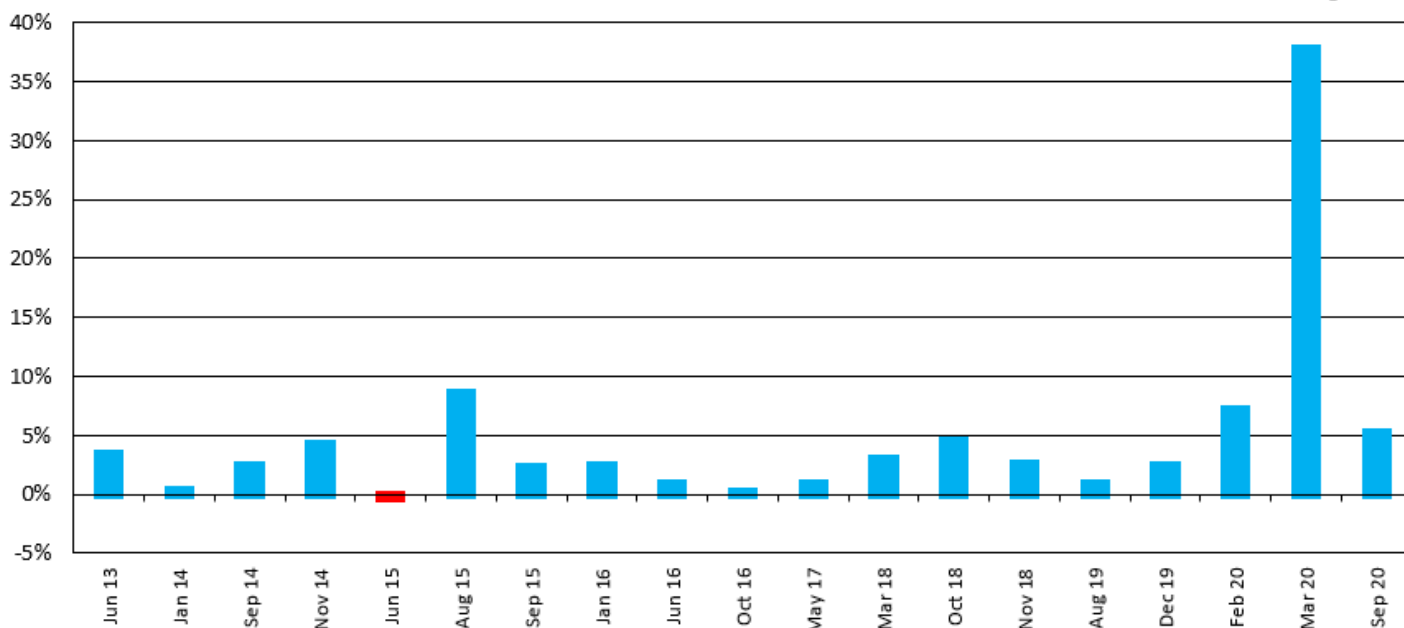


Source: APSEC Funds Management

APAEF Relative Returns (From Inception)

When the market is down more than -2%

Source: APSEC Funds Management



Fund Information (As at August 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	1.2548	Application Price	1.2561
		Redemption Price	1.2535

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Important information

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