

Atlantic Pacific Australian Equity Fund

ARSN 158 861 155

Fund Monthly December 2021

Return Summary (To December 2021)

Period	1 mth	3 mth	6 mth	1 yr	3 yr (pa)	5 yr (pa)	Cumulative	Per Annum
Fund Return	0.48%	3.5%	5.5%	0.9%	8.0%	5.6%	99.8%	8.3%
S&P/ASX200 Acc.	2.75%	2.1%	3.8%	17.2%	13.6%	9.8%	114.8%	9.2%
Excess return	-2.27%	1.4%	1.7%	-16.3%	-5.6%	-4.1%	-15.0%	-0.9%

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

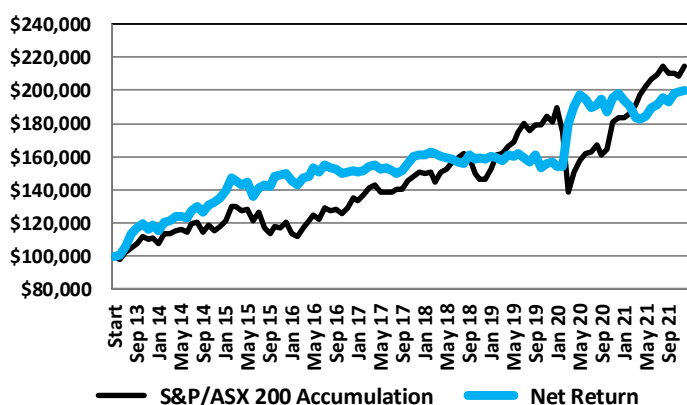
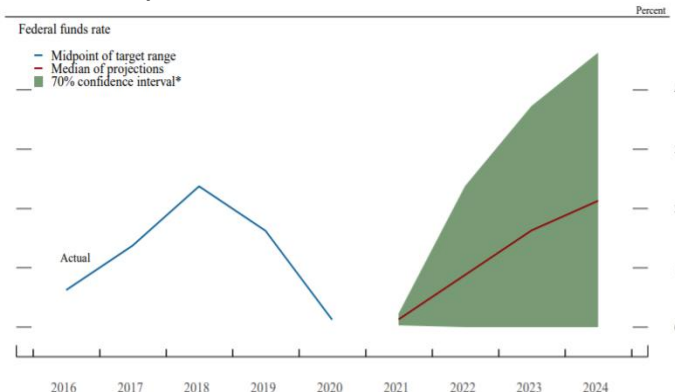


Chart of the Month

The faster they rise, the harder markets will fall?



Portfolio Activity

Short Positioning	Short	A number of our strategic shorts have started to perform over the past couple of months. We have implemented various shorts around key themes including rising bonds yields targeted at expensive defensives like healthcare and covid beneficiaries like supermarkets. In the case of healthcare we have essentially sold the entire large cap complex including CSL (CSL:ASX), Cochlear (COH:ASX) and Sonic Healthcare (SHL:ASX). For CSL, however we have reversed our position into a long post the acquisition of Vifor Pharma and an associated jumbo placement at a significant discount. At \$273 and lower, we continued accumulating stock knowing that the acquisition will be EPS accretive but price dynamics were depressed due to the size of the capital raising. CSL now sits as a preferred long hedge against other healthcare shorts given relative valuation and future earnings dynamics. Sonic Healthcare looks to be an ominous underperformer over coming years given their super normal historical earnings profile due to covid related pathology revenues. With Rapid Antigen Tests now becoming first phase identifiers, we suspect the already 40% fall in EPS growth over the coming 2 years will turn out even more significant. Our short in Woolworths (WOW) has recently been moving in the right direction after a period of slowly rising prices somewhat beta related. In the case of Woolworths, they have benefitted from various covid dynamics including hoarding and changes of household budgets away from leisure. However, most of this is now reversing with a recent earnings miss. We expect negative earnings revisions to continue with cost pressures now arising due to supply chain challenges.
Deeper Value Positioning	Long	Over the past couple of months we have entered a few new names or reinstated positions that present as value, in our view. A few present as significantly discounted relative to what one would expect. We suspect this is due to the markets' focus on tech over 2020-21 and participants had neglected positioning in more value orientated, relatively stable companies. We believe the worm is now turning and these equities will be sought after against a background of rising bond yields selling out of stupendously valued tech companies across the globe. Companies that we have accumulated since November 2021 include AGL Energy (AGL: ASX - somewhat deep value depending on how you cut your numbers), Medibank Private (MPL: ASX - long bond beneficiary including higher yield on investments, higher discount rates on liabilities), News Corp (NWS:ASX - from a revision perspective, has all the properties of being one of our favourite investments for 2022), and Virgin Money UK (VUK:ASX - recently sold down post result for no reason in our view. Long bond beneficiary and will continue to re-rate over the coming year in our view).

Portfolio Positioning

Turnover continues to remain low and we don't expect this to change much over the coming 6 months. While we are surprised by the final ramp into the end of the year, up 2.5% through December 2021, the likelihood of strong returns from the market over the coming year against an initial rising interest rate environment is low in our view. If rates rise faster than expected (median is around 2 interest rate rises) with 4-5 as some heavyweight economists are forecasting, you can be assured of a roller coaster ride. Outside of this, it will all come down to stock selection and we believe with our value bias and a few opportunities nearing maturity (but unrecognised), will see a better year of returns for unitholders than the market. As noted in the last monthly, we have a few product modifications coming in February. At this stage given the slowdown over Xmas, we remain of the view that the new product features will be available.

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 2021)

	Fund		S&P/ASX 200 AI	
	3 Year	Inception	5 Year	Inception
Alpha (%pa)	-5.6%	-0.9%		
Downside Capture	-26%	19%		
Standard Deviation	12.5%	9.9%	16.8%	13.3%
Sharpe ratio	0.5	0.7	0.7	0.6
Sortino		1.4		1.6
Largest Drawdown	-7.7%	-7.7%	-26.7%	-26.7%
Correlation	-43%	6%	100%	100%

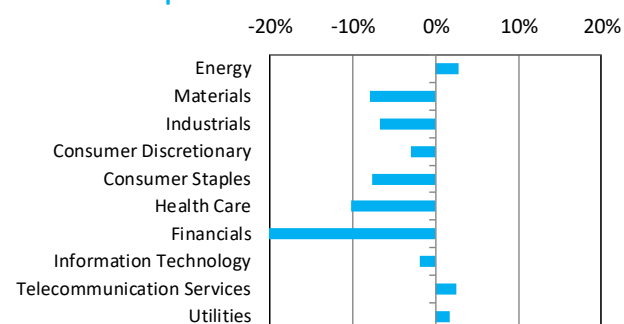
Exposure

	Long	Short	Net	Gross
Equity	57.2%	-4.8%	52.5%	62.0%
Index Futures	0.0%	-24.7%	-24.7%	24.7%
Net	57.2%	-29.4%	27.8%	86.7%
Implied Cash			72.2%	

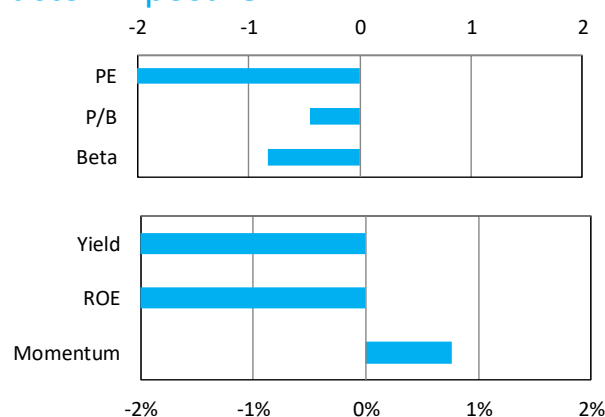
Contribution

Positive	Negative
AGL Energy (Long)	Mesoblast (Long)
CSL (Long)	Terracom (Long)
Fortescue Metals (Long)	
Iluka Resources (Long)	

Sector Exposure



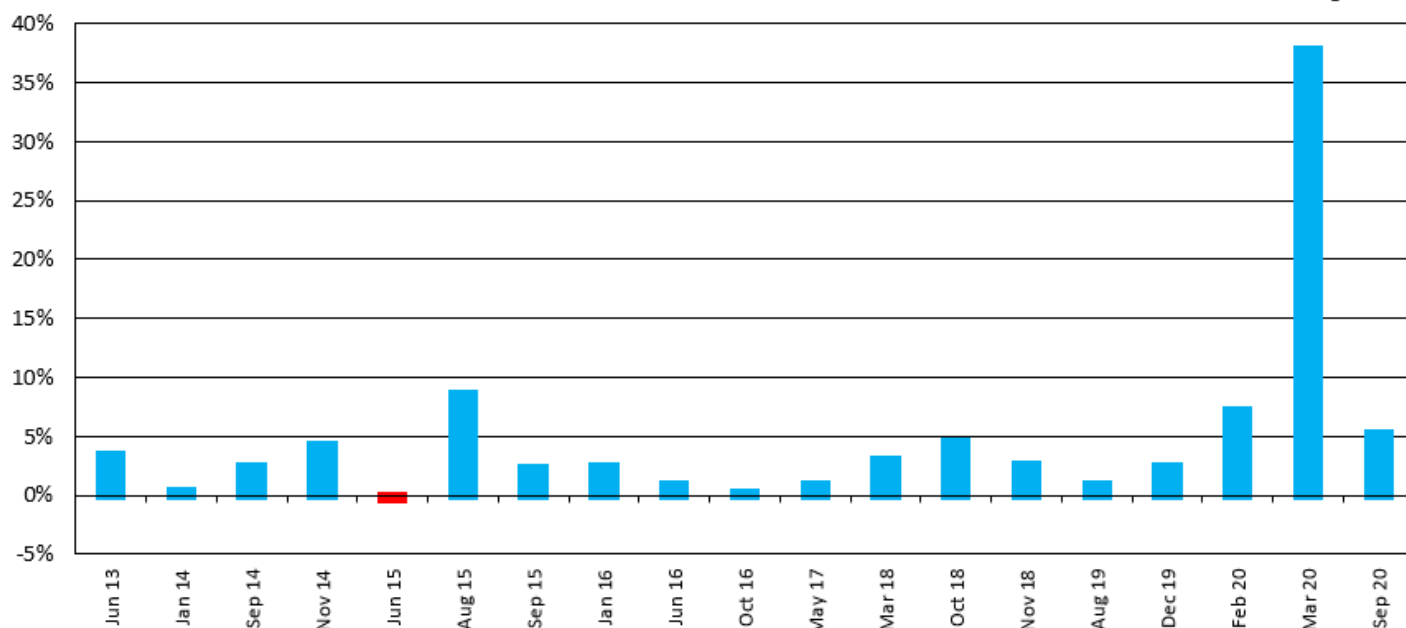
Factor Exposure



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 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	1.2804	Application Price	1.2817
		Redemption Price	1.2791

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Important information

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Atlantic Pacific Australian Equity Fund's Target Market Determination is available here – <https://www.eqt.com.au/insto/>. A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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