

# Atlantic Pacific Australian Equity Fund

ARSN 158 861 155

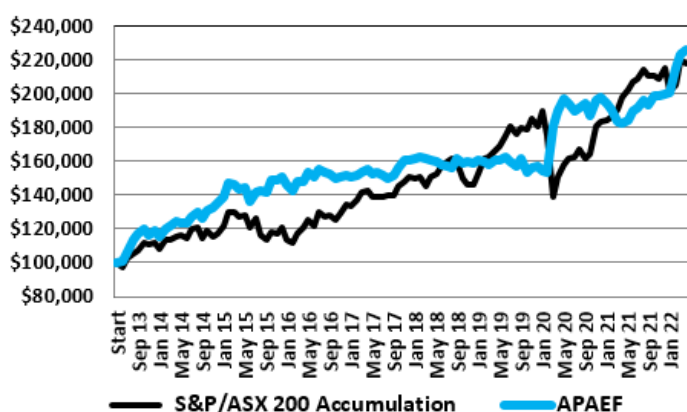
## Fund Monthly April 2022

### Return Summary (To April 2022)

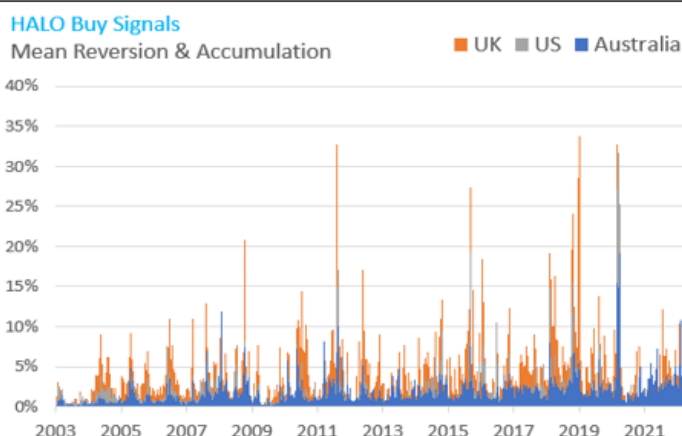
Period	1 mth	3 mth	6 mth	1 yr	3 yr (pa)	5 yr (pa)	Cumulative	Per Annum
Fund Return	1.34%	12.5%	13.7%	23.6%	11.9%	7.8%	125.9%	9.5%
S&P/ASX200 Acc.	-0.85%	8.2%	3.6%	10.2%	9.4%	8.8%	117.7%	9.0%
Excess return	2.19%	4.2%	10.1%	13.5%	2.5%	-1.0%	8.1%	0.4%

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



### Portfolio Activity

**SPI Futures (S&P/ASX 200)** **Short**

The market rallied over the month rising by 1.5% on the 21st April above the prior high on the 4th Jan 2022. We had made the point last month that we found the bounce back in March was quite peculiar but bear-market rallies are a feature we need to accept ie they are quite normal. Even so, leading into the US CPI update on the evening of 21st April we chose to reduce risk substantially in the portfolio and initiated a short in SPI Futures. The CPI print was not good (and incidentally the reading overnight at the time of writing wasn't good either) and led to a material sell-off albeit short-lived. The SPI Futures almost moved into an oversold state over three trading days. We initiated some short covering into this. Miraculously, leading into the end of the month the market rallied to print down only 0.85%. We knew there would be some element of end of month window-dressing by institutional Fund Managers and re-shortened into the end of the month to bring exposure back to 12%. While SPI Futures are a blunt instrument which cannot necessarily hedge out all stock specific risk, our use continues to highlight how powerful it can be when used in attempting to protect the Fund's capital.

**Liquidation of Positions** **Long & Short**

We undertook to fine-tune the portfolio with various liquidations, partly in response to rising interest rates but also pre-planning for tax loss selling over the coming months. This included our long held position in Mesoblast (MSB:ASX). While we are positive on the potential for their blockbuster portfolio of treatments, given their continuing requirement to raise capital to fund various studies ie they are short cash, this is not in keeping with our overall strategy of being exposed to cash-rich companies. As we have seen with a lot of companies across the globe, the cash-poor innovation companies including many in the bio-tech space have underperformed significantly and are likely to continue underperform as rising interest rates force investors to re-price equities with a higher equity risk premium. The Fund's position in Virgin Money UK Plc (VUK:ASX) was also liquidated. While revisions have not been dramatic, in fact they upgraded full year forecasts post our selling, any exposure in Europe should be tempered somewhat against a backdrop of the Ukraine invasion and rising inflation. We will wait for more distressed prices to potentially move back into the shares. We also covered our short in Rio Tinto (RIO:ASX) once it moved into an oversold state. The power of the HALO analytical framework cannot be underestimated when monitoring both long and short positions and remains a key competitive advantage for us.

### Portfolio Positioning

As noted above, at the time of writing, the US CPI print has once again come in poorly in May 2022. From a forward looking perspective, global bond rates are continuing to rise and are attempting to capture the fight all Central Banks need to take. Depending on how aggressive they become, will determine the trajectory of equity markets. Once again, reactionary tales of Central Banks are coming to the forefront and a bond massacre is looking more and more likely ie Central Banks are merely in catch-up mode and re-pricing of risk assets will adjust according to meeting expectations of the market in general. Given the acceleration in 10-year US Bond rates from March to date (~1.9% to ~3%), this backdrop has re-priced various cohorts of equities savagely. We have laboured the point various times over the past 3 years that market valuations had moved into an extreme state. Only now with dramatically rising bond rates is there any rationality coming back into market pricing. Ultimately, this will affect all long duration prices. Importantly, though the most highly valued companies across the globe remain too expensive in our view and there is more downside to this cohort in our view.

Markets have continued to take on a bearish note. However, from our perspective, there hasn't been the same sort of washout as we saw in February 2022. In the Chart of the Month, we highlight various buy signals that we look at across the market. There simply is no broad-based signal generation at this point, near 3% vs say 30% during Covid (and other extreme events) and 10% during February 2022. This makes us somewhat cautious as to our net positioning as our propensity to protect capital and focus on sequencing risk for investors is paramount. In our view, only when you actually think about these concepts can you ever build a strategy to manage these risks. We remain focussed on this over the long term as we believe this will ultimately provide better risk adjusted returns.

## 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 April 2022)

	Fund		S&P/ASX 200 AI	
	3 Year	Inception	3 Year	Inception
Alpha (%pa)	2.5%	0.4%		
Downside Capture	-31%	16%		
Standard Deviation	13.1%	10.0%	17.4%	13.5%
Sharpe ratio	0.7	0.8	0.6	0.6
Sortino		1.7		1.6
Largest Drawdown	-7.7%	-7.7%	-26.7%	-26.7%
Correlation	-36%	8%	100%	100%

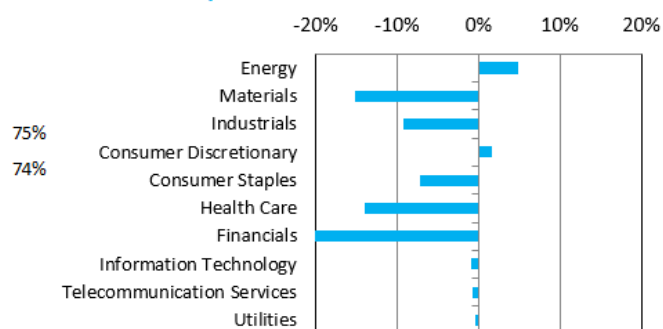
## Exposure

	Long	Short	Net	Gross
Equity	52.6%	-2.7%	49.9%	55.3%
Index Futures	0.0%	-37.6%	-37.6%	37.6%
Net	52.6%	-40.3%	12.3%	92.9%
Implied Cash			87.7%	

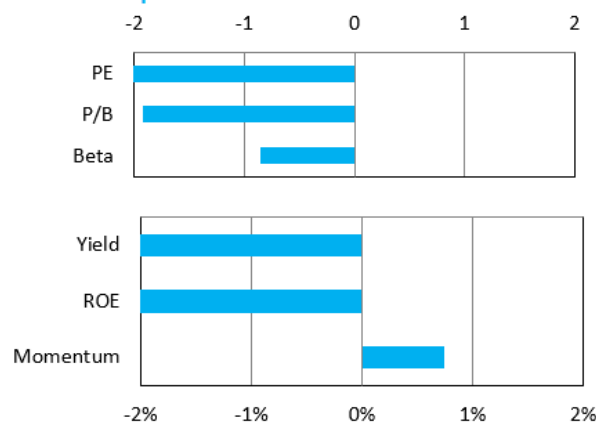
## Largest Positions

Long	Short
Goodman Group	Cochlear
News Corporation (Class B)	Sonic Healthcare
Telstra Corporation	SPI Futures
Terracom Resources	Woolworths Group

## Sector Exposure

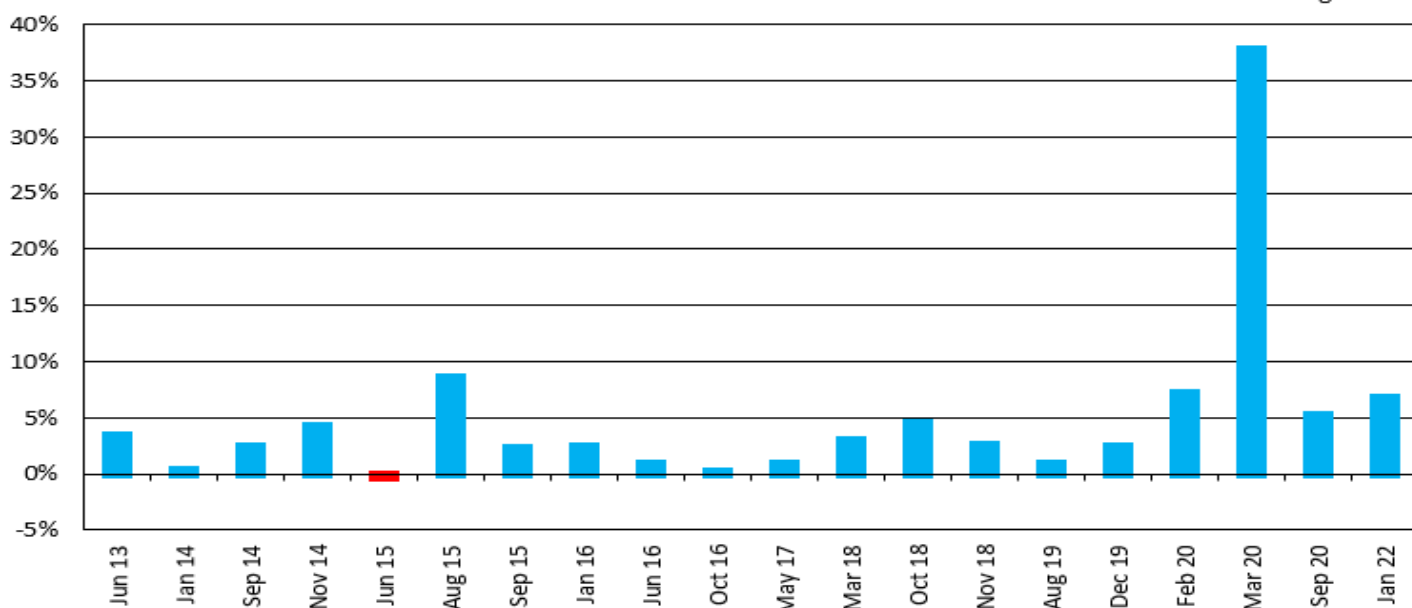


## Factor Exposure



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 April 2022)

APIR Code	OMF0003AU	Responsible Entity	Equity Trustees Ltd
Inception	1 June 2013	Investment Manager	APSEC Funds Management
Minimum Investment	\$20,000	Administrator	Apex Group Ltd
Application/Redemption	Daily	Custodian	Apex Group 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	1.4472	Application Price	1.4486
		Redemption Price	1.4458

## Contact Information

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Website	<a href="http://www.apsec.com.au">www.apsec.com.au</a>	Unit Registry	1300 133 451

## 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.

HALO is an analytical tool developed and owned by HALO Technologies Pty Ltd (ABN: 54 623 830 866) (HALO Tech) a corporate authorised representative (CAR: 001261916) of Macrovue Pty Ltd ("Macrovue") (ABN: 98 600 022 679, AFSL: 484 264). HALO contains factual and broker consensus forecast information. Information presented or extracted from HALO should not be considered advice or a recommendation. Any forecast information relates to the intent, belief and current expectations of various analysts via Factset with respect to the performance of the respective stocks based on historical and projected performance data. You should not place undue reliance on these forward-looking statements. While all due care has been used in the preparation of the forecast information, actual results may vary in a materially positive or negative manner. Forecasts and hypothetical examples are subject to uncertainty and contingencies outside of HALO Tech's or Macrovue's control. If you would like more detail in relation to HALO please contact APSEC FM / or your Adviser.