Auscap Long Short Australian Equities Fund Newsletter – December 2013

Welcome

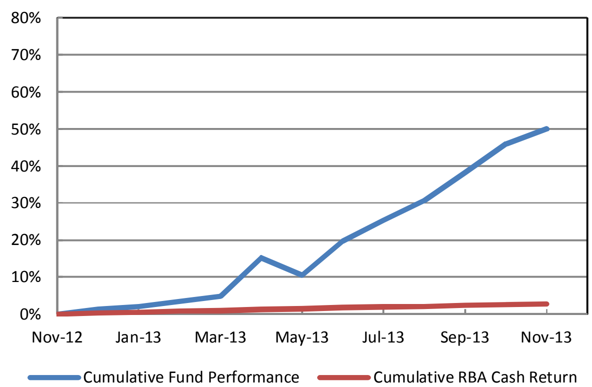
Welcome to the Auscap newsletter, an opportunity for us to report the performance of the Auscap Long Short Australian Equities Fund (ñFundò) to current and prospective investors. In each publication we will also discuss a subject that we have found interesting in our research and analysis of the market. We hope that you enjoy reading these snippets and encourage any feedback. In this edition we discuss our expectations for equity markets in 2014 in the context of the Australian economy, where cyclical headwinds are likely to prevail in the medium term and act as an impediment to growth.

Overview

The Fund was launched in December 2012 and targets strong absolute returns in excess of the RBA Cash Rate. The Fund focuses predominantly on fundamental long and short investments while utilising a multi-strategy approach to take advantage of shorter term market opportunities to increase returns, hedge the portfolio, protect capital and minimise volatility where prudent. The Fund will typically have 25-45 positions primarily in liquid stocks in the ASX200. Further information, including access for sophisticated investors to the Fundôs Information Memorandum, is available at our website www.auscapam.com. Enquiries can be directed to info@auscapam.com.

Fund Performance

The Fund returned 2.86% net of fees during November 2013. This compares with the benchmark return of 0.21%. Average gross capital employed by the Fund was 131.5% long and 13.8% short. Average net exposure over the month was +117.7%. At the end of the month the Fund had 31 long positions and 5 short positions. The Fundôs biggest exposures at month end were spread across the consumer discretionary, financials and telecommunications sectors.



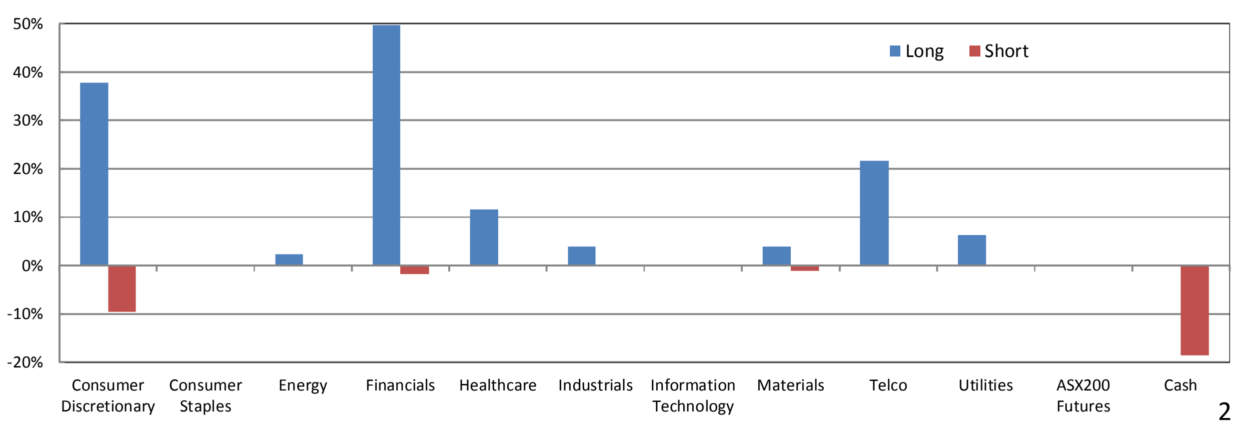
Fund Returns

Period	Auscap	Benchmark
November 2013	2.86%	0.21%
Financial Year to date	25.36%	1.07%
Since inception	50.08%	2.80%

Fund Exposure

November 2013 Average	% NAV	Positions
Gross Long	131.5%	29
Gross Short	13.8%	5
Gross Total	145.3%	34
Net / Beta Adjusted Net	117.7%	93.7%

Sector Exposure - 30 November 2013



Where To In 2014? Appropriate Expectations For The Year Ahead

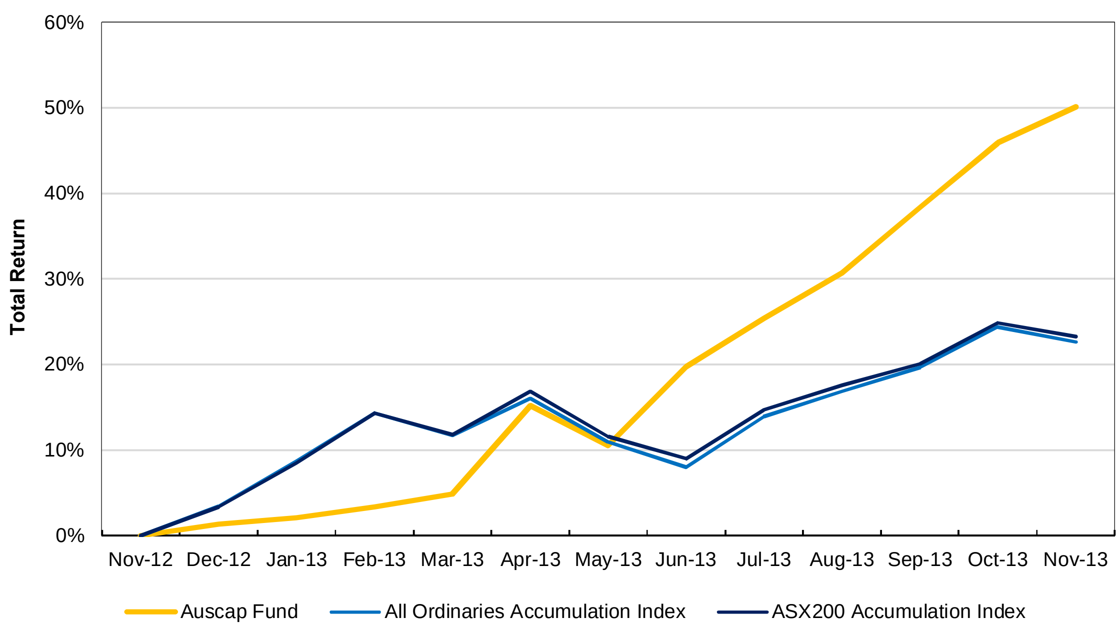
Welcome to the first anniversary edition of the Auscap Newsletter. Before we discuss our thoughts on the past year and our expectations for the year ahead, being the Christmas edition we thought this an opportune time to thank the firms and individuals that have helped us significantly since the inception of the Fund.

We would like to extend our sincere thanks to the team at White Outsourcing, our administrator and back office support service provider, for the outstanding work on our account over the course of the year. We are sure that our investors are comforted by the knowledge that they receive timely, accurate and independently verified information on their unitholdings because of the work you do!

To Citi, our Prime Broker and Custodian, we have greatly appreciated the excellent service by many different teams within the bank including those in Prime Broking, Custody, Equity Sales, Stock Lending and Legal. Thank you to Ernst and Young, who have been responsible for the provision of tax, accounting and audit services for the Fund. We also thank our lawyers at Henry Davis York, who were diligent and effective in catering for all our legal requirements. Finally, KMB Business Advisers have been professional and supportive of Auscap during our first year in managing our business accounting affairs. To all of the people working with us at these firms, we thank you for your time and assistance, it has been greatly appreciated. We look forward to developing these relationships further in 2014.

So with that we turn to the performance of the Fund, which has exceeded our expectations over the course of the last year, partly due to a buoyant market which has presented opportunities for generating strong returns. The All Ordinaries Accumulation Index is up 22.6% and the ASX200 Accumulation index is up 23.3% over the last 12 months to the end of November 2013.

Auscap Fund Comparative Performance Since Inception



Undoubtedly we have benefitted in no small way from the strength of the market and the opportunities within sectors of the market, both on the long and short side. While this is not intended to be a piece about the past year, it is a useful reference point for making some broad observations about the year ahead.

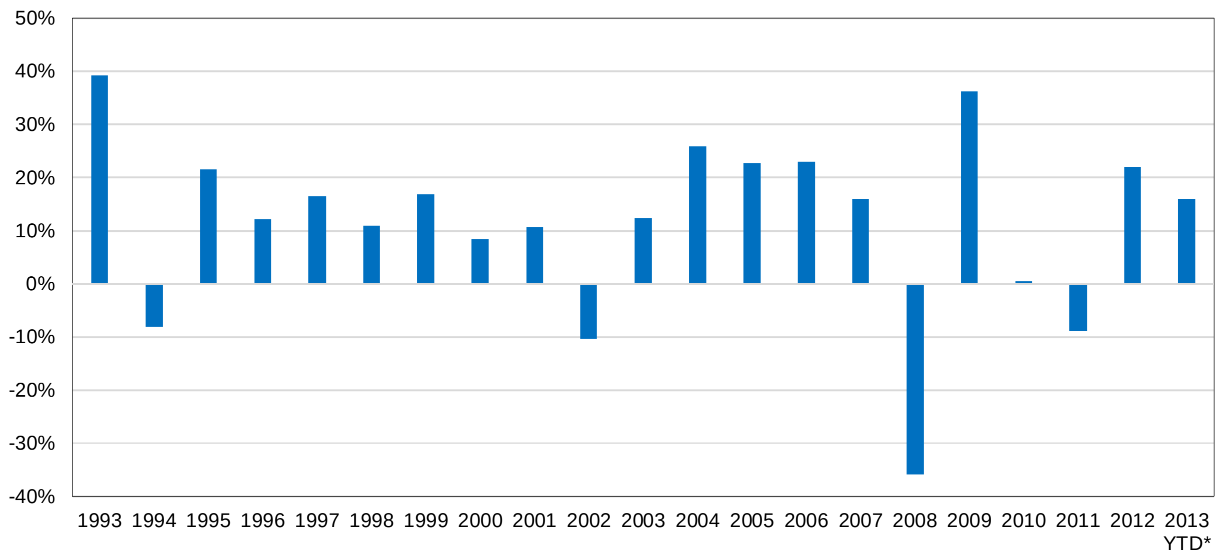
While we do not make forecasts, we do try to draw sensible conclusions about the economy and the stockmarket in which we are a participant. It seems highly unlikely that the market will repeat or better last year's performance next year. The market has been assisted by a number of things during 2013, including the re-rating of equities as sentiment turned more positive and the rates of return offered by alternative assets declined.

There are likely to be substantial headwinds to broad economic growth in 2014. Capital spend on mining investment has likely peaked in 2013, and will decline over the coming years as the many significant projects that are currently under construction are completed. Given mining investment represents more than 6% of GDP currently, the size of the headwind is not insignificant. Commodity prices will likely return to the marginal cost of production of the larger producers over time, and therefore we see downside risk to returns from the mining sector. While these companies will increase production, work on reducing operating costs and benefit from a lower Australian Dollar, we are of the view that the price effect will outweigh these positives. Government spending is also likely to be constrained due to the focus on reducing deficits over time. While the RBA may have some success in stimulating an east coast recovery, we are not convinced that it will be significant enough to make up the shortfall in growth elsewhere in the economy.

Therefore we would not extrapolate recent performance of either the market or the Fund into the future. Certainly, as managers of the Fund we do not expect to deliver such returns on an ongoing basis. More importantly, ***we do not aim for the level of returns achieved thus far***. Indeed we have had and do have *far* more modest expectations, and we evaluate current and new positions by considerably lower return thresholds in accordance with the risk that we consider such investments to carry. This is quite important for investors to understand. We are not trying to deliver 30%+ returns each year, our objective is significantly lower. In this context it should be mentioned that very few managers have achieved returns in excess of 20% per annum consistently over time, let alone 30%.

For those investors reading this who might be disappointed that our return targets are modest, rest assured that our tolerance for capital loss over time is also particularly low. Nothing affects compounding returns more than periods of sustained negative performance. We look at each position from both a risk and return perspective. We look for securities that we think offer us a relatively low risk 12%+ annualised total return. If we can successfully find these type of securities, we think our investors will do well over time.

All Ordinaries Accumulation Index - Annual Returns



*As at COB 16.12.2013

It is worth noting that the All Ordinaries Accumulation Index has only managed to achieve 10.4% per annum over the last 20 years, a period in which there were 16 positive years and the roaring bull market of the 90's, so finding stocks that deliver a lower-than-market-risk total return of 12% or greater is no small feat.

Importantly we will continue to invest and not speculate. We define speculation in broad terms as investing in companies which have no current or near term sustainable cash flows on which one can value the business. While there are clearly exceptions to this rule, you will not find us investing in pipe dreams or companies that sound great but have little chance of generating meaningful near term returns on assets and equity. There are too many things that could, and often do, go wrong before the promised returns materialise.

We also like to invest in companies that we think we understand. The more complex a business, the less likely we are to invest in that business. If management cannot explain how they make money on the back of an envelope, we generally steer clear. Similarly, we prefer less moving parts than more. We do not like to invest in businesses that are heavily reliant on many things that are difficult or impossible to predict. We will continue to follow this approach through 2014.

We wish all of our investors, service providers, staff and newsletter recipients a wonderful and safe Christmas and New Year period. We hope that 2014 is a healthy, successful and enjoyable year for all.

If you do not currently receive the Auscap Newsletter automatically, we invite you to register. To register please go to www.auscapam.com and follow the registration link.

Interested wholesale investors are encouraged to download a copy of the Information Memorandum from the website, www.auscapam.com/information-memorandum.

We welcome any feedback or comments you have. Please direct them to info@auscapam.com.

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