Monthly Performance Report
December 2019

Performance (net)	Main series
1 Month	0.3%
3 Month	3.3%
FYTD	5.6%
Calendar YTD	18.6%
Inception (Feb 2018)	16.5%

Month end exposure	
Long Exposure	93.5%
Short exposure	-15.1%
Gross exposure	108.6%
Net exposure	78.5%
Cash Weight	21.5%

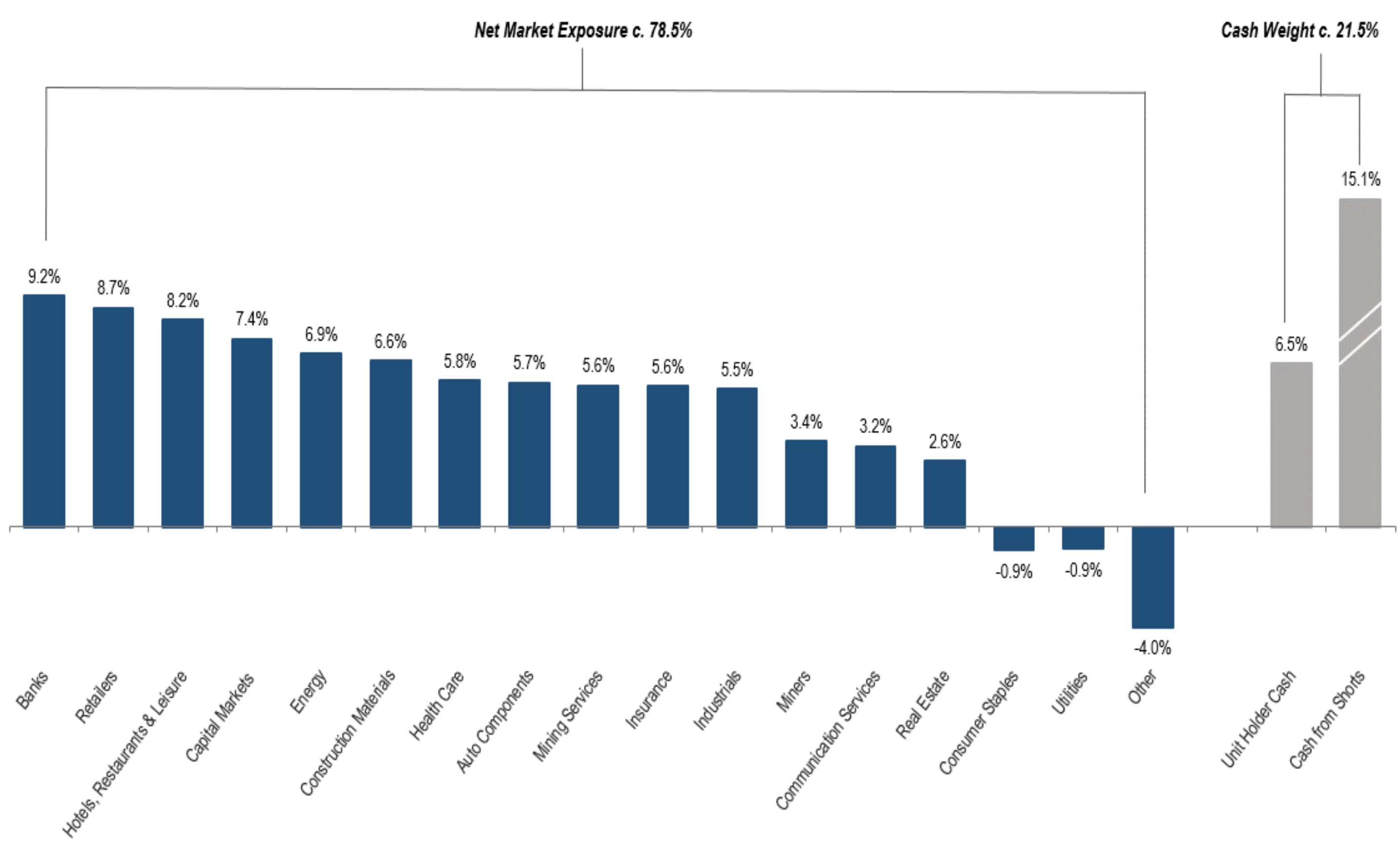
Top 5 Holdings	% Fund
KINA SECURITIES LTD	7.0%
INTEGRAL DIAGNOSTICS LTD	5.8%
MACQUARIE GROUP LTD	5.6%
ORIGIN ENERGY LTD	4.7%
ARISTOCRAT LEISURE LTD	4.5%
Top 5 Holdings as % AUM	27.6%

IPFM Portfolio	Factor	Long Portfolio	Short Portfolio	ASX300
Positioning	Weight	94%	15%	100%
	Number of stocks	28	15	300
Valuation	PER	17.9	22.6	17.5
	EV/EBIT	14.2	20.1	12.9
Yield	Dividend Yield	4.3%	3.3%	4.1%
	Payout ratio	61%	71%	70%
Growth	EBIT growth	11.1%	-4.2%	6.0%
	2 year EPS Growth	13.0%	-3.1%	4.0%
Price to Growth	PEG ratio	3.8	5.0	3.5
Balance Sheet	EBIT interest cover	14.2	15.4	6.0
	Net debt to EBIT	1.5	1.6	3.2

Metrics are non weighted averages but median where averages are skewed by big outliers

ASX300 estimates sourced from Bloomberg. Valuation metrics are FY20

Portfolio Positioning



Month in Review

The fund was up 0.3% in December versus the S&P ASX All Ords Accumulation index which declined by 1.9%, taking the funds calendar year 2019 performance to +18.6% (after all fees). The funds net exposure at month end increased by 11.3% to 78.5% (93.5% long less 15.1% short) as we took advantage of the selloff early in December and deployed some cash. The fund remains liquid though with our month end cash weight 21.5%.

As I mentioned at the time of our November report, the start to December (when the market was down -3.5% in the first three trading sessions) was reminiscent of October and August where the market had aggressive selloffs only to recover most of these selloffs by month end and then continue to track higher. This proved largely to be the case again although a very soft last days trading in December (market -1.75%) marred New Year's Eve celebrations. Pleasingly, given the funds stated strategy to insulate your capital in such selloffs by holding a cash buffer and selective short positions, **the maximum drawdown for the fund was just 1.2% versus the market -3.5%**.

Performance in December came mainly from our short portfolio with the average price move (unweighted) in the short portfolio -3.0%. A structurally challenged grocery retailer was the best contributor (stock -14% in December), and a long held short position in a concept stock with a high cash burn rate and escrow stock about to hit the market was -11%. Our short index futures position held at November month end was covered early in the month and also paid off.

Reflecting on the year that's been, it's a great reminder that equity markets have a habit of finding a way to climb the wall of worry even in years where the headlines are constantly negative. This year the market had to contend with the US and China trade war intensifying (and the negative impacts this had on global growth), never ending Brexit negotiations and slowing Euro growth, rising geopolitical tensions in the Middle East including an oil shock caused by an Iranian drone attack on the world's biggest oil processing facility, and months of anti-government protests and demonstrations in Hong Kong which pushed the territory into a slowdown.

Brent oil jumped 22% for the calendar year, iron ore climbed 27% (having been +70% CYTD in July) in a year marked by big supply disruption due to Vale's tragic dam collapse in early 2019, Gold continued to find safe haven buyers and moved 18% higher, the Aussie dollar at one point dropped to US$0.67 from US$0.71 at the start of the year, the US 10 year yield (the barometer of global risk appetite) almost halved from 2.7% to 1.45% in August (and sits 1.8% currently), and the Aussie 10-year bond yield hit a record low of 0.85% in late August 2019 as the RBA made three cuts of 0.25% the Aussie cash rate (taking it to a historic low of 0.75% on the back of below-trend economic growth).

This time last year after the US S&P 500 recorded its worst December since 1931 (-9.2%) and the MSCI All Country World Index recorded its worst December return on record (-7.2% in Dec and -11.2% for the year) I reminded unit holders in this monthly that "market psychology has taught us that investors feel compelled to sell when prices are low (just as they feel like buying when markets are overly exuberant)". Whilst the market was overly pessimistic in December 2019, the risk now is that the market is overly exuberant. Amongst all the great investment quotes, legendary global value investor Sir John Templeton's summary of the market cycle in a simple sentence often sits in the back of my mind, "Bull markets are born on pessimism, grown on scepticism, mature on optimism, and die on euphoria". Reflecting on the events of 2019 mentioned above, it is hard to argue we have had a euphoric year judging by the headlines, events, and cautious positioning from institutional and pension funds globally (refer gold price and the circa $15 trillion of government bonds globally trading at negative yields). But the risk is analysts and investors have been overly optimistic on where it all ends. Bad news became good news for markets in 2019 as the "Fed put" (the US Federal Reserve's guarantee to cut rates further if data deteriorated) was put back in place. As we start the new year global rates have started to rise albeit off very low bases (US 10 year spot yield 1.8% versus 1.45% in August, Australian 10 year 1.25% versus 0.85% in August, UK 10 year Gilts 0.74% up from 0.4%, and the list goes on). So we appear now poised for either (1) a deterioration in global GDP in which case we are set for a round of fiscal stimulus (rather than monetary stimulus where we are almost out of bullets) or (2) an improvement in global data hence rising rates and we are back to the issue that caused the selloff in the back half of 2018 which was the fear of "normalisation" in the risk free rate being imputed into valuations across most asset classes.

To add to this, we have an election year upon us in the US. If you examine the S&P500 returns for each of the 23 election years since 1928 (refer Dimensional Funds Matrix Book), only four of them have been negative. This makes sense as any President is going to go all out to stimulate the economy to ensure they (or their party) are re-elected. Looking at the negative years, one was in the Great Depression (1932), one was the 2nd World War (1940), one was the Tech Wreck (2000), and one was the GFC (2008). So theoretically it will take a significant event such as these to derail the US market (which most markets follow), particularly with a US President in place who appears to place such a high importance on the performance of equity markets.

What does all of this mean for portfolio positioning? We believe it is a good time in the cycle to be invested in a strategy such as Indian Pacific's which aims to have a "foot in all camps" on the long, cash, and short components of our portfolio. That is, we will maintain our core long positions in the quality companies who meet our strict investment criteria, but to ensure there is some insulation built in via our lower than market net exposure (to date we have averaged around 70% net exposure). Importantly we will continue to try to invest cash on decent pullbacks as we did in December and reduce our net exposure if we observe over exuberance.

Additionally, we think it is a time in the cycle where investors need to be especially careful not to get caught in overvalued momentum/growth stocks or recently hyped or listed concept stocks. When momentum (and short-term news flow) turns investors are forced to put their hands-on heart and justify previous valuations and prices they have paid, which they won't be able to do even if many of these stocks fall 50%. Going back to Sir John Templeton, he was famous for taking on momentum and he shorted several high-flying internet stocks in the late 1990's pre the tech wreck. We think now is a good time to focus more attention on shorts in these areas which is what we are doing as the year kicks off.

On the long side the change in momentum is visible in our portfolio with all our best performers in December being names I would classify as "value" stocks (these include KSL.AU, SAR.AU, WGN.AU, ADH.AU, IDX.AU, MIN.AU, ENN.AU, SVW.AU, MQG.AU which were up 8% on average in December) whilst a couple of our star performers since inception (CCX.AU, EQT.AU, and JHX.AU) who are trading at the high end of their historical trading multiples are having a tougher time of it. To this end I am constantly revisiting individual company models to review my forecasts and valuations, to step through the four-point investment process ensuring that each stock still deserves its "spot in the team".

To provide some high-level colour on where your funds are invested, I have included a table above with some key valuation metrics for the Long and Short portfolios as well as the market. As you can see the portfolio is still high in cash, the long portfolio is considerably cheaper than short portfolio (particularly on an ungeared basis which is the most important measure), the long portfolio is yielding 4.3% (not including franking) despite its lower payout ratio than the market, it is growing faster than the market and short portfolio and is priced better than the short portfolio on a price to growth (or PEG) basis meaning we have not overpaid for growth, and the balance sheets of the quality companies in the portfolio are very strong. For these reasons you should remain very comfortable with the diversified portfolio of stocks held on your behalf in the fund.

About the fund

The Indian Pacific Fund is an Australian Equity long/short fund founded in February 2018. The fund has an absolute return focus (with long bias), has no cash limit, and can invest in both large and small cap companies. The investment process is a fundamental bottom up investment process with a focus on balance sheet risks and identifying companies with strong cash flows, in good industries, with strong management teams. The fund was founded with the view that whilst markets rise in the long term it is always prudent to maintain the flexibility to hold more cash when markets are overly optimistic, and selectively short stocks if opportunities arise.

Fund Holdings	Typically, 15 to 25 long positions plus selective short positions
Investment Horizon	Medium to long term.
Investor Eligibility	Wholesale Clients, as defined in the Corporations Act 2001.
Minimum Investment	$250,000[1]
Management Fee	1.0% of the GAV of the Fund, plus GST
Performance Fee	20% of Outperformance subject to a Hurdle rate (RBA Cash Rate), plus GST. Calculated and accrued monthly and payable quarterly. High water mark applicable.
Distributions	Annually, with the discretion of the Trustee to make interim distributions.
Applications processed	Monthly
Prime Broker (and Custodian)	Morgan Stanley
Legal Advisers	Norton Rose Fulbright Australia
Fund Administrator	Apex Fund Services Ltd
Fund Auditor	BDO Audit (WA) Pty Ltd

1 The Trustee may, in its sole discretion, vary the minimum investment and minimum additional investment amounts.

Contact:

General enquiries
E admin@indianpacificfm.com.au
W www.indianpacificfm.com.au

Contact the Fund Manager
E preston@indianpacificfm.com.au
P +61 8 6280 0129
M +61 403535820