I|P INDIAN PACIFIC FUNDS MANAGEMENT

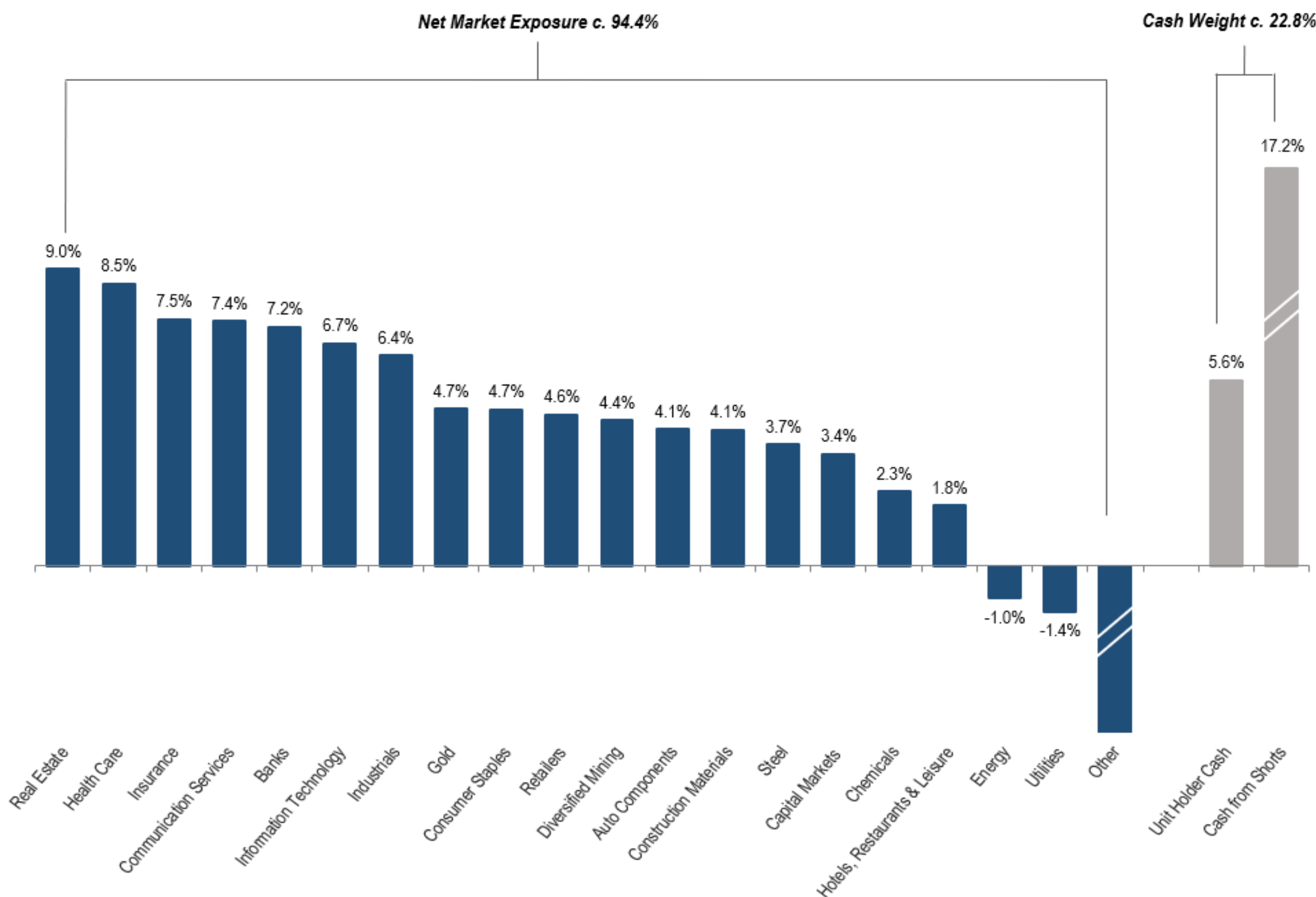
Monthly Performance Report
December 2020

Performance (net)	Main series
1 Month	2.6%
3 Month	10.5%
6 Month	16.4%
12 Month	13.8%
FYTD	16.4%
Inception (Feb 2018)	32.7%

Top 5 Holdings	% Fund
ABACUS PROPERTY GROUP	5.4%
WOOLWORTHS GROUP LTD	5.3%
INSURANCE AUSTRALIA GROUP	4.9%
VOCUS GROUP LTD	4.5%
INTEGRAL DIAGNOSTICS LTD	4.5%
Top 5 Holdings as % AUM	24.6%

Month end exposure	
Long Exposure	94.4%
Short exposure	-17.2%
Gross exposure	111.5%
Net exposure	77.2%

Portfolio Positioning



Month in Review

The fund had another solid month in December with its NAV (Net Asset Value) increasing by a further 2.64% (net) compared to the All Ords +1.61% and the ASX200 +1.06%. This rounded out a wild year for markets but a very pleasing one for the fund with <u>calendar year 2020 performance finishing at +13.84%</u> (net) versus the All Ords which was up just 0.7% and the ASX200 which was down -1.5% for the year.

The trend in recent years has been for very busy Decembers in equity markets with a flurry of capital raisings and mergers and acquisition (M&A) announcements as investment bankers and companies try to close deals prior to year-end. This has generally been followed by quiet January periods and I suspect this may be the case again this January with COVID resurgences across financial centres around the world likely to see many "decision makers" stay away from the office, hence limiting big decisions or deals being

announced. December 2020 followed the trend with a raft of corporate actions announced. Key news flow items, along with our thoughts on them, from companies we hold on your behalf were as follows:

Abacus Property Group (ABP.AU, -7.3% in December) is a diversified property group who receive annuity style income streams from their portfolio of self-storage and commercial office assets, having largely exited their retail shopping centre and residential property assets. We are particularly attracted to the defensive nature of the self-storage assets and see management at ABP as active and nimble. In December ABP launched a $402m equity raising at $2.90 (which was 21% of previous shares on issue at a 6.5% discount to last trade price) to acquire the remaining 75% of the Storage King self-storage operating platform they didn't own. This was not a surprise as the company had flagged it to the market and we saw it as prudent as it brought gearing down to 17.5% (versus 26.5% prior) and therefore it leaves plenty of capacity to pursue further acquisitions (which they have also clearly flagged are on the way). With the post capital raising Net Tangible Asset per share (or NTA which represents total property asset values minus debt) sitting at $3.15 per share (~9% above the raising price $2.90), and dividend guidance implying a 6.0% yield at the raising price, we were very happy to add to our position in the raising and we have continued to add to it on market on soft days.

Charter Hall Group (CHC.AU, +8.5% in Dec) a consortia of Charter Hall managed funds/partnerships acquired the David Jones Sydney flagship "Elizabeth Street store" in Sydney for $510m representing a 5% initial yield in December, with CHC also announcing an expected 1H21 Dividend of 18.6c, in line with expectations. This caps a very active year for CHC who hardly broke stride in COVID and continue to build one of the biggest real estate funds management businesses in the world on which they earn long term management and performance fees. As a reminder, CHC was one of our "wish list" stocks purchased in the depths of COVID (in the $7.00's versus pre COVID trading levels above $14). Whilst the current valuation metrics are less compelling than when we initiated our position, the outlook is much more positive, and we continue to hold our position in this best-in-class operator.

City Chic Collective (CCX.AU, +45.7% in Dec) plus size women's retailer CCX has been a poor performer in recent months with the market penalising them for raising capital but failing to close an announced deal to buy the online assets of US retailer Catherine's after they were gazumped late in the sale process. Make no mistake, when you raise money (and dilute shareholders), and fail to close the deal (where the accretion comes from), the market hates it. Just before Christmas however, CCX made some progress on deploying the capital they raised for Catherine's by acquiring UK-based plus-size brand, Evans. At the acquisitions price of A$41m, this represented a sales multiple of 0.9x historical sales which is above historical levels however it does move CCX into the more conservative garment space and a new geography for direct sales (the UK) via an established/leading brand. Online penetration as a result of the acquisition grows to ~70% once Evans is folded in and with CCX managements strong track record of integrating acquisitions we are happy to give them the benefit of the doubt on the price they have paid hence we are happy to maintain our position here.

Insurance Australia Group (IAG.AU, -8.7%) after a disastrous year for general insurers in terms of natural disasters and COVID impacts, IAG seems to be the "gift that keeps on giving" on the downside and in December they hit the market with a bombshell $750m capital raising due to a big increase in provisions (that is, cash set aside for future loss allowances) due to possible COVID claims from businesses interruption policies they have written. Without going into too much detail here, there is a lot of water to pass under the bridge as this plays out in the courts and there is a strong chance they have raised too much capital, however management at IAG have a track record of being conservative on capital (holding more than they need) and they have clearly tried to get ahead of the curve here. In their core businesses IAG maintained previous guidance for low growth in gross written premiums received from their well known, blue-chip, general insurance businesses in Australia (NRMA, CGU, SGIO, Swann Insurance, Lumley and more). Whilst earnings momentum is clearly against IAG currently and that is hurting the share price, we are trying to be pragmatic here with the view that (1) we like the almost oligopoly market position they occupy in the general insurance market in Australia (2) they are the envy of their peers having consistently delivered superior insurance margins to their peers over the long term (3) we believe they have the best management in the sector (4) we believe the balance sheet is likely over provisioned albeit there is always risk on this front on insurance (5) the valuation is at very attractive levels with the stock trading on depressed multiples (down 15-20%) on heavily depressed earnings (FY22 earnings are now forecast to be ~25% below pre COVID levels in F22) which combined should mean the stock will see large earnings and ratings upside when things eventually improve. Our patience has been tested with IAG but the darkest days are usually before dawn in this sector and with all the above in mind we think the risk reward at current levels is compelling so we will continue to stick with this position.

Independence Group (IGO.AU, +37.4% in Dec) IGO was a position we initiated late last year as, like many other positions in the portfolio, we saw it as an "event" driven position whereby pressure on the board and CEO was very likely to drive positive change for shareholders. Our thoughts at the time were that the board was under pressure to either return some of the circa $500m war chest of cash they held, realise circa $1bn of value from the under appreciated Tropicana Gold stake they held, initiate change at the board level to reinvigorate their strategy, and eventually this would allow them to become bolder in their step out to become a bigger player in the long-term structural shift to energy storage (battery minerals). Much of this has played out with healthy board changes forthcoming, a Tropicana sale process put into action with the appointment of Macquarie to market their stake, and then in

December came (earlier than expected) the announcement of a significant acquisition in the lithium space with the US$1.4bn acquisition of a 49% stake in Tianqi Lithium Energy Australia which owns the lowest cost "tier one" hard rock lithium mine in the world and a lithium hydroxide plant, both in Western Australia. Whilst we commend management on the timing of their acquisition, the deal structure is complex, and the timing of the benefits are long dated hence after exercising our rights to invest more in the capital raising at $4.60, we have recently reduced our position into strength above $6.00.

In assessing the year that was, we are satisfied that we have managed to "ride out the storm" on your behalf in 2020, and most importantly, deliver to the fund's product design. That is, to deliver strong risk adjusted returns by holding a core portfolio of quality companies in the long term, by having the ability to hold excess cash when we are cautious, and by holding a portfolio of short positions which helps buffer us in downturns. As we start a new calendar year it is one with many obvious risks, most pointedly (at each end of the spectrum) being (1) a prolonged global economic impact from COVID and (2) the impact of rising rates should all play out well on the vaccine front. Last month I flagged our rising net exposure which has been in line with our expectations that the market would maintain its positive attitude whilst the COVID-vaccine was on its way. In more recent weeks second wave lockdowns (offshore) are having much bigger short-term impacts than anticipated by markets, and the pace of vaccine rollout is now coming under much scrutiny with the risk appearing to us to be to the downside. With this in mind, we have dialled back our net exposure a touch and increased our exposure to gold equities (to ~5%) to protect against further slippage. Whilst there will be many bumps in the road this year there is still reason to be optimistic and the companies we own all have strong balance sheets, with good management teams, in industries we like and understand, with opportunities to grow, at valuations we consider attractive. For these reasons we feel we have a portfolio capable of weathering whatever storm the market wants to throw at us in the year ahead.

We look forward to working hard for you again in 2021 and thank you allowing us to be the custodian of your hard-earned savings. We don't take it for granted.

HAPPY NEW YEAR!

Regards,

Preston Hamersley
Portfolio Manager

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.

Holdings	Typically 15-25 long, selective short positions	**Investor Eligibility**	Wholesale Clients
Management Fee	1.0% of the GAV of the Fund, plus GST	**Prime Broker**	Morgan Stanley
Performance Fee	20% of Outperformance over RBA Cash, high water mark	**Fund Administrator**	Apex Fund Services Ltd

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