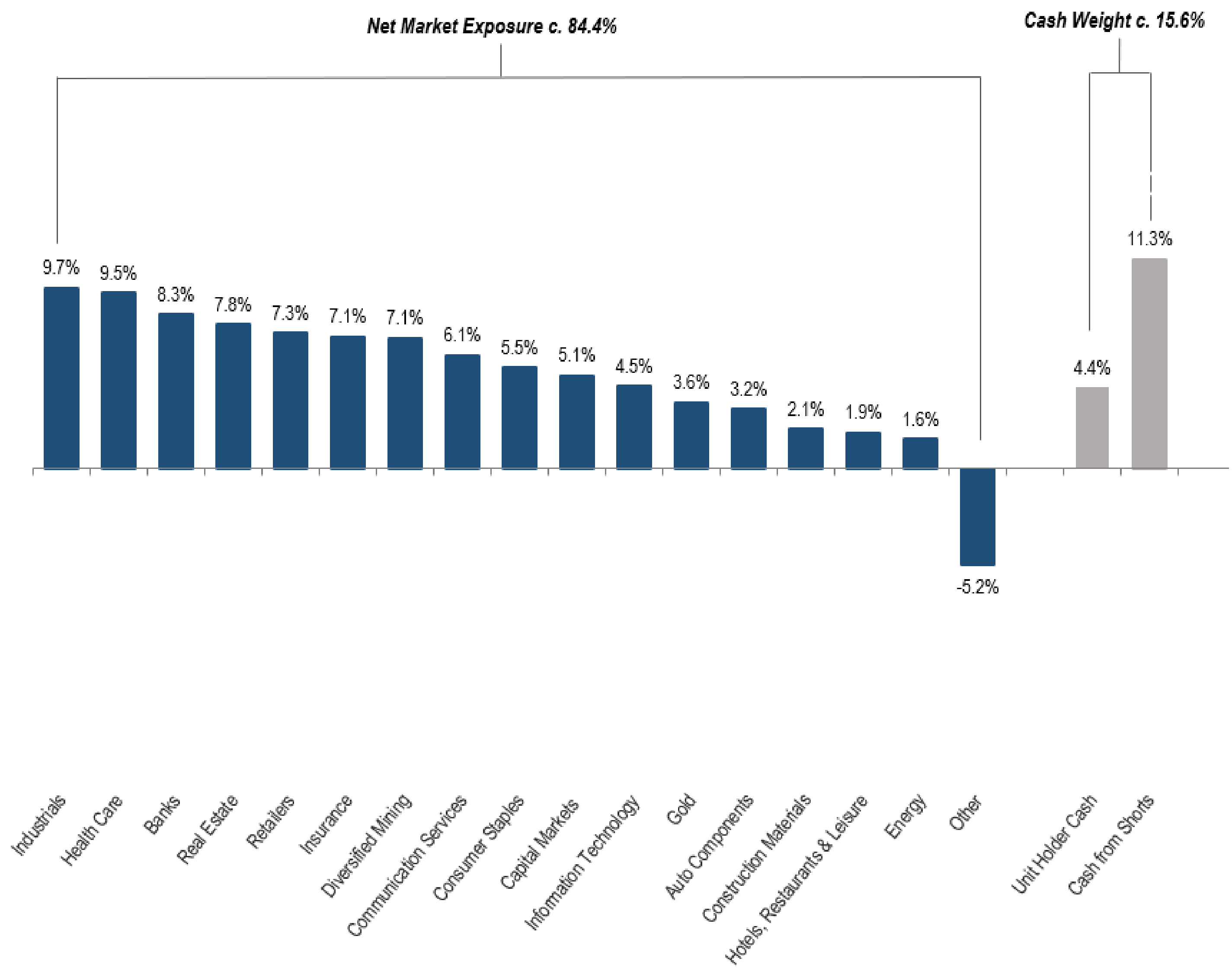
Monthly Performance Report
December 2021

Main series (net return)	
1 Month	1.4%
3 Month	2.5%
6 Month	6.2%
12 Month	19.1%
FY 2021	30.8%
Inception (Feb 2018)	58.2%

Top 5 Holdings	% Fund
HEALIUS LTD	4.6%
TOURISM HOLDINGS LTD	4.4%
MACQUARIE GROUP LTD	4.4%
ABACUS PROPERTY GROUP	4.3%
BHP GROUP LTD	4.3%
Top 5 Holdings as % AUM	22.0%

Month end exposure	
Long Exposure	95.6%
Short exposure	-11.3%
Gross exposure	106.9%
Net exposure	84.4%

Portfolio Positioning



Month in Review

The fund had a positive end to the year in December with its NAV (Net Asset Value) increasing by a further 1.43% (net), albeit less than the market (All Ords +2.53%) as our short portfolio and cash position was a drag in the month. **This rounded out a solid calendar year for the fund as it finished +19.1% v All Ords +13.6%,** remembering that our net exposure (our long portfolio less our short portfolio) averaged 78.3% in Calendar Year 2021, helping to drive a trailing 12-month portfolio volatility (or standard deviation) of 8.83% versus the All Ords of 11.3%. In other words, in CY2021 we were able to deliver better than market returns, whilst taking quite a lot less risk for you had you just held "the index" via an exchange traded fund (ETF).

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 2021 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:

APM Human Services (APM.AU, +4% in Dec) announced their entry into the Swedish employment service market with the acquisition of Clustera, a top three player in the country. This move into Sweden was well flagged as the country looks to replicate Australia's NDIS model, so APM.AU are very well positioned to partner with government now given Clustera's footprint of 38 offices across the country. APM.AU also reaffirmed prospectus guidance in their announcement so in a market where everyone is worrying about the next downgrade this feels like a reasonable place to be medium term (especially given the value on offer after the drop post listing).

Capricorn Metals (CMM.AU, +15% in Dec) mid-tier gold producer CMM.AU was the funds best contributor in December as they backed up November's 15% rally with the same again. As I mentioned in last month's report, we think there is line of site to become a 300k/oz producer in the next 3-4 years which makes it one of the highest growth gold producers on the ASX. In turn CMM.AU will likely become a steady dividend payer which, along with big index and gold ETF buying (which benefited them in December) should see ongoing support for the stock. In December CMM.AU showed the market how excited and serious they are about their new Mt Gibson Gold Project by announcing a 110,000-metre drill program to (1) underpin an updated mineral resource estimate by Sept 2022 and (2) step out from the existing resource with an aggressive exploration program (the market had been expecting only a 20-30k/metre program). CMM.AU will then look to complete a feasibility study and reach a development decision for the MGGP by Dec 2022. In the meantime the company will continue to pump out circa $100m pa free cash flow from their existing Karlawinda gold mine hence they will continue to pay down their debt facility with Macquarie (which is sitting at comfortably less than 1 years FCF), and expansion studies will be ongoing at Karlawinda to see whether they can add 30-50k/oz pa to the existing c. 120k/oz production rate at Karlawinda. Needless to say, there are plenty of catalysts in the year ahead and we remain happy with this being our only current gold position.

Charter Hall Group (CHC.AU, +8% in Dec) CHC.AU, along with our only other property position **Abacus Group** (ABP.AU), was a star performer for the fund in CY21 +43.0% (ABP.AU was +43.1% making them the best performing REITs in Australia last year behind just one stock, **National Storage**, NSR.AU +45.4%). Nonetheless we were left perplexed at their decision to buy 50% of equities fund manager Paradice Investment Management for $207m in December. We are attracted to the perpetual or often fixed term nature of the property funds run by CHC.AU and the minimal balance sheet risk held at the head group level (in CHC.AU itself rather than the satellite listed or unlisted funds who hold the balance sheet risks), however this deal sees them move from 0.5% exposure to equities, to 23% of FUM now being in equities. Admittedly, CHC.AU were smart enough to fund 70% of the deal with what now is highly rated scrip but with the valuation now more stretched than it has been since pre COVID, bond rates rallying (impacting annuity style asset values), and this deal "muddying the waters" we have halved our position in the stock.

Healius (HLS.AU, +8%) with the cash pile from hundreds of thousands of PCR tests a day piling up (at $75-$100 a pop), HLS.AU parlayed A$301m of their cash into the acquisition of Agilex Biolabs at what looks on the surface to be a very expensive price (c. 21x EBITDA), but potentially a high-quality new business segment they can grow significantly in future years. Agilex is an Australian-based laboratory providing bioanalytical services in the clinical trials setting (i.e. assays to assess toxicology, patient response in early phases of clinical trials). The company is expected to generate revenue and EBITDA of A$36–40m and A$14–16m respectively, in CY22E. To put the acquisition price in perspective, we forecast HLS.AU to generate revenue of $870m just from COVID tests in CY22, so we have some sympathy for the management teams thinking here, however the jury is still out on whether HLS.AU can generate an economic return from their investment at the price they have paid. In any case, it won't be a meaningful part of the HLS.AU story for some years. With HLS currently trading around $5.00 as the market calls the top on PCR testing volumes, the company still looks cheap to us (~6x/9x FY 22/23 EV/EBIT) and we think it's a pretty good hedge against things remaining tough in the new world we live in, whilst remaining a quality business in any environment.

Tourism Holdings (THL.NZ, +5% in Dec) global holiday rental vehicle operator, Tourism Holdings, who own the well-known RV brands commonly seen on our roads (Maui, Britz, and Mighty rentals in Australia and NZ, plus various other USA and UK brands) entered into a scheme implementation deed with competitor **Apollo Tourism & Leisure Holdings Ltd** (ATL.AX) to "merge" the companies (real meaning, take ATL over) which is a big move on their major competitor. We think the deal makes sense for THL shareholders with rough FY24 EPS accretion of +22%, substantial P&L and cash synergies combining the groups, an improved competitive position in their key ANZ markets, and it also achieves ASX listing for THL shareholders via a proposed dual listed structure for the merged group (currently THL is only listed in NZ). The only negative we can see is the dilution to NTA for THL shareholders, however after doing a call with THL management we now understand there are a number of assets on the ATL balance sheet that significantly understate the real value of ATL's NTA (such as properties held at acquisition rather than market prices). As part of their update to the market THL also upgraded earnings and provided a positive balance sheet update with net debt on 30 November c. $20m, down from $48.7m in June and the group have highlighted net CAPEX expectations will be at the lower end of the guidance provided at the AGM ($25m-$60m). All up we still see valuation upside long term, and we tip our hat to one of the best small cap management teams we deal with for putting the company in a position of power, which enables them to drive this deal.

Woolworths Group (WOW.AU, -5%) WOW.AU were one of the first, of what will be many, retailers to announce negative impacts from COVID in December. In a trading update where sales growth was solid enough (+2.0% Australian Food sales growth in the 10 weeks to 12 Dec despite cycling +8.3% in the prior year), COVID costs were more than expected with direct COVID costs of $150m ($168m pcp) which the caused the market to understandably question whether these are transient or permanent cost increases. In addition to that WOW.AU is seeing higher operating costs (indirect COVID impacts) which will likely impact margins in CY22. As we move into the peak of the current COVID wave in Australia, the focus of the market is becoming very short term hence many retailers are being sold off aggressively. In this instance, we had reduced our WOW.AU position to around 2% of the fund leading into the December announcement (from 5.3% in January 2021), and while we recognise consensus earnings are a risk short-term we are looking through the haze (given many of the COVID costs called out are genuinely non-recurring) and have started to rebuild our position in what is clearly the best positioned grocery retailer in Australia long term.

In assessing the year that was, we are satisfied that we have managed to "ride out the storm" on your behalf in 2020, perform solidly in 2021, 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. This was also the case leading into 2021, however this time rate rises are a result of "cost push" inflation rather than "growth push" which we thought was the risk last year. Recently our net exposure has increased with the typical Christmas rally a risk to the short portfolio, and we will likely look to rebuild some of these positions leading into February reporting season in Australia. 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 2022 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,

PHamersley

Preston Hamersley
Portfolio Manager

I|P
INDIAN PACIFIC
FUNDS MANAGEMENT

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
General enquiries		**Contact the Fund Manager**	
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