Monthly Performance Report
June 2020

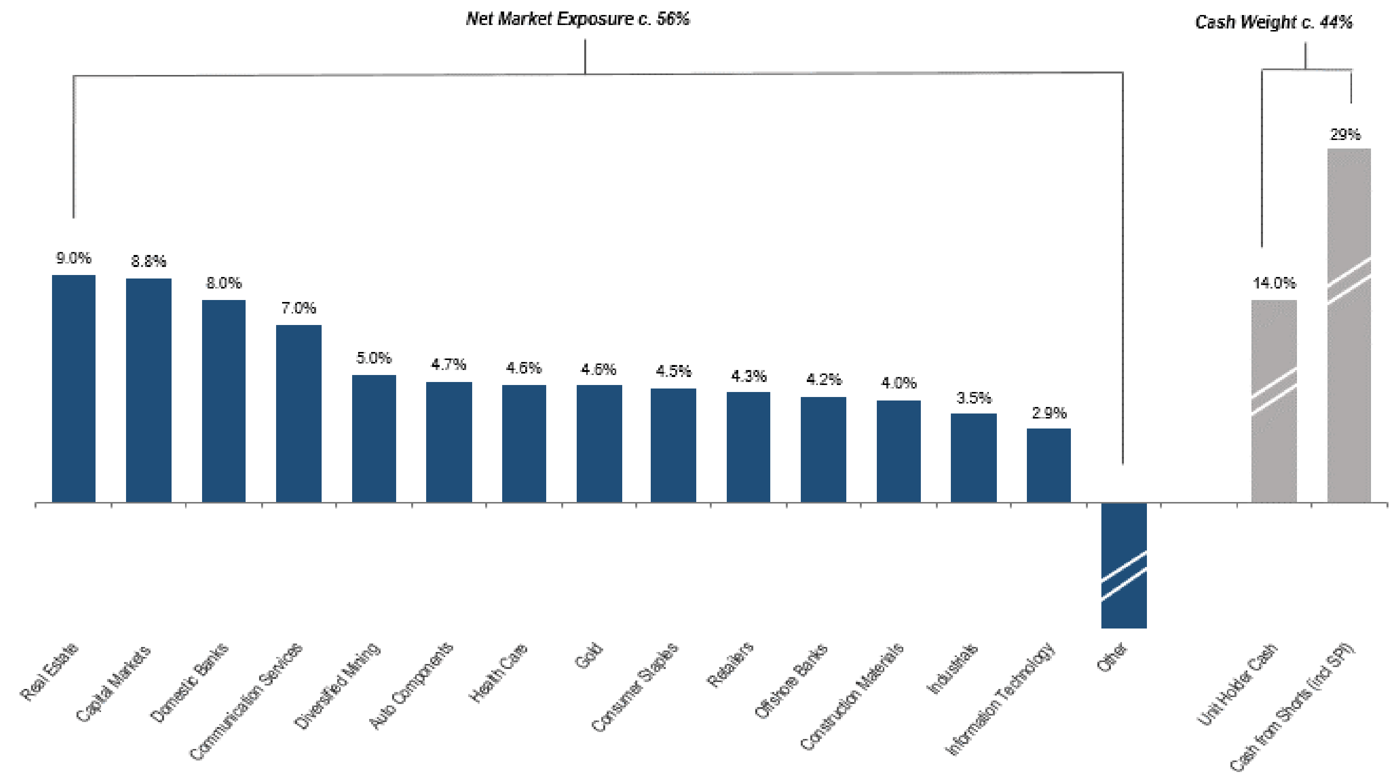
INDIAN PACIFIC FUNDS MANAGEMENT

Performance (net)	Main series
1 Month	4.4%
3 Month	22.4%
6 Month	-2.2%
FY20	3.3%
Inception (Feb 2018)	14.0%

Month end exposure	
Long Exposure	86.0%
Short exposure	-30.0%
Gross exposure	116.0%
Net exposure	56.0%
Cash Weight	44.0%

Top 5 Holdings	% Fund
MACQUARIE GROUP LTD	5.9%
WESTPAC BANKING CORP	5.0%
ABACUS PROPERTY GROUP	5.0%
SARACEN MINERAL HOLDINGS LTD	4.5%
WOOLWORTHS GROUP LTD	4.4%

Portfolio Positioning



Month in Review

The fund was up 4.4% (net) in June versus the ASX All Ords Index which was up 2.2% (ASX200 +2.5%, Small Ords -2.0%) as the market continued on its merry "post COVID-19" recovery, despite a spike in cases in the US (and a minor rise in cases here in Australia) late in the month. **This took fund performance for financial year 2020 to +3.3% versus the All Ords -10.4% (ASX200 -10.9%, Smalls -8.3%, and All Ords Accum -7.2%).** Whilst pleasing to outperform the market (+13.7% v All Ords and +10.5% v All Ords Accum), especially in such a volatile and negative year for the index in FY20, we would like to have done more. However, the fund is broadly delivering to design with lower volatility compared to the market and I'm glad we could deliver a modest positive return for you in a year when a lot of capital was destroyed around the world.

Our outperformance this year was driven by both our long book (which effectively "broke even" despite the soft market), whilst our short book delivered strong returns.

The funds best performing idea for the year was our short on **Flight Centre** (FLT.AU). FLT.AU is a name we know well, having modelled it intimately for eight years and having followed it for much longer. Whilst we know (and personally like) many of the senior management team at FLT.AU we have been bemused by the growing cost base and continued expansion of the bricks and mortar network over the last decade in the face of ongoing structural headwinds. To single out one division (the biggest), Australian EBIT in FY19 and 1H20 was trending circa 60% below where it was in 2014 (pre COVID-19), yet despite this operating expenditure in the division was running at record levels. Most of these costs, rent and wages, are largely fixed. In a company built on the great entrepreneurial spirit of its founders, it is not in FLT's embedded culture to cut costs hence we have been doubters on their ability to meet their long term 2.0% net margin (PBT/TTV) targets which most sell side analysts have had "clicked and dragged" across their excel models since the target was announced a few years ago. When COVID-19 broke we quickly realised how big the negative leverage would be (i.e. zero revenue with high fixed costs and high levels of over-ride revenue exacerbating the leverage) hence were able to add to our position as events unfolded. Good luck to the company as they sensibly fast track the closure of many stores and move to more of an online strategy, something that would have taken them many years otherwise. We have covered some of our position here but we still see a very tough road ahead and believe the market is being overly optimistic on the speed at which the travel industry will normalise.

Other top contributors on the short side was our short on retail shopping centre group **Unibail-Rodamco-Westfield** (URW.AU) who win the prize for highest debt to market cap ratio in our market screener spreadsheet (currently 230% with an eye watering $26.5bn in debt versus a market cap of $11.6bn), along with our short **Whitehaven Coal** (WHC.AU).

On the long side, best performers for the fund in FY20 were largely from our long-term holdings; online women's fashion business **City Chic Collective** (CCX.AU) was our best, followed by **Integrated Diagnostics** (IDX.AU), **James Hardie** (JHX.AU), and **Wesfarmers** (WES.AU) with all of these positions added to in the March/April selloff. New stocks added in the pullback were also strong contributors, namely **REA Group** (REA.AU), **Charter Hall Group** (CHC.AU), **Xero** (XRO.AU), and **Opticom** (OPC.AU). Our first foray into gold in December last year also proved worthwhile with **Saracen Minerals** (SAR.AU) a strong performer, and our decision to sell **Imdex** (IMD.AU) above $1.50 earlier in year meant it was also amongst the best performers.

The "dog of the year gong" for FY20 goes to **Insurance Australia Group** (IAG.AU) who were a top 5 position for us a year ago but were beaten up by hail-storms, bushfires, and the bad equity markets (impacting their investment portfolio), not to mention a regulator who requested they halt paying dividends. Some might call it the perfect storm. The silver lining is that these tough years are normally followed by price increases, but that may prove difficult given the current state of the economy. Nonetheless we still hold IAG and look forward to a better year on the disaster front.

Timing is everything with investing and it has been a wild ride for the market since we opened our doors at Indian Pacific Funds Management back on the 7th Feb 2018. The funds Main Series NAV (which all investors roll into) is up 14.0% after fees since then in a market that, despite its up and downs, is effectively flat since (ASX All Ords and ASX300 are both +0.33% since 7th Feb, 2018). Whilst it would have been nice to start a fund in a market that just went up, it's worth remembering that our process was designed with the mindset that it had been a long bull market leading into 2018, and it was a good time to be invested in a strategy that has flexibility to hold high cash levels if desired, and that has a short component to protect us in years such as FY2020. The path ahead looks difficult and as you can see, we have dialled down our market exposure (via our short portfolio) to reflect this view, however our core long term holdings will remain exactly that.

To mark the start of a new financial year I will be conducting a series of investor meetings later in the month to run though our portfolio strategy and key holdings for the year ahead so I be in touch to arrange that with you in the coming weeks.

I look forward to working hard for us again in FY21.

Regards,

Preston Hamersley
Portfolio Manager

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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.

Fund Holdings	Typically, 15 to 30 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.

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