Atlantic Pacific Australian Equity Fund

ARSN 158 861 155

with. Intelligence
WINNER
HFM Asian Performance Awards 2022
Emerging Manager / Smaller Fund - Equity

Fund Monthly April 2024

Class A - Return Summary (To April 2024)

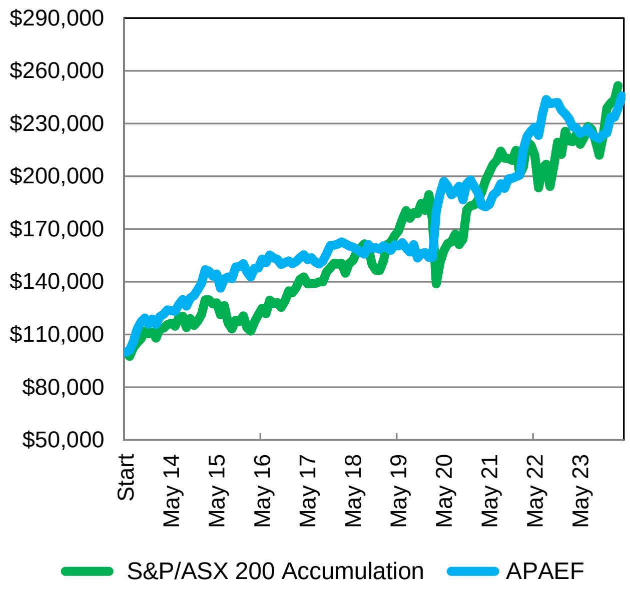
Period	1 mth	3 mth	6 mth	1 yr	3 yr (pa)	5 yr (pa)	Cumulative	Per Annum
Fund Return	2.91%	5.2%	11.0%	8.0%	10.4%	8.8%	145.8%	8.7%
S&P/ASX 200Acc.	-2.94%	1.0%	15.2%	9.1%	7.3%	8.0%	144.2%	8.6%
Excess Return	5.84%	4.1%	-4.2%	-1.0%	3.1%	0.8%	1.6%	0.1%

Class B - Return Summary (To April 2024)

Period	1 mth	3 mth	6 mth	1 yr	3 yr (pa)	5 yr (pa)	Cumulative	Per Annum
Fund Return	2.56%	5.0%	11.2%	9.0%	n/a	n/a	2.8%	2.0%
S&P/ASX 200Acc.	-2.94%	1.0%	15.2%	9.1%	n/a	n/a	10.6%	7.4%
Excess Return	5.50%	4.0%	-4.0%	0.0%	n/a	n/a	-7.8%	-5.4%

Past performance is not indicative of future performance. Fund returns presented in this document are for both Class A Units and Class B Units. Fund Returns are prepared on a redemption unit price basis after management and performance fees inclusive of GST. Distributions are assumed to be re-invested at the mid unit price. Individual tax is not taken into account in deriving Fund Returns. In calculating the NTA, the Atlantic Pacific Australian Equity Fund ("Fund") asset values have been calculated using unaudited price and income estimates for the month being reported. Returns greater than one year are annualised.

Cumulative Returns of $100k



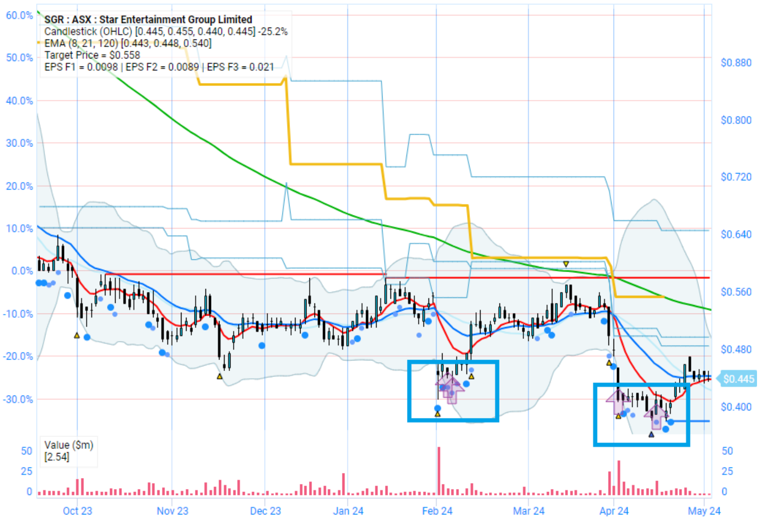
Recent Highlights

- The Australian equity market fell near 3% as markets started to price in further interest rate rises in Australia. This is due to stubbornly persistent inflation which sit above the RBA's expectations. And of course, inflation is being seen across a complex of goods and services. Wages on a forward view, also look springy. Inflation is here to stay. The Fund returned near 3%, continuing its general negative correlation with markets.
- Mesoblast (MSB:ASX) and SPI futures dominated positive contributions over the month.
- We mentioned a move to overweight energy last month. This appeared to be fortunate timing with Israel attacking Iran. Unfortunately, this unwound quite quickly and have moved back to neutral.

APSEC FUNDS MANAGEMENT

Portfolio Activity

Star Group (SGR) Long



Source: HALO

The Fund has started to initiate a position, averaging in at 42.84c, in what we ascertain to be distressed levels for a company that holds premium property assets. We like to balance the portfolio with deep value assets as in our opinion the risk/reward is certainly in the price in this case. If one were to read popular media, social media or the anonymous on chat forums, you would be convinced that this is potentially the worst decision in the world. But these “vehicles of truth” are never there to herald how to make money…they merely feed upon themselves until they can no longer. We like this as often those who don’t understand distressed investing will dump positions. This is true of institutional and retail investors alike.

Looking through the quagmire of awful behaviour when it comes to casino operators in general, ultimately these assets are premium entertainment precincts. If operated well, they can earn above their cost of capital. Having seen first-hand experience on the ground multiple times a year as the “Fun Manager” for a prior employer, the development of the Macau Casinos during the “noughties” was a spectacle of corruption. From the development contracts to the junket operators that have pervaded the western world supporting money laundering from the Chinese mainland and other jurisdictions, it comes as no surprise that eventually all companies operating in the space would finally come under scrutiny. It would appear further scrutiny is afoot with a second enquiry into the company’s NSW Gaming licence. The company’s CEO and CFO among others have resigned recently and there has been a change in the Chairman. One of the existing Directors, Bruce Mathieson, has loaded up on the company nearing the limit of 10%.

Trading updates will generally be pessimistic in the short run driven by an increase in costs due to regulatory compliance, fall in high-roller/premium revenue offset by improved main gaming floor revenue as has been seen recently. Structurally, tourism remains firm and should remain that way. Cash flow is somewhat uncertain with calls on capital related to the opening of Queens Wharf in Brisbane and an AUSTRAC fine looming. However, they have never had an issue with raising capital and nor should they as they hold premium entertainment properties across various major capital cities. As to losing their licence, we highly doubt it as the disruption to gaming taxes and employment is not something any state government wants to see. We believe the remediation to date is going well. Once these “fat tails” have passed, investors will then look forward to how the assets will perform over the medium term with the huge prize for Queens Wharf coming in the lead up to the Brisbane 2032 Olympic Games. This period will be a bonanza for the Star Group as well as the State of Queensland.

Mesoblast (MSB) Long

The company provided a quarterly update on the 30th of April 2024.

The company has indicated re-commencing a submission of their data for the Biologics Licence Application (BLA) during the current quarter for paediatric GvHD. If approval is granted in the second half, they will look to apply for label extension to adults, thereby avoiding further costly studies. The global market for GvHD is assessed to be around US$2b currently.

As we noted in last month's monthly, the Revascor cardiovascular chronic heart treatment is awaiting accelerated approval with a parallel approval for paediatric congenital heart disease. The market size of these markets are multiples of GvHD so we will be watching this space very carefully over the coming 6 months as we suspect positive announcements will turbo charge the share price.

The fortunes of the company have changed materially over the past couple of months based on these two outlooks and we remain positively disposed to the equity.

Further, their second Phase 3 trial related to chronic pain is underway. We expect news on this pivotal study in 2025. If successful, the market opportunity is substantially larger than the other 2 combined. In many respects this is the nature of this particular equity as it presents significant opportunity for re-valuation based on clinical studies that historically have shown improvement albeit the perceived sampling quality of their stem cell technology has slowed them down. Given the recent change by the FDA in being able to re-submit the paediatric GvHD BLA, gives us greater comfort these issues of the past will remain in the past.

Norwood Systems (NOR) Long

The company provided a quarterly update during the month. Once again, it would appear to be the case that paint is drying, waiting for something to happen. While it appears on the surface "Still No Deal!", there is plenty going on and a crescendo is finally emerging. Engagement with a potential customer is one thing i.e. you can talk to anyone who will listen to you but scoping of five Proof of Concepts (POC) is much more concrete. We remain positively disposed. Interestingly, three directors of the company are currently short 5m rights each if they cannot achieve an individual contract value of greater than $1m by the end of June 2024. In ours and most likely everyone's view, it's time to execute and deliver.

As per the update, a contract with a Local Tier 1 CSP is in the final stages. This we presume is the contract the company needs to get over the line for the Directors to accrue their 5m rights. With work completed via the Optus POC and the recent vertical integration of their CogVoice technology stack, one can reasonably assume they are in the final throws of contract deliberations related to either a voicemail platform implementation, replacement of visual voicemail or they are moving forward on agentic services. Importantly, orchestration technologies are fully embedded which is critical to their offering together with their "Elastic Intent" Intellectual Property which enables the company to dial up or down the required Language Models (LMs) to effect desired cost and latency thresholds. Naively, you simply can't orchestrate on the cloud's "edge" with the latest GPT-4 models (and many more like Claude 3), as was indicated by many attendees at Mobile World Conference 2024 as it remains too expensive and too slow.

The company has also indicated they are in the final throws of a joint development with a hyper-scaler. This is the more interesting business development in our view from the perspective that it reflects a deep integration which ultimately will have pull through via the hyper-scaler sales team. There is no reason for a hyper-scaler to do this unless they believe there are significant business opportunities i.e. the utility of the company's software is not just about voicemail for consumers and it's not just an app store listing. This, we are sure, will be more about business services which are potentially more valuable as businesses pay for reliability. These services could be related to government contracts, Multi-National Corporation support service contracts or more generally utilising smart technology orchestrated at scale to enhance connections globally. We have mentioned some of these in the past (including Emergency Services or replacement of low-quality voice response or triaging chatbot systems). There are plenty more examples, one simply needs to dig under the hood of a telco in relation to edge compute artifacts which will incorporate many of the AI/ML technologies yet to be created in order to improve real time adaptations and customer responses.

We provide a table of the major telecommunications organisations globally. Most would already be integrated with major hyper-scalers and until GPT-4o had come out (luckily, at the time of writing), we were of the opinion non-English language modalities would be more difficult. However, with near real-time translation, perhaps these markets are opened albeit they would still be very expensive to use. Most if not all the telecommunications companies are associated with hyper-scalers generally as most operators are moving or are in the cloud. Norwood has indicated some relationship with Microsoft and/or AWS in the past. The remaining (Google, Meta) are evidently in play as well. A planned co-announcement this quarter is imminent. We await to see if this is material.

Global Telecommunications Groups - More than 10m subscribers

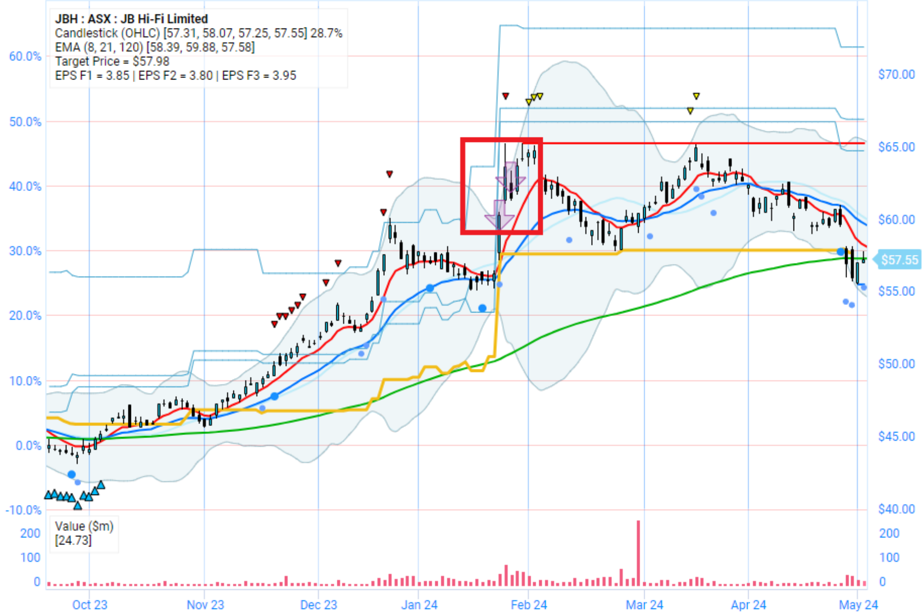
Company	Region	English Used	Estimated Customers	Target	Reason
Algérie Télécom	Africa	No	22	No	Not Developed Countries
Ethiopian Telecom	Africa	No	70	No	Not Developed Countries
MTN	Africa	Partial	295	No	Not Developed Countries
Vodacom	Africa	Partial	196	No	Not Developed Countries
Axiata Group Berhad	Asia	Partial	174	Maybe	Dominated by non-english
Telstra	Asia	Yes	20	Maybe	Via Hyperscalers/Direct
Singtel	Asia/Africa	Partial	770	Yes	GSMA in place
CK Hutchison	Asia/Europe	Partial	175	Maybe	Via Hyperscalers/Direct
VEON	Asia/Europe/Africa	No	160	No	Not Developed Countries
Bell Canada	Canada	Yes	13	Maybe	Via Hyperscalers/Direct
Rogers	Canada	Yes	14	Maybe	Via Hyperscalers/Direct
Telus	Canada	Yes	10	Maybe	Via Hyperscalers/Direct
China Mobile	China	No	995	No	Chinese barrier for LLMs
China Telecom	China	No	411	No	Chinese barrier for LLMs
China unicom	China	No	333	No	Chinese barrier for LLMs
Bouygues Group	Europe	No	23	No	Small Target
BT Group	Europe	Yes	25	Maybe	Via Hyperscalers/Direct
Liberty Global	Europe	Partial	47	Maybe	Via Hyperscalers/Direct
Vodafone Group	Europe	Partial	323	Maybe	Via Hyperscalers/Direct
Orange	Europe/Africa	Partial	298	Maybe	Via Hyperscalers/Direct
Telecom Italia	Europe/Latam	No	90	No	Not Developed Countries
Telefonica	Europe/Latam	Partial	272	Maybe	Via Hyperscalers/Direct
Deutsche Telecom	Europe/US	Partial	252	Maybe	Via Hyperscalers/Direct
Jio Platforms	India	Partial	471	Maybe	Via Hyperscalers/Direct
KDDI	Japan	No	64	No	Japanese barrier for LLMs
NTT Docomo	Japan	No	88	No	Japanese barrier for LLMs
Softbank	Japan	No	51	No	Japanese barrier for LLMs
SK Group	Sth Korea	No	32	No	Korean barrier for LLMs
LG	Sth Korea	No	19	No	Korean barrier for LLMs
KT	Sth Korea	No	24	No	Korean barrier for LLMs
America Movil	Latam	Partial	265	No	Not Developed Countries
Millicom	Latam	Partial	45	No	Not Developed Countries
etisalat &	MENA	Partial	173	No	Not Developed Countries
Ooredoo	MENA	Partial	159	No	Not Developed Countries
Zain	MENA	No	53	No	Not Developed Countries
Telia Company	Nordics	Partial	25	Maybe	Via Hyperscalers/Direct
Telenor	Nordics/Asia	Partial	182	Maybe	Via Hyperscalers/Direct
Verizon Communications	US	Yes	145	Maybe	Via Hyperscalers/Direct
AT&T	US/Latam	Partial	241	Maybe	Via Hyperscalers/Direct
Viettel	Vietnam	No	76	No	Not Developed Countries

Note: Excludes Russia, Iran, Iraq, Nth Korea.

Consumer Discretionary | Short Sold

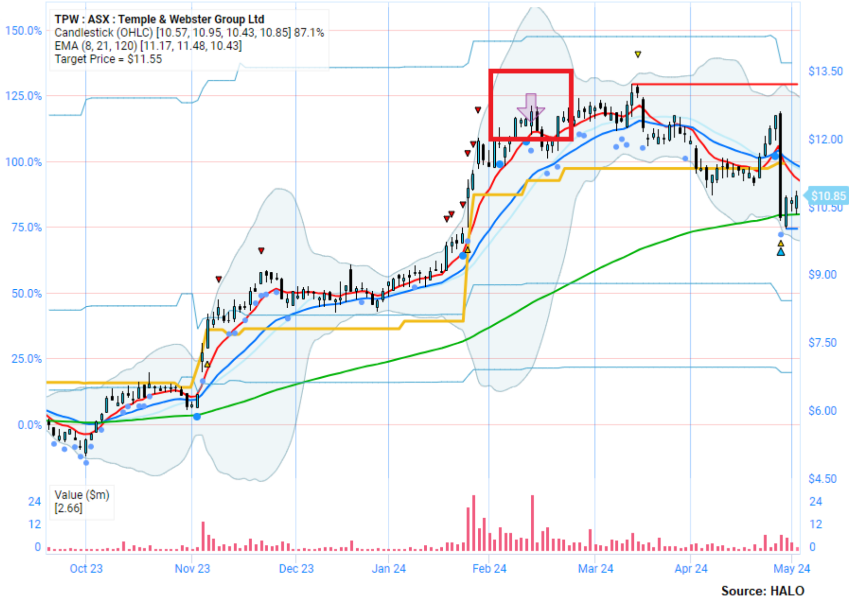
In February's Fund monthly, we opined how some equities have reached all-time highs based on a lack of fundamentals. The Fund has taken short positions aligned with this thinking. Domestic retail names were highlighted under two dynamics.

For JB Hi-Fi (JBH:ASX), which is a well-run company with a unique customer proposition, is and has seen falling earnings relative to the COVID years, confirmed at their recent half yearly report with a 20% fall in EBIT with margins being crunched by over 1.50%. During May 2024, the company had the opportunity to update the market at the Macquarie Investment Conference. This update allowed us to confirm our suspicions that like-for-like sales were falling, not to be masked by some marketing spend in January which is what drove the initial reaction to the share price in February 2024 into which we short sold. In the company's words, **"a challenging and competitive retail market"**. This is not unsurprising as household balance sheets have and are continuing to adjust to the cost-of-living expenses that are evident across the economy. We are sure needing to buy a new TV or fridge is not a high priority for most consumers now! The Good Guys, historically a whitegoods brand, has seen sales contract dramatically year to date driving a continuation of falling EBITs, we are sure. Consequently, we wonder who is bidding up these equities as it makes no sense from a fundamental point of view to have the equity priced on its highest ever multiples and yet earnings are falling? As it turns out, large passive global fund managers (read: index replicators) are releasing substantial shareholder notices to that effect. This confirms our additional view that these pools of capital are holding equity prices up unnecessarily against a backdrop of a slowing global economy. We find the asymmetry of risk and reward over the medium term on these short positions continue to remain.



Source: HALO

Similarly, we highlighted Temple and Webster (TPW:ASX), a classic example of hockey stick analyst projections, riding high on sentiment. Their outlook is predicated on growth in sales but also an improvement in margins which analysts expect to improve dramatically over the coming 2-3 years. However, TPW provided a trading update at the Macquarie Investment Conference, which from our own internal analysis, confirmed a lower margin outcome leading to a near 20% fall in their share



price. In addition, sales growth for the year appears somewhat aggressive with a slowing consumer notwithstanding their ability to pick up market share. While the hockey stick in their earnings remains, the level of discomfort felt by analysts and investors is now starting to appear. Given the lack of conviction in their ultimate strategy and their inability to ward off cost conscious consumers, we don't think the equity should be riding high. Kogan (KGN:ASX) is a classic case in point whereby more product was sold down a very efficient channel but ultimately couldn't make the margins work. To put things in perspective, KGN is of a similar revenue size, has higher terminal margins but is comparatively fairly priced. The valuations on TPW in our view are not warranted and we remain short.

Portfolio Positioning — Lower Net Exposure

We have spent much of the recent (post-COVID) years lamenting about Australian equity market valuations which have remained within touching distance of all time high deviations from the mean. It made sense for a period when the excess liquidity was present and retail participation in markets reached historic highs. However, we strongly feel this is no longer the case. A normalizing environment seems shocking to a lot of the broader public and reinforces the tendency of humans to extrapolate short term trends into longer term expectations. As capitalists and custodians of your wealth, we are in the game of identifying these trends and taking asymmetric bets against them.

In some cases, our bets are taking longer to play out. Idiosyncratically speaking, we have identified several companies where the market adopts a 'believe first, ask questions later' mantra and fund managers take ambitious company targets at face value and the resulting equity price success in advance. Our analysis indicates otherwise, and we sit on the other side of the trade in many cases. The realisations of our analysis catalyse when said targets become identifiably overly cautious or optimistic. At times, the naivety truly shocks us. We are happy to profit from this naivety, nonetheless.

More broadly, while individual companies and the way in which the market assesses outlooks can bring about some introspection, what is clear to us from a strategic perspective is that we are in the throws ultimately of a slowing global economy. Whether this appears as stagflation, or a recession really doesn't matter. What is clear is that equities are mispriced generally across the board with bond rates yet to peak.

Take the recent update by Commonwealth Bank (CBA:ASX) one of Australia's largest companies. It is showing a slowing outlook for revenue as we have seen in other sectors of the market. The company's share price is at all-time highs. Over its life, the share price has been tightly correlated with analyst target prices. Currently, the share price sits 20% above analyst target prices. Historically forward PEs have been within a range of 10-16x over the past 20 years. The company's current forward PE valuations sit above 20x with analysts forecasting 3 consecutive years of negative earnings growth. All of the misappropriation of PE points or excessive valuation stretch has come about from near zero interest rates. Accordingly, we remain strategically positioned again with lower market exposure until valuations return to more reasonable levels. This manifests in short positions in companies exposed traditionally to a slowdown in the global economy as well as SPI futures.

Fund Strategy

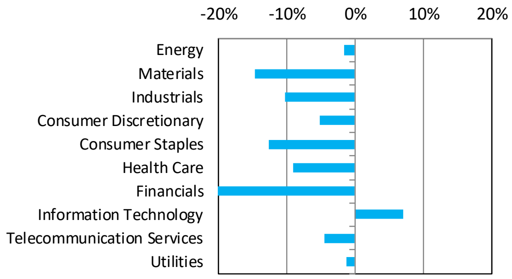
The Fund is a long-bias equity market product which typically buys or short sells Australian listed securities and derivatives. Net and Gross market exposure is maintained within a range of 0-100% and 0-200%, respectively. The Investment manager employs its Quadruple Alpha Investment Strategy which focuses on outperforming overall market cycles by capturing upside returns while minimising downside risk. The objective of the Fund is to outperform the benchmark after fees and expenses over a 5-7 year time frame.

Risk Statistics

As at April 2024

	Fund		S&P/ASX 200 AI	
	5 Year	Inception	5 Year	Inception
Alpha (%pa)	0.8%	0.1%		
Downside Capture	-12%	23%		
Standard Deviation	11.0%	9.5%	16.2%	13.7%
Sharpe ratio	0.7	0.7	0.5	0.5
Sortino		1.5		1.5
Largest Drawdown	-8.5%	-8.5%	-26.7%	-26.7%
Correlation	-18%	12%	100%	100%

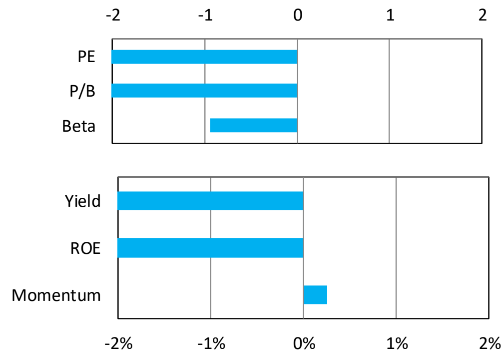
Sector Exposure



Exposure

	Long	Short	Net	Gross
Equity	46.5%	-11.1%	35.4%	57.6%
Index Futures	0.0%	-27.0%	-27.0%	27.0%
Net	46.5%	-38.1%	8.4%	84.6%
Implied Cash			91.6%	

Factor Exposure

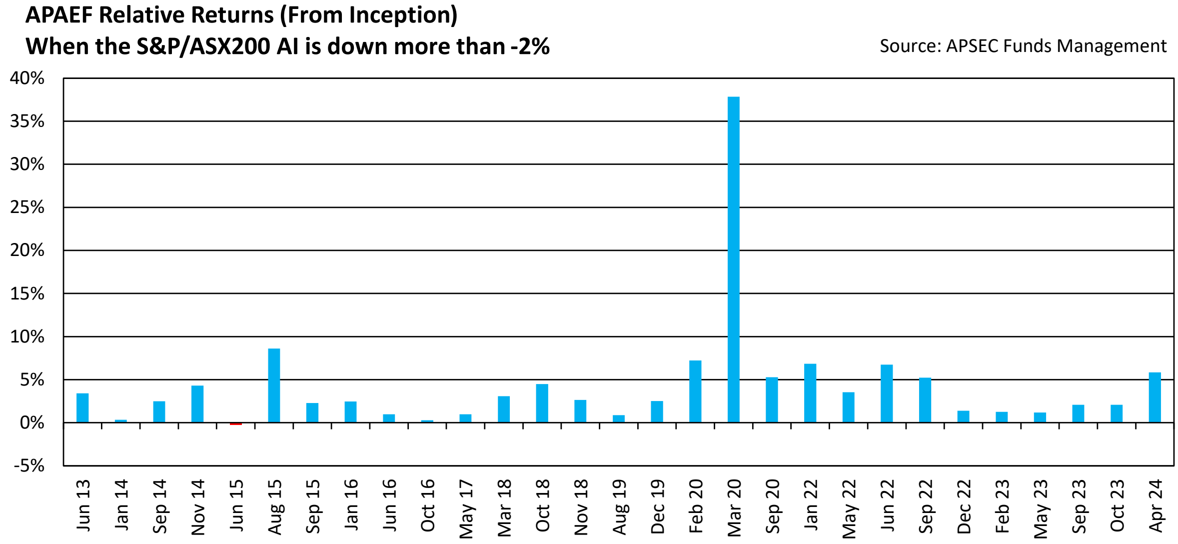


Largest Positions

Long	Short
Mesoblast	Commonwealth Bank
Norwood Systems	CSL
Paladin Energy	JB Hifi
Steadfast Group	SPI Futures

Source: APSEC Funds Management

Downside Performance



Please note: Past performance is not indicative of future performance.

General Information

Class A - Fund Information (As at 30 April 2024)

APIR Code	OMF0003AU	Responsible Entity	Equity Trustees Ltd
Inception	1 June 2013	Investment Manager	APSEC Funds Management
Minimum Investment	$20,000	Administrator	Apex Group Ltd
Application/Redemption	Daily	Custodian	Apex Group Ltd
Management Fee	2.2% pa	Prime Broker	Interactive Brokers LLC
Benchmark	S&P/ASX200 Accumulation	Auditor	PriceWaterhouseCoopers
Performance Fee	15% above S&P/ASX 200 Accumulation + 3%pa subject to a high water mark		
Mid Unit Price (Class A)	1.3145	Application Price (Class A)	1.3158
		Redemption Price (Class A)	1.3132

Class B - Fund Information (As at 30 April 2024)

APIR Code	ETL1038AU	Responsible Entity	Equity Trustees Ltd
Inception	5 December 2022	Investment Manager	APSEC Funds Management
Minimum Investment	$250,000	Administrator	Apex Group Ltd
Application/Redemption	Daily	Custodian	Apex Group Ltd
Management Fee	0.95% pa	Prime Broker	Interactive Brokers LLC
Benchmark	S&P/ASX200 Accumulation	Auditor	PriceWaterhouseCoopers
Performance Fee	Subject to a high water mark		
Mid Unit Price (Class B)	0.9696	Application Price (Class B)	0.9706
		Redemption Price (Class B)	0.9686

Contact Information

Account Enquiries	n.bryon@apsec.com.au	Investment Manager	1300 379 307
Website	www.apsec.com.au	Responsible Entity	1300 555 378
Online Applications (Olivia123)	Click here	Unit Registry	1300 133 451

APSEC FUNDS MANAGEMENT

Important Information

Equity Trustees Limited (Equity Trustees) ABN 46 004 031 298 | AFSL 240975 is the Responsible Entity for the Atlantic Pacific Australian Equity Fund (ARSN 158 861 155) (Fund). Equity Trustees is a subsidiary of EQT Holdings Limited ABN 22 607 797 615, a publicly listed company on the Australian Securities Exchange (ASX: EQT). APSEC Funds Management Pty Ltd (APSECFM) ACN 152 440 723 is the Investment Manager of the Fund and a Corporate Authorised Representative (CAR: 411859) of APSEC Compliance and Administration Pty Limited (AFSL 345 443 ACN 142 148 409). This publication has been prepared by APSECFM to provide you with general information only. In preparing this information, we did not take into account the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither Equity Trustees, APSECFM, nor any of their related parties, their employees or directors, provide any warranty of accuracy or reliability in relation to such information or accept any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance. You should obtain a copy of the Product Disclosure Statement (PDS) before making a decision about whether to invest in this product.
Atlantic Pacific Australian Equity Fund's Target Market Determination is available here – https://www.eqt.com.au/insto/. A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.
HALO is an analytical tool developed and owned by HALO Technologies Pty Ltd (ABN: 54 623 8 30 866) (HALO Tech) a corporate authorised representative (CAR: 001261916) of Macrovue Pty Ltd ("Macrovue") (ABN: 98 600 022 679, AFSL: 484 264). HALO contains factual and broker consensus forecast information. Information presented or extracted from HALO should not be considered advice or a recommendation. Any forecast information relates to the intent, belief and current expectations of various analysts via Factset with respect to the performance of the respective stocks based on historical and projected performance data. You should not place undue reliance on these forward-looking statements. While all due care has been used in the preparation of the forecast information, actual results may vary in a materially positive or negative manner. Forecasts and hypothetical examples are subject to uncertainty and contingencies outside of HALO Tech's or Macrovue's control. If you would like more detail in relation to HALO, please contact APSEC FM / or your Adviser.

The historical link to the WithIntelligence Hedge Fund Award can be found here.

https://awards.withintelligence.com/hfmasianperformanceawards2023/en/page/2022-roll-of-honor