

APL Inclusion – Alternatives

Regal Australian Long Short Equity Fund APIR: RGL0002AU

Summary

The **Regal Australian Long Short Equity Fund** is an actively managed, diversified offering holding roughly 40-100 long positions and 0-40 short positions. The Fund is expected to maintain a net exposure between 90-110% with a gross exposure of 90-200%. Atchison believe classifying this as a growth alternative will enhance the exiting APL and provide a more compelling risk/return offering for inclusion into client portfolio's.

APL Fit

The Regal Australian Long Short Equity Fund offers a compelling addition to the alternatives sleeve of the APL, providing diversified exposure through its dynamic long-short strategy. By combining long positions in quality/value opportunities with short positions targeting overvalued or declining companies, the fund generates returns less correlated to traditional equity benchmarks. This complements the existing alternative APL offerings by enhancing "growth" potential and reducing overall portfolio volatility.

The fund's active use of leverage and ability to profit in both rising and falling markets positions it as a valuable tool for navigating a range of market conditions. Its inclusion within the alternatives sleeve broadens the risk-return profile of the APL, particularly for clients seeking differentiated sources of alpha. Furthermore, Regal's strong track record of delivering attractive risk-adjusted returns in the Australian equities space, coupled with robust risk management processes, blend well in an overall portfolio context.

Fund Overview

- **Manager:** Regal Partners Limited
- **Fund Inception Date:** August 2009
- **Firmwide Assets Under Management:** \$17 Billion (as at 31/12/2024)
 - **Australian Growth Companies Fund:** \$560mn
- **Investment Strategy:** The investment process is benchmark-aware, with strict constraints limiting active positions to +/- 5%. It focuses on value-driven investments based on intrinsic value, complemented by a macro-overlay.
- **Benchmark:** S&P ASX 300 Accumulation Index.

BUSINESS

Regal Partners Limited is an ASX-listed (ASX: RPL), specialist alternative investment manager with a market cap of \$1.3bn. Regal Partners Limited was formed in June 2022 following the merger of privately owned Regal Funds Management (founded 2002) with ASX listed VGI Partners (founded 2008). The Group manages a broad range of investment strategies covering long/short equities, private markets, real & natural assets and credit & royalties on behalf of institutions, family offices, charitable groups and private investors. The Manager has been growing through acquisitions in recent times with a focus on acquiring alternative asset managers. Atchison have some concerns around the strategic focus of the business and potential distractions it may cause to the investment team.

Team

The investment team is led by Philip King, CIO and co-founder of Regal, who also serves as the portfolio manager for the Regal Australian Long Short Equity Fund. Supporting King directly on the Long Short Fund is Jovita Khilnani, who serves as the deputy portfolio manager. Regal's broader investment team consists of 25 professionals across their equity products, working collaboratively and sharing insights. Analysts are sector and geographical specialists. Additionally, Mark Nathan, Head of Research, offers overarching support across all of Regal's funds.

The portfolio is managed in sleeves by four portfolio managers. Phillip King oversees 60%, while deputy PM Jovita Khilnani manages 20%. Mark Nathan, head of research, and James Sioud, small-cap PM, each manage 10%. Analysts present ideas weekly to the portfolio management team and it is up to the PM's discretion to make decisions for their sleeve. Atchison believe this promotes accountability, however, can also result in diluted positions flowing through to the final portfolio.

Process

The Fund seeks investment opportunities across the ASX300, providing access to a broad range of Australian-listed companies, including smaller-cap stocks. This extensive investable universe enhances the Fund's potential to identify unique opportunities on both the long and short sides. The Manager's investment philosophy is based on the belief that markets are generally efficient but can misprice companies due to human emotion and temporary supply-demand imbalances. By capitalising on these inefficiencies, Regal aims to generate alpha through a disciplined approach to both undervalued and overvalued stocks.

The Fund's idea generation and research process leverages sector-specialist analysts to identify opportunities across the ASX300. While Atchison highlights the breadth of coverage as a strength, they note that Regal's idea generation process is less structured compared to peers who rely on systematic screens. Analysts follow a rigorous four-step process involving fundamental valuation analysis, macroeconomic research, identification of catalysts, and a clear articulation of a competitive edge. Stock ideas are presented in weekly meetings, where portfolio managers utilise this research to inform core positions. Atchison views the balance between structured analysis and portfolio manager discretion positively, as it fosters accountability and active decision-making.

Fees and operational considerations

- **Management Fee:** 0.80% p.a. (Rebate Discussed 20bps – so 0.60% fee)
- **Performance Fee:** 15% above the Benchmark. This includes a high-water mark with no re-set period.
- **Liquidity:** Daily applications and redemptions.
- **Capacity:** The Fund invests across the ASX 300, however, is expected to remain at the larger end of the market. As such, capacity is not a concern at current levels.
- **Minimum Investment:** \$100,000
- **Responsible Entity:** The Trust Company

Performance

PERFORMANCE % (NET)¹

Performance	1 mth	3 mth	6 mth	1 yr	3 yr pa	5 yr pa	10 yr pa	Inception pa
Regal Australian Long Short Equity Fund	-2.35	-1.32	5.67	15.75	8.44	9.43	10.54	13.70
S&P/ASX 300 Accumulation Index	-3.08	-0.81	6.94	11.39	7.06	7.97	8.52	8.72
Active Return	0.72	-0.51	-1.27	4.37	1.38	1.46	2.02	4.98

The Fund has consistently outperformed its benchmark across all time periods up to December 2024. Atchison understands that the manager employs shorting primarily to maintain the earnings profile, with less emphasis on alpha generation, thereby allowing the Fund to increase exposure on the long side through gearing. While short positions have detracted 2.5% per annum since inception, this has been more than offset by the amplified returns from the geared long positions.

Atchison has strong conviction in the manager's ability to deliver both index-plus returns and additional alpha, thanks to the strategic use of shorts to enable gearing on the long side. In theory a long, short fund has the ability to perform through market cycles and as such is expected to provide protection to an overall portfolio.