

Atlantic Pacific Australian Equity Fund

ARSN 158 861 155



Fund Report and Commentary - 31 May 2014

Fund Return vs the S&P/ASX 200 Accumulation Index after All Fees before Tax

	1 mth	3 mth	6 mth	1 yr	Inception
Fund Return ¹	-0.42%	2.88%	6.65%	23.69%	23.69%
Index	0.68%	2.76%	5.43%	16.45%	16.45%
Relative	-1.10%	0.12%	1.22%	7.24%	7.24%

Key Fund Data

Unit Price (Mid)	1.2369	\$10,000	Min. Investment
MER	2.2%	\$5,000	Add. Investment
Performance Fee ²	15%	1 Jun 13	Fund Commenced
Buy/Sell Spread	0.20%	30 Jun	Income Distribution

Fund Return by Month after All Fees before Tax

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2013	n/a	n/a	n/a	n/a	n/a	1.09%	5.08%	6.72%	3.51%	1.92%	-3.03%	2.58%	18.97%
2014	-2.67%	3.83%	1.25%	2.04%	-0.42%								3.97%

1. Fund Returns are prepared on a mid 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 ("APAEF") asset values have been calculated using unaudited price and income estimates for the month being reported.

2. Performance Fees are charged where the Fund's gross performance (before fees and expenses) exceeds the performance of the S&P/ASX 200 Accumulation Index by 3%pa and the Fund's High water mark.

Fund Activity

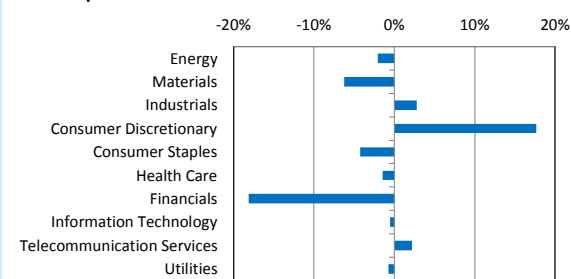
The Australian equity market returned 0.68% for the month of May 2014 with dividends from three of Australia's largest banks attributable for most of this gain. Capital growth was anemic with a large number of companies across the market giving up the prior month's gains, despite strong performances from major overseas markets with the US market up 2.1%. From a sector perspective, Materials continued their downward trend negatively impacted by a 12% drop in Iron ore prices. Consumer discretionary companies also had a mixed month with various companies falling at uncoordinated times during the month due to sentiment regarding the Federal Budget. While economic and industry activity data related to discretionary spend had turned negative during May 2014 post the Federal Budget (consumer sentiment, high frequency Point-of-Sale retail data), this data has now stabilised. From our perspective, while the proposed Federal Budget is contractionary, it is not significantly contractionary relative to previous Federal Budget programs. We also take the view that some companies in this space will continue to have issues as we saw last reporting season due to their respective business issues. We have avoided these companies since inception. However, given APAEF's overweight to consumer discretionary companies, this caused some underperformance relative to the market. In terms of activity, APAEF's position in Telstra (TLS) was trimmed at \$5.36 and re-invested into iiNet (IIN) sub \$7. After selling most of APAEF's position in Premier Investments (PMV) over prior months, we started to re-accumulate at prices 10% lower. Tassal Group (TGR) underwent a very volatile period during the month, where over two days the price moved 17%. This was very odd price behaviour and not in keeping with its natural earnings volatility. We topped up on this as well. Subsequent news released to the exchange showed a substantial shareholder selling down their entire stake (over \$100m of shares) which was quickly taken up by institutional investors. Post relatively good reporting by the Australian banks driven by a continued improvement in their provision cycle, we also topped up on Westpac (WBC) which remains one of the cheapest Australian banks on offer. This latest update represents the first anniversary for APAEF. Over the past year, APAEF has outperformed the S&P/ASX200 Accumulation index by over 7%. This places the performance of APAEF in the top quartile for unleveraged Australian equity strategies. We thank you for your support and we will endeavour to continue providing outperformance over the coming years.

Outlook

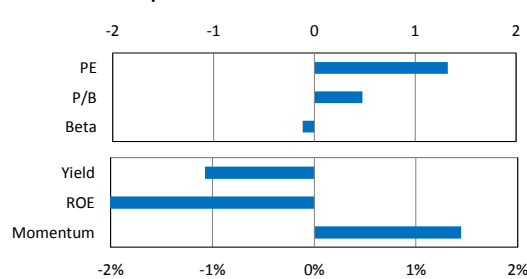
The event of the month, the handing down of the Federal Budget, has led to significant uncertainty for Australian investors. While the immediate reaction by investors to sell consumer discretionary companies as well as companies associated with healthcare reforms has occurred, it remains to be seen how permanent this underperformance will be. We will be guided by activity data that emerges over the coming weeks as well as attempt to ascertain the likelihood of some of the measures to be passed. We had noted in previous updates that the consumer had begun to return to spending as reflected in retail sales and building activity. We don't believe this will be derailed over the medium term by one Federal Budget given current interest rate settings. If this were to occur, then the banking system is likely to be re-priced, which appears unlikely. At the time of writing, the European Central Bank has moved interest rate settings down further, added further targeted lending through their Long Term Refinancing Operations (LTRO) and hinted at a willingness to introduce quantitative easing. This will bring further liquidity to markets and is likely to support equity markets globally moving forward.

Fund Positioning relative to the S&P/ASX 200 Index

Sector Exposure



Factor Exposure



Company Contributors to Performance

Positive
iCar Asia
iiNet
Oil Search
Slater & Gordon
Negative
Flexigroup
High Peak Royalty
JB Hi-fi
Premier Investments

Disclaimer

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