Atlantic Pacific
Australian Equity Fund

ARSN 158 861 155

APSEC FUNDS MANAGEMENT

Fund Report and Commentary - 31 August 2014

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

Period	1 mth	3 mth	6 mth	1 yr	Inception (June 2013) Cumulative	Inception (June 2013) Per Annum
Fund Return[1]	2.27%	5.19%	8.22%	14.8%	30.1%	23.4%
Index	0.62%	3.48%	6.34%	14.4%	20.5%	16.1%
Outperformance	1.64%	1.71%	1.88%	0.36%	9.6%	7.3%

Key Fund Data

Unit Price (Mid)	1.1860	$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%	-0.28%	3.15%	2.27%					9.36%

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 ("Fund") 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 0.62% for the month of August 2014, with 0.74% of this return coming from dividends going ex with the Commonwealth Bank (CBA), Telstra (TLS), Wesfarmers (WES) and Woodside Petroleum (WPL) dominating. The materials sector returned -3.7% contributing over 0.35% of capital loss for the index driven by a significant deterioration in iron ore prices as well as expected capital management from BHP Billiton (BHP) not meeting market expectations. But this was a side show for the market as the reporting season came into full swing during the month. The reporting season is one of the most important times of the year to make sure the Fund is correctly positioned. If successful through this period, it will generally bode well for future absolute and relative returns as well. In terms of those companies that reported that either met or exceeded expectations, the hit rate was over 80%. This is a similar hit rate for the Fund in August 2013. Outperfoming shares for the month of August 2014 included Amcor (AMC), Asciano (AIO), Brambles (BXB), CSL (CSL), Magellan Financial (MFG), M2 Group (MTU), Orora (ORA), Seek (SEK), Slater & Gordon (SGH) and Telstra (TLS). We had noted last month the potential of the M2 Group (MTU) to be significantly re-rated if they were able to deliver on the growth they had acquired in prior periods. They were able to deliver but more importantly provided the strongest guidance of any mid-capitalisation telecommunications company, all coming from expected organic growth. Curiously, the price of MTU did not react materially to this announcement so we bought more. As a general rule, we don't buy break-ups (the price of a security is near resistance and is expected to move up strongly beyond resistance) but in this case we did. Subsequent to this additional top-up of the Fund's position, price performance to date has led to further capital gains of 16%. MTU will remain a core position with valuations remaining below comparable peers and the market. Slater & Gordon (SGH) once again proved to be rewarding. While their Australian business was flat year-on-year, the ramp up in the contribution of their UK business was very strong. From the day SGH reported to the highs resulted in over 30% capital appreciation. From our perspective, they have been a laggard relative to other high-performing mid-capitalisation companies and if they executed well deserved to trade on forward valuation multiples of over 17x. With the recent price performance, the company's valuation for 2015 has moved from 14x (sub market) to now trading above 17x. We now see the company fully valued and in order for the company to continue outperforming will require a continuation of their acquisition strategy as well as further harvesting of their UK businesses. Notwithstanding, we liquidated the Fund's holding in SGH at prices above $6.30 as the company's shares had been overbought for over two weeks. We will await lower prices to buy back in. In the large capitalisation space we had positive developments from Amcor, CSL and Telstra. In the case of CSL, there had been uncertainty prior to their report release of increasing competitor activity. While there had been increased competitor activity, CSL provided very strong guidance they were able to defend their market position which was well recieved by the market. For such a large company to be re-rated to the extent it had (16%) shows how mis-priced CSL had been. Given the strong guidance provided by the company, CSL will remain a core holding over the medium term, subject to valuation.

Outlook

Looking forward, the Fund's remaining holding yet to report is Premier Investments (PMV). We still believe the market is yet to recognise the potential from the UK rollout of Smiggles and we eagerly await their report. We have entered the month of September 2014 with lower market exposure than normal (around 60%) as we believe the sell-off in Resource names has further to go and Australian bank valuations look full. From a macro point of view, Europe appears to be continuing to delay the inevitability of needing to move to full-scale quantitative easing despite the protests from Germany and the call from most in the European Commission for structural changes, instead of monetary stimulus. This provides an uneasy backdrop for expectations of a further liquidity fuelled rally in equities, particularly in terms of timing. More recently, it would appear US bond markets are attempting to price in an earlier start to the raising of interest rates in the US given the relatively strong performance of the US economy over the past couple of months. This too may lead to an increase in volatility for equity markets. However, over the medium term, equities will remain the preferred space to be invested in. With respect to the geopolitical storm in Ukraine, this appears to now be unwinding. We truly hope that this is the end of concerted attempts by Russia to destabilise an already unstable world.

See the final page of this report for important information, including warnings.

Prepared by: APSEC Funds Management Pty Ltd

Lvl 4, 151 Castlereagh Street, Sydney, NSW, 2000, (+61 2) 8356 9356

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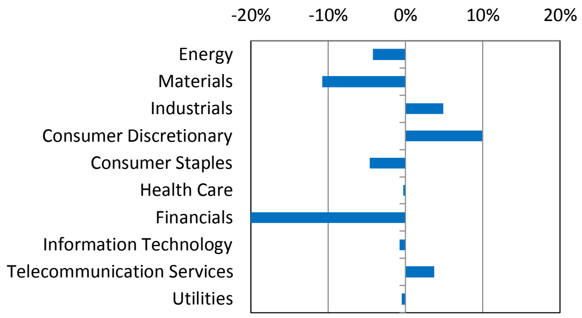
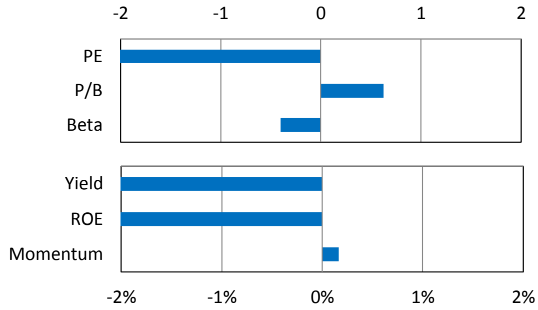
Fund Positioning relative to the S&P/ASX 200 Index

Sector Exposure



Factor Exposure



Company Contributors to Performance

Positive

Amcor/Orora
CSL
M2 Group
Slater & Gordon

Negative

BlueScope Steel
JB Hi-fi
STW Communications

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Lvl 4, 151 Castlereagh Street, Sydney, NSW, 2000, (+61 2) 8356 9356