Atlantic Pacific
Australian Equity Fund

ARSN 158 861 155

APSEC FUNDS MANAGEMENT

Fund Report and Commentary - 30 September 2014

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

					Inception (June 2013)	
Period	1 mth	3 mth	6 mth	1 yr	Cumulative	Per Annum
Fund Return[1]	-2.89%	2.44%	3.79%	7.7%	26.3%	19.2%
Index	-5.38%	-0.60%	0.33%	5.9%	14.0%	10.3%
Outperformance	2.49%	3.03%	3.47%	1.74%	12.3%	8.8%

Key Fund Data

Unit Price (Mid)	1.1517	$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%	-2.89%				6.20%

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 fell 5.38% for the month of September 2014. This was an extraordinary negative return in light of the AUDUSD falling 6.3% as well. Clearly, an un-wind of Australian equity "yield" investments by international investors, triggered by the bringing forward of the market's expectation of a normalisation of interest rates in the US, was prominent this month with the Banking sector hardest hit falling 6.4%. Similarly, the Resources sector was hit hard once again (-6.3%) with most commodities falling heavily led by iron ore falling over 12%. Conversely, defensive sectors (Healthcare, Consumer Staples, Telecoms) significantly outperformed as one would expect. In USD terms, international investors would have lost over 11% had they been exposed un-hedged to the Australian equity market. Statistically, in 14 of the past 20 years, the Australian share market has had a monthly drawdown of over 4% and therefore in many ways the month's performance is seen as "normal", even though uncharacteristic after a good reporting season. As we noted in last month's update, we entered the month and continued throughout the month to hold lower market exposure than usual. While we are unable to eliminate capital loss completely (after all the Fund is long equity), we are happy that we were able to minimise some of the damage that was metered out to most investors. While it's small comfort that the Fund retraced 2.89% and is not the worst performing month of the Fund's history, it was the market's worst month for over a year. In general, not many of the Fund's positions were immune from the market sell-off other than those companies exposed to a reporting event or where earnings were offshore related. The Fund's remaining reporting event involved Premier Investments (PMV). We were pleasantly surprised by not only the progress of the company's UK rollout of the Smiggle's stationery brand, but also what appears to be management skill over the latter part of the second half of FY2014 in light of the very soggy retail conditions post the Federal Budget. We generally do not rely on or make note of management skill as most of the time industry dynamics determine the future of a company, however in PMV's case, it is warranted. We remain convinced the company is well placed over the medium term with growth from Smiggle's and a rebound in their underperforming Australian brands. Given the sharp sell-off in Australian bank shares through the month, we started to accumulate banking exposure towards the end of the month after prices, in our view, became oversold. Given interest rates globally have reverted post a sharp sell-off leading to an unwind of carry trades, we expect bank shares to revert also over the coming months. While the potential for increased capital requirements and a view by many of an overheated housing market on the east coast of Australia are potential warning signs of slower earnings ahead, we don't believe it is time to throw away banking shares yet. We also accumulated opportunistically in a number of the Fund's overseas exposures including Amcor (AMC) and Sonic Healthcare (SHL). Given the movement in the AUDUSD, we expect earnings in each company to be revised up over the coming year.

Outlook

The outlook for most asset classes across the globe appears to be opaque in the short term now that the market believes in the normalisation of interest rates in the US coupled with ineffective monetary and fiscal policy in Europe. In some ways, the Japan experience currently unfolding would lead many to question whether unconventional monetary policy is indeed required and ultimately effectual. We have been warning on the European Central Bank's (ECB) ineffectual campaign with a lack of substantive actions to support market participant's expectations. It would appear, after reviewing recent inflation and activity data across Europe, the ECB are walking on a tight-rope with regards to a deflationary spiral which, in their words, presents significant downside risks. The European community has already lost almost a decade. We suspect there is another one to come, similar to the Japan experience, particularly as there is a lost generation of workers which cannot be unwound anytime soon. While this may sound a little bearish and perhaps an emotive response after witnessing such a large market move, we remain focussed on buying great companies at better than average prices. Market movements, like the one we have moved through in September, will always present better opportunities for those investors who have been patiently waiting rather than fully invested. We also recognise we need to be vigilant in attempting to minimise downside volatility as has been the case since the inception of the Fund.

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

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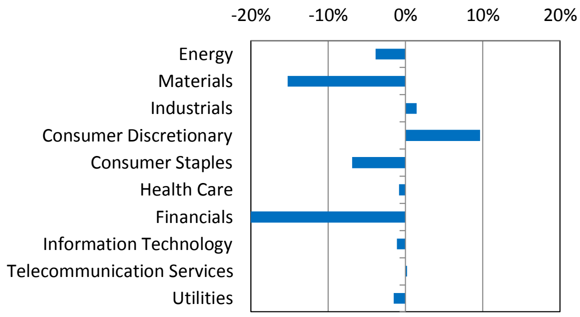
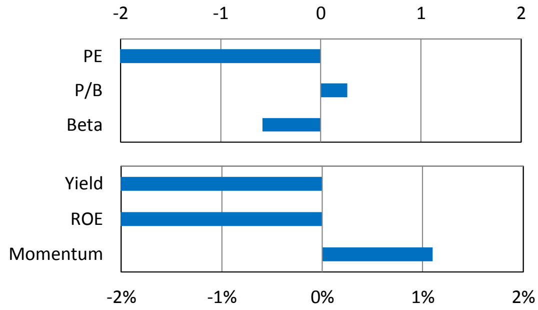
Fund Positioning relative to the S&P/ASX 200 Index

Sector Exposure



Factor Exposure



Company Contributors to Performance

Positive
Brambles
M2 Group
Premier Investments
Sonic Healthcare

Negative
Fairfax
Flexigroup
JB Hifi
Seek

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