Atlantic Pacific
Australian Equity Fund

ARSN 158 861 155

APSEC FUNDS MANAGEMENT

Fund Report and Commentary - 31 October 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]	3.63%	2.91%	5.41%	9.5%	30.9%	21.0%
Index	4.43%	-0.57%	2.95%	6.4%	19.1%	13.1%
Outperformance	-0.80%	3.49%	2.47%	3.08%	11.9%	7.8%

Key Fund Data

Unit Price (Mid)	1.1935	$10,000	Min. Investment
MER	2.20%	$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%	3.63%			10.05%

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 4.43% for the month of October 2014, with what could be described as an impetuous rebound after being down almost 3% early in the month. Financials, Telecoms and companies with significant overseas earnings performed strongly through the rebound. Energy and Materials companies failed to rebound which was to be expected given significant falls in commodity prices, and in particular, oil prices. There was a certain amount of déjà vu in the market, with a reminder to all investors to "buy the dips", though the extent of the rebound certainly surprised us. The quintessential element of the Australian market that has been depicted for many a year was the well bid yield names. In terms of the Fund's exposure, we entered the month defensive, losing very little relative to the market's fall of nearly 3% which we were pleased with. We picked up performance in the latter stages of the month with a number of positive AGM outcomes including Amcor (AMC), Insurance Australia (IAG) and JB Hi-Fi (JBH), though overall the Fund underperformed during the month having been underweight Australian banks. Amongst the monthly price movements, there was clearly pleasure for some, and significant pain for others. We experienced some pleasure in the sense that we were able to recover the loss experienced in September 2014 which the overal market was unable to do. Our strategy is simple. We attempt to minimise losses so that draw-downs are much easier to recover from and this month is a key example. There is significant alpha to be captured in down markets as there is through stock selection and we remain focussed on each of these key tenets of our strategy. There was plenty of pain going around during October 2014. The birfurfication of returns between large and small capitalisation companies was stark with large companies outperforming by a whopping 5.27%. No better example of this was the very disastrous outcome for Vocation (VET) shareholders, of which the Fund has never owned, which fell nearly 62%. We don't like this sector of the market with similar issues seen with Navitas (NVT) four months earlier. Despite the individual performance of VET, many small companies were de-rated significantly leading to large falls for many funds resulting in a double draw-down. In terms of buying and selling activity, we bought into Retail Food Group (RFG) around $4.70. The company has acquired businesses judiciously over the past year with the development of pizza and coffee earnings streams. This in turn is expected to lead to expanding margins as they leverage their operating base. However, the fund's position has turned into a money-making machine this month with the announcement by the company of purchasing the Gloria Jeans coffee business which has resulted in a significant upgrade to earnings expectations. We expect over the coming year to see a significant re-rating of the company if they are able to deliver. We also attempted to buy some oversold names during the early part of the month which ultimately amounted to nothing as resource names failed to bounce like the rest of the market. We were also able to top up in a number of our core overseas names including AMC and Sonic Healthcare (SHL) near lows of the month. AMC reacted positively to an AGM trading update continuing its positive price performance post a stellar full year result. On the selling side, towards the end of the month we started to de-weight our position in CSL (CSL) after very strong performance. We remain positively disposed towards CSL but remain discliplined on our price targets.

Outlook

Having just passed through the majority of the US reporting season for the 3rd quarter, it would appear everything is "normal" once again. The enormous whipsaw (down 10% and back up 11%) we have recently seen in the US with markets reverting back to all time highs belies belief as volatility of this order is very rare. However, all this means is that we must be even more patient when buying. Similarly, Japanese investors were treated to a 2-day return of over 8% around the close of October 2014 driven by a surprise expansion in monetary stimulus as well as confirmation by the country's pension fund (and the world's largest) that they would raise strategic asset allocations significantly towards Japanese and international equities. But for Australian investors, this means very little in terms of our market being able to outperform either of these markets, particularly as commodities continue to fall. Notwithstanding, the consequent weakness in our local currency should benefit a number of names with international earnings streams. We have maintained overseas earnings exposure in the Fund and remains one of our higher conviction themes. The Fund's defensive positioning has served investors of the Fund well over the past couple of months and we will continue to manage exposure in a similar vain for the foreseeable future. At an individual company level, there remains potential to earn strong returns. AGM commentary to date is supportive of our positioning, with the portfolio's tilt generally favouring cheaper companies rather than chasing expensive companies which are now undergoing a downward re-rating.

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

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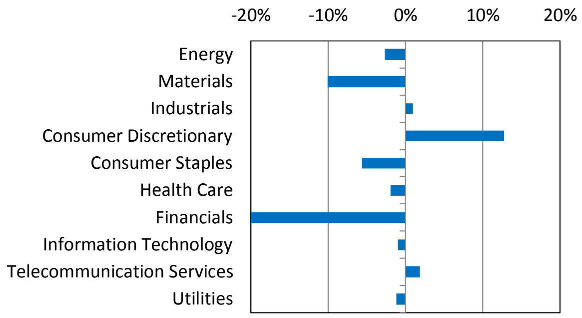
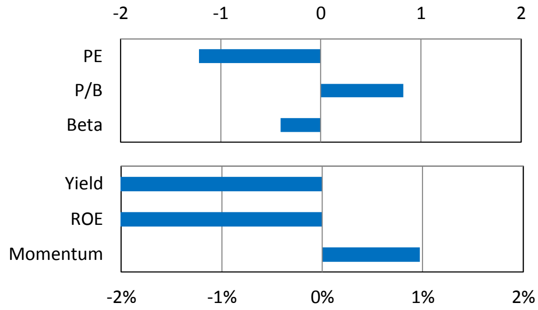
Fund Positioning relative to the S&P/ASX 200 Index

Sector Exposure



Factor Exposure



Company Contributors to Performance

Positive

ANZ Banking Group
Commonwealth Bank
Premier Investments
Retail Food Group

Negative

BHP Billiton
Oil Search

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