Atlantic Pacific
Australian Equity Fund

ARSN 158 861 155

Fund Report and Commentary - 31 December 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]	2.56%	7.40%	10.0%	14.1%	35.7%	21.3%
Index	2.06%	3.11%	2.5%	5.6%	17.6%	10.8%
Outperformance	0.50%	4.29%	7.5%	8.4%	18.1%	10.5%

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%	-0.28%	3.15%	2.27%	-2.89%	3.63%	1.05%	2.56%	14.06%

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 (S&P/ASX200 Accumulation) returned 2.06% for the month of December 2014, despite being down over 3% in the week prior to the Christmas holiday season. Santa Clause indeed made an early appearance as did institutional investors, taking advantage of very low liquidity over the last two weeks of trading, pushing the market up 5% from its lows. This was once again an extraordinary move, reminiscent of months gone by, and had the market not rallied, the market may have ended the year in negative territory. The strong rebound in performance was driven by strong offshore leads post unequivocally confusing statements by the US Federal Reserve. Uncertainty with respect to Central Bank actions is a common theme that we have witnessed over the past year and clearly will become even more important as we move through 2015 as some countries look to end monetary stimulus (eg US/UK) and others start the process in earnest again (eg Europe). Similar investment thematics to the prior month continued with USD earnings related companies outperforming strongly, including Amcor (AMC), Brambles (BXB), CSL (CSL), Resmed (RMD) and Westfield Corporation (WFD). The market heavyweights in the banking sector were also a source of outperformance. Interestingly, Commonwealth Bank (CBA) is now at forward valuations that were evident pre-GFC. We are certainly perplexed as to this outcome and is most probably due a lack of alternative investment opportunity in the large company space given the disastrous performance of Resource companies over the year. A number of companies were liquidated over the month having reached our price targets or where future dynamics were potentially leading to more uncertain outlooks. Brambles (BXB) was liquidated around $10.40. We view the company's earnings as lower quality in the USD earnings complex (eg AMC, CSL, RMD, WFD) primarily due to the company's inability to provide certainty on their earnings trajectory. BXB has been a company that has been viewed positively by market analysts but has not necessarily delivered on the earnings front with earnings misses characteristic. Given the next reporting soon is almost upon us, we don't necessarily want to expose the Fund to a "serial" earnings down-grader. We also took the opportunity to liquidate the Fund's position in Insurance Australia (IAG) around $6.40. In light of the Brisbane and Sydney Storms, the emergence of the Australian fire season and the indication of higher prior year losses from the New Zealand earthquakes, we believe it is prudent to not be exposed to general insurers. While IAG may benefit from synergies after acquiring the Wesfarmers insurance business recently, severe catastrophes can always spoil an insurer's earnings party and is not a core theme the Fund will participate in at this point. The Fund's return was impaired somewhat due to a position in STW Communications (SGN) which was down over 16% for the month, one of only a few that were a drag on the Fund's returns. We took the opportunity to liquidate the position after the company downgraded earnings once again. We have in the past tolerated downgrades in the company's earnings as we believed previously they were one-off. However, we are now of the view that statements by the company lack credibility and the company is now exposed to a much deeper industry cycle than previously thought which even the best company executives are unable to defend against.

Outlook

Over the final passage of 2014, the Fund had remained defensive with lower market exposure. The Fund remains defensive at the outset of 2015. However, this will change over the coming month as the next reporting season is upon us where we will look to selectively increase the Fund's equity weight in the lead up to specific company event opportunities. This process is quite mechanical in the sense that the dates for a company reporting are well telegraphed. However, ascertaining whether potential good or bad news is priced in is critical to the Fund's success over this period. In prior reporting periods, the Fund has historically performed well due to a number of key factors. The most important of these has been our ability to identify, on average, companies that continue or start a positive earnings revision cycle, which in some cases has led to disproportionate returns. Obviously it makes no sense to buy a company that is likely to disappoint and reporting season becomes as much about avoiding poor reports as it is getting a few key companies right. The second key attribute to optimising performance through this period has been our ability to buy at very good prices. Positive asymmetry for both earnings surprise and buying at good prices (buying low) should yield strong results again where the opportunities materialise. And while markets appear frothy in the context of an impending short term boost to sentiment with the European Central Bank (ECB) potentially moving into a quantitative easing state, we must always be mindful of not following the herd if we see the probability of downside as equally weighted.

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

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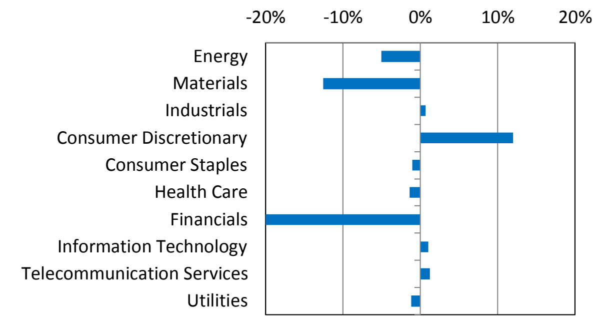
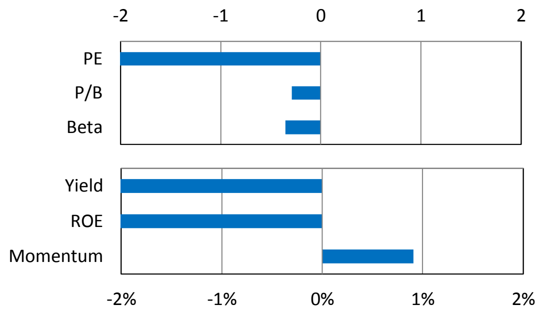
Fund Positioning relative to the S&P/ASX 200 Index

Sector Exposure



Factor Exposure



Company Contributors to Performance

Positive

Amcor
Bluescope
Fairfax Media
Westfield Corporation

Negative

Premier Investments
STW Communications

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