Atlantic Pacific Australian Equity Fund

ARSN 158 861 155

APSEC FUNDS MANAGEMENT

Fund Report and Commentary - 31 January 2015

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]	2.62%	6.35%	9.5%	20.3%	39.2%	22.0%
Index	3.28%	1.98%	1.4%	12.5%	21.4%	12.4%
Outperformance	-0.66%	4.38%	8.1%	7.8%	17.8%	9.6%

Key Fund Data

Unit Price (Mid)	1.2693	$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%
2015	2.62%												2.62%

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 3.28% for the month of January 2015, with the normal downside volatility we have become accustomed to, with a low of around -2%. The Fund had kept up to the market for most of the month after a global equity market rally ensued with the European Central Bank finally indicating a move to Quantitative Easing. This led to European markets outperforming the rest of the globe (in local currency terms), with the German DAX up 9.5% for the month. Offsetting this for global investors was the very large move in the Euro, down 6.4%. US markets ended the month down 1.8% with concerns of falling EPS projections due to lower energy prices affecting the oil majors as well as a stronger USD impacting multinational company earnings which collectively contribute a significant portion of the US market. The Fund's underperformance relative to the market came in the last two days of the month where Financials, which the Fund is underweight and has been since inception, rallied strongly based on a rumour of a cut in interest rates by the Reserve Bank of Australia. The pace at which the sector performed certainly caught us off guard and if anything, should bode well for activity-based interest-rate sensitive companies, for example consumer discretionary companies as the real economy effects of monetary stimulus is transmitted. Over the coming months, should the expansion in valuations for asset-based interest-rate sensitive companies remain (eg Financials, Property, Telecommunications), which are a significant portion of the Australian market, this could lead to similar returns elsewhere. Given the significant discount to market seen in activity-based interest rate sensitive companies they could re-rate strongly over the medium term as they have done in the past. This is not guaranteed and asset-based interest-rate sensitives could just as easily fall from their lofty valuations. Notwithstanding, the market is on the cusp of the reporting season and is as good a time to re-price than not and hopefully in the Fund's favour. Further, as part of our discipline in buying good companies at good prices, we don't chase returns for fear of missing out especially when confronted with valuations on Commonwealth Bank (CBA) of near 17x forward earnings which is more akin to a growth company multiple, which CBA is not. Fund activity was generally muted with some accumulation of key reporting season companies including M2 Group (MTU) and NextDC (NXT). The Fund also accumulated Macquarie Group (MQG) post their guidance update. We had been nervous on the extent to which their energy business may report negatively, given global energy prices, but to the contrary all pistons are firing at the company with guidance significantly above market analysts. When prices are stretched it is often more optimal to buy post event than leading into a reporting event as when prices are high your downside risk also increases. We also bought CSR (CSR) after the company had moved into a oversold state despite fundamentals remaining intact. The price over the following week quickly reverted leading to very good unrealised profits. This is a an example of an investment which we look for rather than chasing current outperformers.

Outlook

The reporting season is upon the Australian equity market this coming month with our expectations for generally good outcomes in companies the Fund is currently exposed. Various industry trends support our thesis on a number of companies and we remain opportunistic regarding the price at which we enter a company's shares. Similarly, companies exposed to USD earnings streams are likely to outperform with forward guidance as key as it ever has been. As we noted above in the example of MQG, good returns can be attained from buying post a company's report so long as the price signal is conducive for investment. In the case of MQG (which is a similar scenario to the outsized returns the Fund achieved from its investment in CSL (CSL) during the last reporting period), our method is such that so long as the price starts from the bottom of its range and moves upward based on a significant beat to earnings expectations (say >5%), we will most likely participate. For those companies that start at the top of their recent price trading range, we have greater difficulty committing capital which ties in neatly to our asymmetric view on prices ie buying low and selling high. At the time of writing, we have had good performance from company reports from long held names including JB Hi-Fi (JBH) and Flexigroup (FXL) which have been laggards into the current reporting season. In the case of JBH, strong guidance on comparable sales for January 2015 as well as a good 2nd quarter profit performance has led to out-sized returns relative to the market. This is with the backdrop of lower interest rates and lower fuel prices which should drive further positive sales results over the coming half.

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

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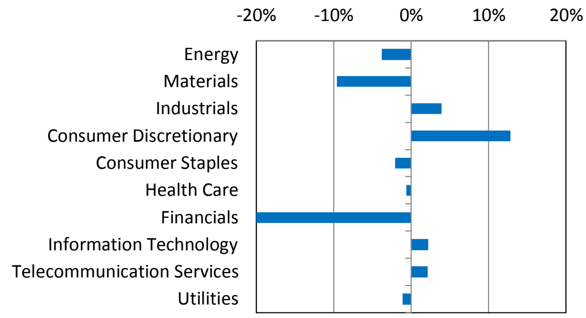
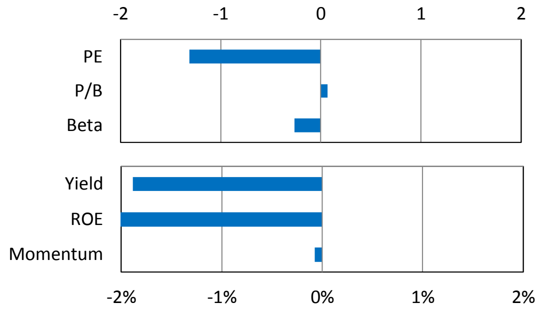
Fund Positioning relative to the S&P/ASX 200 Index

Sector Exposure



Factor Exposure



Company Contributors to Performance

Positive

CSR
M2 Group
Retail Food
Telstra

Negative

Bluescope Steel
Universal Coal

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