Atlantic Pacific
Australian Equity Fund

ARSN 158 861 155

Fund Report and Commentary - 28 February 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]	5.60%	11.14%	13.0%	22.3%	47.0%	24.6%
Index	6.89%	12.67%	7.7%	14.5%	29.8%	16.1%
Outperformance	-1.29%	-1.52%	5.3%	7.8%	17.3%	8.6%

Key Fund Data

Unit Price (Mid)	1.3404	$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%	5.60%											8.37%

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 6.89% for the month of February 2015 continuing its blistering run post the drop in interest rates by the Reserve Bank of Australia. All markets globally have rallied over February 2015 due to not only the prospect of quantitative easing in Europe, but also due to a large number of major central banks (apart from the US Federal Reserve and the Bank of England) having reduced interest rates as well. One can count the number of central banks which have reduced rates on all of one's fingers and toes, and then some - a very unusual situation. And what is this all about? As admitted by the Deputy Governor of the RBA recently, currency, no less. Consequently, interest rate sensitive sectors (Financials, Property Trusts & Utilities), overseas Industrials, Health Care and Asset Managers lifted the Australian equity market over the month. Materials and Energy sectors started singing from the same song sheet through the middle of the month post a very strong cash flow result from Rio Tinto (RIO) and a meagre recovery in oil prices. In amongst this asset reflation thematic which is reminiscent of other major asset classes including Sydney property, Japan Post with its near zero funding cost announced a full takeover for Toll Holdings (TOL) at a 40%+ premium. TOL delivered a mediocre earnings result but this didn't matter. In terms of Fund activity, the Fund generally performed well through company reports with Retail Food Group (RFG) and NextDC (NXT) the standout results. Fairfax Media (FXJ) also performed well but would probably have performed better had a substantial shareholder not sold their ~15% stake, causing indigestion in the market for their shares. We had forecast a capital management program by FXJ leading into the result and we were pleasantly surprised by one of the largest credible buyback announcements from any company over the current reporting period. We expect the buyback to benefit shareholders over the medium term and remain invested. On the negative side, CSL (CSL) underperformed post the announcement by the company of lower guidance (partly attributable to the strong Swiss Franc) and a murky forecast of heightened competitor activity. This is the first time for quite a while where the company has felt downward pressure on pricing for their main stable of products, an argument used by many market analysts to highlight the risk of investment in the company. Ordinarily, this would lead to continued underperformance after having had their earnings downgraded by over 3% but to our dismay, the company's shares have rallied to previous highs after exiting the position. There is clearly an element of "funny money" driving flows that would ordinarily lead to underperformance and will remain a facet of the market that we now need to take into account. It is certainly the case over the past month that companies that have significantly underperformed over the past year have had outsized rallies in share prices relative to fundamentals. Time will tell whether performance can be maintained for these shares. Seek (SEK) was also an underperformer for the fund this month but the company's shares had rallied very strongly into the result. The company has indicated an investment program in their domestic placements business which led to lower reported margins than expected. We are of the view that this investment will lead to a stronger business domestically over the medium term and remain positively disposed to the company's shares.

Outlook

Given the strong performance of the market over the past two months (of over 10%), the market's forward valuation, as described by the current forecast year's price earnings ratio, is now above the peak of the GFC period. We have been anticipating this outcome for some time but were not expecting it to come so quickly. Within the distribution of forward valuations, the month heralded a number of companies moving to an over 50x forward price-earnings ratio. The number of companies on 20x with very little growth also rose dramatically. This is astonishing but nonetheless reflective of "easy" money globally and very strong levels of capital return to shareholders. Not only are local investors chasing yield but overseas investors (who quite possibly could buy our market in its entirety), are also chasing Australia's superior company income generation. But behaviour like this has occurred over short periods of time before and in the past has typically lost steam. The backdrop for earnings are clouded with negative revisions across all sectors. While energy shares dominate the downdraft in earnings revisions, the broad downgrades seen globally over the past 6 months (confirmed by various macroeconomic data) together with valuations at all time highs present a paradox to non-momentum investors. As a style neutral proponent, valuations matter less to us other than at extremes. And we see plenty of extremes on the high side. We generally choose not to chase highly valued shares which may come at the expense of short term performance. Our endeavour has always been to create alpha using the tools and mandate available to us and will apply them as we have since inception.

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

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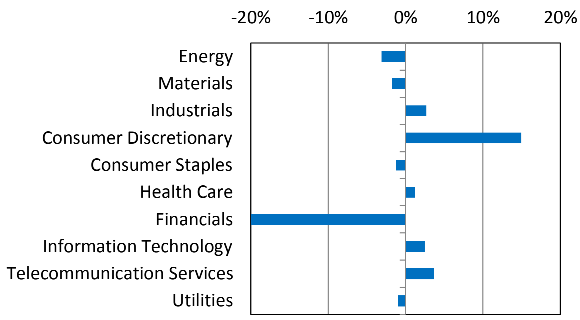
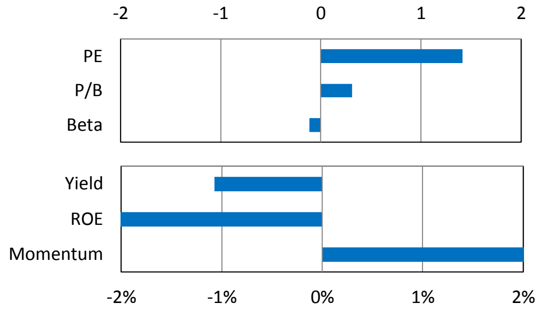
Fund Positioning relative to the S&P/ASX 200 Index

Sector Exposure



Factor Exposure



Company Contributors to Performance

Positive
Fairfax Media
NextDC
Premier Investments
Retail Food Group

Negative
CSL
Seek

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