Atlantic Pacific
Australian Equity Fund

ARSN 158 861 155

Fund Report and Commentary - 31 March 2015

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]	-0.66%	7.66%	15.6%	20.0%	46.1%	23.0%
Index	-0.06%	10.33%	13.8%	14.1%	29.7%	15.2%
Outperformance	-0.60%	-2.67%	1.9%	5.9%	16.4%	7.7%

Key Fund Data

Unit Price (Mid)	1.3316	$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%	-0.66%										7.66%

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 traded sideways returning -0.06% for the month of March 2015. Cyclicals (Materials and Energy) once again provided downside returns offset by strength in USD related companies and Financials with continuing expectations of interest rate cuts by the Reserve Bank of Australia (RBA). We expect Cyclicals to move in a see-saw fashion over the medium term given a lack of conviction in commodities driven by a deceleration in fixed asset investment in China and tenuous arguments for supply of oil. The RBA has moved against market expectations for further reductions in the cash rate leading to a flat outcome over the past couple of months for the Australian Dollar. Until such time as the RBA lowers interest rates again, we suspect Financials and USD related companies may underperform. To us, after having reduced the Funds USD exposure through the back end of 2014 and into the early part of 2015 due to valuation and much to the detriment of relative returns, it would appear these types of investments present as crowded and could unwind dramatically if expectations for further cuts in interest rates domestically do not materialise. The Chinese market was the standout market globally rising 13.2% driven by expectations of further monetary easing. Given the generally closed nature of their market and excess cash chasing liquid assets, its no surprise returns of this magnitude are appearing once again, as they had towards the back end of 2014 with monthly returns of over 20%. We are reminded that this price behaviour has occurred many times in various markets in the past and it generally doesn't end well. During the month, we participated in the Macquarie Group (MQG) placement which was used to purchase a large portfolio of Aircraft assets. As part of the capital raising, they also upgraded guidance. This deal continues the expansion of their asset management business (while diluting the cyclical components) which may lead to higher multiples in line with other asset managers in the current environment. The Fund's portfolio underperformed the market primarily due to the Fund's position in Retail Food Group (RFG) and Greencross (GXL). At times, once a company reports well and the price appreciates strongly, it may underperform. We have seen this many times over the past couple years and while we are not surprised by the direction of price performance in the short term, we are very surprised by the magnitude of underperformance. In the case of GXL, post a strong report showing earnings growth attributable to acquisitions over the past year as well as accelerating same store sales, the company's shares have retraced 26% ($9.80 to $7.20 at the time of writing). This is very odd price performance in our view and the company now trades on 16x forward earnings, a discount to forward valuations for the market. There clearly is no relative value argument for the selling pressure in our view particularly given many growth companies still trade on over 25x with the same level of uncertainty. We continue to accumulate our core names on pull-backs and are generally on the value side of the equation.

Outlook

As we noted last month, market valuations remain elevated with what seems a one-way flow at the moment for companies with USD exposure (as a function of interest rates and perceived weak economic activity domestically putting downward pressure on the local currency) and interest rate sensitives. In some cases, valuations are now at extreme levels and are perplexing given fundamental characteristics of earnings. For example, Brambles (BXB) after reporting very poorly for their mainstay US business leading to downward revisions (not to mention BXB are a serial earnings downgrader as well), continues to reach new heights due to indiscriminate buying. This one way flow due to expectations of further interest rate cuts is not only monotonous (particularly when underperforming) but could potentially unwind over the coming months. On review of most economic activity data, most point to an ok environment in Australia. While the mining boom is clearly over most other activity indicators are improving due to already easy monetary conditions. For example, housing approvals have been at all time highs for the past year and are likely to continue given current interest rate settings. This suggests housing construction will continue for many years to come. At current rates of housing formation, its conceivable there will be an oversupply of housing stock by 2018. Employment levels appear to be turning a corner (after re-estimation by the Australian Bureau of Statistics) and motor vehicle markets are also strong. Retail sales have also shown resilience and should persist given lower oil prices and improving employment markets. This clearly confirms lower levels of interest rates are stimulating the economy in the right places and further reductions will do nothing for the end of the mining boom for which the RBA has no control over. The RBA finds itself in the same position pre-GFC with a want of not raising interest rates due to weak non-mining state activity, but conversely in the current situation of not wanting to reduce interest rates to spur on speculative imbalances that have appeared in domestic housing markets.

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

Prepared by: APSEC Funds Management Pty Ltd

Lvl 4, 151 Castlereagh Street, Sydney, NSW, 2000, (+61 2) 8356 9356

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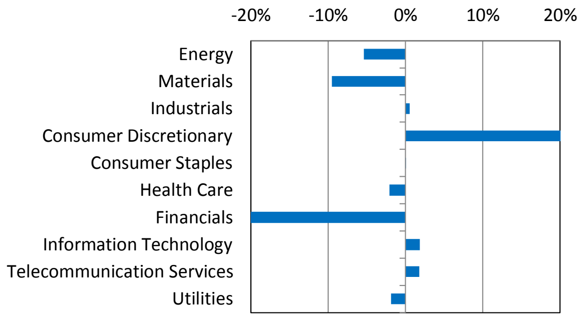
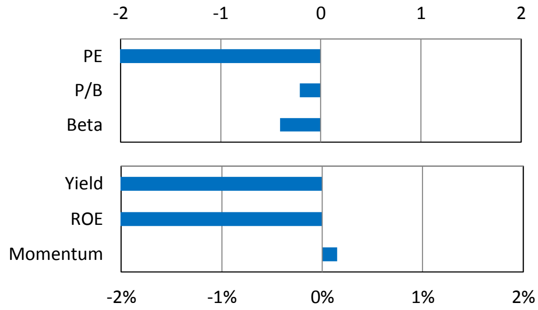
Fund Positioning relative to the S&P/ASX 200 Index

Sector Exposure



Factor Exposure



Company Contributors to Performance

Positive

JB Hi Fi
M2 Group
Premier Investments
Sonic Healthcare

Negative

Alumina
BHP Billiton
Greencross
Retail Food Group

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Lvl 4, 151 Castlereagh Street, Sydney, NSW, 2000, (+61 2) 8356 9356