Atlantic Pacific Australian Equity Fund

ARSN 158 861 155

APSEC FUNDS MANAGEMENT

Fund Report and Commentary - 30 April 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]	-1.82%	2.99%	9.5%	15.5%	43.4%	20.7%
Index	-1.70%	5.00%	7.1%	10.2%	27.5%	13.5%
Outperformance	-0.12%	-2.01%	2.5%	5.2%	15.9%	7.2%

Key Fund Data

Unit Price (Mid)	1.3073	$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%	-1.82%									5.69%

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 fell 1.70% for the month of April 2015, dominated by falls in Australian banks and companies with significant overseas exposure. We had noted last month it was likely that these companies would underperform but were not expecting the extent of the falls in Australian Banks. Towards the end of the month, concerns for bank re-capitalisation programs together with a sell-off in bonds globally at the long end culminated in a significant de-rating of the Australian banks with ANZ Banking (ANZ) and Westpac Banking (WBC) falling over 7%. These are very large moves and not the sort of volatility expected of some of the market's Top 10 companies. The story of the month related to Energy and Iron Ore companies after a very significant retracement of both the oil and iron ore price. Corporate activity by Shell to acquire BG also led to hyper-activity within the Australian LNG space, with the beaten-up Santos (STO) now being touted as the next takeover target. We suspect all of the froth in the commodity space will unwind over the coming months, as they have partially done at the time of writing. Beyond these moves at the big end of town, growth companies in general were targeted for selling. In terms of the Fund's performance, essentially the underperformance was due to a number of underperforming companies. For example, Greencross (GXL) was the target of hedge fund selling due to an expectation of a downgrade. The company's share price has re-traced 30% since they last reported. On speaking with the company during April as well as reviewing their recent trading update, the short term nature of these downgrades (2% of sales due to one-off weather related incidents and an acquisition related operational mis-step) leads us to view this recent downgrade as a temporary setback and will remain invested. Slater & Gordon (SGH) underperformed due to a confluence of events whereby they raised a significant amount of capital (with its share register dominated by small capitalisation company Investment Managers) which then led to outsized selling due to the company' shares moving from the small cap index into the Top 100 index ie forced selling. Looking forward, SGH presents as one of the cheapest companies on the ASX with growth potential of 40%+ if they are able to deliver. We see this trade-off (value plus growth) as compelling over the coming year. Fund activity included re-entering into CSR (CSR) after the company's shares moved into an oversold state due to bearish sentiment on their Aluminium business. We had thought (similar to our view on Bluescope (BSL)) the company's AUD margins would hold-up. CSR have reported in May 2015 and have materially beaten expectations in their Aluminium business. On top of this, CSR's building and construction business continues to build momentum. The Fund also made purchases in Automotive Holdings (AHG) which is predominantly a dealer network for new and used cars. Industry volumes have been strong over the past quarter supported by cheap financing and buoyant east coast vehicle markets. We suspect the company's earnings will rise faster than the market expects. This is somewhat supported by one of AHG's competitors recently upgrading expectations as well.

Outlook

As we move through May 2015 and the rest of the year, it has become abundantly clear, risk in certain sectors of the market have become elevated. Post the further fall in the Australian cash rate (which we don't believe was absolutely required), assets related to Funding costs are likely to continue building in volume terms. This is particularly relevant for the nation's housing stock and in particular how Australian banks respond to regulatory pressure for higher capital levels to Fund growth in this segment. National Australia Bank (NAB) now have first mover advantage after a very large capital raising recently. If and when the other banks decide to re-capitalise will to some extent put a lid on market performance. This clearly makes the case for stock selection to be a driver of returns. We are focussed on companies that have support from expected industry buoyancy together with winners from the recent Federal Budget. Indeed, it is fair to say the impact from the Federal Budget is likely to be positive for consumer and business sentiment over the coming year compared to what occurred last year. Hence those companies exposed to consumer and/or small business spending should do well. The Fund has had an overweight to various companies in the consumer discretionary space and we see no reason to change this strategic allocation despite the known issues for employment as the mining investment boom fades. While unemployment levels have been somewhat elevated and sticky over the past 6 months as per the ABS statistics, we believe there is hope that a less contractionary fiscal trajectory plus a booming east coast construction market (which will unfold for many years to come) will lead to better growth and employment outcomes in Australia than expected.

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

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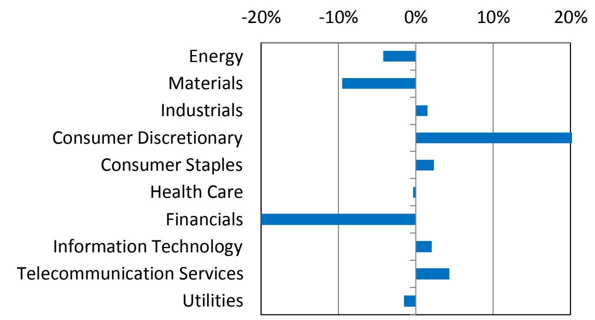
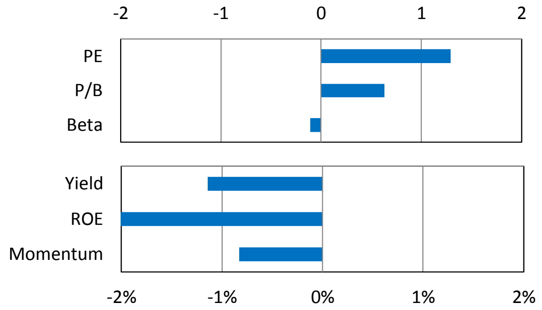
Fund Positioning relative to the S&P/ASX 200 Index

Sector Exposure



Factor Exposure



Company Contributors to Performance

Positive

Fairfax Media
JB Hi-Fi
M2 Group
Select Harvests

Negative

BlueScope Steel
Greencross
NextDC
Slater & Gordon

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