Atlantic Pacific
Australian Equity Fund

ARSN 158 861 155

Fund Report and Commentary - 31 May 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]	0.88%	-1.61%	9.35%	17.0%	44.7%	20.3%
Index	0.40%	-1.37%	11.12%	9.9%	28.0%	13.1%
Outperformance	0.48%	-0.24%	-1.77%	7.0%	16.7%	7.1%

Key Fund Data

Unit Price (Mid)	1.3188	$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%	0.88%								6.62%

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 rose surprisingly 0.40% for the month of May 2015, given it only came about due to a rally on the last day of the month. This positive return was, in our view, quite unexpected given the market had been held back for most of the month by interest rate sensitive sectors (namely Financials, Property and Telecommunications) and certainly appeared contrived. This is further highlighted by the fact in the first 5 days of trading for June 2015, the market has fallen almost 5% against global trends. Those "mis-guided" buyers have obviously run away for another day. The story of the month related to the release of the Federal Budget which, pleasantly, was not as disastrous as last year. For consumer discretionary companies, this proved to be beneficial especially for those companies exposed to the potential spend by small businesses related to the immediate tax-write-off of $20k. The portfolio was positively exposed to this thematic with the likes of JB Hi-Fi (JBH) and Automotive Holdings (AHG) rallying over most of the month. Macquarie Equities also hosted their annual investor conference from which a large cross-section of the large listed companies provided confessions on how their businesses were tracking. In most cases, the Fund was exposed to positive updates leading to generally strong performance over the month despite the contrived market end to the month. The Fund's return had fallen in the early stages of the month similar to the market after the RBA lowered rates but without an easing bias. This led to rising Australian bond yields at the long end leading to pretty much all shares falling. When major companies fall, it is almost a fait accompli that all stocks fall given heightened risk aversion. This dynamic also led to a stronger dollar over most of the month leading to winners over the past 6 months significantly underperforming. However, the Fund recovered strongly post the Federal Budget given the overweight to the consumer discretionary sector. Of note in the resources space was the long awaited take-out of Sirius Resources (SIR). For mid-cap mining companies with good to exceptional resources, it is only a matter of time before they are gobbled up given the cycle posturing. We don't actively look for take-out companies and have missed every opportunity in the mid to large capitalisation space over the past two years but we are hopeful our day of reckoning will come at some point ie the Fund will be positively exposed to such an event. Fund activity ramped up post the Federal Budget with top-up purchases made in companies with direct exposure to the small business tax incentive and expected positive dynamics for consumer and business confidence including Automotive Holdings (AHG), Flexigroup (FXL), JB Hi-Fi (JBH) and Premier Investments (PMV). There were also buying opportunities where prices appeared oversold against the context of an upgrade cycle including QBE Insurance (QBE) and CSR (CSR). As is always the case, some companies will take longer to provide performance and we remain disciplined on price entry levels and portfolio weights according to liquidity. We exited the month defensive with lower market exposure given the contrived end to the month. Given geo-political issues arising within Europe, we believe this is an appropriate setting for the Fund.

Outlook

There are essentially three issues dominating our thoughts as we move through June 2015. Firstly, June is the most statistically negative month in the Australian calendar (not May, as many commentators would have you believe) driven to some extent by tax loss selling. There have been some not-so great investments in the Fund over the year. While not too significant given the strong performance of markets it is nonetheless an obvious strategy to reduce tax legally for unitholders. Secondly, capital requirements relating to Banks are also on our minds and it is expected some clarity will be provided by the financial services regulator in the not too distant future. It may well be the case that target capital levels will be set as a multi-year objective rather than what one reads in the media which expect a once-off adjustment in a matter of months. Once uncertainty on this issue has unravelled, we believe markets will behave more in line with fundamentals across the board. And the final point to note is the uncertainty created by the theatrics evolving around Greece. Similar to the "Green Eggs and Ham" filibustering by Senator Cruz in relation to the US Government shutdown of October 2013, we are now witnessing the theatrics of the Greek government in terms of international diplomacy, or lack thereof. While a default is unlikely to significantly affect any economy materially, the uncertainty has led to significant retracements in both equity and bond markets over the past couple of months. Its hard to fathom a true answer as to what will happen, only to say that we prefer to be defensive until this passes and to react decisively if a solution is found.

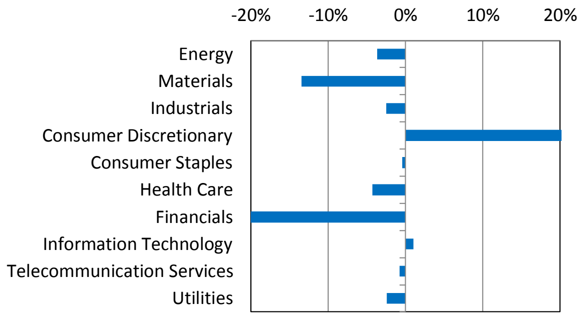
See the final page of this report for important information, including warnings.

Prepared by: APSEC Funds Management Pty Ltd

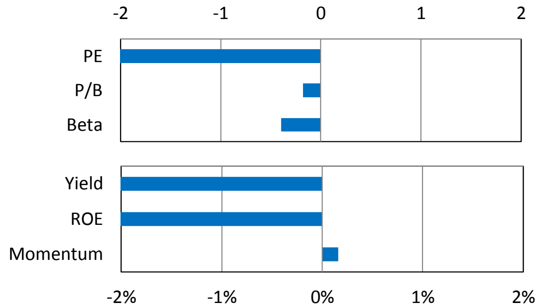
Lvl 4, 151 Castlereagh Street, Sydney, NSW, 2000, (+61 2) 8356 9356

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

Sector Exposure



Factor Exposure



Company Contributors to Performance

Positive

Automotive Holdings
CSR
JB Hi-fi
Premier Investments

Negative

Cash Converters
Retail Food
Slater & Gordon
Woolworths

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