Atlantic Pacific Australian Equity Fund

ARSN 158 861 155

Fund Report and Commentary - 30 September 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]	-0.67%	3.94%	-2.8%	12.4%	42.0%	16.2%
Index	-2.96%	-6.58%	-12.7%	-0.7%	13.2%	5.5%
Outperformance	2.29%	10.52%	9.9%	13.1%	28.7%	10.7%

Key Fund Data

APIR Code	OMF0003AU		
Ex Unit Price (Mid)	1.2480	$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%	-5.58%	3.80%	0.81%	-0.67%				4.64%

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 further for the month of September re-testing the lows seen through August. The usual suspects that have underperformed over the past 6 months continued falling including the materials and energy sectors. Australian Banks also underperformed materially. On the positive side, gold companies found favour due to undervaluation as well as perceived relative safety. This is despite a lack of price performance in the underlying and appears to be driven by flows by deeper value investors. Clearly entering October with the likely deferral of the US Federal Reserve in raising interest rates has led to a mini rally in gold which has led to extraordinary returns in this sector. While the Fund has held investments in gold (Evolution Gold (EVN), Newcrest (NCM)) over the two past months (Greek crisis, general market conditions), with no positive action in the underlying commodity of note, led to premature liquidation. Small capitalisation companies also outperformed the larger segment of the market which we found a little perplexing. We have systematically liquidated our smaller company positions to a much lower level over the past couple of months believing that as the general market fell, the less liquid names would underperform, which would typically be the case. However, the performance of small companies have generally been in line with their much larger counterparts. Premier Investments (PMV) reported through the month with very positive developments for their Smiggle Stationary brand. In particular, the expected rollout in the UK is now taking shape as well as new markets to be rolled out in Asia (Hong Kong, Malaysia). Having spent some time in Asia over the last decade as analysts, we believe the rollout in Hong Kong will prove to be one of their most important markets. With product aligned to the Asian demographic and significant tourist numbers flowing through from mainland China, this should bode well for further earnings accretion from what is truly a global brand. We noted last month a takeover approach for one of our smaller companies, Universal Coal (UNV). This has further progressed with the potential for a much higher bid than the one currently on the table. This looks likely to evolve further and we remain invested. In terms of the Fund's other takeover target, Asciano (AIO), we assessed the upside payoff versus downside as providing an unnecessary downside bias in the portfolio and liquidated the position through the month. At the time of writing, the company's shares have fallen over 10% due to competition concerns. And while the deal may eventually go through, it seems like a gamble which we are happy not to be a part of anymore. Qantas Airways (QAN) was the largest contributor to fund returns over the month with a negative correlation to oil prices. The company is on a strong earnings trajectory over the medium term together with a significant buy-back looming. We remain of the view QAN will be a multi year investment. In light of market sentiment, we liquidated our positions in the asset managers we held (BT Investment (BTT), Magellan Financial Group (MFG) believing they would underperform as markets fell as their revenues are directly related to the level of the equity market. Indeed, they have been surprisingly strong through a period of falling markets. Notwithstanding, we replaced this exposure with Challenger Financial Group (CGF) and while they have exposure to asset markets, their sensitivity is much lower and is driven more by flows into their annuity products which are growing strongly.

Outlook

The past month was certainly an awkward month in terms of frequency and range of oscillations, making forecasts on direction very difficult. In light of this and prior months, we have kept exposure lower than usual which has inevitability helped through an almost 9% fall in the Australian market over the past 3 months. We have entered October with similarly lower than usual market exposure given an uncertain AGM environment (post one of the worst reporting seasons since the inception of the Fund) and an expected weak US Reporting season. Notwithstanding, we are also cogniscent of the fluid changing of expectations now that the US Federal Reserve is less likely to hike rates this year. This was our base case scenario as noted last month. Similarly, with various activity indicators showing weakness globally (eg Japanese Machinery Orders, Chinese Manufacturing Surveys, German exports, US Manufacturing New Orders) the potential for further stimulus emanating from Europe, Japan and China is tempering our bearishness that has existed for the past 6 months. In relation to the Australian market, we are relatively certain that domestic rates will be on a downward trajectory over the coming year and with equity prices falling dramatically over the past 6 months we are now looking to move back into yield names to take advantage of the yield arbitrage in equities that will follow if rates do indeed fall.

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

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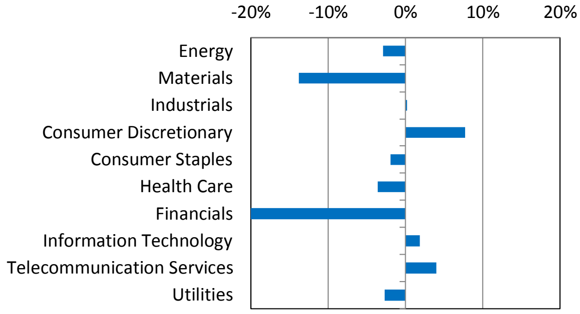
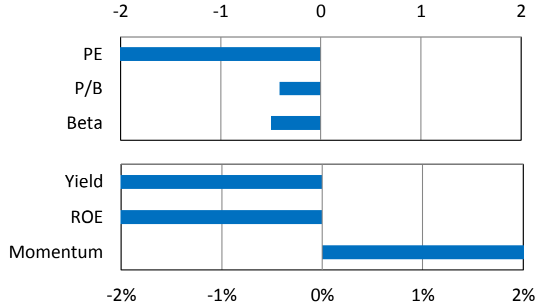
Fund Positioning relative to the S&P/ASX 200 Index

Sector Exposure



Factor Exposure



Company Contributors to Performance

Positive

Premier Investments
Qantas Airwys
Tassal Group
Universal Resources

Negative

Downer EDI
National Australia Bank
Retail Food Group
Select Harvests

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