Atlantic Pacific Australian Equity Fund

ARSN 158 861 155

APSEC FUNDS MANAGEMENT

Fund Report and Commentary - 31 October 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]	4.71%	4.85%	3.7%	13.6%	48.7%	17.8%
Index	4.37%	-6.61%	-7.3%	-0.7%	18.2%	7.2%
Outperformance	0.35%	11.47%	11.0%	14.3%	30.5%	10.7%

Key Fund Data

APIR Code	OMF0003AU		
Ex Unit Price (Mid)	1.3068	$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%	4.71%			9.57%

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 recovered strongly over the month of October 2015 rising 4.37%. At one point the market was up 6.6% but couldn't hold onto gains into the final week despite bullish moves in major overseas markets. The US equity market has recovered from the August 2015 lows and is now only a whisker away from previous highs. The Fund had a curious month with performance lagging up until the last day. The transition of the Fund over the month was smooth, which is our preference, while the underlying market was like a yo-yo at times. In the early stages of the month, resource and energy companies rallied strongly. Given the Fund is underweight to these sectors and we had taken a generally cautious positioning, the Fund was behind by over 3% in the first 10 trading days. We had thought it was irrational exuberance in resource and energy shares and by month's end most were near where they started - Santos (STO), up over 40%, was an outlier with an overture from private equity. In the case of BHP Billiton (BHP), they were up at one stage 16% to end the month up 3.6%, underperforming the market. This, in our view, is extraordinary volatility which isn't in line with our thinking over the past couple of months i.e. we remain in a state of caution and would prefer to be hitting singles for the time being as we move through this volatility. Notwithstanding we are very happy to present strong performance this month with the Fund's unit price (distribution adjusted) now at a record high. We mentioned last month, the Fund had re-entered Challenger Financial Group (CGF). This was in anticipation of improving sales growth. CGF reported an improved trajectory during the month as well as gaining further traction in third-party distribution agreements. But more importantly, positive implications from the Federal Government in relation to recommendations from the Financial Services Inquiry for retirement income policies were also revealed. With the backdrop of increasing distribution and positive industry dynamics, CGF is well placed into the future, with curiously very little sensitivity of earnings to overall equity markets. Domino's Pizza (DMP), a new addition to the Fund during October, provided strong profits with a small acquisition in France leading to outsized expectations for future earnings growth. At their recent AGM, DMP has indicated an acceleration in sales driven by first-mover advantage in the technology space. We suspect this is unlikely to abate for the time being and the Fund remains invested. We have also started to slowly accumulate a position in Woolworths (WOW). The company downgraded earnings expectations, as expected, and has been re-priced severely. We are happy to accumulate as the company has very strong assets but as we have witnessed over the past couple of years, an ineffective management team. Senior executives have now been replaced with the Chairman also falling on his sword. If the new Board is able to clean up the past (eg exit Masters) with the current valuation of the company clearly distressed, this could result in significant returns over the coming year. And while shorters are clearly dominating proceedings, corporate activity on this name cannot be ruled out either. The Fund has also taken a small position in Norwood Systems (NOR) as is typical of a company of this size. This is a company which we have identified early on in their endeavours to disrupt the global telecommunications roaming market. So far, the company's activity data is accelerating with the rollout of their application onto the Android operating system occurring at the end of November 2015.

Outlook

The month of October and November is the AGM season for most companies in Australia. We remain alert to announcements by companies held by the Fund to minimise any material downdraft in performance. So far, the companies the Fund is exposed to have continued with positive dynamics post the recent reporting season. On the macro front, in light of the potential for a rise in interest rates in the US over the short term, whether this year or early next year, we are continuing to position for this outcome as we have done over the past year with a general overweight to USD based earnings. We are always price sensitive accumulating positions on pullbacks and weaker performance to date through November 2015 in Australian equity markets are presenting good opportunities. Of course, offsetting this is the expected bifurcation of returns in equity markets globally with the likely outperformance of USD related markets given a strengthening USD and relative underperformance of emerging market and commodity related equity markets. Global growth is continuing to be downgraded, driven by weaker emerging markets, which also offsets a bullish tone for some companies. We have generally managed to pass through the current volatility in Australian equity markets and continue to focus on hitting singles for the time being. At the time of writing, various large companies have moved into an oversold state with very strong yield characteristics (eg fully franked yields of >10%) making our transition to holding higher yield names in light of an expected falling Australian interest rate curve much easier.

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

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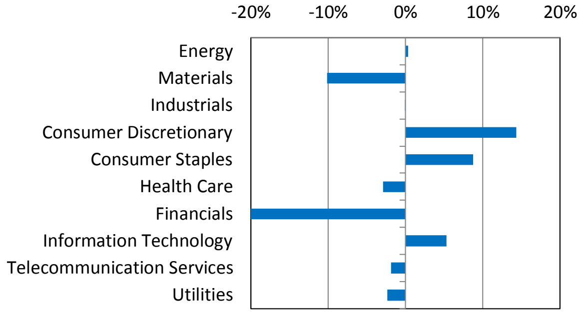
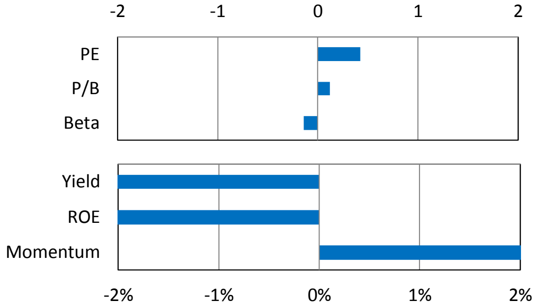
Fund Positioning relative to the S&P/ASX 200 Index

Sector Exposure



Factor Exposure



Company Contributors to Performance

Positive

Challenger Financial
Domino's Pizza
Macquarie Group
Premier Investments

Negative

ANZ Banking Group
Select Harvests

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