Atlantic Pacific
Australian Equity Fund

ARSN 158 861 155

Fund Report and Commentary - 31 January 2016

Fund Return vs the S&P/ASX 200 Accumulation Index after All Fees before Tax

Period	1 mth	3 mth	6 mth	1 yr	2 yr (pa)	Inception (June 2013) Cumulative	Inception (June 2013) Per Annum
Fund Return[1]	-3.01%	-1.87%	2.9%	4.8%	12.2%	45.9%	15.2%
Index	-5.48%	-3.57%	-9.9%	-6.1%	2.8%	14.0%	5.0%
Outperformance	2.47%	1.69%	12.8%	10.9%	9.5%	31.9%	10.2%

Key Fund Data

APIR Code	OMF0003AU		
Ex Unit Price (Mid)	1.2823	$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%	0.11%	1.06%	10.85%
2016	-3.01%												-3.01%

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. Past performance is not indicative of future performance.
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 5.48% during the month of January 2016, making it the worst start to the year in our memory. All told, the Australian market fared better than most. The usual suspects dragged the Australian equity market down with the Materials and Energy sectors recording losses of 9.5% and 6.6% respectively. Financials were also a drag falling 9%. Underlying the performance in Financials was the significant deterioration in Asset Manager share prices. This sub-sector always behaves with a beta greater than one and with very strong performance throughout the last quarter of 2015, it was only a matter of time before they would be negatively impacted. At the time of writing, this sub-sector has continued to underperform driven in some cases by outflows. The macroeconomic backdrop which proceeded this significant downdraft in global equities was a continuation of themes that have been witnessed for the past year ie a deceleration in Chinese manufacturing portending the potential for a significant credit event and credit risk emanating from Europe given the potential for oil related funding by European banks to lead to the potential default on particular European bank debt. Each of these (though not an exhaustive list) potentially brings the developed world into a deflationary environment. Clearly, central banks globally are aware of this and the Bank of Japan has, like Europe, moved to negative deposit rates in an effort to stimulate the credit cycle domestically. This is unchartered waters for most investment professionals and the uncertainty this has created continues into February. On the flip side, as a consequence of a reduction in oil prices (which has been causing stress in various equity sub sectors) a significant repatriation of wealth to the consumer has occurred. This has manifested in various macroeconomic series. In particular, retail sales globally have remained firm (subject to weather) as have housing construction markets due to cheap funding. This led to the Consumer Discretionary sector outperforming over January as did the typical defensives including Utilities, Telecoms and Staples. In light of the above considerations, we remain overweight specific retail names which are likely to be a beneficiary of rising consumer confidence and hence spending. We have already seen during February 2016, significant buoyancy in a number of the smaller retailers which should bode well generally for retailers. Fund activity through the month was dominated by purchases in Wesfarmers (WES) sub $40 post the announcement by Woolworths (WOW) to exit their domestic Hardware business. This is a significant event for Hardware retailers in general and we had been waiting on this outcome for some time. Further, WES announced their first foray into the UK hardware market which, given their strong execution domestically, should bode well over future periods as they drive topline growth and margin expansion. We were also impressed with the quarterly production report of Fortescue Metals Group (FMG) and bought a position near $1.50. Negative sentiment on FMG has been prevalent for some time as iron ore prices have fallen and due to the sustainability of their cash costs. They reported an exit rate for cash costs similar to the majors which is an impressive feat. We also took the liberty to liquidate our remaining holding in M2 Group (MTU) around $12.50 which has merged with Vocus Communications (VOC) as the merged company now looks fully priced. In light of the continuing dynamic for a deflationary cycle, we entered a basket of gold equities through the month, including Newcrest (NCM) around $13, expecting gold to provide some offset as well as acting as insurance against any further downdraft in global equities.

Outlook

Over the coming months of February and March 2016, the Australian reporting season will take place. As is typical of this environment, some equity prices are significantly re-rated, either positively or negatively, on the basis of new information that is released. As alluded to above, we remain overweight retail names as we believe this current season, given weak comparables from last year, will show the greatest traction for sales and potentially margins. While the lower Australian dollar may act as a dampener for some companies, for those companies who have shown a history of strong inventory management should do well. We will also be reviewing companies which we don't already own to add to the portfolio where future dynamics are strong and initial price reactions are muted. We remain underweight companies exposed to Europe and Emerging Markets as was the case last reporting season. After strongly negative performance to date, we will also be keenly watching the Australian banking space with various trading updates to be announced. In particular, given the valuations on offer, if they are able to show a reasonable profit trajectory with an ability to maintain dividends, it will become more obvious to start accumulating. Similarly for the resource sector, post a generally well executed 4th quarter 2015, there is the potential to upweight in select equities where prices have been oversold. This will introduce increased volatility for the portfolio and we will size our positions accordingly.

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

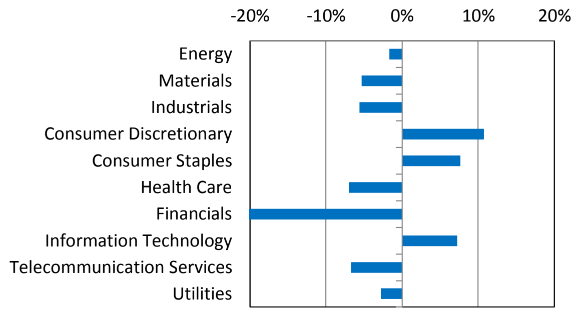
Atlantic Pacific
Australian Equity Fund

ARSN 158 861 155

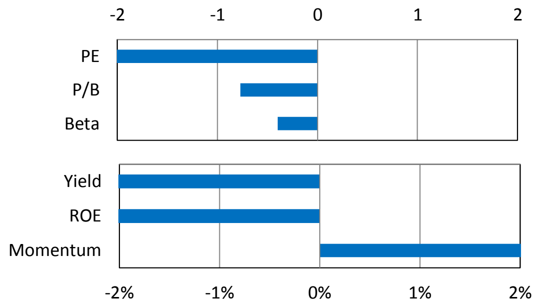
Fund Report and Commentary - 31 January 2016

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

Sector Exposure



Factor Exposure



Company Contributors to Performance

Positive

Fortescue Metals Group
M2 Group
Wesfarmers

Negative

Challenger Group
Computershare
Macquarie Financial
Select Harvests

Prepared by: APSEC Funds Management Pty Limited

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