Atlantic Pacific
Australian Equity Fund

ARSN 158 861 155

APSEC FUNDS MANAGEMENT

Fund Report and Commentary - 29 February 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]	-2.06%	-4.00%	0.0%	-2.8%	9.0%	42.9%	13.9%
Index	-1.76%	-4.61%	-4.0%	-13.7%	-0.6%	12.0%	4.2%
Outperformance	-0.30%	0.61%	4.0%	10.9%	9.6%	30.9%	9.7%

Key Fund Data

APIR Code	OMF0003AU		
Ex Unit Price (Mid)	1.2559	$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%	-2.06%											-5.01%

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 continued its downward trend falling 1.76% and at one point down over 4%. While China jitters continued to weigh on markets, European Banks added to the panic sentiment with severe negative credit markets translating across the globe to other financials. This led to the Financials (ex Property) sector materially underperforming falling 7.7%. Conversely, the Materials sector finally had their "day in the sun" with a ripping 8% performance, outperforming Financials by over 15%. The size of this return dispersion between the heavyweight sectors of the Australian Equity market is a very rare event not seen since the Financials led sell-off post-GFC. We had captured some of this upwards trajectory in Materials with positions across Gold (Newcrest (NCM), Evolution Mining (EVN) and Gryphon Minerals (GRY)) and Fortescue Metals Group (FMG) which was accumulated in late January 2016. In each case, performance was primarily driven by improvements in the underlying commodities to which they are exposed. Even so, the heavyweights BHP Billiton (BHP) and Rio Tinto (RIO) saw huge volatility day-to-day and through the month to which we were not exposed. BHP fell at one point 8% early in the month, to then be up over 15% to then settle up 1.5%. This is manic volatility driven to a great extent by short covering and deep value investors believing the lows have passed. February 2016 also brought to market company updates for most listed companies. In general, with expectations falling in the lead up to the reporting season, reportings were not as bad as many had expected. But contrary to previous reporting periods, there was certainly adverse movements. Losers of yester-year have suddenly become "too hot to handle" for some short-sellers in the market with massive short-covering over the month in a range of beaten up names. Conversely, those companies that reported well except for some minor detail were punished excessively. Up until the last week of February 2016, the Fund was performing well relative to the market. However, a number of investments performed poorly leading to underperformance by month end, albeit minor. Companies which were adversely punished included RCG Group (RCG; a discounted capital raising coinciding with their report led to weak prices into month end but have now recovered), Vitaco Group (VIT; reported as expected with growth expectations not reduced but nonetheless was a significant underperformer over the month.) and Wesfarmers (WES; after rallying strongly into the result post the departure from Hardware markets by Woolworths (WOW) were sold off on the basis of a weaker outcome in their Resource business despite these businesses not being material). Village Roadshow (VRL) was also heavily discounted over the month and rightly so, but losses were somewhat minimised as we had bought well during the month at lows as well as liquidating part of the position prior to the result. In circumstances like these, when outcomes move against around our original thesis, we liquidate which we were able to complete with little market impact post the release of their report. We initiated a position in Mesoblast (MSB) during the month around $1.37 post the release of a better than expected clinical result as well as confirmation of a product launch from their Japanese Joint Venture. We happily released some of the position above $2.80 as other short investors panicked. We remain positive on recent developments for MSB, but given the natural liquidity of the name, the position remains small.

Outlook

The reporting season of February 2016 has yielded better than expected outcomes in general for most companies. As the Fund has had a sub-optimal reporting period (a low outperformance hit rate which we view as less than 60%), we are in the midst of re-positioning the portfolio. There has been significant dispersion across quality through February and into March 2016 with lower quality names significantly outperforming. We are not chasing low quality as retracements toward the top of downtrends doesn't necessarily mean a greater likelihood of outperformance and hence remain focussed on pursuing quality companies with observable strong revenue and margin trends of which there are plenty. The rebound in European credit post the introduction of non-financial corporate bond buying by the European Central Bank should essentially provide a put for global markets with the European credit malaise of the past month unlikely to become a dominant thematic moving forward. The US is also in transition with further interest rate hikes likely over the coming year in order to move to a more normalised state. This has in the past been a bullish signal for global equity markets after the initial adjustment which has been within historical ranges (down 7-10% post the first interest rate increase). Domestically, the consumer remains the driving force of the Australian economy (Housing & Retail Sales) which until recently has been funded through dis-saving ie consumers are no longer hoarding cash. This is an important signal and if dis-saving continues, this will continue to underpin discretionary spending to which the Fund remains overweight the most.

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

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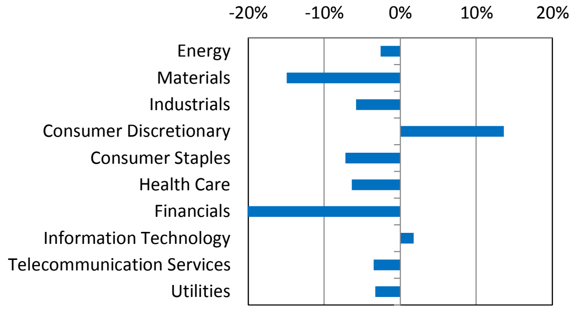
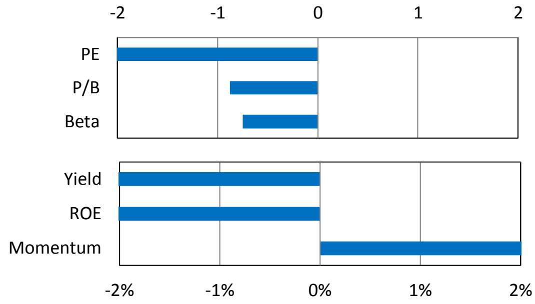
Fund Positioning relative to the S&P/ASX 200 Index

Sector Exposure



Factor Exposure



Company Contributors to Performance

Positive

Fortescue Metals Group
Lend Lease
Newcrest Mining
Woodside

Negative

Macquarie Group
McMillan Shakespeare Group
National Australia Bank
Vitaco Holdings

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