Atlantic Pacific
Australian Equity Fund

ARSN 158 861 155

Fund Report and Commentary - 30 April 2016

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	2 yr (pa)	Cumulative	Per Annum
Fund Return[1]	0.08%	1.41%	-0.5%	3.2%	9.1%	47.9%	14.4%
Index	3.37%	6.35%	2.6%	-4.9%	2.4%	21.2%	6.8%
Outperformance	-3.28%	-4.94%	-3.1%	8.1%	6.8%	26.7%	7.6%

Key Fund Data

APIR Code	OMF0003AU		
Ex Unit Price (Mid)	1.3004	$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%	3.46%	0.08%									-1.64%

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. 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 performed strongly over April 2016 rising 3.37%. And while the headline number appears strong, this performance was dominated by Material and Energy companies. For the "haves" who have been accumulating in these sectors for many a year are now getting what appears to be their circumspect rewards after years of significant underperformance. The outperformance of the Materials sector relative to the Financials sector for the month was 13%, not too far behind the 16% recorded in February 2016. It was the third largest relative return in over 16 years, an unusual month. The Consumer Discretionary sector materially underperformed (-5%) the overall market driven in part by general rotational flows out of this sector. The portfolio's positioning for many-a-year has been overweight Consumer Discretionary and for the most part of April 2016 the Fund appeared to be "stuck-in-the-mud" with a lack of movement or negative performance from key positions in this sector. In particular, JB Hi-fi (JBH) reverted from all-time highs to record a return of -7%, greater than 10% underperformance. Premier Investments (PMV) also fell (-5%) over the month after reaching all-time highs during the prior month. The price of PMV reaching all-time highs over the past couple of months has not been unwarranted given the company delivered one of the most outstanding report cards through the last reporting season. Notwithstanding, we have witnessed this relative underperformance on quite a few occasions over the past couple of years, particularly through the seasonally weaker periods for consumer spending into winter. There has also been the announcement of the election over the month. Taking everything into account, there has been no real inference that consumer spending should have slowed. Consumer sentiment has remained firm over the past couple of months which is typically a forward indicator for consumer spending. Many commentators make some argument for seasonal weather causing impairment to earnings but in most cases this does not appear to translate to full year earnings, well at least at the quality end of the sector. So the underperformance in these sectors does not seem worrisome from our point of view and is more a normal reversion in performance. In light of fast moving expectations for cyclical companies, we were relatively active in this sector but clearly not exposed enough to keep up with the market. We purchased Fortescue Metals (FMG) around $2.57 and within the space of a week, the price had achieved our short term price target around $3.25 (near a recent prior high). We liquidated around these levels with pricing at the time of writing around 10% below. Similarly, we purchased BHP Billiton (BHP) around $16 with price targets above $20 reached within a couple of days. We exited around $20.70 and at the time of writing the price is lower by around 10%. We were also active in Qantas Airways (QAN) during the month with a large chunk of the portfolio's position sold around $4.05. The performance of the shares have been underwhelming considering the size and timing of their buyback and had decided to de-weight. Unfortunately, the portfolio was hit somewhat post the company's downgrade though we were able to liquidate around $3.50 which seems respectable given price performance post the downgrade. While we know this is a short term hiccup for the company, we remain positively disposed due to cost transformation and future capital management optionality and are happy to accumulate at lower levels. CSL (CSL) was also accumulated through the month under $100. We have preferred to accumulate quality defensive companies as opposed to banking exposure in the lead up to the banks reporting in early May 2016.

Outlook

The month of May 2016 has been another strong month (to date) after the Reserve Bank of Australia moved to reduce the cash rate in light of a weakening inflation outlook. This presents a number of themes to include in terms of portfolio positioning. Firstly, interest rate arbitraging (overweight high yield companies) will be key over the coming months as market participants digest further falls in short-end interest rates. Lower interest rates have also translated to a fall in the Australian dollar which should lead to outperformance of companies with significant offshore earnings. In many cases for the offshore earners, the prices have been very strong of late and thus presents us with difficulties in terms of buying at rational prices. There are a number of laggards with offshore earnings which we are re-assessing currently for inclusion into the portfolio. The second-order impacts are expected to improve underlying demand by consumers and businesses alike given lower interest costs. The US interest rate cycle will also be important to consider over the coming year. In light of past equity market performance post the first change in interest rates, we are not fearful of this but instead see it as the natural evolution of the global economy mending. So long as uncontainable credit costs do not arise elsewhere in the world we are certainly more hopeful over the coming year than we were heading into last year's year-end around the same time.

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

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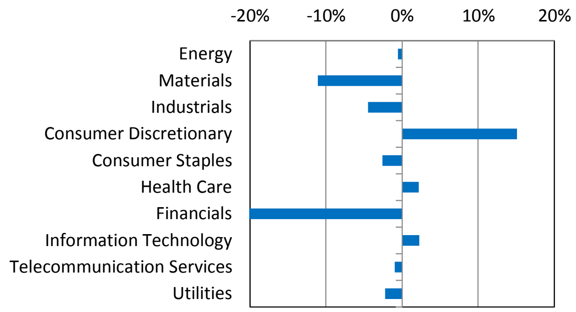
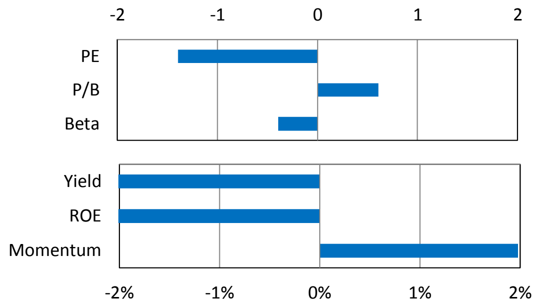
Fund Positioning relative to the S&P/ASX 200 Index

Sector Exposure



Factor Exposure



Company Contributors to Performance

Positive

BHP Billiton
Challenger
Fortescue Metals
Gryphon Minerals

Negative

JB-Hifi
Lend Lease
Qantas Airways
RCG Corporation

Disclaimer

For further information, please contact Nicolas Bryon or George Paxton:

n.bryon@apsec.com.au or g.paxton@apsec.com.au

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