Atlantic Pacific
Australian Equity Fund

ARSN 158 861 155

APSEC FUNDS MANAGEMENT

Fund Report and Commentary - 31 May 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	3 yr (pa)	Cumulative	Per Annum
Fund Return[1]	3.55%	7.21%	2.9%	5.9%	15.3%	53.2%	15.3%
Index	3.09%	11.60%	6.5%	-2.4%	7.7%	25.0%	7.7%
Outperformance	0.46%	-4.39%	-3.5%	8.3%	7.6%	28.2%	7.6%

Key Fund Data

APIR Code	OMF0003AU		
Ex Unit Price (Mid)	1.3465	$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%	3.55%								1.85%

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 again over May 2016 rising 3.09%. Performance was dominated by companies with offshore exposure with Healthcare leading the way up 9.5%. In each case, the large healthcare companies were up over 10% including CSL (CSL; 10%), Ramsay Healthcare (RHC; +12%) and Sonic Healthcare (SHL; 10.2%). We were able to liquidate our position in Cochlear (COH; 11.7%) as it had reached our price target in just over a month. This was very unexpected and pricing in this sector is now too expensive to invest with any conviction, with some market participants suggesting bubble-like valuations. Consumer Discretionary companies also reverted positively over the month, up 5.8%, after a lacklustre April 2016. This was pleasing given the Fund's overweight to this sector. Not unexpectedly, the Materials and Energy sectors reversed some of their break-neck April 2016 performance falling 3.2% and 1.8% respectively. The macroeconomic news of the month related to the unexpected move by the Reserve Bank of Australia to reduce the cash rate to 1.75% on future deflationary concerns as well as in an environment of a stronger AUD. This news alone set the tone for a generally frothy month. We had expected interest-rate sensitive sectors to rally strongest but it was the offshore earners which stole the limelight. Telecoms and Financials performed well and above the market but not to the extent we had expected. The Fund's performance was dominated by a selection of mid and small capitalisation companies with most of the large company exposure moving in keeping with the market. NextDC (NXT; 20%) rallied on various broker upgrades related to capacity development as well as a transaction for a data centre in Canberra by a consortium of companies led by Infratil (IFT.NZ). On a see-through basis, the transaction implied a much higher multiple than NXT had traded on prior to the announcement. We chose to liquidate part of the position around $3.43 having reached our medium term price target despite the noise from the transaction. We have no choice but to sell assets if the price at which we expect over a 12 month horizon or longer is achieved in just over a month. This will always present as an opportunity cost to the Fund but is reflective of our discipline when buying and selling. Similarly, we were able to liquidate a residual position in Corporate Travel (CTD; 3%) at $15.72 (near an all-time-high), which has now retraced to low $14s. Over-exuberance, more often than not, is not rewarded in the long-run. We also took the opportunity through the month to upweight the Fund's position in McMillan Shakespeare (MMS; 22%). This was driven by a statement by the current leader of the Australian Labour Party (ALP) indicating the ALP would not attempt to change any policy in relation to Salary Packaging. This had always been a downside risk variable as per the disastrous statements made by the ALP during the 2013 election. Our positions in the electrical space were liquidated over the month due to competitive concerns arising from the potential listing of "The Good Guys". While sales metrics were positively updated during the month for JB Hifi (JBH; 6%) at the Macquarie Investment Conference, our concern relating to a fully-funded competitor could see margins not rise as fast as is expected. Similarly, with an expected slowdown in handset-related revenue over the coming months (a key driver of electrical spend for the economy as a whole), the current price looks fully valued and would prefer to buy at lower levels. The Fund has held a position in Universal Coal (UNV; -11%) for many a year. The shares have remained in limbo over most of 2016 with protracted takeover negotiations delaying consummation. We expect this is now coming to an end with diminished uncertainty related to funding of the deal by Coal of Africa (CZA).

Outlook

Post the reduction in interest rates in Australia by the Reserve Bank of Australia, we have been surprised with the lack of traction for the traditional first-order interest-rate sensitive companies. Certainly amongst a quite bearish start to the month due to BREXIT and US Federal Reserve interest-rate noise, these interest-rate sensitive sectors have fared very poorly so far in June 2016 despite yields domestically falling implicitly improving the relative yields of high yield equity. However, one might suspect that macro drivers are not as important this month with the expected selling of tax-loss candidates dominating flow domestically. June 2016 is likely to present as an anomaly with negative large company dynamics not seen since the GFC as there are an equal number of companies in a loss-state over the year in the Top 50 index list, and within the top 10 companies, 7 are in a loss-state. Of the 7 top companies in a tax-loss state, most are interest rate sensitive leading us to believe that tax-loss selling has more to do with this month's performance than anything else. This should present opportunities during the month for accumulation against rational tax-loss selling by institutions and individuals alike. Tell-tale signs will include share prices moving into oversold states on no news and aggressive selling into an end of day - contrarian buying will remain core to improving long run returns of the Fund if our thesis is correct that BREXIT is no more than noise.

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

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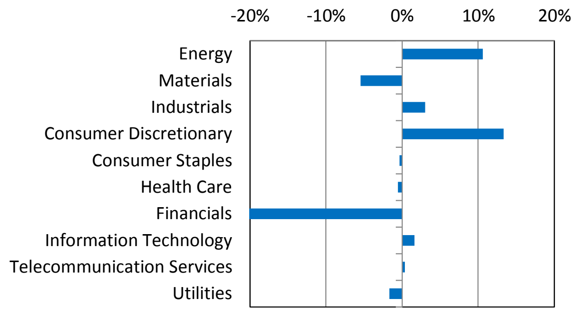
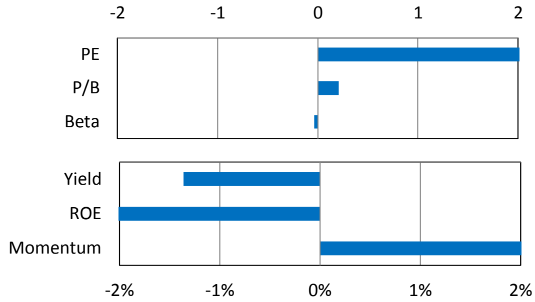
Fund Positioning relative to the S&P/ASX 200 Index

Sector Exposure



Factor Exposure



Company Contributors to Performance

Positive

AWE
McMillan Shakespeare
Macquarie Group
NextDC

Negative

Gryphon Minerals
Universal Coal

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