

Fund Report and Commentary - 30 June 2016

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

Period	Inception (June 2013)						
	1 mth	3 mth	6 mth	1 yr	3 yr (pa)	Cumulative	Per Annum
Fund Return ¹	-1.46%	2.12%	0.4%	10.5%	14.3%	51.0%	14.3%
Index	-2.45%	3.94%	1.1%	0.6%	7.7%	21.9%	6.6%
Outperformance	1.00%	-1.82%	-0.7%	10.0%	6.6%	29.1%	7.7%

Key Fund Data

APIR Code	OMF0003AU		
Unit Price (Mid)	1.2769	\$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%	-1.46%							0.36%

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 negatively over June 2016 falling 2.45%. Negative performance was dominated by companies with exposure to the UK after the negative outcome of the UK Referendum to exit the European Union. In particular, Henderson Group (HGG, -31.2%), Cybg Plc (CYB; -28.2) and BT Investment Management (BTT; -21.4%) were metered massive blows to their share prices. Other finance-related companies with exposure to the UK including QBE Insurance (QBE; -16.2%), Computershare (CPU, -14.6%) and Challenger (CGF; -9.8%) also came under pressure. Australian Banks also trended to the bottom of recent trading ranges with tax-loss selling the likely root cause notwithstanding poor profit dynamics moving forward. Iron Ore and Gold both rallied over 7% during the month supporting the likes of Fortescue Metals (FMG; 17.5%) and Newcrest (NCM; 20.6%). Offsetting general weakness in the Financial space also saw a number of the bond-proxy sectors rally over the month in anticipation of a slower likely upward trajectory for global interest rates post-BREXIT with the Utilities sector posting a gain of over 6% and REITs rising 3.5%. Surprisingly in global markets, the FTSE100 rose 4.4% driven by translation impacts of a lower GBP which fell 12% against the AUD. However, the FTSE 250, a much broader index including many domestic companies without offshore exposure fell over 5% more in line with our expectations. We were generally in risk-off mode in terms of positioning of the Fund with much lower exposure leading into the referendum. While we didn't believe UK citizens would in fact decide to leave, we had positioned the portfolio with the view they would. This risk aversion to potential "fat-tail" events will always be a feature of the way we manage the Fund as we recognise downside minimisation is just as important as upside capture. In the lead up to the referendum and post the final outcome, we continued to liquidate partially or in full some of the UK company exposure we had accumulated. Again this was more about risk mitigation than any particular view on future company dynamics which may or may not materialise. We will await commentary through the upcoming reporting season to ascertain whether our perceptions manifest in reality. We decided to liquidate the Fund's position in Lend Lease (LLC) due to not only exposure to the UK property market but also the emerging thematic of over supply of apartments in Australia coupled with macro-prudential standards that are now starting to restrict the purchasing behaviour of offshore investors. NextDC (NXT) was also partially liquidated above \$3.70 with the price rising too fast relative to our assessment of fundamentals. We will attempt to buy back in at lower prices if they present over coming months. Towards the end of the month a number of companies appeared oversold for no particular reason. We were able to accumulate new positions in CSL (CSL) as well as National Australia Bank (NAB). In the small cap space, we had a number of events which on a net basis produced a good result. On the negative side, our recent foray into Mesoblast (MSB;-45.5%) fell precipitously after their major partner decided to leave with the most obscure statements by MSB on how they would fund the capital shortfall. Given the position had been relatively small, we have decided to keep the position with the expectation there will be clarity on future funding. On the positive side, our position in Gryphon Minerals (GRY; +59%) has finally started to perform in a buoyant gold price environment with the addition of a takeover announcement by Teranga Gold (TGZ) during the month. We remain overweight gold equities in these unusual times and will continue to hold GRY into the eventual scheme of arrangement to take place in October 2016.

Outlook

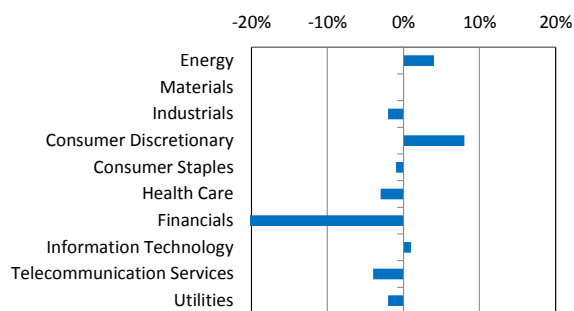
In general, the aftermath of BREXIT has led to market participants expecting lower interest rates globally for longer as well as more stimulus from Central Banks. We are not certain any of this will prevail nor have any material impact on economic activity over the long run. This stance is borne from our observation that central banks generally have been late to act and when they have acted have failed to act in a decisive manner. In essence, they are changing the rules so often that they, in our view, lack any discernible credibility. This view has been prominent at various points in time over the past decade but ultimately we are cognisant that others much larger will play markets like a casino. We remain somewhat defensive as we are generally not comfortable with such high valuations particularly as markets have not yet repriced (good or bad) post the upcoming reporting season. And we fail to see why we should buy into the notion of attempting to "steal" returns now at the expense of the long run. Equities with a direct correlation to lower interest rates in the short term (Utilities, High growth companies, etc) remain the preferred instrument for equitisation of yield but at the expense of this performance turning quite rapidly once bond rate expectations revert to more normalised levels. We have already seen in January & February 2016 the rate at which perceived high growth companies have been re-priced to the downside. In light of this we remain on the "value" side of the investment ledger despite flows continuing into growth managers with strong past performance.

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

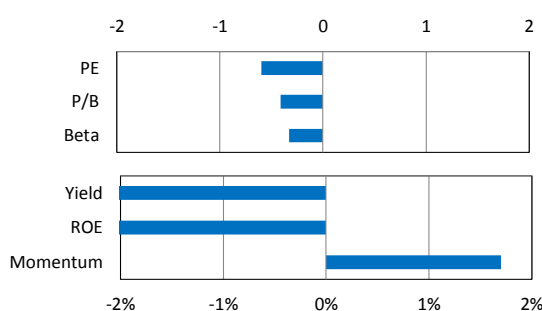
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Fund Positioning relative to the S&P/ASX 200 Index

Sector Exposure



Factor Exposure



Company Contributors to Performance

Positive
CSR
Gryphon Minerals
RCG Group
Santos

Negative
Challenger Financial
Greencross
McMillan Shakespeare
Premier Investments

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