

**Fund Report and Commentary - 31 July 2016**

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

Period						Inception (June 2013)		APIR Code	
	1 mth	3 mth	6 mth	1 yr	3 yr (pa)	Cumulative	Per Annum	Ex Unit Price (Mid)	MER
Fund Return <sup>1</sup>	2.99%	5.09%	6.6%	9.7%	13.5%	55.5%	15.0%		
Index	6.29%	6.88%	13.7%	2.4%	8.0%	29.6%	8.5%		
Outperformance	-3.30%	-1.79%	-7.1%	7.3%	5.5%	25.9%	6.4%		

**Key Fund Data**

OMF0003AU		
1.3151	\$10,000	Min. Investment
2.2%	\$5,000	Add. Investment
15%	1 Jun 13	Fund Commenced
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%	2.99%						3.36%

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 extremely strongly over July 2016 rising a whopping 6.29%. More confounding was the fact the market had over 80% of up days which occurs as frequently as once every other decade! No where else around the globe was there performance like the Australian market in terms of persistence. Having been somewhat defensive overall post BREXIT clearly the Fund's performance has underperformed against this backdrop. For equity market participants to shrug off the future slowing momentum of global growth and replace in the very short-term yield-arbitrage capital returns of this order appears quite irrational in our view. At the time of writing, the steam has come out of a number of share prices post poor reporting providing much needed evidence that the buying we have seen through July 2016 was blind to company fundamentals. Fundamentals eventually dominate and we remain of the view that to expose the Fund to ever excessive valuation would not be consistent with the style of returns that unitholders have become accustomed to when the eventual wash-out occurs as global interest rates normalise. In terms of performance for the month, most sectors except energy performed well with the consumer sectors, discretionary and staples, leading the way. There was quite a lot of portfolio activity moving through the month as prices reached for ever greater heights. The sales generally occurred for share prices which were moving into an overbought state or where valuations had moved to the top of the range. For example, the Fund's position in Newcrest Mining (NCM) was trimmed around \$26.60, a recent high. AWE (AWE) was also trimmed at recent highs around 92c. AWE remains in play and will continue holding this equity while oil prices attempt to rise against a backdrop of potential OPEC supply discipline. Bapcor (BAP) was also trimmed around \$5.60 where valuations in our view have become somewhat heated leading into their next reporting result. While the company may report well, in our view, the asymmetry for significant price performance is no longer attractive. On the buy side, there were a number of interesting developments which we have taken advantage of. In the financials space, we have considered for quite some time re-entering into Magellan Financial Group (MFG) after the share price has been languishing against positive market developments (eg strong US equity market) as well as a continuation of strong flows into their two core products. No other competitor in the asset management space has been able to maintain the net inflows MFG has been able to produce with net outflows occurring generally for the sector of late post BREXIT. We were able to accumulate the Fund's position around \$21.30 and remain positively disposed to the significant asset-gathering power of their brand. The Fund also created a new position in Woolworths (WOW) around \$20.40. These prices are clearly bargain basement in the context of the potential of the assets they represent. And while we were somewhat nervous the price could break down further having attempted many times over the past 6 months, we have taken the view that the new Board and recent appointment of Brad Banducci as CEO will bring a new focus for the company. Indeed, at the time of writing, the new Board and CEO are now contemplating the sale of their Petrol business, an asset which we had thought would never be brought to the table. So it appears WOW will no longer protect fiefdoms within the company and now there is the potential for significant value liberation. We also took the opportunity to accumulate a position in Western Areas (WSA), a beaten-up resource company, with now green shoots appearing in the underlying nickel price to which they are exposed. In particular, new legislation targeting the pro-environment development of nickel in the Philippines has already led to a fall in nickel supply from this very important global source.

**Outlook**

The lower-for-longer global interest rate thematic and "I want more stimulus now!" orthodoxy is apparent with global bond-proxy performance now embedded in investor behaviour. We remain convinced this cannot go on forever, as it never does, and won't be chasing returns and excessive valuations for fear of missing out. Indeed, we have had similar underperformance through prior irrational exuberance periods (February 2015, April 2016) and do not doubt our abilities to make up for lost ground. Importantly, we expect fundamentals to re-assert their force now that we are in the belly of the reporting season. This period has historically been a strong period for the Fund's investors in both absolute and relative terms. We remain focussed on companies which appear to be mispriced by the market thus providing the potential for asymmetric returns post reporting. Companies for which we have already had positive results from include Magellan Financial Group (MFG) and Ansell (ANN), each laggards with low expectations leading into their results. We are generally focussing on companies where we expect to see an improvement in cash flow generation versus prior periods as this factor will lead to significant re-ratings for some of the cheaper companies that have generally underperformed the market over the past year. As is the case in past years, we remain focused on the consumer, as this has been a mainstay of strength for many reporting periods.

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

# Atlantic Pacific Australian Equity Fund

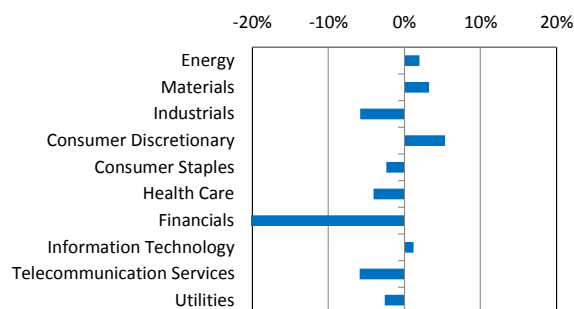
ARSN 158 861 155



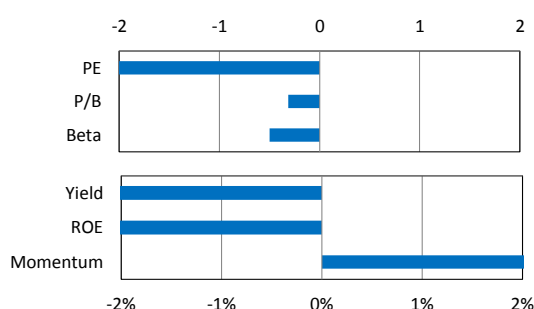
## Fund Report and Commentary - 31 July 2016

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

#### Sector Exposure



#### Factor Exposure



### Company Contributors to Performance

Positive
Automotive Holdings
APN Outdoor
Bellamy's
RCG Group
Negative
Santos
Universal Coal

### Disclaimer

APSEC Funds Management Pty Ltd ACN 152 440 723 (APSECFM) is a corporate authorised representative (CAR: 411859) of APSEC Compliance and Administration Pty Limited (AFSL 345 443 ACN 142 148 409). APSECFM is the investment manager of the Atlantic Pacific Australian Equity Fund (ARSN 158 861 155) (Fund).

One Managed Investment Funds Limited (ABN 47 117 400 987) (AFSL 297042) is the responsibility entity of the Fund (OMIFL). The information contained in this document was not prepared by OMIFL but was prepared by other parties. While OMIFL has no reason to believe that the information is inaccurate, the truth or accuracy of the information contained therein cannot be warranted or guaranteed. Anyone reading this report must obtain and rely upon their own independent advice and inquiries. Investors should consider the product disclosure statement (PDS) issued by OMIFL before making any decision regarding the Fund. The PDS contains important information about investing in the Fund and it is important investors obtain and read a copy of the PDS before making a decision about whether to acquire, continue to hold or dispose of units in the Fund. You should also consult a licensed financial adviser before making an investment decision in relation to the Fund. A copy of the PDS & Additional PDS (Dated 1 February 2014) and continuous disclosures may be obtained from [www.oneinvestment.com.au/atlantic](http://www.oneinvestment.com.au/atlantic) or [www.apsecfm.com.au](http://www.apsecfm.com.au).

APSECFM believes that the information contained in this document is accurate when issued. APSECFM does not warrant that such information or advice is accurate, reliable, complete or up-to-date, and to the fullest extent permitted by law, disclaims all liability of APSECFM and its associates. This document should be regarded as general information only rather than advice. In preparing this document, APSECFM did not take into account the investment objectives, financial situation and particular needs of any individual person.

The information contained in this document must not be copied or disclosed in whole or in part without the prior written consent of APSECFM, and APSECFM accept no liability whatsoever for the actions of third parties in this respect. It is presented for informational purposes only and is not to be construed as a solicitation or an offer or recommendation to buy or sell any securities. Any opinions expressed in this document may be subject to change. APSECFM is not obliged to update the information. The information must not be used by recipients as a substitute for the exercise of their own judgment and investigation. Neither APSECFM nor any of their directors, employees or agents accept any liability for any loss or damage arising out of the use of all or part of, or any omission, inadequacy or inaccuracy in, this document. Any historical figures or statistical data quoted within this report have been sourced from industry sources such as ASX, IRESS, Bloomberg, Reuters or similar that are assumed to be reliable and accurate at the time of publication.

OMIFL and APSECFM do not guarantee the performance of the Fund or the repayment of any investor's capital. To the extent permitted by law, neither OMIFL nor APSECFM, including their directors, senior executives, employees, consultants, advisers, officers or authorised representatives, are liable for any loss or damage arising as a result of reliance placed on the contents of this document. Past performance is not indicative of future performance. Information in this document is current as at 31 July 2016.

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

[n.bryon@apsec.com.au](mailto:n.bryon@apsec.com.au) or [g.paxton@apsec.com.au](mailto:g.paxton@apsec.com.au)

**Prepared by: APSEC Funds Management Pty Limited**

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