Atlantic Pacific
Australian Equity Fund

ARSN 158 861 155

Fund Report and Commentary - 31 August 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]	-1.10%	0.37%	7.6%	7.6%	10.7%	53.8%	14.2%
Index	-1.55%	2.07%	13.9%	9.3%	6.6%	27.5%	7.8%
Outperformance	0.45%	-1.70%	-6.3%	-1.7%	4.1%	26.2%	6.4%

Key Fund Data

APIR Code	OMF0003AU		
Unit Price (Mid)	1.3006	$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%	2.99%	-1.10%					2.22%

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 retraced some of its blistering performance exhibited during July 2016 falling 1.55%. Downside performance was dominated by large companies that missed estimates through the reporting season. These included AGL Energy (AGL), Aurizon Holdings (AZJ), the large Insurers and Telecommunication companies. In the case of the Insurers, the performance was driven by the catastrophe cycle in Australia. For Telecoms, the introduction of the National Broadband Network (NBN) is now playing havoc across the industry with Telstra (TLS) now indicating a significant uptick in capital expenditure to protect sales. Similarly, Vocus Communications (VOC) has indicated a significant ramp up in staffing expenditure in order to meet lofty analyst earnings expectations. The industry dynamics present indicate a risky environment for Telecommunication companies and yield alone will not save their share prices. This is a critical point as many of the bond rate proxy sectors (Infrastructure, Property, Telecommunications, Utilities) had rallied unnecessarily during July 2016 to then underperform during August 2016 due to fundamentals not meeting expectations. The Fund has always been positioned underweight in these sectors as valuations have been too rich for our liking. Through the current reporting season, the Fund has had its share of outcomes, from good to outright terrible. The most extreme example of savage re-pricing was towards the Fund's position in APN Outdoor (APN) which led to a 1% diminution in value. While the current half-year results met expectations, the very poor guidance coupled with a high valuation led to a 35% fall following their result. Similarly, our position in G8 Education (GEM; Down ~12% on the day of the result) went against us but the price outcomes on the day were quite peculiar. We were able to trade out of the position reducing the hit to the portfolio as the price swung 20% low to high. On the positive side, our long positions in Amcor (AMC), Ansell (ANN), Bellamy's (BAL), Fortescue Metals (FMG), Retail Food Group (RFG) and Treasury Wine Estates (TWE) performed well. For ANN, this was a classic case of expectations being too low leading into the result. We managed to trade out of the position above $23. BAL have confirmed their ability to manage a high-growth scenario with sales into China well executed. Talk of regulatory risk has indeed played to their strengths with strong distribution through channels not dominated by trader flows. The comparison against other similar companies supports our thesis that BAL is likely to perform strongly over coming years. FMG continue to surprise on the cost front with forecast cash-costs now trending to the bottom of the global cost-curve in the near term. Coupled with iron ore prices firmer than expected the company will continue to de-leverage. RFG also reported well with further positive development in their global roll-out of various brands. In particular, their coffee businesses were a standout. On top of this, they announced a highly accretive acquisition. TWE was a hard result to digest by many analysts with sales missing expectations but margins expanding. The company has previously indicated a move out of low-margin sales with the view to optimising their inventory of premium wines. They appear now to be on the cusp of realising significant margin expansion as they distribute their premium brands across the globe. We also had initial positive performance from Magellan Financial Group (MFG), but for some reason has been sold down. There are always curiosities that occur during reporting season and this appears to be the most peculiar one in our view. We remain positively disposed to their Investment management style as well as expectations of further significant inflows over the coming years. The Fund was also exposed to a takeover offer for Vitaco Holdings (VIT) which added 20bps. This has been a disappointing holding over the past year and we sold into the initial strength around $2.12 as we have no certainty the Chinese suitors will finalise the deal.

Outlook

Overall, the reporting season results were as expected with low growth overall. For large caps, the forward view remains for low growth while specific mid and small companies are likely to provide the necessary increment for alpha. In many ways, this is a re-run of the past couple of years. As we noted last month, the lower-for-longer global interest rate thematic cannot go on forever. This is partly due to a lack of conviction by market participants on the efficacy of current monetary policy as well as rising US interest rates. While it is hard to gauge when sentiment will turn, through September 2016 we are now seeing this potentially unravel with the ECB questioning their historical stance. Indeed, this has precipitated long bond yields to rally strongly (Australian Government 10 year yields up 30bps from lows which is an enormous retracement). Even if the US FED decide not to move in September 2016, expectations will likely move to 100% for a December 2016 rate rise which is likely to provide a floor to yields. The immediate effect we have witnessed so far during September 2016 is the massive underperformance in aboslute terms of the bond-rate proxy sectors. This is the first stage impact and while not significant at a market level (due to a low representation in the index) may temper expectations in the short term. The second round effect is likely to include a sell-off in high growth/valuation companies as implied discount rates rise over coming periods.

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

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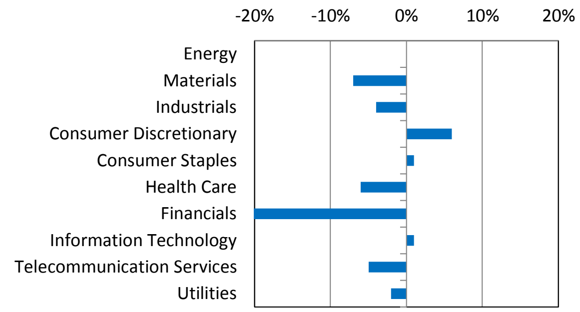
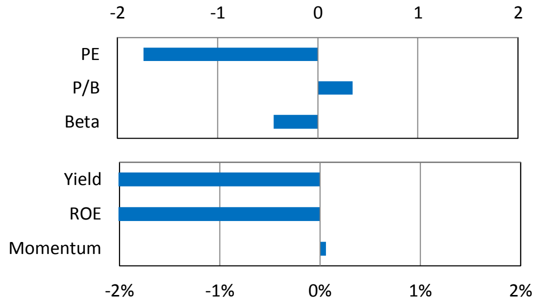
Fund Positioning relative to the S&P/ASX 200 Index

Sector Exposure



Factor Exposure



Company Contributors to Performance

Positive
Ansell
Bellamy's
Fortescue Metals
Treasury Wine Estates

Negative
APN Outdoor
G8 Education
McMillan Shakespeare
RCG Corporation

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