Atlantic Pacific Australian Equity Fund

ARSN 158 861 155

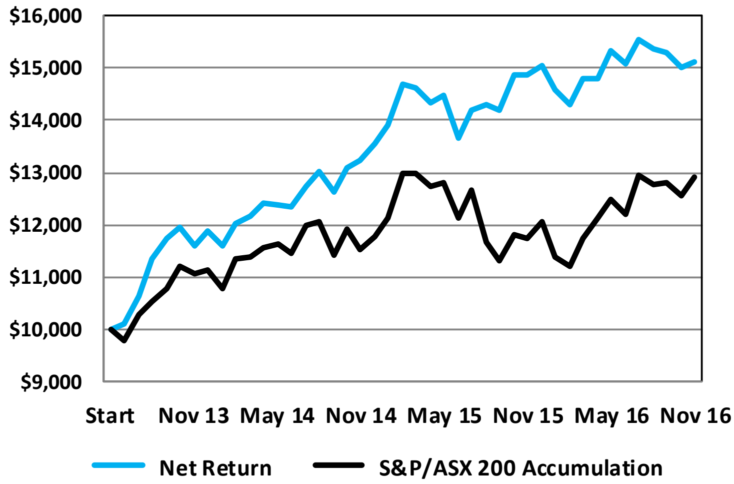
Fund Monthly November 2016

Return Summary

Period	1 mth	3 mth	6 mth	1 yr	3 yr (pa)	Cumulative	Per Annum
Fund Return	0.7%	-1.7%	-1.4%	1.5%	9.2%	51.1%	12.5%
S&P/ASX200 Acc.	3.0%	1.3%	3.4%	10.0%	5.4%	29.2%	7.6%
Excess return	-2.3%	-3.0%	-4.7%	-8.5%	3.9%	21.9%	4.9%

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.

Cumulative Returns of $10,000



Fund Strategy

The Fund is a long-bias equity market product which typically buys or short sells Australian listed securities and derivatives. Net and Gross market exposure is maintained within a range of 0-100% and 0-200%, respectively.

The Investment manager employs their Quadruple Alpha Investment Strategy which focuses on outperforming over all market cycles by capturing upside returns while minimising downside risk.

The objective of the Fund is to outperform the benchmark by greater than 5% pa after fees over a 5-7 year time frame.

Market Overview

- The Australian equity market made a 3% gain over the month of November 2016 coinciding with the final outcome of the US election. On the day of the 9th of November, the election results were effectively interpreted in real-time during our market hours led to a huge whipsaw in returns over a 24 hour period. Towards the end of the Australian trading day, **the S&P500 e-minis were limit down 5%** (The S&P500 e-minis are the most liquid futures market in the world). This was due to the increasing likelihood of Donald Trump becoming the next US President. In market environments like these, we tend to shy away from having much market exposure which ultimately cost the fund, from an opportunity cost perspective, the relative return to the market over the two days around the election result. It is highly unusual for the US futures market to hit limit down and not continue further in the initial direction for a period of time. But to our surprise, it completely reversed and then added over 1% on the day once the US market had started trading. Subsequent to the US Election Day, Financials performed strongly due to further rises in long bond yields as the prospect of fiscal stimulus would lead to increasing global activity and higher inflation. Similarly, resource companies performed strongly driven by speculative flows into various industrial commodities including iron ore and copper. **Gold and related equities have subsequently fallen sharply** in line with a future inflationary environment and a strengthening US dollar (Gold tends to outperform in a deflationary environment and when the US dollar weakens). The extent to which gold continues to underperform once Donald Trump is inaugurated remains to be seen with trade policies to be a focus over the coming year

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which may present geo-political risk scenarios in Asia. Interestingly, Europe for most of November post the election had the one day bounce but failed over the rest of the month even with a weaker Euro. This is in contrast to Japan's Nikkei (essentially a proxy on a weaker yen) which rallied over 5% leading the developed world's local currency equity gains.

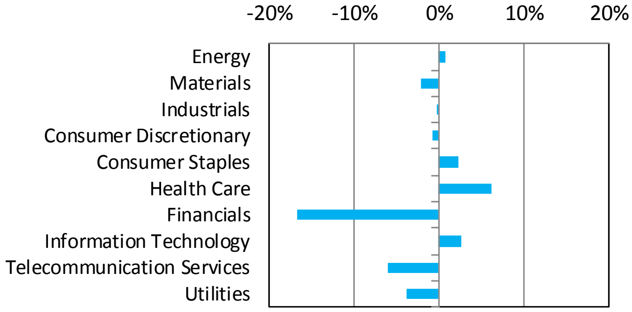
Fund Activity was focused on gaining exposure to an improving US outlook. In part this was focused on companies tied to an improving US manufacturing sector including Ansell (ANN), Brambles (BXB) and Orora (ORA). Similarly, companies with strong US earnings were also targeted including James Hardie (JHX) though we were lucky as they announced a 5-10% downgrade to their earnings due to higher input cost pressures. This is unlikely to abate for JHX if the future stimulatory environment is to materialize but hasn't to-date impacted the company's shares rallying another 10% via Trump froth. The froth also translated to very strong performance in Platinum Asset Management (PTM) which we had accumulated around $5 in prior months post the indication by the company of a very large defensive buyback. We chose to sell out of the position around $5.75 as the price had reached beyond our price target in the space of weeks. **The Fund's position in QBE Insurance was also increased over the month which is a major beneficiary of rising global bonds** (the yield on premium income should increase while at the same time the discount rate on their liabilities should lead to lower future liabilities). In prior months, the Fund had been hit by underperformance in QBE with accumulation prices around $10, the returns now on offer have been attractive with the shares trading at the time of writing circa $12.50. Over the past month, analysts have also upgraded QBE's earnings by over 20% showing the potential leverage the company will accrue from rising global bond yields. In general, **the Fund was weighed down by mid and small cap exposure** with a continued rotation out of this market segment which has been the case for a number of months. We took the chance to liquidate some of these holdings into short term rallies including Bapcor (BAP) and RCG Corporation (RCG). The S&P/ASX Mid-cap 50 Accumulation Index returned 0.79% while the Small Ordinaries Accumulation returned -1.19%, each far below the S&P/ASX 50 Accumulation Index which returned 3.64%. Large Financials (Banks, Insurers) accounted for 70% of this return of which we had some exposure but certainly not to the extent represented by the index of over 40%. And while we have stated in the past **Banks should be a beneficiary of the rise in long bond yields**, we believe this dynamic is much more supportive of US banks rather than our domestic banks. In the case of Australian Banks, this dynamic is less obvious given liability funding will be partially funded at higher rates (wholesale rates rise with the long end) as well as counter-cyclical loan rate rises may require higher provisioning and provide a dampener on future loan growth. Further, a survey of various analyst models suggests the sensitivity to a rise in long bond yields compared to other Banks or Insurers across the globe is much lower. In fact, **Australian Banks are viewed as the least sensitive**.

Outlook - We remain unconvinced of the ability of the future US Government to enact a significant fiscal stance given the austere profile of the prior and current Congress. It is clear that market participants have firmly in their mind that the entire program for fiscal spending will be implemented however it is most likely to be watered down considerably. Similarly, the timing is not clear as to when it might be enacted and if targeted at infrastructure maintenance will be quite some time until they are able to improve activity. Tax cuts for US corporates is one source of near term gain as are the repatriation of overseas profits at discounted rates of tax. Both will undoubtedly provide a significant windfall for US corporations and could lead to substantial buy-back activity over coming years. Therefore **our general leaning will be towards general improvements in the US economy** as has been occurring for the past year and where lower tax rates will support upgrades for US denominated earnings for Australian listed entities. Further, long bond yield proxies are in our cross-hairs with investments similar to QBE to be held at least until through their next reporting. However, we are mindful of full valuations for Australian Banks now that the 2016 Santa rally is underway. This is made more difficult given the extent to which Australian banks will need to defensively re-price their loan books with rising rates and how this will impact future loan growth over the coming period. We need to be careful in separating the likely benefits from US fiscal policy and our local domestic economy, which apart from a few areas (eg east coast), are generally anaemic. This is further reinforced by contractionary fiscal policy (relative to prior expectations) domestically and how this manifests for growth moving forward.

Risk Statistics

	Fund		Index	
	3 Year	Inception	3 Year	Inception
Alpha (%pa)	3.9%	4.9%		
Downside Capture	54%	55%		
Standard Deviation	8.9%	9.4%	12.4%	12.2%
Sharp ratio	0.8	1.1	0.3	0.5
Sortino		1.9		1.0
Largest Drawdown	-7.1%	-7.1%	-13.7%	-13.7%

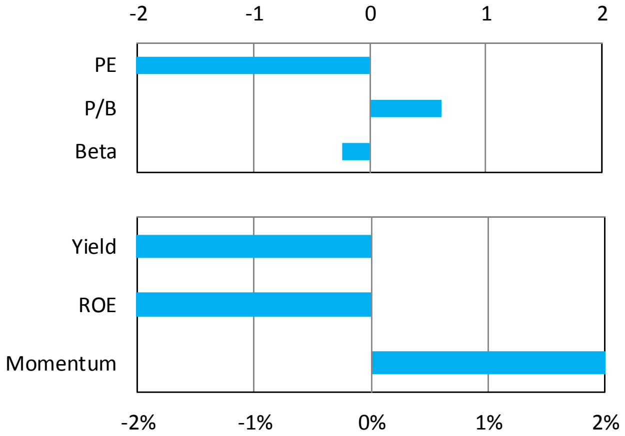
Sector Exposure



Exposure

	Long	Short	Net	Gross
Equity	64%	-26%	38%	90%
Index Futures			38%	38%
Net	64%	-26%	77%	128%
Cash			62%	

Factor Exposure



Contribution

Positive	Negative
James Hardie	Cochlear
National Australia Bank	Mayne Pharma
Platinum Asset Mgt	McMillan Shakespeare
QBE Insurance	Teranga Gold

Fund Information

APIR Code	OMF0003AU	Responsible Entity	Equity Trustees Limited
Inception	1 June 2013	Investment Manager	APSEC Funds Management
Minimum Investment	$10,000	Administrator	FundBPO
Application/Redemption	Monthly	Custodian	FundBPO
Management Fee	2.0%	Prime Broker	Interactive Brokers LLC
Benchmark	S&P/ASX200 Accumulation	Auditor	PriceWaterhouseCoopers
Performance Fee	15% above S&P/ASX 200 Accumulation + 3%pa subject to a high water mark		
AUM of Fund	AUD$26.19m	Application Price	1.2948
Mid Unit Price	1.2935	Redemption Price	1.2922

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