Atlantic Pacific Australian Equity Fund

ARSN 158 861 155

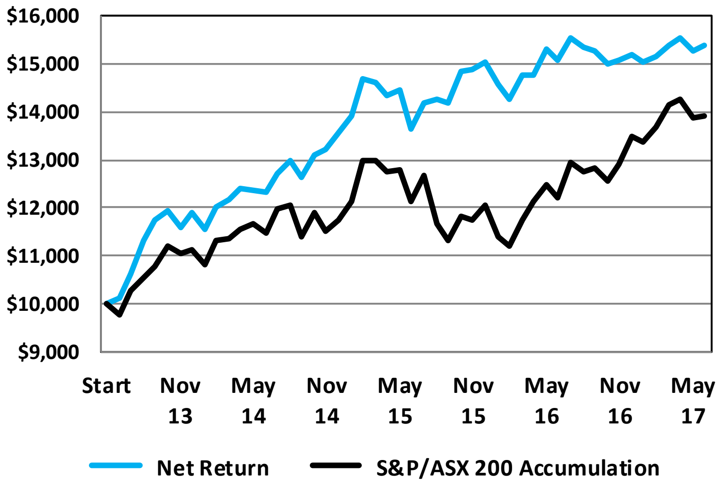
Fund Monthly June 2017

Return Summary

Period	1 mth	3 mth	6 mth	1 yr	3 yr (pa)	Cumulative	Per Annum
Fund Return	0.7%	0.0%	1.2%	2.0%	7.7%	53.8%	11.1%
S&P/ASX200 Acc.	0.2%	-1.6%	3.2%	14.1%	6.6%	39.1%	8.4%
Excess return	0.6%	1.6%	-2.0%	-12.1%	1.0%	14.7%	2.7%

Fund Returns are prepared on a redemption 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.

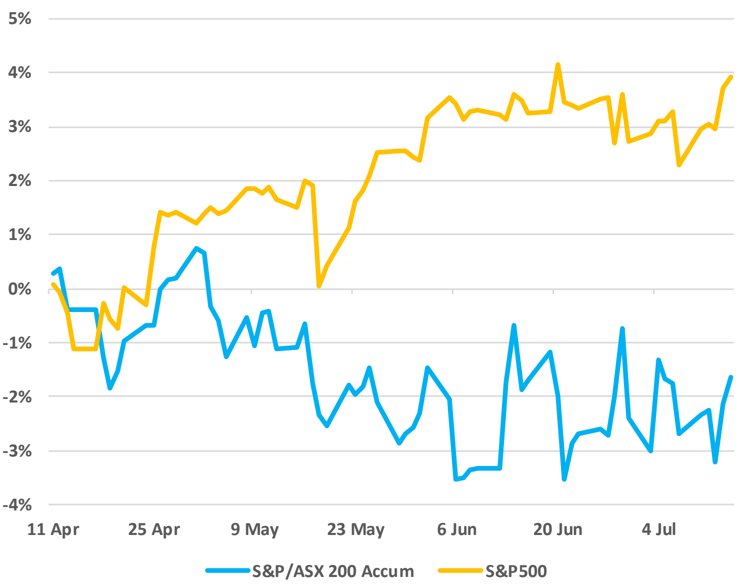
The objective of the Fund is to outperform the benchmark by greater than 5% pa after fees over a 5-7 year time frame.

Market Overview - The Australian equity market limped over the line for the final month of the 2017 Fiscal year, returning 0.20% for the month. Underlying this, we certainly saw plenty of dispersion across sectors. Australian banks somewhat reverted over the month after a punishing May 2017 post the introduction of the “Large Bank tax”. This was to be expected as the likelihood of the banks having no ability to recover some of this was an extreme view. Expensive defensives (eg Healthcare) also performed strongly despite the Australian dollar marching higher by almost 3%. Apart from these sectors, the market was pretty much in sell mode in latter part of the month dominated by negatively impacted interest rate sensitives as global bonds popped post more hawkish sentiment regarding interest rates for the European and US economies. This led to the usual culprits of Property, Utilities, Infrastructure and Telecoms underperforming in the latter part of the month. Energy was clearly the big underperformer falling almost 8% as crude prices fell almost 7%. But what has struck us the most over the past month or so is the uncorrelated nature of the Australian market with any other market across the world. In the case of our market’s correlation with the US market, it has gone to close to zero or negative. This can be seen in the chart on the next page which shows the cumulative return of the market since the middle of April 20017. And while there have been some large adjustments in the US market, they have generally been short term adjustments and have bounced back.

APSEC FUNDS MANAGEMENT

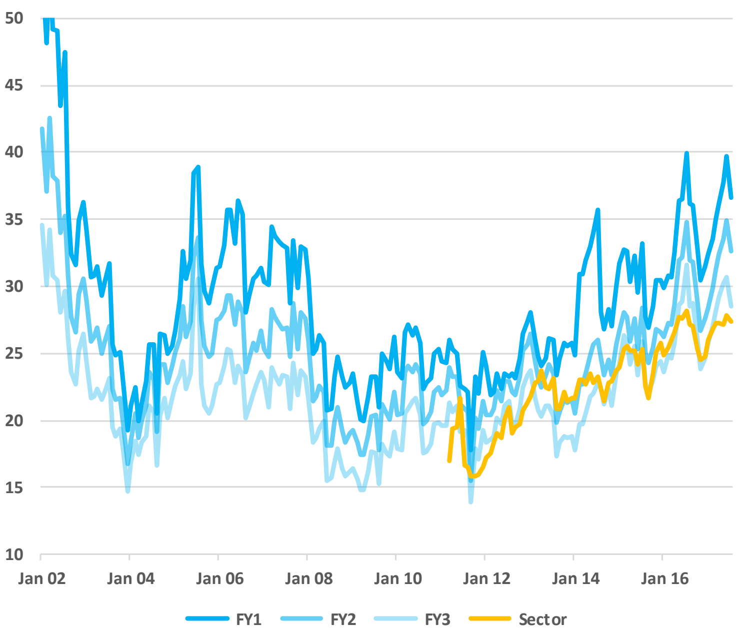
The Australian market has generally been correlated on the down days but pretty much uncorrelated every other day. The month of June has been even more unusual in the sense that daily returns have "come out of the blue". There have been 3 days through June which have moved over 1.5% intra-day. And most of this re-pricing has occurred without warning, with no particular lead relative to other markets across Asia nor in a slow and methodical fashion ie the velocity of price moves has bewildered even experienced market participants. This sort of price action is definitely led by some global institution as the flows are too big to be explained otherwise. As is always the case, these flows eventually are completed and the fundamentals of the market take over.

Cumulative Returns - Australia vs the US



Fund performance was dominated by some of the themes which played out over the month for the market in general. Our position in Cochlear (COH) performed well. But once again similar to last month, we were confronted with the conundrum of valuation. We don't like having to sell down a company on valuation but when valuations become extreme we must act. We chose to liquidate part of the position around $156. Universal Coal (UNV) also performed strongly rising 25% over the month. We have held this company for many years without liquidation through good and bad (recent takeover fell through) but have always maintained that the company's shares are deeply discounted. With two projects now in operation the cash generation from this business (and the potential for capital returns) will be very large relative to the market capitalisation. If they are able to deliver on their expectations over the next couple of years, with market forecasts for EBITDA of over AUD$30m, then we should do well over the coming years. Given the discount to their expected value, any indications of a buy-back (very efficient capital allocation while at a significant discount) followed by dividends would be well received. While we don't allocate too much to the smaller end of town, this is, in our view, a company that is too deeply discounted relative to comparable companies across the world and worth our patience. We also re-entered Fortescue Metals (FMG) during the month around $4.75. Given the commentary on Iron Ore prices had been particularly negative as well as valuations retreating significantly we took the opportunity. We are convinced, now that debt concerns have been put to rest, this equity will be a very large cash generator with upside optionality if world growth accelerates over coming years. We have selectively initiated short investments in various companies. In the case of Tassal Group (TGR), we believe the shares were expensive relative to their own history and are due to face a downgrade. The recent exuberance from brokers to push the company's prices higher in order to get away a questionable capital raising merely accentuates the risks that are likely to come to the fore over the coming years. The very fact the capital raising was for short term working capital (fish production is very seasonal) means that any downgrade will be treated very harshly. We traded the breakdown from $4.20 and remained short over the month. We

COH - Forward PE Valuation



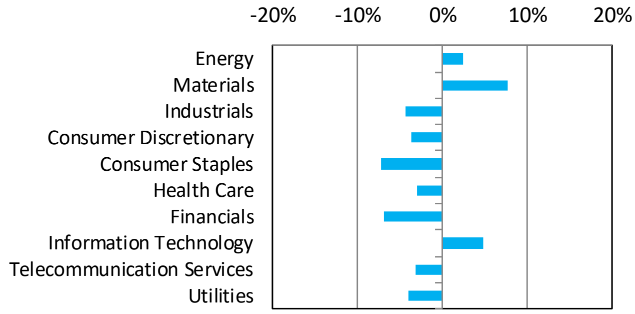
have also shorted ResMed (RMD) around $10.20. This is one of those situations where the valuations have been extreme with expectations for their next quarterly report too high. It is mind boggling in the case of this equity the price range the company has exhibited over the past year. From lows around $7 to above $10 recently (up 50% from low to high!), with earnings downgraded continuously over the year point to a very large passive buy program. The quality of the company is not being questioned in this instance. ResMed is a great Australian company. What is being questioned is the sustainability of expanding valuations when margins are not rising. Given the competition in the mask space, this is not unlikely to be resolved any time soon. Similarly, with recent weakness in the US Dollar, their cost base has just got very expensive relative to expectations.

Outlook – The 2017 fiscal year is now over. Looking forward we are a little more upbeat than we have been over the past year which has clearly been reflected in our beta positioning over the 2017 fiscal year. We are now preparing for the reporting season which will undoubtedly bring trials and tribulations. From a macro point of view, we are remaining patient on the strength of the Chinese economy over the second half with some slow down expected towards the end of the year. Geo-political risks remain with North Korea but we are hopeful a diplomatic solution will be reached. The Australian housing markets remains in flux. Recent overtures from regulators and recent Bank action in terms of the availability and pricing of interest-only loans is welcomed. It remains to be seen what impact this has on house prices over the medium term.

Risk Statistics

	Fund		Index	
	3 Year	Inception	3 Year	Inception
Alpha (%pa)	1.0%	2.7%		
Downside Capture	55%	58%		
Standard Deviation	8.3%	8.8%	12.4%	11.7%
Sharp ratio	1.0	0.1	0.6	0.1
Sortino		1.4		1.4
Largest Drawdown	-7.1%	-7.1%	-13.7%	-13.7%

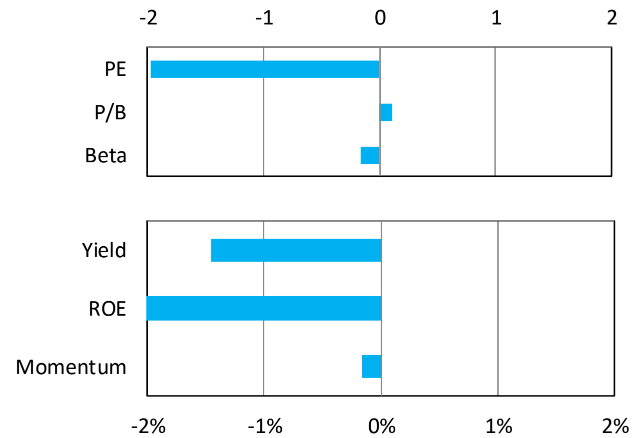
Sector Exposure



Exposure

	Long	Short	Net	Gross
Equity	54%	-15%	39%	69%
Index Futures			48%	48%
Net	54%	-15%	88%	117%
Cash			12%	

Factor Exposure



Contribution

Positive	Negative
Cochlear	Magellan Financial
Fortescue Metals	Nanosonics
Tassal Group	National Australia Bank
Universal Coal	QBE Insurance

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	1.2938
Mid Unit Price	1.2925	Redemption Price	1.2912

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Important information