Atlantic Pacific Australian Equity Fund

ARSN 158 861 155

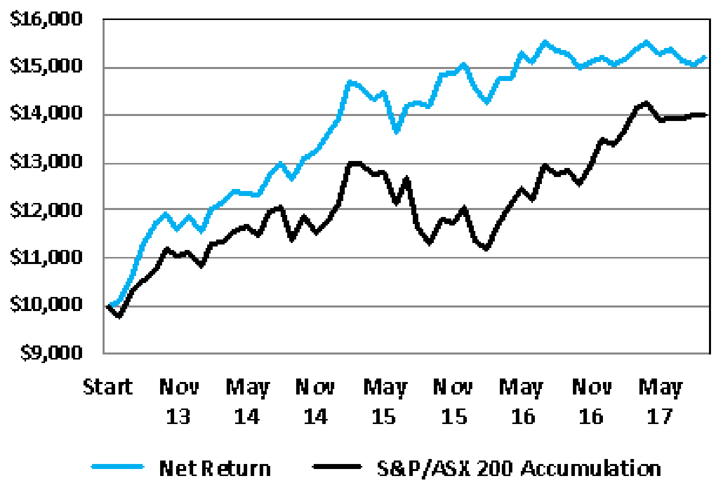
Fund Monthly September 2017

Return Summary

Period	1 mth	3 mth	6 mth	1 yr	3 yr (pa)	Cumulative	Per Annum
Fund Return	1.0%	-1.3%	-1.3%	-0.7%	6.3%	51.7%	10.1%
S&P/ASX200 Acc.	0.0%	0.7%	-0.9%	9.2%	7.1%	40.0%	8.1%
Excess return	1.0%	-2.0%	-0.4%	-9.9%	-0.8%	11.7%	2.0%

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.

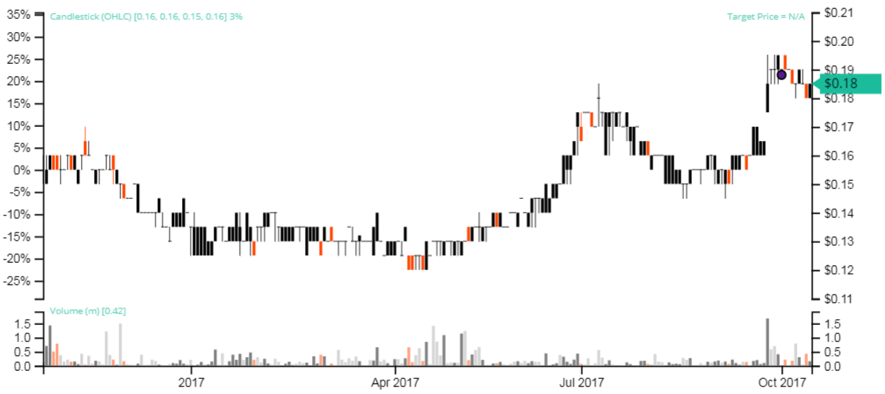
The Investment manager employs their Quadruple Alpha Investment Strategy which focuses on outperforming over all market cycles by capturing upside returns while minimising downside risk.

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

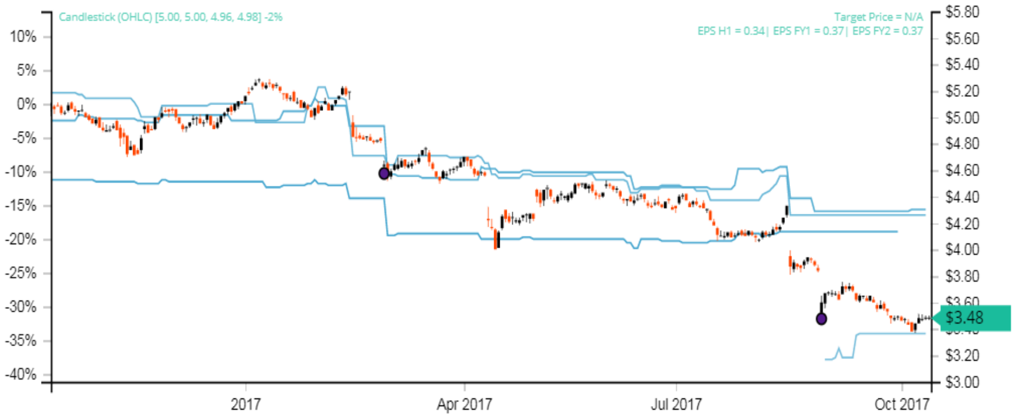
Market Overview - The Australian equity market failed to make any headway throughout the month of September, with a forgettable reporting season drawing to a close and failing to move the market. The domestic market has been trading in a tight range for an extended period of time now, seemingly regardless of offshore leads or macroeconomic data that would normally cause movements outside of it. We are now entering the fifth month in which the S&P/ ASX 200 Index has remained with an approximately 150 points (tighter than 3%) range which in our view is perplexing. Overseas economic data released throughout the month was generally positive, with manufacturing PMI's and construction activity out of America both beating expectations. Continued underlying strength in the economy, coupled with the outline of President Trump's proposed tax plan (skeletal as it was) that was released toward the end of the month has helped push the American market to all-time highs, unfortunately our domestic market has completely decoupled from overseas markets making overseas leads meaningless for the time being. Commodity markets sold off throughout September, with both the Dalian listed Iron Ore futures and NYMEX listed Copper futures performing extremely poorly, Iron Ore in particular falling almost 20% throughout the month. This led to weakness in the materials sector throughout the month, with BHP falling from a high of $27.74 down to an intra-month low of $25.55. The fund built a short position in BHP throughout the early part of the month which we liquidated and turned around into a net long position at month end which we have subsequently sold out of. In addition to our trading in BHP we built a short position in RIO in the early part of the month, closing it profitably and then

APSEC FUNDS MANAGEMENT

attempting a further short later in the month when we anticipated further weakness, this second short position was closed before month end. BHP ended up being one of the main contributors to our return for the month. The resources industry in general has had an extremely strong period of performance since January 2016 and should weakness in underlying commodity markets persist should provide a fertile ground for short opportunities. A major contributor to the outperformance of the fund throughout the month was our position in Universal Coal (UNV; Chart below), this small-cap coal miner, with operations in South Africa is now attracting some of the attention that we believe it deserves, operationally the company has begun to kick some goals with projects de-risked and producing some significant cash flow. Management recognises the excess cash flow that they are now generating and as a result at the end of the month declared their maiden dividend to shareholders, while we will gladly take the dividend when paid and we still anticipate that the share price has significant further repricing to go if the company can continue to perform well operationally in line with recent history. Meetings with management as well as a review of publicly available documents suggest to us that management are focusing on running the business and will leave the share price movements to the market to decide, we expect that over time this approach will be a profitable one for shareholders.



The telecoms sector had another awful month, with shares sliding across the board as investors continue to liquidate their positions. In our view there is unlikely to be a more positive outlook for the sector generally unless they are able to renegotiate NBN access agreements successfully, until such a time as that occurs they are likely to remain stuck between the NBN's requirement to generate a return on invested capital and customers unwillingness to pay a premium for access to faster internet add in an inability to differentiate themselves when reselling what is essentially a commodity product and you have the perfect recipe for margin degradation. Over time share prices will move to reflect this new reality of much lower margins for anyone in the business of reselling retail broadband access. TPG Telecom (TPG) and Telstra (TLS; Graph to left) have both been marked down heavily by investors as a result of this tough operating environment and subsequent cuts to dividends.



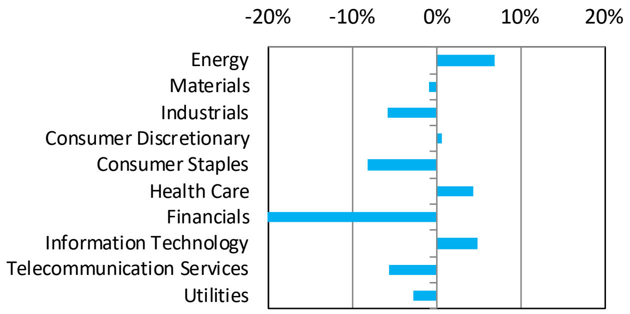
A detractor from the performance of the fund in September was Amcor (AMC), which was sold down on rising long bond yields. AMC has been extremely acquisitive in past periods, and has amassed a portfolio of packaging assets that generate a consistent cash flow, as a result of this some investors view AMC as a bond-proxy, resulting in it being sold down in an environment of rising long duration yields. We remain of the view that AMC will be able to continue to grow earnings, driven by prior acquisitions and the ongoing restructuring of its flexibles division, but are aware that there may be fewer acquisitions available at acceptable prices and thus longer dated earnings growth may not materialise in line with its history. Another detractor from fund performance was Bapcor (BAP) which we entered following the announcement of some solid results and confirmation of the earnings outlook for the FY18 results and what looked to be a slight upgrade to FY19 earnings. Regardless of the solid result the stock sold off throughout the month, presumably on the belief that Amazon is coming to eat their business (along with everyone else's in the retail space) despite BAP previously outlining to the market why this is unlikely to be the case. We liquidated our position in BAP toward month end and will reassess at a later date, perhaps when the market is looking more favourably upon mid cap retailers in general.

Outlook –
As we have noted above and in the past the rangebound nature of the domestic market remains perplexing to us, at the time of writing the market is sitting at the top of its recent trading range and we may see a break higher, although recent history would suggest that we shall instead see a retracement within the range. The domestic outlook continues to look supportive towards the share market, although geopolitical risk, in the form of a North Korea / USA conflict gives us cause for concern. There is little that we can do ahead of such an event, and remain of the view that the equity market should be well supported until such an event occurs. The domestic economy, or at least the eastern states, appears to be performing strongly, and while persistent weakness in commodity prices will weigh on exports and the mining sector the transition away from this sector appears to be going well. The house price boom continues, concentrated in Sydney and Melbourne, and while such price increases will never continue indefinitely, tighter lending standards, coupled with the major banks now looking well capitalised we anticipate that barring a shock to domestic employment markets we are unlikely to see a true property market recession, more likely a period of stagnation at some point.

Risk Statistics

	Fund		Index	
	3 Year	Inception	3 Year	Inception
Alpha (%pa)	-0.8%	2.0%		
Downside Capture	55%	59%		
Standard Deviation	8.2%	8.7%	12.2%	11.3%
Sharp ratio	0.9	0.1	0.6	0.1
Sortino		1.4		1.4
Largest Drawdown	-7.1%	-7.1%	-13.7%	-13.7%

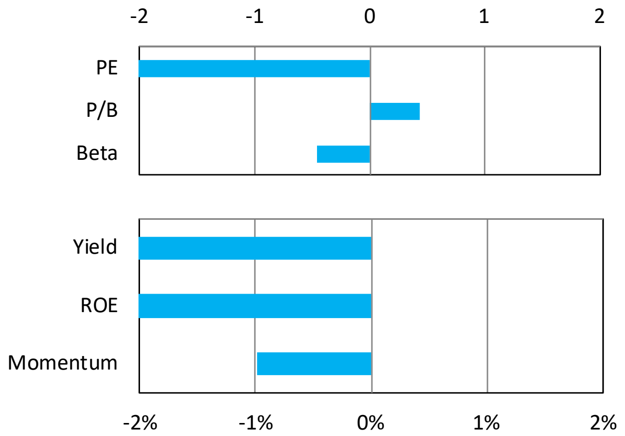
Sector Exposure



Exposure

	Long	Short	Net	Gross
Equity	70%	0%	70%	70%
Index Futures			0%	0%
Net	70%	0%	70%	70%
Cash			30%	

Factor Exposure



Contribution

Positive	Negative
BHP Billiton	Bapcor
Magellan Financial Group	Evolution Mining
Rio Tinto	Mesoblast
Universal Coal	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	1.2938
Mid Unit Price	1.2925	Redemption Price	1.2912

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Important information