

# Atlantic Pacific Australian Equity Fund

ARSN 158 861 155

## Fund Monthly October 2017

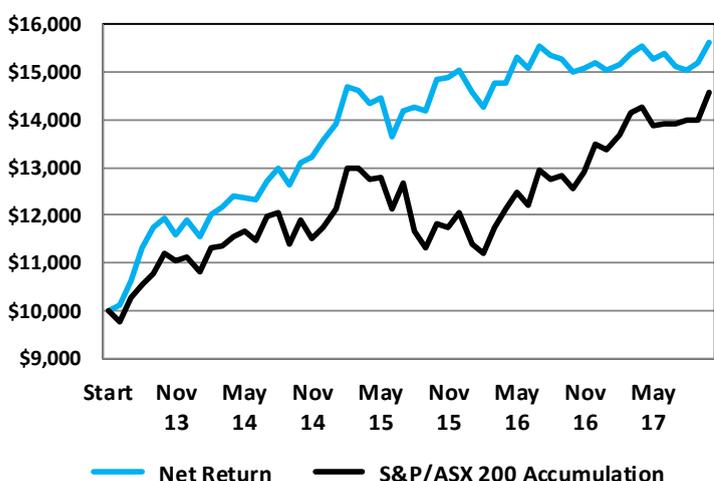
### Return Summary

Period	1 mth	3 mth	6 mth	1 yr	3 yr (pa)	Cumulative	Per Annum
Fund Return	2.9%	3.2%	0.4%	4.1%	6.1%	56.1%	10.6%
S&P/ASX200 Acc.	4.0%	4.7%	2.0%	16.1%	6.9%	45.6%	8.9%
Excess return	-1.1%	-1.6%	-1.6%	-12.0%	-0.9%	10.5%	1.7%

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 performed strongly throughout the month of October, shrugging off the weak leads from a very forgettable reporting season to end the month up 4% and unusually with all sectors of the domestic market performing strongly to end in the green. The Energy sector in particular had a very strong month, rising 6.5% throughout the month driven by generally higher oil prices. Light Crude, as measured by the performance of the CL Futures contract listed on the NYMEX exchange, was up approximately 4% throughout the month, and has continued this robust performance since, with Oil producers being the major beneficiaries of this move and Airlines being one industry that experiences the negative first order impact of the rise. The fund achieved our exposure to this change via our investment in Oil Search (OSH) which ground generally higher during the month as upgrades to broker estimates flowed through on the back of the strengthening underlying commodity.

The fund did not take any short positions exposed to the strong underlying oil price, although Qantas (QAN) would have been an obvious way to express this view, especially when considering the astonishingly strong performance this year. QAN has experienced a trough to peak move of close to 100% this year, albeit from a low base in terms of relative valuation against peers and aided by a significant share buyback program. At the time of writing the QAN stock has now retraced from its highs, although it had a delayed reaction to the strong oil price and appeared to be defying gravity for some time before finally reverting from highs following the trading update towards the end of the month of October.



Iron Ore futures had another awful month, with the Dalian listed contract falling 5.7% throughout the month to bring year to date performance to -25%. The fund has previously gained exposure to movements in Iron Ore prices via Fortescue Metals (FMG) being a pure play Iron Ore miner and thus the 'cleanest' way to express a view. While we did not hold a position in FMG during the month of October, we have held a position post month end, in the belief at the time of initiation that Iron Ore prices may have bottomed in the near term and could bounce. Economic data coming out of China in October was broadly positive, with a stronger than expected Industrial Production figure and an as expected GDP figure both coming towards the end of the month. The generally rosy picture that has been portrayed of late in global data has driven a period of extremely strong Copper prices, which rallied 6% throughout the month and has now added over 23% this year. This positive performance came following a period of weakness in September, possibly driven by profit takers. The fund bought a position in BHP throughout the month, given its exposure to these strong underlying commodity price trends.

For the second consecutive month a major contributor to the performance of the fund was our position in Universal Coal (UNV). We wrote about this position last month, noting that the share price appeared to be beginning to reflect the underlying reality of how far the business had progressed. The maiden dividend was clearly well received by shareholders and the month of October saw the stock reaching calendar year 2017 highs; rallying from 19.5c at the beginning of October to an intra month high of 22.5c on significantly increased volumes. We remain holders of the stock despite the recent pull back from highs, in anticipation of further interest from shareholders if the company can continue to deliver on operational targets in line with its recent history.

Another major contributor to fund performance was Challenger (CGF) which rose strongly mid-month following an update from management outlining the increases in assets under management, solid long-term annuity sales and strong net funds management flows. The company updated guidance for the FY18 year, targeting growth of 8 to 12% on FY17 Earnings. The company guidance looks to be somewhat ahead of broker estimates, and the better than expected annuity sales resulted in a few broker upgrades following the announcement causing the stock to rally from around \$12.60 to over \$13.60 in two trading sessions. Following the strong performance, we have reassessed our holding, and while the company is operating very well, at current prices the valuation looks stretched in our opinion. We will continue to monitor and may accumulate again at lower prices if the opportunity presents itself. Aristocrat Leisure (ALL) also had an extremely strong month; rising from \$21 to almost \$24 throughout October after ALL announced to the market that it was acquiring Plarium - an Israeli game developer specialising in Free-To-Play mobile and social games. The acquisition is expected to complete before calendar year end, and to be EPS accretive within the first year. The acquisition represents a significant diversification of ALL's business, and with Plarium's impressive track record was well received by the market. This strong performance led to ALL being one of the main contributors to fund performance for the month. We exited our position in ALL towards the end of October ahead of the company reporting FY17 results which are expected at the end of November. When price and earnings expectations inflate ahead of a result announcement we tend to trim or cut our positions pre-report due to the negative asymmetry that such a setup presents.

A major detractor from fund performance was our underinvestment throughout the month. The strength of the market moves in October took us by surprise, given that in the previous months our domestic market had remained stubbornly rangebound regardless of overseas leads. Historically, the fund has had a much smoother return profile than the overall market, with a tendency to derive a significant amount of our outperformance from periods of negative market performance, unfortunately this means that we also tend to be underinvested through periods of strong market performance as we strive to preserve investors capital and avoid the large negative drawdowns that the broader market periodically experiences.

**Outlook** – Globally economic data remains very supportive of equity markets, with the major economies of the world enjoying a period of strong economic growth, and signs that long awaited inflation may now appear. Overseas, the US market in particular has performed extremely well, on the back of encouraging economic data and an investment thesis centred upon stimulatory tax reform. In our view this must now be translated into higher earnings for corporates, as equity markets have in essence pulled forward these future year earnings into today's higher stock prices. Geopolitical risk remains elevated, with the threat of nuclear war on the Korean peninsula likely never higher. However, equity market fatigue when faced with risks of this nature is self-evident; the half-life of any risk such as this is brief, with markets tending to respond swiftly and sharply to the first realisation of such a risk but with each subsequent 'flare up' receiving less and less attention from market participants. As we have noted in the past you cannot really position yourself ahead of such an event, merely stand ready to respond if and when it occurs. As such we will continue to manage money on the basis that the domestic economy is performing strongly and commodity prices have strengthened significantly from lows, suggesting that both miners and industrials will likely find earnings well supported.

## Risk Statistics

	Fund		Index	
	3 Year	Inception	3 Year	Inception
Alpha (%pa)	-0.9%	1.7%		
Downside Capture	55%	59%		
Standard Deviation	8.1%	8.6%	11.8%	11.3%
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%

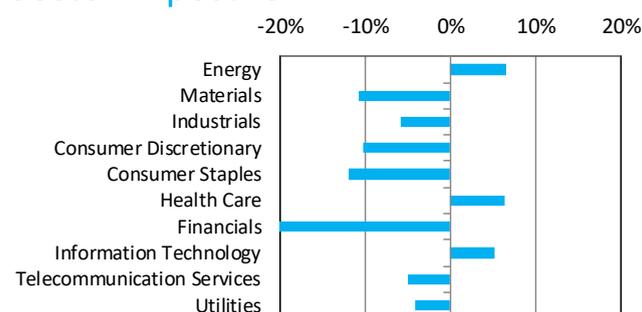
## Exposure

	Long	Short	Net	Gross
Equity	74%	0%	74%	74%
Index Futures		-52%	-52%	52%
Net	74%	-52%	22%	126%
Cash			26%	

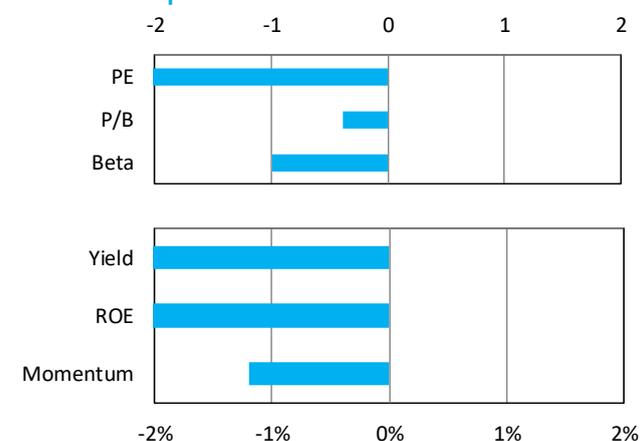
## Contribution

Positive	Negative
Aristocrat Leisure	Mesoblast
Nanosonics	Sims Metal Mgt
OZ Minerals	Westfield
Universal Coal	

## Sector Exposure



## Factor Exposure



## 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

## Contact Information

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