

Atlantic Pacific Australian Equity Fund

ARSN 158 861 155

Fund Monthly February 2022

Return Summary (To February 2022)

Period	1 mth	3 mth	6 mth	1 yr	3 yr (pa)	5 yr (pa)	Cumulative	Per Annum
Fund Return	7.31%	8.4%	10.0%	12.9%	10.5%	7.3%	115.5%	9.1%
S&P/ASX200 Acc.	2.14%	-1.7%	-4.2%	10.2%	8.4%	8.5%	105.5%	8.5%
Excess return	5.16%	10.1%	14.2%	2.7%	2.1%	-1.2%	10.0%	0.6%

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 \$100,000

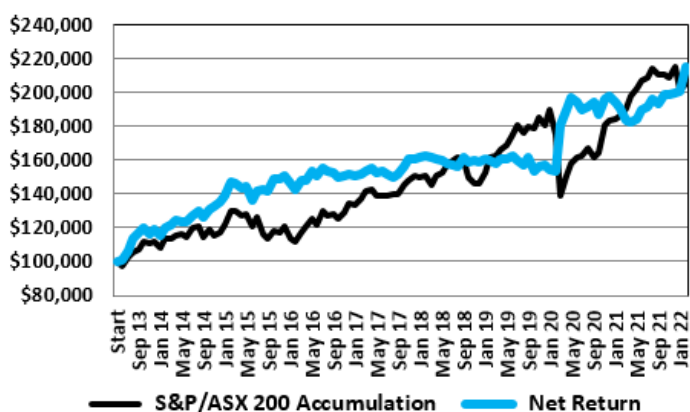


Chart of the Month

The future path of global interest rates are assured?



Portfolio Activity

Takeovers	Long	The Fund was exposed to 2 takeovers over the month. It is always good to get one but two is rare! Cimic Group (CIM:ASX) was the most significant contributor to "take-over" returns over the month. We have recently focussed on what we perceive as "cheap" stocks ie stocks that are unlikely to be de-rated materially but offer upside over the long term. Mining and Construction services companies fit this mould to some extent. Fortunately, we entered CIM pre-reporting and within a couple of weeks a "clean-up" bid was laid on the table. AGL Energy (AGL:ASX) was also approached however the offer price was less than satisfactory making very little impact on Fund returns. We don't question the rationale behind the takeover but the control premium offered was never going to stack up, probably one of the most ridiculous attempts that we have seen. Looking forward against a backdrop of rising interest rates, a "replacement of capacity" strategy (Coal to Renewables) is a risky bet at the best of times...had the consortium offered even a small control premium I am sure most investors in AGL would have ceded.
Reporting Season	Long/Short	Sims Metal (SGM:ASX) was by far and away one of the strongest results during February 2022. However, the Fund was not exposed unfortunately. Given the extent of the leverage in their earnings, we positioned pre-result into BlueScope Steel (BSL:ASX; LONG). BSL is another company, like SGM, that is hard to model effectively and tends to surprise on the upside in unison. Given BSL had been sold down near 30% from recent highs, we thought there was asymmetry in going long ie prices were low with a high expectation of an upgrade. National Australia Bank (NAB:ASX; LONG) led the way in the banking sector with a very strong result. This is our preferred bank based on valuation and earnings dynamics. Sonic Healthcare (SHL:ASX; SHORT) continued its fall with a lacklustre earnings result. Growth expectations have to be pulled back with lower COVID pathology revenues over the coming years. In our view, an unnecessarily expensive company with downgrades afoot. Cochlear (COH:ASX; SHORT), bucked the trend and bounced post result. With a slowing growth profile, excessive valuation in a rising interest rate environment, does not bode well for future performance moving forward in our view.

Portfolio Positioning

The start of the month saw a rebound from prior distressed levels during Jan 2022 in part driven by the usual pre-dividend buying frenzy as well as bidding up for expected earnings upgrades moving through the reporting season. The extent of cash flow generation from resource companies continues to be staggering. Overall, earnings expectations have been met with an underlying cost-inflation tone. This will persist and in some part explains why we thought the opportunity set moving through this reporting season was small. We have tended to play conservatively and take opportunities where they appeared. Towards the end of the month, the Russians invaded Ukraine. Given our historical overweight to energy for years, this has played nicely for Fund returns this month as well as in March 2022. We are in the enviable position of being able to sell into strength where dynamics prevail. As a consequence of the invasion, energy and other commodity prices have jumped materially. In some cases, prices have jumped beyond historical norms leading to the potential for super normal profits. A case in point is Thermal Coal prices. The Fund has been exposed to Thermal coal via positions in Whitehaven Coal (WHC:ASX) and Terracom (TER:ASX). These are companies that have been perceived as having balance sheet issues since COVID but are now in the enviable position of being the most profitable companies or at least having the largest positive EPS revisions on the ASX. Indeed, WHC has moved to buying back stock which is an extraordinary turn of events.

War is never good as we know downdrafts in markets of the order of 20% are possible, the IRAQ war being a prime example. Similarly, so long as the "West" is not brought into this war which we doubt, the likely pathway will be long term and equity markets may not be impacted greatly. We remain vigilant in monitoring market stress in the short term and remain on the sidelines generally until opportunities present. Australia to date has yet to feel any real effect from the war in terms of market movements partly due to the higher proportion of commodity related companies. Perhaps our downdraft is coming. What is certain, there will be great opportunities over the coming year to pick up great companies.

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 its Quadruple Alpha Investment Strategy which focuses on outperforming overall market cycles by capturing upside returns while minimising downside risk. The objective of the Fund is to outperform the benchmark after fees and expenses over a 5-7 year time frame.

Risk Statistics (As at February 2022)

	Fund		S&P/ASX 200 AI	
	3 Year	Inception	3 Year	Inception
Alpha (%pa)	2.1%	0.6%		
Downside Capture	-28%	18%		
Standard Deviation	13.1%	10.0%	17.3%	13.4%
Sharpe ratio	0.6	0.8	0.6	0.6
Sortino		1.6		1.5
Largest Drawdown	-7.7%	-7.7%	-26.7%	-26.7%
Correlation	-38%	7%	100%	100%

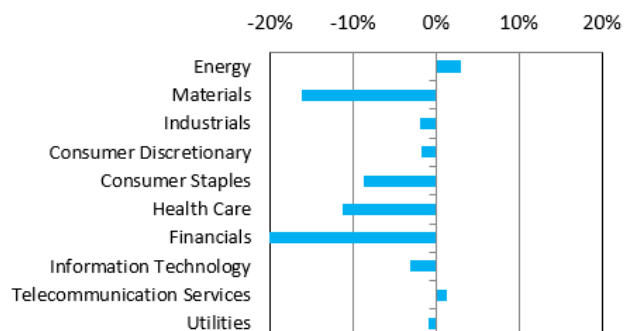
Exposure

	Long	Short	Net	Gross
Equity	54.6%	-3.4%	51.2%	58.1%
Index Futures	0.0%	-42.3%	-42.3%	42.3%
Net	54.6%	-45.7%	8.9%	100.4%
Implied Cash			91.1%	

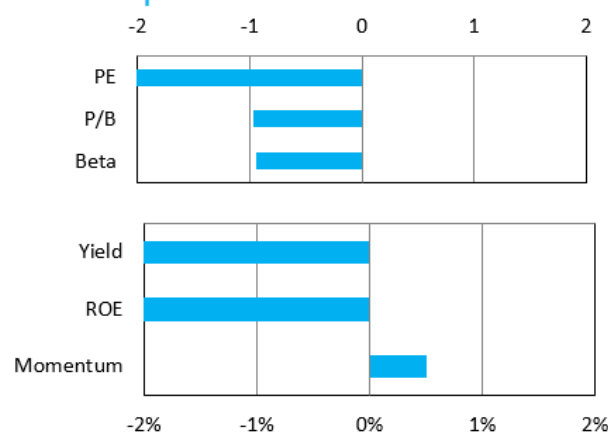
Contribution

Positive	Negative
BlueScope Steel (Long)	News Corp (Long)
Cimic Group (Long)	Norwood Systems (Long)
National Australia Bank (Long)	Seek (Long)
Terracom (Long)	TPG Telecom (Long)

Sector Exposure

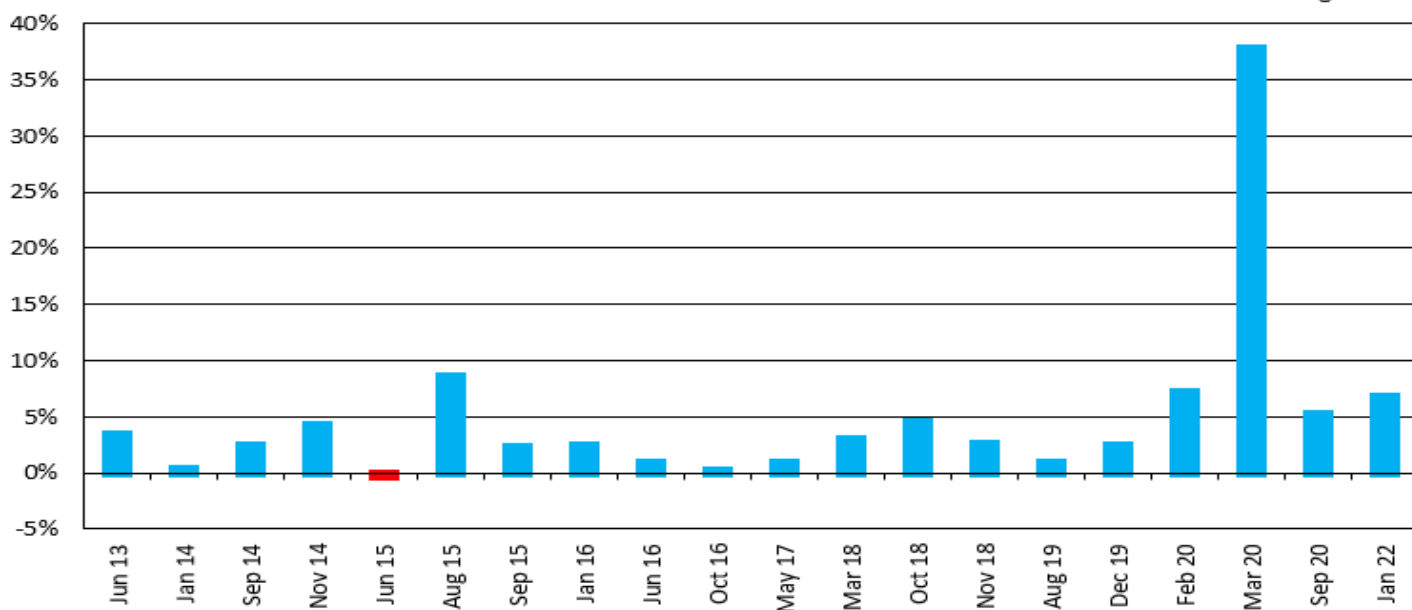


Factor Exposure



Source: APSEC Funds Management

APAEF Relative Returns (From Inception) When the market is down more than -2%



Source: APSEC Funds Management

Fund Information (As at February 2022)

APIR Code	OMF0003AU	Responsible Entity	Equity Trustees Ltd
Inception	1 June 2013	Investment Manager	APSEC Funds Management
Minimum Investment	\$20,000	Administrator	Apex Group Ltd
Application/Redemption	Daily	Custodian	Apex Group Ltd
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		
Mid Unit Price	1.3807	Application Price	1.3821
		Redemption Price	1.3793

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Important information

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Atlantic Pacific Australian Equity Fund's Target Market Determination is available here – <https://www.eqt.com.au/insto/>. A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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