

ALDERSLEY CAPITAL

AC Managed Equity Portfolio

December 2015 Quarterly Review

Portfolio Performance

The AC Managed Equity Portfolio returned 18.22% compared to the benchmark (S&P/ASX 200 (TR)) return of 6.48% giving a relative performance of 11.74% for the period.

Performance to 31 December 2015

Return %	One Month	Three Month	Six Month	One Year	Three Year	Since Inception (29/10/2013)
Portfolio	8.22	18.22	18.60	28.00	N/A	13.07
Benchmark	2.73	6.48	-0.53	2.56	9.19	3.35
Relative Performance	5.49	11.74	19.13	25.44	N/A	9.72

The table above sets out the investment performance returns (AFTER investment management fees, but BEFORE administration fees, performance based fees and taxes) for the Portfolio. The performance returns have been calculated on a daily basis taking into account brokerage costs, and are accumulated for the period shown. Returns are shown as annualised if the period is over 1 year, or as total returns otherwise.

Quarterly Review

A somewhat better quarter for markets, although the Christmas rally was subdued. Once again smaller emerging growth companies that are below the radar of many fund managers proved to be the sweet spot, with stocks like Hub4 (+62%) and ResApp Health (our net investment was up ninefold over the quarter) and A2M Milk (bought and sold in size for a 53% gain) leading the way. Our largest position from earlier performance, Alexium, consolidated falling 10%. We made good trading gains in RIO (bought and sold for a 10% gain) and Acrux (11.5% profit). Westpac (+14%) and CBA (+17%) recovered from its oversold position, but otherwise most other stocks were within a few percent of the benchmark. We bought MXUPA as an oversold income security and made 8% just from capital gain over the period. Avoiding all oil and commodity stocks once again proved to be correct strategy. The strong outperformance over the quarter meant we retained our record as one of the top decile performers on the HUB platform.

Top 5 stocks by weight as at 31 December 2015

Company Name	Sector
ALEXIUM INT GROUP ORDINARY	Materials
COMMONWEALTH BANK. ORDINARY	Financials
HUB24 LTD ORDINARY	Financials
MACQUARIE GROUP LTD ORDINARY	Financials
MULTIPLEX SITES	Financials

Market Outlook

Now that interest rates have started to rise we are technically in a bear market period, so we cannot expect a strong market in 2016 and increasing caution is warranted. An early bear market period does not actually mean that values will fall and it is more likely that market will have a quietly positive year. However January has started weakly and there is plenty of ammunition to support a bear case including US elections, turmoil in the Middle East and the slowdown in China.

The fall in the oil price has gone further than most so-called experts predicted. It has a habit of doing that. This time its supply driven not demand erosion. Iran has been shipping oil from storage vessels, Shale oil producers are still producing just for cash flow and Saudi is maintaining production and shipping levels to offset ISIS etc. So we don't expect an early bounce in the oil price or from either Santos or BHP.

It's probably more of the same with emerging small growth companies likely to deliver performance independently of the index movement. We now have an array of small companies all of which are poised to deliver both earnings growth surprises and gradually become recognised by conventional fund managers over the coming months. At some point we will make the switch back into some of the decimated blue chips in the oil, mining and commodity arenas, but in a bear market period it is generally wiser to let some trading profits pass than risk being caught up in another draught.

IMPORTANT INFORMATION

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