

ALDERSLEY CAPITAL

AC Managed Equity Portfolio March 2016 Quarterly Review

Portfolio Performance

The AC Managed Equity Portfolio returned -6.16% compared to the benchmark (S&P/ASX 200 (TR)) return of -2.75% giving a relative performance of -3.41% for the period.

Performance to 31 March 2016

Return %	One Month	Three Month	Six Month	One Year	Three Year	Since Inception (29/10/2013)
Portfolio	4.34	-6.16	10.93	8.05	N/A	8.76
Benchmark	4.73	-2.75	3.55	-9.57	5.39	1.82
Relative Performance	-0.39	-3.41	7.38	17.62	N/A	6.94

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

The quarter opened with the worst January performance for global equity markets we can recall, with commodity markets and credit spreads both affected. The general malaise in the market finally caught up with smaller companies, with several of our smaller companies giving up ground, including two of our largest holdings, Alexium (-18%) and Cirrus Networks (-11%). Even HUB (-12%) and HFA (12%) were weaker. On the other hand RAP gained 78% over the quarter, and despite selling two thirds for rather more than the original cost of the whole holding purchased only in December, it is still a significant holding (but now outside the top 5). There was no support from the banks, with CBA down 9% and MQG down 17%. We remained well underweight banks throughout the quarter. Ozforex was down a disappointing 31%. HVN (+12%) benefited from the demise of Dick Smith. TPG was a solid performer again. We saw a bounce in March which helped the one month performance, but it was not sufficient to provide a positive outcome for the quarter. Overall, the volatility experienced in the portfolio was less than might have been expected given the nature of its current holdings.

Top 5 stocks by weight as at 31 March 2016

Company Name	Sector
ALEXIUM INT GROUP ORDINARY	Materials
COMMONWEALTH BANK. ORDINARY	Financials
TPG TELECOM LIMITED ORDINARY	Telecommunication Services
CIRRUS NET HOLD LTD ORDINARY	Information Technology
LENDLEASE GROUP UNIT/ORD STAPLED	Financials

Market Outlook

Writing this in mid April, things have settled a little globally and we have seen some hesitant bounces. China is definitely slowing, but the worst of the forecasts are not being met. So far the Chinese appear to be managing the slowdown and transition reasonably well, without causing a major slump in property values or world trade. Risks certainly remain. But we have restored our weighting in FMG as a hedge against being too pessimistic and it is showing nice gains as we write. There has been a rally in the oil price, but we have chosen not to participate in this. Instead we have restored the various gold producers and near producers to the portfolio such as SBM, GOR and NST, following their pullbacks. The earnings reporting season is now upon us, and most commentators are pessimistic about the prospects of earnings reports matching expectations. Its one of the reasons we have sought a range of investments in the new and largely overlooked disruptive sectors that are generally limited to quite small companies. AJX surprisingly entered the ASX300 index in March, and we have high hopes that this will be a strong performer over the next 12 months with their revolutionary Flame Retardant technologies that meets the latest environmental standards (no use of bromine). Likewise CNW is at a very interesting stage of its growth in the management of enterprise data and looks very enticing on a low market cap. Hence we have recently built a committed position to each. The Australian market looks oversold, perhaps around 24% or so cheap on conventional measures, but needs a further improvement in sentiment. The US FED has returned to a dovish position which should help. Australia needs a sustained rally in commodity prices to get things going.

IMPORTANT INFORMATION

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