

ALDERSLEY CAPITAL

AC Income Plus Portfolio

June 2015 Quarterly Review

Portfolio Performance

The AC Income Plus Portfolio returned -2.97% compared to the benchmark (Bloomberg Bank Bill Index (0+yr) Maturity (SBCBB)) return of 0.56% giving a relative performance of -3.53% for the period.

Performance to 30 June 2015

Return %	One Month	Three Month	Six Month	One Year	Three Year	Since Inception (29/10/2013)
Portfolio	-2.43	-2.97	5.52	6.73	N/A	5.12
Benchmark	0.19	0.56	1.23	2.60	2.86	2.62
Relative Performance	-2.62	-3.53	4.29	4.13	N/A	2.50

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 June quarter was always going to be difficult and for most of the quarter the equity proportion was reduced with cash over 20%. As the bulk of the remaining equities were in high yielding shares, including banks, the average 9% decline in bank share prices over the quarter was bound to impact on performance negatively. The biggest of these, CBA, actually held up better and trading the price range by taking some profits above \$87 helped mitigate the downside. The largest equity held, Hunter Hall Global Value sort of did its job by not falling in price over the quarter.

In addition, some of the hybrid floating rate securities showed declines worse than benchmark.

Overall a disappointing quarter, but considering the equity market fell over 8% and at least 50% was in equities, not too much was given back. The benchmark contains no equities, so of course weak equity quarters are bound to have some negative impact.

Top 5 stocks by weight as at 30 June 2015

Company Name	Sector
HUNTER HALL GLOBAL ORDINARY	Financials
COMMONWEALTH BANK. ORDINARY	Financials
ANZ BANKING GRP LTD ORDINARY	Financials
WESTPAC BANKING CORP ORDINARY	Financials
TELSTRA CORPORATION. ORDINARY	Telecommunication Services

Market Outlook

China appears to be the main economic focus at the moment, with its equity market being “managed” down by the Chinese government, as is its currency. As China has been the main source of growth in the world for a decade or so, we live in interesting times. Australia has lost its protected environment and the Australian dollar has fallen heavily against most currencies.

One positive for many businesses reliant on energy and transport is the fall in oil prices. Iran is poised to join the supply party. USA shale oil producers are continuing to produce, below depreciated cost, because of the positive cash flow effects. Saudi too is maintaining its production. So falling oil prices are meeting stubborn supply. Low prices will stimulate countries like India, where small generators are used everywhere. However we appear some time away from a true bottoming of the global interest rate cycle. Reminiscent of the Keynesian “fundamental disequilibrium” of the nineteen thirties.

Locally, bank shares will top up their capital to meet capital adequacy laws, and the boom in property prices led by investors may yet create a credit problem for them once the RBA raises rates. However with unemployment rising, and exports not responding to falling currency, we are probably on hold for interest rates this year. We retain no exposure to fixed rate bonds, only floating rate hybrids and equities and cash. Selectively we will be looking for more trading opportunities in equities.

IMPORTANT INFORMATION

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