ALDERSLEY
CAPITAL

AC Income Plus Portfolio

March 2016 Quarterly Review

Portfolio Performance

The AC Income Plus Portfolio returned -4.18% compared to the benchmark (Bloomberg Bank Bill Index (0+yr) Maturity (SBCBB)) return of 0.58% giving a relative performance of -4.76% 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	4.35	-4.18	3.99	-2.99	N/A	3.49
Benchmark	0.20	0.58	1.13	2.23	2.58	2.50
Relative Performance	**4.15**	**-4.76**	**2.86**	**-5.22**	**N/A**	**0.99**

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 equities we can recall, which spilled over into commodities and credit spreads. While late March saw a positive bounce for the quarter as whole the banks and other financials that make up the bulk of the equity component portfolio saw double digit declines over the quarter. Despite holding over 20% cash over the period there was nowhere to hide. Only TCL and HVN of our equity holdings managed gains. The bank shares were down between 3.3% (WBC) to 16% (MQG). Even most hybrid securities saw modes losses in value. Obviously unless the dividends are cut by the banks, that at this stage is not on the horizon, they actually look very good buying. Telstra was down just 2% and looks solid value here.

Top 5 stocks by weight as at 31 March 2016

Company Name	Sector
MULTIPLEX SITES	Financials
TELSTRA CORPORATION. ORDINARY	Telecommunication Services
SUPER RET REP LTD ORDINARY	Consumer Discretionary
STOCKLAND UNITS/ORD STAPLED	Financials
COMMONWEALTH BANK. ORDINARY	Financials

Market Outlook

There has been a general exodus by foreign investors from emerging markets, of which Australia is one. This has caused a progressive weakening in share prices of banks in oarticular. Foreigners look at our residential property market and predict an Armageddon, given how pricey our residential properties are now compared with conventional measures such as ratios to income. We are now at 12 times salaries instead of the 3 times that existing perhaps 40 years ago. Its been one continuing bull market. There is also the issue that bank funding is largely offshore based, a strategic weakness. Some other countries have had property corrections, but not here. Undue pessimism however overlooks a number of things. One is our banks are somewhat protected species, operating a government sanctioned oligopoly. Secondly, residential borrowers are never no recourse as in the USA. Thirdly our currency fall has made residential investment attractive to foreigners, many of whom also do or intend to migrate here. While the banks were caught out with Arrium, generally bad debts are manageable. Where we do agree with the pessimists is the difficulty banks will face in coming years in improving their earnings significantly. They look like settling into being yield plays rather than leading equity holdings which puts pressure on many retirement portfolios.

A rally commenced in March and has continued, albeit raggedly, in April. We are entering the seasonally weak period for markets. We are holding 22% cash awaiting a better buying time.

IMPORTANT INFORMATION

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