ALDERSLEY CAPITAL

AC Managed Equity Portfolio

September 2016 Quarterly Review

Portfolio Performance

The AC Managed Equity Portfolio returned 10.25% compared to the benchmark (S&P/ASX 200 (TR)) return of 5.14% giving a relative performance of 5.11% for the period.

Performance to 30 September 2016

Return %	One Month	Three Month	Six Month	One Year	Three Year	Since Inception (29/10/2013)
Portfolio	1.95	10.25	19.07	31.99	N/A	13.80
Benchmark	0.48	5.14	9.29	13.13	5.98	4.64
Relative Performance	**1.47**	**5.11**	**9.78**	**18.86**	**N/A**	**9.16**

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

Another great quarter. The holdings in Fortescue (FMG) and NRW Holdings (NWH) were significant contributors as we rode the recovery in the oversold iron ore and mining services companies. Hub24, provider of this managed accounts platform, has now provided fivefold gains in just under three years, and as it is now profitable, and growing exponentially still, should turn out to be a ten bagger. Having originally developed and introduced the managed accounts concept to Australia with the launch of ShareInvest in 1993, and DirectPortfolio in 1996, I view with some satisfaction the sudden massive uptake in managed accounts in the industry. Its just that its about 20 years overdue!

The reinstated RAP holding has bounced up towards 50c, a 25-fold gain since our first purchase less than two years ago. The topped up Alexium (AJX) rebounded from 47c to 60c over the quarter. Early next year should demonstrate the proof of their world class specialty chemical technologies as they roll out to military, bedding, auto and home furnishing product manufacturers.

As is witnessed above, the bulk of our gains are coming from small innovative companies with "disruptive technologies". Even experts are loath to believe in new concepts. In fact, investment experts are usually the most sceptical. Left to investment experts we would not have had telephones, radio, cars or the internet. Most people prefer the safety of the top 50 "bluechip" stocks. While that has been ok for most decades, this decade is seeing disruptive innovation grind away at traditional markets and cautious consumer behaviour. Hence the benchmark ASX200 has been a serial underperformer of our portfolio for the past three years.

Top 5 stocks by weight as at 30 September 2016

Company Name	Sector
ALEXIUM INT GROUP ORDINARY	Materials
NRW HOLDINGS LIMITED ORDINARY	Industrials
HUB24 LTD ORDINARY	Financials
CIRRUS NET HOLD LTD ORDINARY	Information Technology
ST BARBARA LIMITED ORDINARY	Materials

Market Outlook

The clouds are undoubtedly building up. Global bond yields are creeping up, and while any concerted official rise in interest rates will not occur until 2017, we have probably seen the bottom in interest rates. That means a "bear market" period (a period of rising interest rates associated with muted gains or losses in market indices) lies ahead.

During early October the cash weighting was increased almost to the maximum and, following some falls, some of that was reinstated into gold stocks and other situation stocks. MY main concern is the deterioration of the Deutsche Bank share price and the possible ramifications of a collapse caused, not by its terrible loan book, which is a known risk, but by its derivatives book, which is much much bigger and of unquantifiable risk. Deutsche is winding that back but if the bank fails it would trigger a bear market.

These sorts of trigger events are difficult to predict, and may not eventuate, but our bank holdings are down to their lowest weighting at present.

On the more positive note, several of our smaller companies are poised to prove up their sales in the next six months and move into profitability. At that stage they will attract the attention of conventional fund managers and we should see further good gains.

IMPORTANT INFORMATION

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