ALDERSLEY
CAPITAL

AC Managed Equity Portfolio

December 2016 Quarterly Review

Portfolio Performance

The AC Managed Equity Portfolio returned -1.10% compared to the benchmark (S&P/ASX 200 (TR)) return of 5.18% giving a relative performance of -6.28% for the period. The one year, three year and since inception returns remain well above average.

Performance to 31 December 2016

Return %	One Month	Three Month	Six Month	One Year	Three Year	Since Inception (29/10/2013)
Portfolio	6.38	-1.10	9.03	10.47	13.80	12.25
Benchmark	4.38	5.18	10.59	11.80	6.59	5.94
Relative Performance	**2.00**	**-6.28**	**-1.56**	**-1.33**	**7.21**	**6.31**

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

We were caught wrong-footed in Australian gold stocks over the US election despite correctly predicting a Trump victory. The rise in gold stocks which heralded his victory lasted less than 12 hours, his victory speech putting paid to the worst fears of his presidency, and positions were cut at a loss the next day recognising that market reactions to his victory were likely to persist.

In addition to most blue chip stocks performing relatively well for a change, the quarterly return was also marred by a sharp selloff in many of our smaller company names until early December, not for any fundamental reasons but because allegedly there was a major superfund selling down its small company portfolio before transitioning the funds to a new manager. (Many of these same stocks bounced back hard in January, presumably as the new manager was buying them back!) YPB hit a low of 15c during the quarter, despite excellent news-flow. This holding was increased at the lows and surged to finish up 35% in share price to become our largest holding at quarter's end. It specialises in providing a range of anti-counterfeiting solutions to diverse clients from packaging and pharmaceutical companies, to international governments for passports and secure documentation generally. It seems to be punching well above its weight for a small company, but as it is still to enter profitability, it is below the radar of most fund managers. CSL was added too following a selloff below $100 a share. Bluescope (+11%) was added in anticipation of Trump winning the Presidency, and has improved in price to be a top 5 holding since his victory. It owns a major steel operation in the USA which seems likely to be a major beneficiary of Trump's theme of rebuilding infrastructure in the USA using US materials and labour.

Top 5 stocks by weight as at 31 December 2016

Company Name	Sector
YPB GROUP LTD ORDINARY	Industrials
NRW HOLDINGS LIMITED ORDINARY	Industrials
CSL LIMITED ORDINARY	Health Care
GBST HOLDINGS.. ORDINARY	Information Technology
BLUESCOPE STEEL LTD ORDINARY	Materials

Market Outlook

The victory of Donald Trump may have triggered protests from feminists, many celebrities, and the young, but equity markets have staunchly supported his victory. Equities around the world have rallied, in anticipation that the USA will rebuild its base and in so doing, assist the rest of the world. Fears of Trump acting in a divisive manner or triggering a world trade slump appear overly pessimistic. In the end he will want to be remembered as a successful president – his ego demands nothing less – other countries like China will adjust to his bullying style of negotiations – but in the end he is a negotiator.

We've had a good rally in January, and this year will see interest rates creeping up which at some point will weigh on equity valuations. But overall, the outlook is for further stimulation from steady to falling oil prices, a resurgent level of activity in the USA, China continuing to surprise to the upside as it seeks to reduce pollution by modernisation of factories. At the smaller company level, several of our holdings are poised to enter profitability in 2017, which should start to attract more interest from more conservative managers. So overall, a positive 2017 is in prospect.

IMPORTANT INFORMATION

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