ALDERSLEY CAPITAL

AC Managed Equity Portfolio

March 2020 Quarterly Review

Portfolio Performance

The AC Managed Equity Portfolio returned -5.09% compared to the benchmark S&P/ASX 200 (TR) return of -23.10% giving a relative performance of 18.01% for the period.

Performance to 31 March 2020

Return %	One Month	Three Month	Six Month	One Year	Three Year	Since Inception (29/10/2013)
Portfolio	-8.45	-5.09	-6.39	-5.87	5.68	8.13
Benchmark	-20.65	-23.10	-22.57	-14.38	-0.56	3.38
Relative Performance	**12.20**	**18.01**	**16.18**	**8.51**	**6.24**	**4.75**

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 decision to go 40% liquid in late February and shift out of growth names like AfterPay as well as all the banks proved the big difference, as was the decision to go back into these names on the day the market bottomed in March. The trigger for the first decision was the awareness that Covid-19 was going to be a pandemic that would create massive uncertainty in markets. I wasn't alone in picking that markets were likely to fall heavily, but looking at the performances of my equity peers, it seems most of fund managers just stayed close to benchmark. The market had been looking a little expensive even before this pandemic came along.

In the end the falls were on a par with some of the greatest bear markets of all time. Was this overdone? Early statistics from Case Fatality rates suggested the cost in terms of deaths would be too high to support the "herd immunity" approach advocated by the UK initially. "Flattening of the curve", to keep hospitalisations within the bounds of the health sector's ability to treat severe cases became the watchword. This required massive lockdown and restriction of movement. The prospect of a global depression loomed. However in the midst of this pessimism, the Nuffield College in Oxford published their findings that most people were asymptomatic, so the "Infection Fatality Rate", (the number of people likely to die as a percentage of all people infected), was as low as 0.6-1.2%, well below the 9% of case fatalities in say Italy.

This quality information triggered a decision to buy back into the market, buying things like APT at $9 (having sold at $27 before the peak) and CCP at $8 (not held before or during its fall from $30) Kogan and Magellan.

I announced this decision on the day and everyone warned against, but taking the contrarian line when everyone else could only see downside proved the difference. The portfolio was fully invested at the end of the quarter.

As an aside, not one client redeemed money during this quarter except for meeting normal monthly expenses. In fact, new deposits were at record levels shortly after the lows. I was really impressed.

Top 5 stocks by weight as at 31 March 2020

Company Name	Sector
XPLOREWLTH LIMITED ORDINARY	Financials
CREDIT CORP GROUP ORDINARY	Financials
KOGAN.COM LTD ORDINARY	Consumer Discretionary
MAGELLAN FIN GRP LTD ORDINARY	Financials
CHALLENGER LIMITED ORDINARY	Financials

Market Outlook

We entered the second quarter of the year pretty well fully invested. The market rallied strongly on the 1st April, and the portfolio gained 9% in one day! It's been a period of very high volatility.

The first few days of the quarter saw high volatility and some massive gains in some of the stocks. At the time of writing, (mid April), this volatility is easing and the market is trying to decide whether to pullback or just consolidate around these levels.

Its now apparent that the USA left its lockdowns too late, was unprepared for the pandemic and its leadership has been found wanting at the highest level. But from a market viewpoint, the USA will reach herd immunity and re-open its economy earlier than countries like Australia, where limitations on inward/outward tourism could last many months or even years if a vaccine is not forthcoming. Overall, we are likely to see a continuing stock-picking market, where stocks that gain absolute benefit from this new world (online retailers like Kogan) perform much better than stocks that don't (Flight Centre, Qantas, oil companies, banks). A volatile stock-picking environment should relatively favour the portfolio because it's relatively small and nimble with a stable client-base which allows the odd illiquid position to be taken and held.

John Aldersley CIO 21 April 2020

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