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**AC Managed Equity Portfolio**

**March 2023 Quarterly Review**

PORTFOLIO PERFORMANCE

The AC Managed Equity Portfolio returned 4.77% compared to the benchmark S&P/ASX 200 (TR) return of 3.46% giving a relative performance of 1.31% for the period.

## PERFORMANCE TO 31 MARCH 2023

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Return %** | **1Mth** | **3Mths** | **6Mths** | **1Yr** | **3Yrs** | **5Yrs** | **Since Inception (29/10/2013)** |
| Portfolio | 0.61 | 4.77 | 20.28 | 10.56 | 20.00 | 13.26 | 11.77 |
| Benchmark | -0.16 | 3.46 | 13.19 | 0.10 | 16.52 | 8.69 | 7.39 |
| **Relative Performance** | **0.77** | **1.31** | **7.09** | **10.46** | **3.48** | **4.57** | **4.38** |

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 weight heavily into gold miners back in September continued to help the portfolio, and during the quarter direct gold (via etf) was added, in time to catch a pick up in the gold price. Elsewhere FMG gained ground, but Lynas retreated as Elon Musk signalled that Tesla would not be using rare metals in the long term, and the market believed him. We've added to the position.   
  
The decision to buy back into RWC after its unexplained fall ahead of the dividend also was a strong performance contributor.  
  
Weebit Nano, a small speculative stock that is potentially poised to revolutionise the chip market went for a major share price run, allowing us to take some major profits for the portfolio, and then buy back in when it fell back on announcing a capital raise. In the end it fell from over $9 to under $5, and that activated a rebuild of weighting and a minor "double or quit" play. As I write its going for another run in April.   
  
The portfolio recently bought into Droneshield (DRO), with high hopes that its AI technology and anti-drone systems will get taken up by western militaries and airports and even formula 1 events! It’s somewhat reminiscent of Racal Electronics, which I discovered when it was capitalised at 2 million pounds (it now owns Vodafone and is a global business). At the time it had developed laser range finding technology that so improved the accuracy of infantry anti tank weapons that I decided there was no future in joining a tank regiment as a reservist!  
  
Like all my very best ever investments, Racal immediately fell 10% after I bought into it (on behalf of the BBC Pension fund and Ford Europe), before commencing its stellar run.   
  
So the fact that Droneshield underperformed over the quarter is not of immediate concern. I expect a flurry of new orders in 2023. The company is using its issue proceeds to buy in scarce inventory chips and build production ahead of orders. That is potentially a risky way to run a business, but its also demonstrating supreme confidence in future product orders and an entrepreneurial approach, which personally I think makes sense. They have already supplied Ukraine, Australian DOD and USA DoD as well as some other high profile "events", including Australian grand prix. The most likely event, I believe, is an early takeout by one of the major global defence companies seeking to fast track into drone defences. I have also bought a "double or quit" position for participating clients.   
  
Long term clients may remember that I first bought into Bellevue Gold when it traded at 5c a share as an explorer and started drilling for the first time. This quarter it entered the ASX200 index, and is poised to mine its first gold.

## TOP 5 STOCKS BY WEIGHT AS AT 31 MARCH 2023

|  |  |
| --- | --- |
| **Company Name** | **Sector** |
| NORTHERN STAR ORDINARY | Materials |
| RELIANCE WORLDWIDE ORDINARY | Industrials |
| BETA GLOBAL GOLD ETF UNITS | Unidentified |
| BELLEVUE GOLD LTD ORDINARY | Materials |
| BETASHARES GOLD ETF ETF UNITS | Unidentified |

## MARKET OUTLOOK

As I write, the Reverse (sic) Bank has again increased interest rates. Some major economists expected a pause, but as I have been saying for months now, rates will probably have to rise much higher this cycle than almost all pundits expect, to choke off consumer demand and inflation. A similar set of circumstances exists in the USA.  
  
 This is putting increasing pressure on the Equity Risk Premium, a term basically describing the excess return expected from equities compared with bond prices or more precisely the "risk -free rate". As interest rates rise, so equities have to justify a higher expected return. Currently there is some disconnect between what companies are experiencing and guiding and consensus expectations.   
  
In the end, an existential event may trigger the next correction. The most imminent risk is if Putin resorts to tactical nuclear weapons in a final desperate act if Ukraine defies predictions and routs the Russian forces as the counter-offensive gets underway in earnest..   
  
China will trigger a USA response if it attempts to invade Taiwan, a mere 36,000 sq km of territory, so it is unlikely to do so until its relative military strength is greater, which is some years away.   
  
It is unlikely to provoke a response if it instead invades "Outer Manchuria" once Russia implodes into chaos. It will be restoring the territory lost to the Russians in 1858-1860. Over 1 million sq km of very resource rich, sparsely populated territory is on offer, largely occupied now by businesses owned by China and people of Asian origin.  This represents a strategic opportunity that China may find hard to resist taking, which would fundamentally change the geopolitical framework and might be just months away.  
  
With Putin and Xi both exercising ruthless autocratic control over their economies, and operating with questionable information from their remaining advisers, geopolitical risks are at least as high as I can recall since the late seventies. Which is one of the reasons I've been holding, since September, my largest gold stock weightings since 1979.

The USA is once again approaching its’ “debt ceiling”, which has to be raised else it triggers a debt default. Politicians play at brinkmanship every time, but with the state of US politics this time who knows?. So while this coming quarter may end up being positive for equities, led probably by AI mania, the main aim is to avoid losing too much if one of these scenarios comes to fruition. IMPORTANT INFORMATION

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