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**AC Managed Equity Portfolio**

**September 2023 Quarterly Review**

PORTFOLIO PERFORMANCE

The AC Managed Equity Portfolio returned -1.09% compared to the benchmark S&P/ASX 200 (TR) return of -0.77% giving a relative performance of -0.32% for the period.

## PERFORMANCE TO 30 SEPTEMBER 2023

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Return %** | **1Mth** | **3Mths** | **6Mths** | **1Yr** | **3Yrs** | **5Yrs** | **Since Inception (29/10/2013)** |
| Portfolio | -6.85 | -1.09 | -3.83 | 15.68 | 8.45 | 10.12 | 10.71 |
| Benchmark | -2.84 | -0.77 | 0.24 | 13.46 | 11.01 | 6.67 | 7.03 |
| **Relative Performance** | **-4.01** | **-0.32** | **-4.07** | **2.22** | **-2.56** | **3.45** | **3.68** |

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

As we anticipated, September was a difficult month with nowhere to hide really except in cash. Our prediction that interest rates will probably go higher, for longer, finally crept into market thinking. Gold also gave up ground, so our gold stocks ended up giving up ground too. Towards the end of the quarter there was a sense that perhaps interest rates had peaked for now and a pause might give markets a chance to rebound.

There are some interesting opportunities arising in the micro-cap and small cap space which have probably borne the brunt of the recent downward revaluations. On the last couple of days of September we took the view that some of these stocks were worth nibbling at, at the expense of more blue chip defensive and cash holdings. In the case of Droneshield, the counter-drone company, that’s now a high conviction play. We also sold our gold bullion etf and added those funds to our existing favoured gold miners, on the basis that gold had probably found a low below $US1850 but the miners will represent a more leveraged eposure to play the bounce a many of them had come off too. We’ve also re-entered Elders below $6, which looks a deep value yield play despite gloomy forecasts in the short term.

## TOP 5 STOCKS BY WEIGHT AS AT 30 SEPTEMBER 2023

|  |  |
| --- | --- |
| **Company Name** | **Sector** |
| DRONESHIELD LIMITED ORDINARY | Information Technology |
| JAMES HARDIE INDUST PLC CHESS DEPOSITARY INT | Materials |
| BELLEVUE GOLD LTD ORDINARY | Materials |
| ELDERS LIMITED ORDINARY | Consumer Staples |
| HUB24 LTD ORDINARY | Financials |

## MARKET OUTLOOK

I’ve been saying for over a year that we are in a bear market; which I define as a period of rising long term interest rates from the low to the peak; because that is measurable unlike just saying it’s a period of falling prices. We started at very low interest rates and while many economic commentators are saying we must be near the end, sadly history doesn’t usually pan out the way the average economist expects. I’m still of the view that governments here and in the USA may eventually be forced to create near recessionary conditions, to avoid inflation becoming entrenched and for funding reasons. Here we have had rampant immigration fuelling pressures on housing and job vacancies. Meanwhile, many parts of society are struggling to find accommodation, put food on the table and drive anywhere. The social divide is widening in many democratic countries, which is never a good thing for stability.

The good news is that bear markets aren’t always associated with negative years. Despite strong headwinds, it’s possible to see just muted returns for a couple of years, and this is my most expected outcome. And within a generally muted environment, the speed of technological change of which A.I. is part, is throwing up opportunities for thematic and disruptive investing. However, I think it will be late into the second half of 2024 before we see the end of these bear conditions. The rally from the low will be quick and savage, as is usually the case. And the better microcaps and small caps will be in the vanguard.

John Aldersley

IMPORTANT INFORMATION

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