ALDERSLEY
CAPITAL

AC Managed Equity Portfolio

December 2014 Quarterly Review

Portfolio Performance

The AC Managed Equity Portfolio returned 6.74% compared to the benchmark (S&P/ASX 200 (TR)) return of 3.11% giving a relative performance of 3.63% for the period.

Performance to 31 December 2014

Return %	One Month	Three Month	Six Month	One Year	Three Year	Since Inception (29/10/2013)
Portfolio	4.49	6.74	5.81	4.22	N/A	1.75
Benchmark	2.06	3.11	2.50	5.61	15.13	4.02
Relative Performance	**2.43**	**3.63**	**3.31**	**-1.39**	**N/A**	**-2.27**

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

Late the previous quarter Hunter Hall Global (HHV) was added to the portfolio, as it was trading at a big discount to NAV and offered currency advantages, a big position in Apple shares ahead of its result and a large position in Sirtex Medical (SRX), which was also added to the portfolio. This was a strong performer (+13%) as both Apple and SRX surged, and the discount narrowed.

The portfolio also traded in Northern Star (NST) (+13.5%), a quality gold producer in Australia, selling it above $1.50 and repurchasing it as gold fell towards a solid demand support level around the U$1150 mark. Half of the Ozforex (OFX) (+16.8%) holding was sold once its priced recovered.

The portfolio retained a big weighting to the Telco sector throughout the quarter via Telstra (+11.8%), TPG Telecom (-1.4%) and Amcom (AMM) (+39%), with a bid for AMM giving it the best individual stock performance. Transurban (TCL) (+13.8%) continued to justify its portfolio inclusion as did Stockland (+7%) and Lend Lease (LLC) (+13.8%). No exposure to oil companies also helped. Banks were positive too.

The large cash position at the opening of the quarter was reduced ahead of the “Santa rally” by adding Qube (QUB) (-0.3%), RIO (+0.2%)

The avoidance of most retailers, and consumer stocks dependent on retailing such as Breville Group paid off, with former holdings like Myer reporting poor results. Small holdings in JB Hi-fi (JBH) (+3.2%) and Super Retail (SUL) (-10.1%) were added to late in the quarter. The worst performer by far was Arrium (ARI) (-20%), as its sudden rights issue was left with underwriters. We reduced the weighting upon its announcement, but then restored it just before Christmas when the share price fell below $0.20 and the iron ore price went sub U$70.

Top 5 stocks by weight as at 31 December 2014

Company Name	Sector
LEND LEASE GROUP UNIT/ORD STAPLED	Financials
MACQUARIE GROUP LTD ORDINARY	Financials
ANZ BANKING GRP LTD ORDINARY	Financials
BANK OF QUEENSLAND. ORDINARY	Financials
WESTPAC BANKING CORP ORDINARY	Financials

Market Outlook – JOHN ALDERSLEY

The final days of 2014 and the early part of 2015 have seen the beginnings of rallies in some of the beaten up sectors such as gold and iron ore, as well as retail, with some prospect that 2015 will provide better fortunes than the previous two years. Contrarian investing has been unusually ineffective for the past two years, the momentum strategy of staying with the winners and avoiding the losers has worked much better. The biggest winners in 2015 may come from opportunities in retail and cyclical mining stocks, and at some stage oil companies.

The usual restocking in December by Chinese iron ore buyers ahead of the wet season and probable supply disruption did not eventuate. With quality ore at Chinese ports at very low levels, the portfolio is betting on a short-term spike in iron ore prices during this quarter.

The USA recently signalled it will be “patient” in the introduction of tighter monetary policy, so monetary conditions are likely to remain benign for equities, with fixed interest risks and low interest rates forcing more people to consider equities. Employment is growing in the USA, Europe ex Germany remains a troubled area and Japan and China are also struggling to balance their economies. The fall in the oil price will stimulate global growth especially helping China and India, and consequently 2015 may surprise on the growth front. It is likely that 2015 will end before there is any significant uptick in interest rates around the world, allowing for a classic late bull market finish.

The Australian dollar seems more comfortable at its current level of U$0.81-2, although the risk is still to the downside as both federal and some state budgets are affected by falling commodity prices.

IMPORTANT INFORMATION

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