ALDERSLEY
CAPITAL

AC Managed Equity Portfolio

June 2016 Quarterly Review

Portfolio Performance

The AC Managed Equity Portfolio returned 8.01% compared to the benchmark (S&P/ASX 200 (TR)) return of 3.94% giving a relative performance of 4.07% for the period.

Performance to 30 June 2016

Return %	One Month	Three Month	Six Month	One Year	Three Year	Since Inception (29/10/2013)
Portfolio	-1.80	8.01	1.35	20.14	N/A	11.07
Benchmark	-2.45	3.94	1.09	0.56	7.65	3.13
Relative Performance	**0.65**	**4.07**	**0.26**	**19.58**	**N/A**	**7.94**

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 portfolio bounced back strongly in the June quarter, from a combination of market timing, sector and stock selections. By far the most important decision was to significantly increase the existing exposures to gold stocks early in the quarter. SBM gained 39%, NST gained 42%, GOR gained 31%. In addition FMG was added at $1.65, sold at $2.00 and bought back at $1.65 and then held. It closed above $4.00 recently and has moved into the top 5. The portfolio had virtually nil exposures to banks and insurers all quarter apart from BOQ. Thjs was just as well. The holding in BOQ declined 7% over the quarter, and that was a fairly typical result for most banks. NAB was added in the last days of the quarter.

The year ended as it had begun with small stocks offering far more potential than large stocks. RAP gained a further 32% until we sold out at 40c. Not a bad gain from 3c in under 12 months. YOW having slumped last quarter was significantly added to at 56c and rebounded 37% during the quarter. AJX managed a small gain of 9% over the quarter. CNW, despite promising developments, eased in price in the quarter and was upgraded to a major holding.

At the end of the quarter all the gold stock holdings were sold in the wake of the Brexit aftermath, which caused a spike in gold prices and stock prices. Rather than holding cash, the money was switched into the lowly banks like NAB, CBA and, post FY, CYB, the NAB's spinoff.

Top 5 stocks by weight as at 30 June 2016

Company Name	Sector
CIRRUS NET HOLD LTD ORDINARY	Information Technology
NATIONAL AUST. BANK ORDINARY	Financials
FORTESCUE METALS GRP ORDINARY	Materials
HUB24 LTD ORDINARY	Financials
ALEXIUM INT GROUP ORDINARY	Materials

Market Outlook

The world is once again trying to work out what are the implications of Brexit, a possible Trump presidency, and what are the earnings prospects for companies. Brexit probably means that interest rates are likely to stay lower for longer. Normally that should help equities, but in the end it comes down to earnings momentum and P/E's. Large stocks as a whole will again struggle to grow by much. All the opportunities are in smaller emerging companies, most of which are in "disruptive" technologies that potentially will change the world as we know it.

Obviously "annuity income" companies such as HFA and Hub24 are a fairly safe bet, particularly as they are still below the watchable population for most fund managers. HUB have grown FUA from $300m to over $3 bn in the two years this portfolio has been running, and the modest holding taken up in 2013 at 80c has grown into a top 5 holding with the stock above $4.00.

While the banks have lost the potential for enormous gains that they could achieve in earlier decades, their yield is very supportive and in the absence of a better safe idea are a handy surrogate for cash at this low level.

Seasonally we are in the weaker quarter of the year, once July is out of the way. Not expecting too much either way from the overall market this quarter.

IMPORTANT INFORMATION

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