Noontide Investments

Monthly Report

June 2018

Fund Facts	
Manager	Noontide Investments Ltd
Sector	Special Events, Small Caps
Fund commenced	April 2009
Minimum Investment	$50,000
Management Fee	1% Net Assets
Performance Fee	20% above 10%pa high watermark

Performance	Fund (Net)	Small Ords Acc	All Ords Acc
1 month	-3.4%	2.9%	1.1%
3 months	0.1%	7.7%	8.0%
FYTD	21.0%	13.7%	24.3%
Rolling 1 year	21.0%	13.7%	24.3%
Rolling 3 year		15.0%	9.5%
Rolling 5 year		11.6%	10.3%
Since Inception	12.9%	%	%

Top 5 Holdings	
Emmerson Resources Ltd	20.0%
Centuria Capital Ltd	14.8%
Ariadne Australia Ltd	11.4%
RoyalCo Resources Ltd	10.0%
Westgold Resources Ltd	6.5%
Cash	1.0%

The Fund returned 21% for the financial year. Over the last five years the fund has achieved a return of 19.2% p.a. The largest contribution to this return has been the resources sector. While we still see opportunities in resource stocks, particularly amongst small caps, we are currently more focused on energy where we see a similar scenario to resources a few years ago playing out. The portfolio was impacted by tax loss selling in June. We are usually buyers of the unloved illiquid stocks hardest hit by tax related selling. This years selling was particularly aggressive and the HFT programs active at the smaller end of the market reinforced the momentum These programs account for more than half the volume in some stocks we follow. We did take advantage of the selling to add to some positions at prices that were temporarily unhinged from fundamentals.

The market at present is driven largely by momentum and we are becoming increasingly cautious. While there is plenty of focus on the direction of the global economy and the actions of central banks it's entirely possible for markets to fall without a macroeconomic or geopolitical trigger. The 1987 crash was an example of such an event. It's generally accepted that the '87 crash was caused by the proliferation of portfolio insurance which triggered selling of futures contracts as stocks fell. This, of course, caused further losses and hence more selling in futures contracts. As we've discussed on numerous occasions it's these self-reinforcing cycles that cause booms and busts in markets. The current feedback loop between mega cap stocks, ETF's, momentum following algorithms and central bank generated liquidity is just another example. We described it in a previous update as a financial black hole sucking in all investor dollars. The last time growth stocks outperformed value stocks to the current degree was at the tail end of the dotcom boom in 2000 and we all know how that ended. The market is set up like a giant jenga set with pieces slowly being removed. The recent 20% fall in Facebook shares was like slowly removing a pivotal piece from the tower. This This time It didn't fall and it may not fall when the next piece is removed either. Nobody really knows where the market is going in the short term and it's probably best to avoid anyone who thinks they do. That doesn't mean, however, we should ignore a prevailing market structure vulnerable to not just the direction of company earnings and global economic growth but also the potential for a self-reinforcing wave of selling if the positive feedback loop that has been driving markets higher reverses. We have taken several steps that we believe should mitigate losses in the event of a selloff in markets. Firstly, we intend to raise the funds current cash position. Secondly, we are rotating away from stocks that are held by ETF's and widely held by fund managers. These stocks will be sold regardless of the underlying fundamentals and in the case of ETF's will be sold regardless of price if investors start redeeming. There is no price that is too low for an ETF to sell at. Thirdly, we hold a number of stocks that have active share buy-backs and others with a history of buying back stock when share prices are undervalued. In some cases we have actively lobbied management to instigate buybacks. Cashed up companies with active share buy backs will always have a large buyer willing to soak up selling at silly prices.

Should any unit holder wish to discuss any of the issues raised or any other matter relating to the Noontide Opportunities Fund or Noontide Investments Ltd, please don't hesitate to contact me at the office on (02) 9239 9333 or by email david@noontide.com.au.

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31st July 2018
Noontide

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