Noontide Investments Ltd

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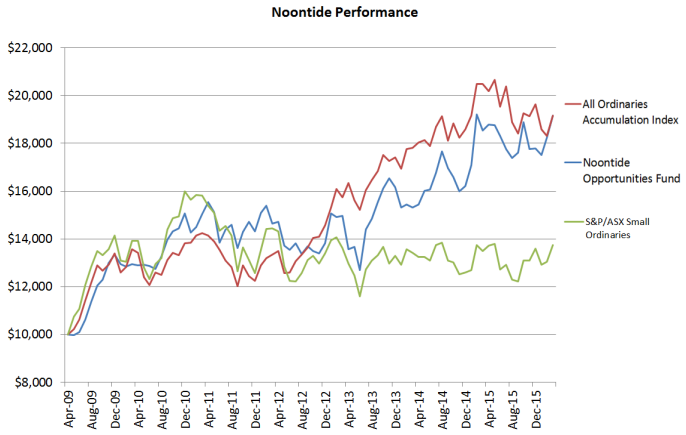
Quarterly Report - March 2016

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	0.5%	5.5%	4.7%
3 months	3.6%	1.0%	-2.4%
FYTD	2.6%	8.1%	-1.9%
Rolling 1 year	1.5%	3.7%	-8.1%
Since Inception (pa)	9.4%	5.5%	9.3%

Top 5 Holdings	
Centuria Capital Ltd	**18.0%**
Ariadne Australia Ltd	**14.0%**
RoyalCo Resources Ltd	**10.6%**
Metals X Ltd	**10.5%**
Saracen Mineral Holdings Ltd	**8.3%**
Cash	**1.0%**



The Fund returned 3.6% for the quarter while the All Ords Accumulation Index fell by 2.4%. Gold stocks once again showed their worth during a volatile quarter. Sentiment towards resources has also begun to improve and while we expect ongoing volatility the fund remains very well positioned should the broader investment community start to take notice of the sector. The absurdly negative sentiment that allowed us to establish positions in gold companies at equally absurd valuations is now evident in the energy sector, particularly coal and gas. We continue to look for opportunities and have already established positions in a number of small companies that own royalties over oil and gas projects.

Despite a roller coaster ride markets ended the quarter not all that far from where they started. Although the index itself was remarkably stable there were big moves in the underlying components. Bank stocks, so long the darlings of the market, significantly underperformed unloved resource stocks. This trend has continued into April. Although a weak global economy is unlikely to significantly boost demand in the short term what was largely overlooked in commodities was the effect of currencies. There is excess capacity, demand is indeed weak but at least some of the weakness in commodity prices can be attributed to the strength of the US$ in which they are denominated. Once the realisation that US interest rates were not going to rise anywhere near as quickly as expected sunk in the US$ promptly fell and commodity prices rose independent of the fundamentals just as they had fallen as the US$ surged. The US$ has gone from being a headwind for commodities to a tailwind. We believe this dynamic is not widely

appreciated with most expecting the downtrend to resume after what is generally seen as a transient short-covering rally.

Saracen Mineral Holdings was the standout performer in the portfolio over the quarter rising by approximately 40% as excellent operating performance coincided with a change in sentiment towards gold producers. Investors came to the sudden realisation that a strong AUD gold price and falling costs were generating operating margins more akin to a boom than the bust that was widely reported. The opportunity to buy the mid cap producers based on this misconception has now closed but there are still interesting selective situations in explorers and gold producers not included in the ETF products through which most of the investment has been channeled. The fund has taken profits in Saracen and reallocated to both of these themes.

Centuria Capital remains the fund's largest individual investment. The company trades at a significant discount to the value of its underlying assets. Management has made a great deal of progress in recent years, simplifying the business and focusing on the two underlying operations; property funds management and insurance bonds. The property business continues to experience strong demand for its products and we expect this to continue with interest rates remaining low for the foreseeable future. It would be fair to say however that the market is not exactly enthused by the insurance bond business which has lacked growth for many years due to an inability to compete with superannuation as a savings product. For possibly the first time ever we will be watching on budget night with interest. Any tweaking of the superannuation system is likely to at least partially level the playing field in favor of insurance bonds. Centuria currently holds approximately 10% of the $7 billion insurance bond market. A trickle of money from the $2 trillion super industry would equate to a flood for this comparatively tiny market. If Centuria's low growth business can start growing then earnings will increase and the multiple applied to those earnings will also increase. If the growth we anticipate fails to materialize then the discount to underlying value, the significant amount of cash on the balance sheet and the possibility of corporate activity should provide downside protection.
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Out of ammo, or just getting started?

With central bank policies increasingly looking like they are not only failing to stimulate economies but actively making things worse you would think the competence of the bankers themselves may come under question. Apparently not, the narrative has morphed into a new consensus where central bankers have done all they can with the monetary tools at their disposal (Whatever happened to "Whatever it takes"?) and it's now up to governments to take up the fight with fiscal policy. Faced with the increasingly obvious failure of centrally planned monetary policy people have transferred their faith to centrally planned fiscal policy. We would question both of these assertions and suggest it's possible the problem lies with central planning itself. Firstly, in theory (and if there's one thing these guys love it's a theory) there is no limit to the ammunition at the disposal of central banks; and secondly if government borrowing and spending solved all economic ills then we would never have a weak economy in the first place. After all developed world governments have already borrowed trillions of dollars. It's hard to imagine a few trillion more getting things moving.

In reality all governments can do is take money off one group of people and give it to another group. Will the bureaucrats empowered with directing fiscal policy make better decisions than the people and companies the money was taken off? The economy gains the growth created by the former but loses that created by the latter. Who knows how the money is best spent; the individuals that constitute the economy or a collection of government employees trying to direct the economy from the top down? When talking about fiscal policy, of course, it's implicit we are talking about borrowing the money. In theory it's borrowed from the future economy on the assumption spending will generate sufficient growth to easily service the debt. The problem is this theory has been pursued for so long that we've arrived in the future we started borrowing from 20 years ago only to find the till empty. The growth is stubbornly absent but the mountain of debt remains. This debt and the trillions more that will be added in an effort to stimulate growth can only be serviced if rates remain low and central banks keep reloading the ammunition. Rather than been out of ammo, unconventional monetary policy is probably just getting started.

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.

David Croll
Director
26th April 2016