NOONTIDE INVESTMENTS LTD

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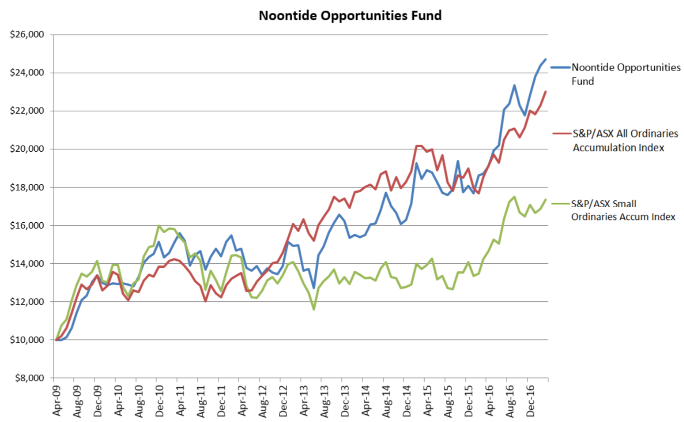
Quarterly Report – March 2017

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	1.4%	2.7 %	3.2%
3 months	8.3%	1.5%	4.5%
FYTD	24.6%	7.4%	14.9%
Rolling 1 year	34.4%	13.7%	19.5%
Since Inception (pa)	12.2%	7.2%	11.1%

Top 5 Holdings	
Ariadne Australia Ltd	**17.8%**
Emmerson Resources Ltd	**15.0%**
Centuria Capital Ltd	**12.7%**
Westgold Resources Ltd	**11.8%**
Royalco Resources Ltd	**10.0%**
Cash	**1.0%**



The Fund returned 8.3% for the March Quarter and is up 24.6% for the Financial Year to date. The largest contributors for the quarter were Westgold Resources Ltd (43%): Ariadne Australia Ltd (27%) and Centuria Capital Ltd (13%). All three stocks have been under the radar for an extended period but have received increased investor interest due to several high-profile deals and the attendant press and analyst coverage. Markets continue to trade at elevated levels with the Trump reflation consensus firmly entrenched. To date any data that contradicts this consensus is simply ignored or explained away with equities trading sideways for a brief period before finding another reason to move higher. At some stage the reflation story may face more serious tests but, in the interim, momentum appears to have taken over driven by an emerging bubble in passive investing.

Centuria Capital has completely transformed itself with the purchase of the 360 Capital property platform. The integration will take some time but the increase in both scale and liquidity should be worth it. Entities in the group will now be eligible for index inclusion providing a tailwind for further growth in funds under management. With the added likelihood of ongoing corporate activity Centuria is well placed for growth and a potential further rerating. The fund has a holding in Folkestone Ltd which we believe will also benefit from corporate activity in the property sector.
The Ariadne share price continued to move closer to the NTA during the quarter after the receipt of sale proceeds for the company's stake in Secure Parking early in January. We expect further liquidity events across the Ariadne portfolio with the prospect of further increases in NTA. Ariadne is not a Listed Investment Company (LIC) but comparing the current valuation relative to NTA is instructive. There are plenty of LIC's that trade above NTA despite external management

contracts, the dilution of 'free' options and having much less experienced management. We are confident the price will continue to move towards the companies NTA and see the possibility of further increases in NTA as this process plays out.

Westgold's brief life as a standalone entity has been characterised by steady progress in delivering on its ambitious organic growth targets and a roller coaster ride in its stock price. The junior gold ETF firstly bid the stock up to get established on the register and then immediately became a seller as it revised the structure of its portfolio and began to rebalance. The consequent volatility in the stock price had little to do with the gold price, the fundamentals of the company or investor sentiment. These factors were simply overwhelmed by the ETF buying and selling millions of shares in an illiquid company and the attempts of other market players to either profit from, or avoid losses from the inevitable moves in the share price. This volatility provides genuine countercyclical opportunities but these can only be exploited by those willing to wear short term losses (just about nobody these days). Once the momentum starts it will invariably overshoot given current market structure: namely a market dominated by ETF's and algorithmic trading.

The passive investing bubble and the ETF bandwagon.

Booms and busts are born out of self-reinforcing cycles that drive prices away from fundamental values until they eventually exhaust themselves and reverse direction. Such a process seems to be playing out in passive investing, specifically the burgeoning ETF sector. The (currently) virtuous circle progresses as follows:

1. A rising market entices more investors to participate.
2. Active managers have underperformed and financial advisors are enamoured with ETF's so inflows are directed to ETF's.
3. ETF's simply buy the stocks that have gone up the most. Active managers who focus on fundamentals may deem these stocks expensive so tend to sell as the price increases.
4. The ETF buying is larger than the active manager selling so the stock continues to rise.
5. Consequently, active manger underperformance is exacerbated and funds are redeemed and reinvested in ETF's.
6. The ETF's bid the market higher. The higher an individual stock goes the more the ETF's are required to buy.
7. Return to 1

The self-reinforcing cycle continues as long as ETF buying swamps active manager stock selection. It's hard to imagine a spontaneous mass reallocation of funds to underperforming, expensive active managers in an amount that would allow them to take back control of the price discovery process so it seems the cycle must play itself out in the usual boom bust fashion. The bubble will eventually collapse under its own weight. Just like all those that preceded it.

Passive investing is the intellectual child of the Efficient Market Hypothesis (EMH) which basically holds that all known information is incorporated into current prices. The EMH is based on several assumptions including; that information is circulated quickly; that all investors have equal access to this information and that those investors are rational. Of course, in the real world; information is distributed unevenly; is interpreted in different ways; is often disseminated by pundits who inject their own biases and misconceptions and is received by people who, frankly, aren't all that rational. However, let's leave the shaky foundations of the theory aside and assume it's correct. In that case, passive investing makes perfect sense. The market is efficient, thousands of active managers and other investors have discovered all relevant information and priced assets correctly. They have essentially competed away the ability to make a profit and the investor in an index fund can achieve the same results while not paying the fees.

Even in this idealised world there is however a flaw. What if flows into passive funds become so large that they themselves are pricing markets? ETF's and index funds pay no attention to fundamentals so at this point markets cease to be efficient. In short, if belief in efficient markets is carried to a certain point it invalidates the efficient market theory. It's not hard to make a case that we're approaching that point. The tail has begun to wag the dog. So many investors have climbed onto the passive investing bandwagon that there's no one at the wheel. This won't cause problems while the wagon hurdles along in a straight line but it will be interesting to see what happen when we reach a corner or somebody wants to get off.

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
28th April 2017