



# CONCENTRATED LEADERS FUND

ASX LISTED INVESTMENT COMPANY (TICKER: CLF)

MONTHLY INVESTMENT REPORT: SEPTEMBER 2018

## Fund Description

Concentrated Leaders Fund Limited (CLF) is a concentrated portfolio of leading Australian companies. The CLF investment team uses a top-down macro thematic, quantitative filters and bottom-up fundamental research.

## Fund Objective

CLF is a geared listed investment company, which invests primarily in companies within the S&P/ASX 200 Accumulation index. CLF is focused on providing investors with capital growth and a consistent yield.

## Net Tangible Assets (NTA) as at 30 September

Total Investments	\$112,075,892
NTA	\$81,575,067
Shares on Issue	59,401,545
NTA per Share (pre-tax on realised & unrealised gains)	\$1.37
NTA per Share (post-tax on realised & unrealised gains)	\$1.30
Share Price	\$1.295
Discount/Premium to NTA (pre-tax)	(5.70)%
Discount/Premium to NTA (post-tax)	(0.51)%
Fully Franked Dividend Yield	6.07%

## Fund Information

ASX Code	CLF
Date of launch	September 1987
Benchmark	S&P/ASX 200 Acc Index

## Service Providers

Custodian	National Australia Bank
Administrator	Fundhost Limited
Banker	National Australia Bank
Auditor	Deloitte Touche Tohmatsu
Legal Advisor	Watson Mangioni Lawyers

## Contact Information

Telephone	+61 2 9357 0788
Email	info@clfund.com.au
Registered Office Address	2 Paddington Street, Paddington NSW 2021
Principal Office Address	Level 12, 37 Bligh Street, Sydney NSW 2000

## Performance Overview and Outlook

### Portfolio and Market Review

The portfolio returned (1.27)% on a gross basis (pre-fees and taxes) in September versus the benchmark return of (1.26)%. This equates to a 2.14% decrease in pre-tax NTA and a 1.52% decrease in the post-tax NTA. For the calendar year-to-date, the portfolio has delivered a return of 5.74% on a gross basis versus the benchmark's 5.88%.

Following an eventful corporate reporting season and five consecutive months of positive performance, the market weakened in September with the S&P/ASX200 Index falling 1.8%. Healthcare (-8.0%) and Consumer Discretionary (-4.3%) were the primary drivers of this underperformance, with the former dragged down by **CSL** (-11.5%), which retraced after outperforming since the start of the year. Aged care stocks were also hit hard by concerns over a potential Royal Commission into the sector. Energy (+4.0%) and Materials (+2.6%) were the strongest performing sectors. Stronger oil prices were the key driver of commodity-related performance after OPEC decided not to increase the oil supply and the US moving closer to implementing sanctions on Iran. WTI Crude prices increased 4.9% for the month.

The Banking Royal Commission had a significant impact on the Australian market in September, more so than other months given that the interim report was released on the last trading day of the month. The report fell short of recommending any regulatory or legal changes, however it was scathing in its assessment of the behavior of Australia's largest banks and insurers. The lack of any implementable action saw the banks rally strongly upon the release of the report, however it was not enough to make up for the poor performance during the rest of the month. The performance (and behavior) of the banks justifies CLF's major underweight position in the big four banks and this was a major contributor to performance in September. **ANZ** (-4.5%), **WBC** (-2.1%) and **NAB** (-2.0%) finished the month in negative territory, while **CBA** (+0.2%) surprisingly gained for the month.

**Rio Tinto** (+8.3%) was a major contributor for the month as was **Mayne Pharma** (+9.7%). Despite a lack of new information, **Mayne Pharma** continued its strong performance following its FY18 result and much improved outlook. Its positive outlook for FY19 with a more stabilised retail generic pricing environment, new products set to be launched and an established specialty sales platform has seen the stock re-rate. The major detractors were **A2 Milk** (-11.0%) and **Aristocrat Leisure** (-10.0%). A2 Milk suffered as a result of new CEO Jayne Hrdlicka selling her entire shareholding, which raised red flags in the market. It should be noted, however that A2M delivered an in-line result last month which led to the company outperforming (+19.8% in August). Whilst management's recent signaling has been concerning, CLF has no reason to believe the fundamental drivers for the company have shifted and as such remain confident in the position.

### Outlook

CLF continues to be defensively positioned as 1) US funding costs increase, 2) Europe endeavors to end quantitative easing, 3) trade tensions remain elevated and 4) the domestic banking and insurance sectors remain under pressure. This defensive positioning has seen CLF's cash holdings increase over recent months to try to protect against some of this downside risk.

The recent selloff however, has created opportunities to deploy capital and the team are now actively investigating a number of new positions to add to the portfolio and are also looking to add to some existing holdings. CLF's focus remains on selecting high quality business' that deliver attractive earnings and margin growth, whilst providing a consistent dividend which can be distributed to our shareholders.

## Investment Themes

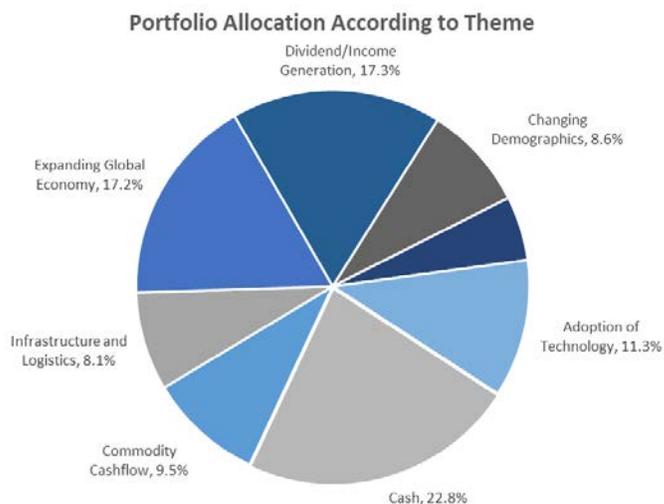
1. **Expanding Global Economy** – The global economy is expected to grow at greater than 3% in both 2018 and 2019 despite increased tension related primarily to trade tariffs. We aim to leverage off this growth by investing in companies that source a significant portion of their revenues from offshore. More specifically we are focused on companies which benefit from a broad-based improvement in the US economy, an enriched Chinese middle-class consumer and a stronger European corporate sector. We also aim to benefit from increased global income via a further weakening of the Australian dollar.
2. **Changing Demographics** – It is no secret that the developed world is getting older and this is generating significant investment opportunities. We aim to identify companies that benefit from this changing demographic across a range of sectors including healthcare, funds management and the supply of desirable goods such as fresh food. Changing spending patterns of families and the need to counter higher living expenses are also key sub-themes that we are seeking to take advantage of.
3. **Strong Commodity Cashflow** – The rebound in commodity prices has been strong since the price of oil bottomed in early 2016. We believe these prices, although subject to volatility, should be sustainable going forward given strong global economic growth, higher global inflation – particularly in the United States and increased corporate responsibility among producers. These theme however is being threatened by higher input costs given tighter energy and labour markets.
4. **Infrastructure and Logistics** – Infrastructure spending both domestically and abroad is set to increase over the next 5-10 years at both the state and federal level domestically. While this is not a new theme, we believe that many of the beneficiaries of this theme are attractively priced given the magnitude of the spending still to take place and the earnings growth currently being witnessed. Higher interest rates do however pose a risk to the value of these cashflows and we are watching this closely.
5. **Adoption of Technology by Businesses** – One of the key themes over the next decade will be the continued adoption of technology by businesses. While most of the largest of these developments are taking place offshore, numerous Australian companies are well placed to benefit from this seismic shift. Valuation is the key with this theme, as many of these companies appear to be fully priced relative to their earnings outlook.

In addition, we also run two separate allocation buckets for income generation and bespoke opportunities.

## Important Information

This announcement has been prepared by CLF for the purposes of providing general information only and does not constitute an offer, solicitation or recommendation with respect to the purchase or sale of any securities nor does it constitute financial product advice and does not take into account your individual investment objectives, tax or financial situation or needs. Past performance is not indicative of future performance. Before making an investment decision an individual should assess whether it meets their own needs and consult an appropriately licensed financial adviser. No warranty (express or implied) is made as to the accuracy, completeness or reliability of any statements, estimates or opinions or other information contained in these materials (any of which may change without notice) and to the maximum extent permitted by law, CLF disclaims all liability for any direct or indirect loss which may be suffered by any recipient through relying on anything contained in or omitted in these materials.

## Portfolio Breakdown (as at 30 September 2018)



## Top 10 Holdings (as at 30 September 2018)

Company	Macro Theme
BHP BILLITON LIMITED	Commodity Cashflow
ARISTOCRAT LEISURE LTD	Adoption of Technology
MACQUARIE GROUP LTD	Expanding Global Economy
CSL LIMITED	Changing demographics
A2 MILK COMPANY	Expanding Global Economy
WESTPAC BANKING CORPORATION	Dividend/Income Generation
NATIONAL AUSTRALIA BANK	Dividend/Income Generation
COMMONWEALTH BANK OF AUSTRALIA	Dividend/Income Generation
LENLELEASE GROUP	Infrastructure and Logistics
AMCOR LIMITED	Expanding Global Economy
<b>CASH/LIQUIDITY</b>	<b>22.8%</b>