Concentrated Leaders Fund Limited

ACN 003 236 173

Friday, 12 July 2019

The Manager
Market Announcement Office
Australian Securities Exchange Limited
20 Bridge Street
Sydney NSW 2000

Dear Sir / Madam

JUNE MONTHLY UPDATE

We note that the Investment Performance figures contained in the June Monthly Update, lodged by the Company earlier today, contained some errors. A revised June Monthly Update is now attached.

Yours sincerely

Barry Sechos
Company Secretary
Concentrated Leaders Fund Limited

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ASX LISTED INVESTMENT COMPANY (TICKER: CLF)

MONTHLY INVESTMENT REPORT: JUNE 2019

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 June

Total Investments	**$109,276,686**
NTA	**$79,920,936**
Shares on Issue	**59,401,514**
NTA per Share (pre-tax) *	**$1.35**
NTA per Share (post-tax) *	**$1.29**
Share Price	**$1.27**
(Discount)/Premium to NTA (pre-tax)	**(5.93)%**
(Discount)/Premium to NTA (post-tax)	**(1.55)%**
Fully Franked Dividend Yield	**10.12%**

* On realised and unrealised gains.

Fund Information

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

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Portfolio and Market Review

Investment Performance

Performance as at 30/06/2019 **	1 Month	3 Months	6 Months	12 Months	Financial YTD	Since Inception *
CLF	2.58%	4.17%	15.01%	8.26%	8.26%	13.51%
Benchmark	3.70%	7.97%	19.73%	11.55%	11.55%	16.33%
Value Add	-1.12%	-3.80%	-4.72%	-3.29%	-3.29%	-2.82%

* Inception date reflects when management of the fund was internalized as of 1 January 2018
** Gross performance excludes all expenses, fees and taxes. Net performance is reflected in the NTA calculations.

The portfolio returned +2.6% on a gross basis (pre-fees and taxes) in June versus the benchmark return of +3.7%. This equates to a +3.8% increase in pre-tax NTA and a +2.4% increase in the post-tax NTA.

For the financial year to date, the portfolio has delivered a return of +8.3% on a gross basis versus the benchmark's +11.6%. This represents a relative performance of -3.3%.

Market Review

The S&P/ASX 200 Total Return Index gained 3.7% during the month, which was an underperformance versus global equities with the MSCI All Country World Index gaining 5.6%. The S&P/ASX 200 Total Return Index has delivered a return of 19.7% for the calendar year-to-date and 11.5% for the financial year-to-date.

The strong performance of global equities was primarily due to two factors:

- The expectation that the US Federal Reserve (Fed) would pre-emptively cut interest rates. This came after a series of weak economic data points and the Fed removing its previous references to being 'patient' about adjusting rates.
- The perceived positive outcome of the President Trump's and President Xi's meeting at the G20 meeting in Japan. The United States and China agreed to restart trade talks and President Trump not to levy new tariffs on Chinese exports.

Domestically, the Reserve Bank of Australia (RBA) cut interest rates by 0.25% to 1.0% as expected in early July, which provided an additional boost to Australian stocks.

- **Materials (+6.1%)** was the best performing domestic sector with Gold stocks leading the way as the market priced in aggressive Fed interest rate cuts. **NST (+24.3%)** was the best performer while **NCM (+19.5%)** and **EVN (+17.8%)** also performed well.
- **Industrials (+4.6%)** was the next best performing sector with infrastructure companies benefitting from sharp declines in global bond yields as markets priced in central bank interest rate cuts or the likelihood of future cuts. **SYD (+8.8%)**, **TCL (+7.8%)** and **ALX (7.1%)** were the best performing stocks.
- **Consumer Discretionary (-1.5%)** was the only sector to finish the month in negative territory, however this comes on the back of a stock rebound in many consumer stocks following the Federal election in May. Despite the ongoing weak trading environment, the sectors underperformance was primarily due to stock specific factors with **SGR (-7.2%)** falling on weaker VIP numbers and **WES (-4.7%)** declining on the back of soft numbers from Kmart and Target.

Portfolio Review

The portfolio underperformed the market on a gross basis during June, but this was almost entirely due to the cash drag with the underlying companies matching the return of the market. Our overweight to yield orientated infrastructure companies was the primary driver of performance, while our recently initiated exposure to gold also helped. Our relative underweight to the mining sector was the largest detractor with the price of iron ore surging above $120 a metric ton.

Major Contributors:

NST (+19.5%) – Rallied along with the rest of the gold sector with the underlying commodity price rallying 8.0% as investors sought protection to hedge against rising geopolitical and US-China trade risk.

APA (+8.6%) – Considered somewhat of a bond proxy, APA rallied as bond yields declined, with the Australian 10-year bond reaching a record low yield of 1.26%.

TCL (+7.8%) and ALX (+7.1%) – Transport infrastructure was one of the major gainers for the month with their yields becoming increasingly attractive relative to both term deposits and 10-year bond yields.

Major Detractors:

WEB (-8.4%) – Despite reaffirming guidance, WEB shares fell heavily after Thomas Cook (TCG LN) shares fell 40% on growing concerns that the company could go bankrupt after reporting a half-year loss of £1.5 billion.

A2M (-5.7%) – Fell after broker Goldman Sachs released a note suggesting that growth in Chinese milk formula sales may be slowing and that new births in China in 2018 were down 12% year-on-year.

RWC (-4.1%) – There was little stock specific news last month, but the company's share price continued to feel the fallout from May's FY19 earnings downgrade.

Sector Exposure

Sector	Weight (%)
Consumer Discretionary	5.7%
Consumer Staples	5.7%
Energy	1.1%
Financials	18.6%
Health Care	6.4%
Industrials	13.9%
Information Technology	5.1%
Materials	10.8%
Real Estate	3.0%
Telecommunication Services	0.0%
Utilities	2.9%
CASH/LIQUIDITY	26.8%

Top 10 Holdings in alphabetical order

Company	Ticker
AMCOR LIMITED	AMC
APA GROUP	APA
ATLAS ARTERIA LTD	ALX
BHP BILLITON LIMITED	BHP
COMMONWEALTH BANK OF AUSTRALIA	CBA
CSL LIMITED	CSL
MACQUARIE GROUP LTD	MQG
NATIONAL AUST. BANK	NAB
NEXTDC LIMITED	NXT
TRANSURBAN GROUP	TCL

Outlook

Recent moves by the RBA, APRA and the coalition government have created a more positive environment for Australian equities compared to the pre-election period. However, the economic fundamentals and corporate earnings expectations remain very weak. In addition, global economic data is almost universally softening and geo-political risk remains heightened. So, the question is whether equities should be trading at close to a record high in this environment?

The answer lies in whether you believe that ultra-easy monetary policy and low interest rates overpowers all other variables that impact equity markets. Current market pricing and sentiment seems to support this view with several reasons given for why stocks can trade at higher valuations:

1. Lower interest rates drive investors out of cash and into riskier assets such as equities,
2. Lower rates increase the attractiveness of high dividend stocks given the spread over bond yields,
3. Lower rates lead to 'growth' being repriced upwards as funding becomes increasingly cheaper, and
4. Lower rates increase current valuations given that future cashflows are discounted back at a lower rate.

It is difficult to argue with this reasoning, and we would agree that with Australian 10-year bond yields almost halving this year from 2.32% at the start of the year to 1.32% at the end of June, some repricing was warranted. However, when considered in conjunction with the weaker fundamental environment, we think the repricing has been too aggressive, and that the market is currently overvalued.

That doesn't mean that the market can't go higher in the short term as you can academically reprice to infinity if interest rates approach zero. However, risk also increases in this environment and eventually you need fundamentals to support prices otherwise the bubble bursts. Additionally, if the repricing argument was true and stock valuations increase meaningfully with lower rates, German and Japanese equities should be trading infinitely higher than they are given their 10-year bonds are yielding -0.27% and -0.14% respectively. But alas, they are not, because ultra-low interest rates imply that there are some very serious problems in the underlying economy and these problems eventually flow into the corporate sector and in turn the equity market. Ultra-low interest rates should be a signal to be very cautious, not a signal to increase risk taking as the current market suggests.

As such, we do not think that this is the appropriate environment to be deploying our available leverage and we continue to have a large cash balance. Our excess cash has been a drag on the portfolio over the last couple of months given the strength of the rally. However, we remain disciplined in our capital usage and will look to deploy the cash when valuations of companies that we think can deliver capital growth and/or cashflows to our shareholders are more attractive.

We remain overweight quality yield stocks which have and should continue to benefit from a lower interest rate environment. However, most of these companies have already rallied strongly with many being at all-time highs, so we are wary of their current valuations.

We also remain overweight offshore growth companies despite the weaker global economic environment as we think they can deliver superior earnings growth compared to domestically orientated companies and may also benefit from a weaker Australian dollar should the RBA continue to cut interest rates or if the price of iron ore falls from its current lofty valuation.

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 from these materials.