CONCENTRATED LEADERS FUND

ASX LISTED INVESTMENT COMPANY (TICKER: CLF)

MONTHLY INVESTMENT REPORT: APRIL 2020

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 April

Total Investments	**$97,816,943**
NTA	**$67,675,849**
Shares on Issue	**59,401,514**
NTA per Share (pre-tax) *	**$1.14**
NTA per Share (post-tax) *	**$1.15**
Share Price	**$1.02**
(Discount)/Premium to NTA (pre-tax)	**(10.96)%**
(Discount)/Premium to NTA (post-tax)	**(11.74)%**
Fully Franked Dividend Yield	**13.72%**

* 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

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Portfolio and Market Review

Investment Performance

Performance as at 30/04/2020 **	1 Month	3 Months	6 Months	12 Months	Financial YTD	Since Inception *
CLF	6.96%	-13.11%	-8.41%	-6.44%	-6.73%	5.87%
Benchmark	8.78%	-20.32%	-15.48%	-9.06%	-13.78%	0.29%
Value Add	-1.82%	7.21%	7.07%	2.62%	7.05%	5.58%

* 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 +6.96% on a gross basis (pre-fees and taxes) in April versus the benchmark return of +8.78%. This equates to a 10.68% increase in pre-tax NTA and a 7.48% increase in the post-tax NTA, but a relative performance of -1.82%.

For the financial year to date, the portfolio has delivered a return of -6.73% on a gross basis versus the benchmark's -13.78%. This represents an out performance of +7.05%.

Market Review

The S&P/ASX 200 Total Return Index rose 8.8% in April and has now rebounded 21.5% from its low point on March 23rd. The MSCI All Country World Index rebounded 10.6% (in USD terms), with US equities outperforming. The S&P 500 Index rose 12.7%, the DAX gained 9.3% and the FTSE rose by 4.0%.

Global markets, including Australia, rallied on a combination of coordinated global fiscal and monetary stimulus, in particular the US Federal Reserve stepping in with unprecedented liquidity to shore up fragile credit and equity markets, the flattening of the curve in COVID-19 cases and initial steps towards re-opening in selected economies. Short-sellers covering profitable positions, 'buy-the-dip' investors coming back into the market strongly and fund managers needing to quickly re-establish positions for fear of underperforming their benchmark also helped the market.

All sectors were positive in April with energy being the best performing sector despite oil futures turning negative mid-month as traders rushed to offload physical oil obligations as global storage facilities approached capacity.

In terms of domestic sector performance, the primary movers were:

1. **Energy (+24.8%)** outperformed as oil names rallied off their March lows with OPEC+ announcing that it would be restricting output equivalent to 8.7% of global supply in the coming months. The rally was led by the majors - STO +44.4%, OSH +31.5% and WPL +23.3%. Energy was the wort performing sector in March when it fell 37.6%.
2. **Information Technology (+22.5%)** rose sharply in line with the Nasdaq index outperforming in the US. The sector benefitted from a rotation back into 'growth', but also the fundamental characteristics of the companies meaning they were better equipped to contend with a 'stay-at-home' environment. APT +66.0% led the sector after a steep sell-off in March and a strong company update.
3. **Consumer Discretionary (+16.0%)** rebounded on an accelerated re-opening of the economy and some strong online sales updates. The gains were broad-based with CTD +45.6%, SGR +40.9% and SUL +37.1% leading the way.

Portfolio Review

The portfolio returned 6.96% in April, but the portfolio's defensive position dragged on performance given the strength of the rally. Underweights to REITS, Energy and Materials were a negative, while an overweight to Technology and Consumer Discretionary sectors helped.

Despite maintaining a prudent cash allocation, we took the opportunity to deploy capital into several existing portfolio companies which we think have solid business models and allocate capital efficiently. These characteristics should enable them to survive in the near term and perform strongly as demand normalises. We also added new positions in several high-quality companies that we previously thought were expensive but have since repriced. These include the global logistics property developer Goodman Group (GMG) and printed circuit board design software developer Altium (ALU).

We have reduced our cash holdings over the last two months but remain cautious of the macroeconomic risks. We retain our conservative posture with a 17% cash allocation at end of April.

Major Contributors:

SVW (+36.2%) – rose strongly in line with the rise in the energy sector. SVW has a 28.6% shareholding in Beach Petroleum (BPT) and has interests in oil and gas projects in Australia and the United States.

APX (+31.2%) – rose with the rest of the tech sector and due to its resilient demand characteristics of providing AI labeling services to big tech.

JIN (+29.4%) – rose after announcing in a COVID-19 update that FY20 estimated EBITDA is expected to be only slightly below FY19 EBITDA despite the significant COVID-19 disruption.

Major Detractors:

NGI (-43.5%) – NGI fell sharply after the company provided an unexpectedly poor fund performance. The flagship diversified fund suffered an ~18% fall in March despite the strategy having a low correlation to global equities. This is a small position in the portfolio but disappointing given that it should have performed relatively well in this environment.

QBE (-1.7%) – The company fell following a capital raising and a disappointing market update. Management did however say that it has reduced risk in the investment portfolio and believes that the company is now better placed to deal with the current global economic volatility.

WBC (-1.3%) – The company fell in line with the banking index as the company struggles with the lower interest rate environment, higher compliance costs and provisioning for expected bad debt losses. We are heavily underweight WBC relative to its benchmark weighting.

Sector Exposure

Sector	Weight (%)
Consumer Discretionary	8.2%
Consumer Staples	8.0%
Energy	2.3%
Financials	17.7%
Health Care	8.2%
Industrials	8.9%
Information Technology	8.3%
Materials	11.8%
Real Estate	7.1%
Telecommunication Services	0.0%
Utilities	2.6%
CASH/LIQUIDITY	17.0%

Top 10 Holdings in alphabetical order

Code	Company Name	Sector
A2M	A2 MILK COMPANY	Consumer Staples
ALL	ARISTOCRAT LEISURE LTD	Consumer
AMC	AMCOR LIMITED	Materials
BHP	BHP BILLITON LIMITED	Materials
CBA	COMMONWEALTH BANK OF	Financials
CSL	CSL LIMITED	Health Care
MQG	MACQUARIE GROUP LTD	Financials
NAB	NATIONAL AUST. BANK	Financials
TCL	TRANSURBAN GROUP	Industrials
WOW	WOOLWORTHS GROUP LIMITED	Consumer Staples

Outlook

Australian equities finished the month of April up 21.5% from their March lows – an amazing rebound given the country remains in lockdown and the full extent of the economic impact is not yet known. The strength of this rebound (in conjunction with a fall in aggregate corporate earnings for FY20 of ~15%) has seen the forward looking price/earnings (P/E) multiple of the S&P/ASX 200 Index rebound swiftly to 17.8x. Industrials (ex-Financials) are trading at a remarkable 25.2x. Almost laughably, the market is back to being expensive relative to historical multiples only seven weeks after one of the most vicious selloffs in history and while the economy is facing its first recession in almost 30 years.

While lower interest rates and a relatively modest Covid-19 infection rate have benefitted the domestic market, this rally has been sentiment driven with US equities and more specifically the US Technology sector leading the way. The Nasdaq Composite Index is up +1.7% YTD and is trading at a forward P/E multiple of 28.7x, which is its highest level since the 2000 'tech wreck'. The US Federal Reserve's (Fed) ultra-accommodative monetary policy stance has been a key factor in the rebound with trillions of dollars (the actual amounts have become irrelevant) of liquidity being created. This is consistent with the period immediately following the Global Financial Crisis (GFC) with the liquidity quickly finding its way into equity markets.

Valuations and fundamentals have become less important at present as equity markets thrive on the extra liquidity. The collective view that appears to have been taken by the market is that the US government and the Fed are now free to inject unlimited amounts of stimulus/liquidity into the system in order to facilitate a COVID-19 economic recovery. The longevity of this thinking is unknown, but it is unlikely that it can continue indefinitely and at some stage the market will need to address the great divergence between fundamentals and pricing. Either fundamentals improve dramatically to warrant current valuations, or the market retraces lower if the economic recovery disappoints.

This creates a difficult investment environment because it is unclear how long this divergence will last or how it will ultimately play out. Additionally, the substance of the rally seems low with the breadth being narrow and many poor-quality companies – those that sold down the most and/or had to raise capital – rallying the strongest. As such, the risk of a retracement due to current high valuations, a worse than expected economic recovery, a second wave of infection or heightened geopolitical risk and/or increased trade tensions remains high.

As a result, while we added to several of our positions close to the market bottom and reduced the cash component of the fund meaningfully, we are now wary that the market has moved too far too soon. We find it difficult to buy into this 'bubble-like' environment that has been created but will selectively deploy further capital in idiosyncratic opportunities. We continue to hold a defensive cash position with capital preservation remaining important in this environment.

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.

Authorisation

This announcement was authorised by the Board of Directors of Concentrated Leaders Fund Limited.