

NTA and Monthly Update – December 2017

Company at a Glance

| | |
|----------------------------|---------------|
| ASX Code | ALF |
| Fund Size | AU\$311.3m |
| Fund Strategy | Variable Beta |
| Share Price | \$1.09 |
| Shares on Issue | 272.5m |
| Return of Capital (2HFY17) | 4 cents |

Net Tangible Asset (NTA) Backing

| | Nov 17 | Dec 17 |
|----------------|--------|--------|
| NTA Before Tax | \$1.19 | \$1.19 |
| NTA After Tax | \$1.20 | \$1.20 |

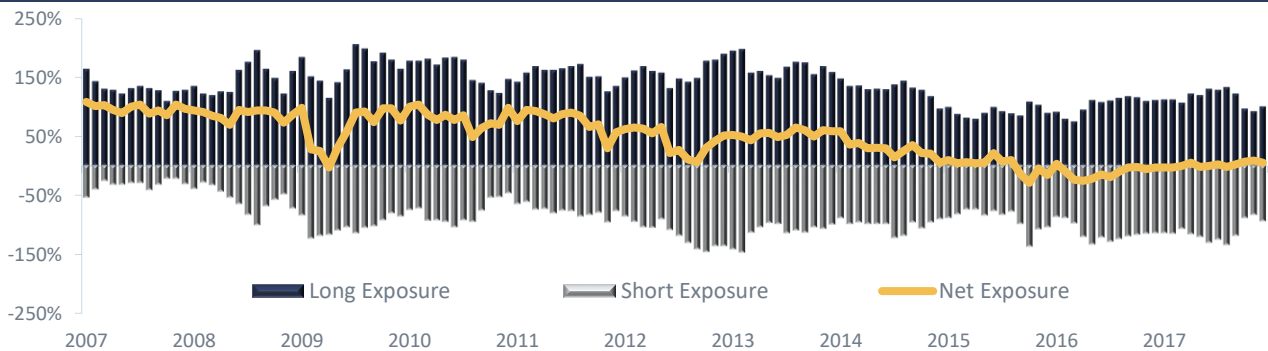
Gross Portfolio Structure

| | Nov 17 | Dec 17 |
|----------------|--------|--------|
| Long Exposure | 92.6% | 100.2% |
| Short Exposure | -83.7% | -94.8% |
| Gross Exposure | 176.3% | 195.0% |
| Cash | 91.1% | 94.6% |

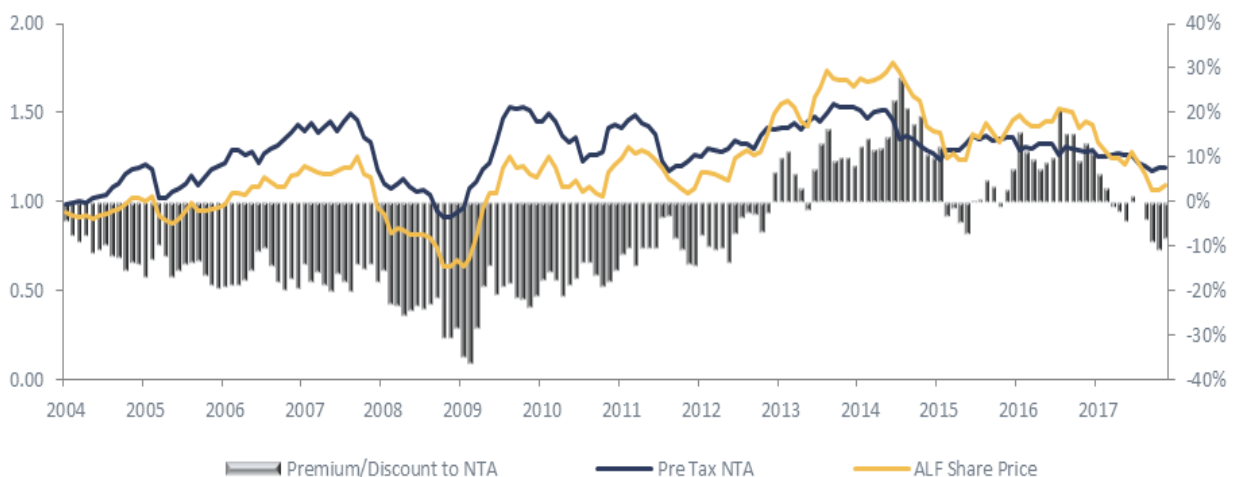
ALF Performance

| | 1 Mth | 6 Mths | 1 Yr | 2 Yrs (pa) | 3 Yrs (pa) | 5 Yrs (pa) | 7 Yrs (pa) | S.I. (pa) |
|-----------------------------|--------------|---------------|---------------|---------------|--------------|--------------|-------------|-------------|
| Portfolio Return (net) | 0.1% | -3.7% | -3.0% | 0.1% | 5.1% | 7.9% | 8.5% | 12.2% |
| All Ords Accum Index | 2.0% | 9.3% | 12.5% | 12.1% | 9.2% | 10.4% | 8.1% | 9.2% |
| Outperformance (net) | -1.9% | -13.0% | -15.5% | -12.0% | -4.1% | -2.5% | 0.4% | 3.0% |

Net Equity Exposure



Premium/Discount to NTA History



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Month in Review

Equity markets around the world finished the year as they began, rallying on the promise of lower taxes for US corporates and strong economic data across developed and emerging markets. This synchronised growth around the world has been an especially powerful tailwind for the commodities sector, leading to strong demand for bulk commodities and base metals. The Australian share market also participated in the pre-Christmas rally, and delivered an 11.8% return for the 12 months to the end of December, trailing most global peers by a sizeable margin.

After a strong start in December, the short book detracted from returns late in the month to leave the Fund only marginally higher for the period. At a sector level, positive contributions were widespread, with Financials, Real Estate and Consumer Discretionary the strongest performers. This was offset by weaker performance in Healthcare and Industrials.

Mining was the best performing sector globally, as positive economic data lifted the prices of all commodities. Nickel rose 15% and Coal 30%, supporting key positions in Independence Group and Teck Resources. We have neutralised the Fund's modest net long exposure in this part of the portfolio as the sector looks overbought in the short term. The oil price continues to benefit from large draws in crude inventory, signalling ongoing demand strength. The Fund is balanced in the energy sector given the strong rally in recent months and with full valuations creating vulnerability to any bad news.

December proved to be a difficult month for regulated utilities, as lower returns on rate-base led to pullbacks for APA Group, Ausnet Services and Spark Infrastructure. APA saw further headwinds following regulatory concerns around its uncovered pipeline assets. The fund was well positioned in the sector. Electricity generation and retailers were relatively flat for the month. With Alinta strengthening its position in the market after its parent company - Chow Tai Fook, purchased Loy Yang B, the competitive environment has intensified further. Meridian Energy saw a positive response to its \$168 million purchase of hydro power stations in Australia to complement its PowerShop business, which benefited the fund.

Having underperformed for much of 2017, the global media and telecom sectors rallied strongly in December. Companies in these industries tend to derive a large share of their earnings in the US and will be major beneficiaries of tax reform. Australian TMT shares finished off the year with another strong month. Software shares in particular were buoyed by Oracle's bid for local construction software firm Aconex at a 50% premium. We participated in Bain Capital's sell-down of another tranche of its shareholding in MYOB. The Company is seeing uplift in its average return per user as customers transition to subscription software and for the growth it is delivering, the shares look particularly undervalued relative to both the broader market and peers. An investment in TradeMe was again a key contributor to domestic performance and we took advantage of the strength to trim our position.

Short exposures in the domestic healthcare sector detracted from returns in the month, with continued strength in this part of the market defying already stretched valuations for key local names. A further downgrade to forecast earnings for Allergan saw shares in that company fall again in December. We retain our conviction that management of this high-quality pharma company can execute successfully on their strategy, leaving the company attractively valued at current levels.

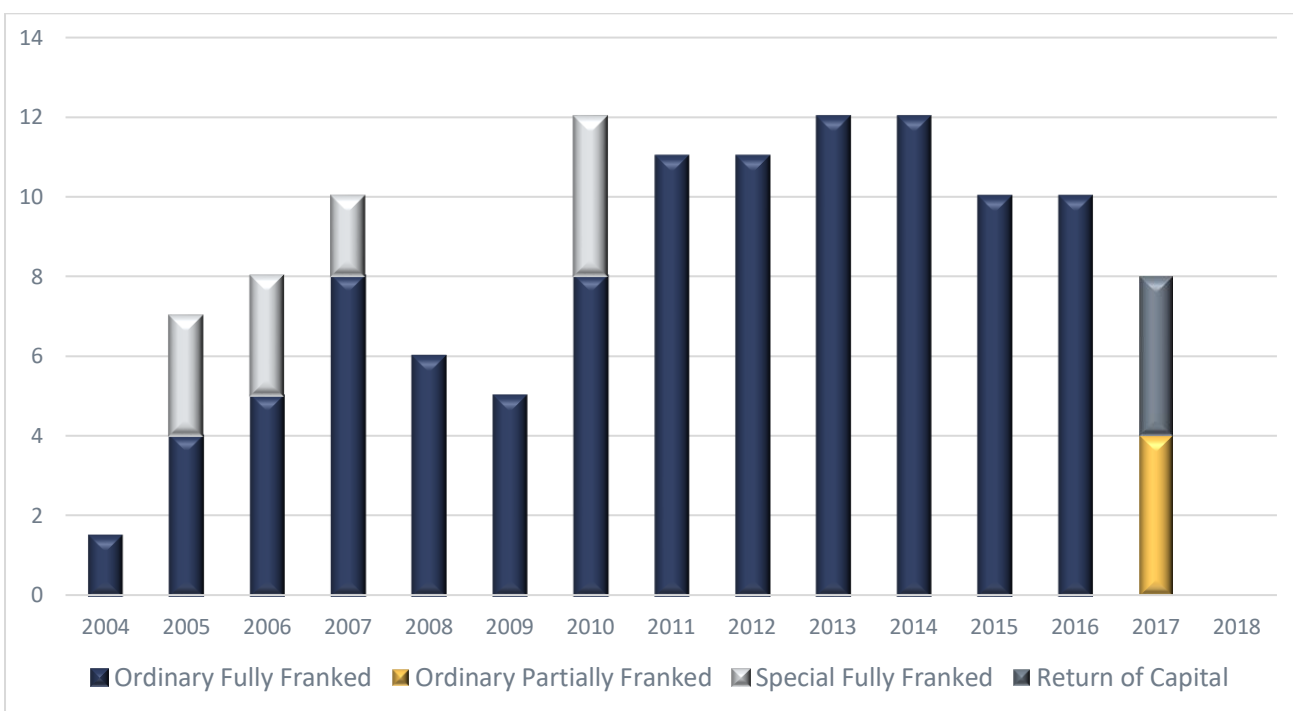
Solid contributions came from positions in banks and diversified financials. An investment in consumer finance business Synchrony continues to perform well, with the company enjoying a privileged position supplying store credit cards to major global retailers such as Amazon and Wal-Mart. The Fund's investment in Westfield Corp was rewarded in December, with French property giant Unibail-Rodamco acquiring the company in a cash and scrip deal valued at a significant premium to the last trade price of \$8.50.

In the consumer sector, Tabcorp Holdings had another strong month following shareholders' approval of its merger with Tatts Group and an investment in Aristocrat Leisure also performed well.

We have initiated several new positions in the industrials sector, where our strategy is to take advantage of the strong momentum across the industrial economy while selectively shorting companies that face structural challenges. The Fund holds two core investments in the aerospace sector: French company Safran S.A – which manufactures aircraft and rocket engines; and the US based Hexcel Corporation which is a leading producer of carbon fibre and resin systems. Core shorts include Rolls-Royce, and elevator manufacturer Kone.

Dividend History

The Board is committed to paying an increasing stream of fully franked dividends to shareholders, provided the Company has sufficient profit reserves and franking credits and it is within prudent business practices. Dividends are paid on a six-monthly basis and the dividend reinvestment plan is available to shareholders for both the interim and final dividend.



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