



NTA and Monthly Update – May 2018

Company at a Glance

ASX Code	WGF
ASX Code Options	WGFO
Fund Size	AU\$81.3m
Fund Strategy	Global Market Neutral
Share Price	\$0.92
Shares on Issue	76.2m
Option Price	0.1 cents

Net Tangible Asset (NTA) Backing

	Apr 18	May 18
NTA Before Tax	\$1.08	\$1.10
NTA After Tax	\$1.07	\$1.08

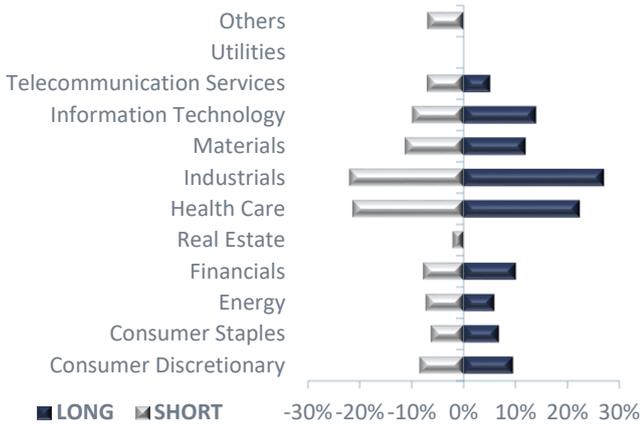
Gross Portfolio Structure

Long Exposure	105.0%	113.2%
Short Exposure	-100.6%	-110.9%
Gross Exposure	205.6%	224.1%
Cash	95.6%	97.8%

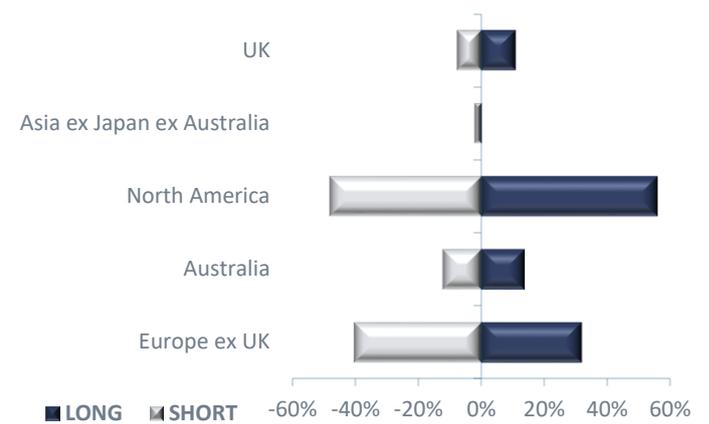
Performance

	1 Mth	3 Mths	6 Mths	Fin. YTD	1 Yr	2 Yrs (pa)	S.I. (pa)
Portfolio (net return)	0.8%	2.5%	1.2%	-2.4%	-2.6%	-	-1.1%
RBA Cash Rate	0.1%	0.4%	0.8%	1.4%	1.5%	-	1.6%
Outperformance	0.7%	2.1%	0.4%	-3.8%	-4.1%	-	-2.7%

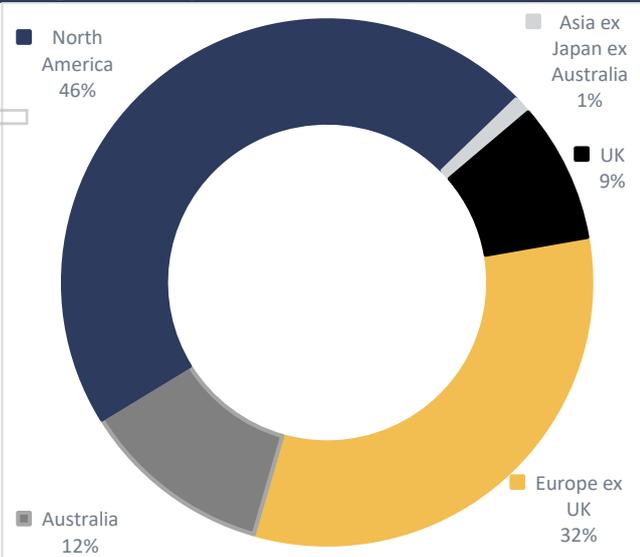
Sector Exposures



Regional Exposures (Net)



Regional Exposures (Gross)



Contributors/Detractors

Top 3 Contributors	
Broadcom Inc.	0.2%
Bankia, S.A.	0.2%
Zebra Technologies Corporation	0.2%
Top 3 Detractors	
CYBG Plc	-0.3%
SJM Holdings Limited	-0.2%
Play Communications	-0.2%

For personal use only

Month in Review

Share markets stabilised moderately in May, despite continued rhetoric from President Trump relating to his trade war with both China (on tech/IP), and his allies on steel. In addition, political drama in Italy increased towards the end of the month as coalition talks failed following a March general election that resulted in a hung parliament. Italy remains the weakest link in the European currency union given its size; high levels of debt; and shaky political environment, and the local Italian index pulled back over -9% through the month as investors headed for the door. Despite this, volatility (as measured by the VIX) remained muted throughout the first few weeks of the month.

The US earnings season continued to produce strong results, with many companies beating revenue forecasts and delivering profit upgrades. The Nasdaq rallied further, rising +5.3% for the month, while the S&P 500 finished +2.2%, driven by Energy, Industrials and Information Technology. Leading indicators such as the manufacturing PMI and the ISM surpassed expectations, providing further support for the US market and the U.S. Dollar. European equity markets on the other hand were mixed, with France and Italy in negative territory while Germany held flat and the U.K. saw a relief bounce. European currencies continued to weaken, given some slightly underwhelming economic data and the continued turmoil in Italy, with the EUR/USD moving down -3.2% and the GBP sliding -3.4%.

Commodities prices were also mixed, with base metals moving higher for the most part, while crude oil exhibited significant volatility, rising above \$US70/bbl during the first part of the month (a new high since the 2014 collapse) driven by the United States' withdrawal from the Iran nuclear deal, only to finish the month down -2.2% after news reports suggesting OPEC is considering increasing production sooner than anticipated. The ongoing protectionist drive from Trump and the risk of an escalating trade war with China continues to be a key concern for investors heading into June, given its ability to derail the global economic recovery that we are currently seeing.

The value of WGF's portfolio increased by 0.8% after all fees, showing continued positive momentum and underlying alpha generation from stock selection. There were notable contributions across multiple sectors, with the Industrials and Basic Materials portfolios delivering the best results.

Mining shares performed well, with stable economic data from China providing a constructive backdrop for a sector that is exhibiting capital discipline. An investment in BHP Billiton benefitted from the rising oil price, as the company is in the process of selling its US Onshore business. Another strong performer was an investment in small cap gold miner Aurelia Metals. Having recently acquired the Peak gold mine from Canadian company New Gold, the company upgraded its production forecasts. We expect mine life extensions will increase the value of this shrewd purchase.

Industrial shares recovered through May, a trend that started in Europe – where companies benefitted from a weaker EUR/GBP – and was subsequently followed by the U.S. and other international peers. Company commentary remained positive, with leading manufacturing indicators in the U.S. and China exceeding expectations. In Europe, the industrial group added 2.5% for the month with the primary winners being exporters and beneficiaries of USD strength, such as Ashtead, Safran and Airbus. Deere was another contributor, which bounced 10% after a strong set of results and continued positive commentary from management. Detractors included shorts in Europe and US that recovered together with the broader group.

The TMT portfolio fared well, with positions in the European telecom sector adding to returns. These include shorts in Telefonica SA, Swisscom AG, and Deutsche Telekom AG, where fundamentals continue to deteriorate.

The Financials portfolio detracted from returns, with losses stemming principally from an investment in Clydesdale Bank (CYBG). CYBG shares traded lower in the month on weaker than expected 1Q18 earnings. Having had conformation from management that this was a one-off hit to pre-tax profits, we added to the position, given the bank continues to trade well and stands to benefit significantly from its proposed merger with Virgin Money. A short position Bankia performed well, with Spanish banks across the board continuing to struggle against a backdrop of deleveraging and fierce competition on lending margins.

The performance of global healthcare shares was muted in May, with European companies grinding higher on a weaker Euro, while US pharmaceutical shares continued to slide following the release of President Trump's "Blueprint to Lower Drug Prices". While M&A activity continues to accelerate, small-mid-sized company valuations are becoming stretched and we used this opportunity to take profits in investments in Spark Therapeutics and Foundation Medicine. We retain a short bias to larger biopharmaceutical companies balanced by investments in medical device and life sciences companies, where we see a longer cycle ahead given continued strength in consumer and industrial end markets.