

NTA and Monthly Update – July 2019

Company at a Glance

ASX Code	ALF
Fund Size	AU\$262.2
Fund Strategy	Variable Beta
Share Price	\$0.93
Shares on Issue	240.4m
Net Exposure	-6.4%

Net Tangible Asset (NTA) Backing

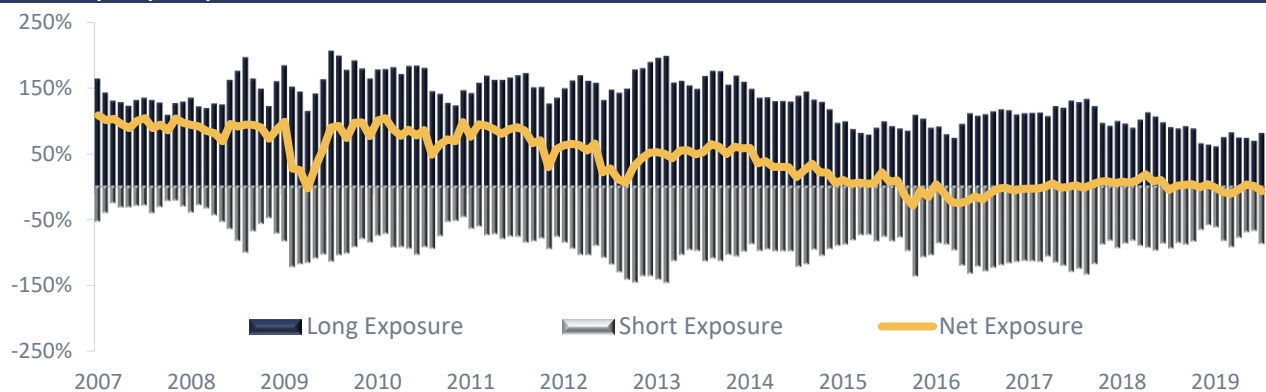
	June 19	July 19
NTA Before Tax	\$1.15	\$1.17
NTA After Tax	\$1.14	\$1.16

Gross Portfolio Structure

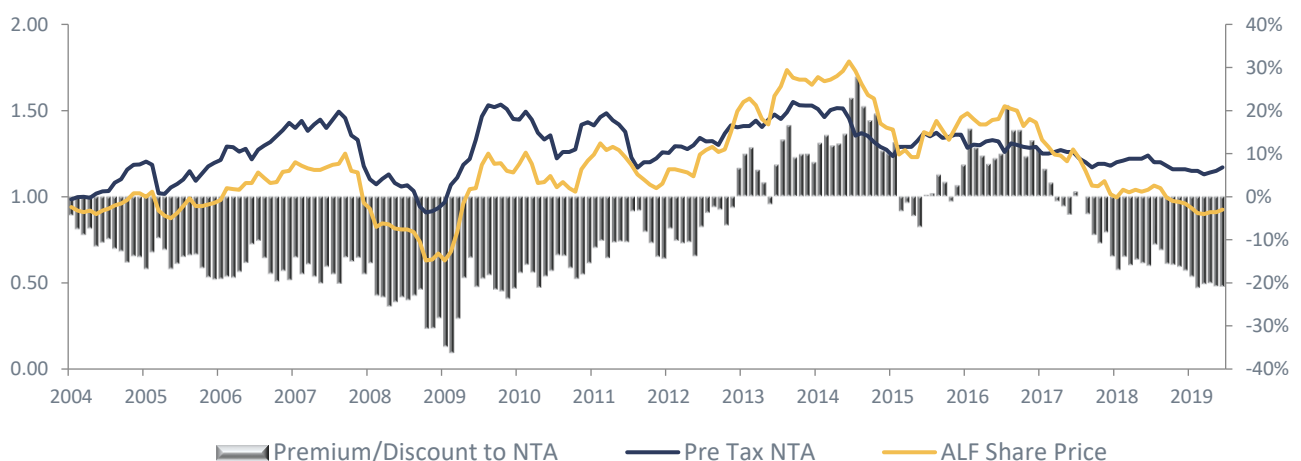
	June 19	July 19
Long Exposure	70.2%	82.1%
Short Exposure	-68.9%	-88.5%
Gross Exposure	139.1%	170.6%
Cash	98.7%	106.4%

	1 Mth	3 Mths	1 Yr	3 Yrs (pa)	5 Yrs (pa)	7 Yrs (pa)	S.I. (pa)
Portfolio Return (net)	2.1%	1.9%	-7.6%	-1.8%	-1.0%	6.9%	10.6%
All Ords Accum Index	3.0%	8.3%	12.9%	11.4%	8.7%	11.7%	9.4%
Outperformance (net)	-0.9%	-6.4%	-20.5%	-13.2%	-9.7%	-4.8%	1.2%

Net Equity Exposure



Premium/Discount to NTA History



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Month in Review

The local share market outperformed global peers in July, putting on 3.0% and breaking through its previous all-time high set in November 2007. While much has been written about the rise and rise of a small group of high-growth shares, it has been defensive sectors such as telecom and consumer staples that have been major drivers of market returns in 2019. The Reserve Bank of Australia cut the official cash rate in July and has signalled a preparedness to make further cuts if necessary. This is broadly in line with central banks around the world, which are looking to support flagging global growth, with an easing of monetary policies.

The Fund delivered a net return of 2.1% for the month, with positive contributions across all sectors. This was despite having very little net exposure to the buoyant share market. In this light, the result in July was a pleasing one, especially given the Fund was well positioned to weather the onset of increased volatility in the final days of the month. This has been the intention behind the Fund's conservative portfolio settings – to achieve an acceptable return while positioning the fund to weather any set-back for the share market.

Financials made a solid contribution to performance in July. An investment in NAB following the appointment of its new CEO has proven timely. Ross McEwan was announced as CEO in the month and after an introductory meeting with him, we feel confident he has the skillset to take NAB forward. Paired with Phil Chronican, we see NAB as having the best CEO/Chairman combination in the local banking sector. Having come from the UK, Mr McEwan has experience in a banking environment that is some way ahead of the local industry in terms of remediation, disruption from new competitors, open banking and ultra-low rates. This gives NAB a significant advantage as it negotiates similar developments in the local market in the years ahead. Investors seem to share this view and NAB shares have outperformed peers since the announcement.

We participated in the IPO of Sezzle during the month and saw the shares move quickly to around 80% above the issue price. Sezzle currently operates in North America, where it offers a product that is similar to Afterpay and has around one quarter of the number of Afterpay customers. We see both companies as attractive exposures to the emerging 'Buy Now Pay Later' trend in the US with significant growth ahead of them.

In basic industries, impacts of the trade war took a back seat to global economic data, expectations of the US Fed rate cut and supply issues, which dominated metals and mining stocks. Gold shares outperformed as a flight to safety from investors pushed the price of gold higher. The nickel price surged on supply concerns and we initiated an investment in Independence Group, given its solid cash generation and exposure to nickel and gold. The iron ore price held at over US\$100/t through July before some weakness began to appear towards the end of the month. We have neutralised the Fund's exposure to the iron ore sector in response to this. An investment in Coronado was impacted by falling coking coal prices, however the Company reported strong cash generation and has declared a dividend and capital return, implying a half-year yield of 18%.

In Technology/Media/Telecom, positive performance was driven by investments in TPG Telecom, Xero and Nine. The TPG share price moving principally on news flow around the litigation of its proposed merger with Vodafone in Federal Court, but it also benefited from the increased noise around a potential cut to broadband NBN pricing (a potential tailwind to margins). Our long position in Nine continued to trade well reflecting solid TV share gains and an improved valuation for its streaming platform Stan.

The Healthcare sector has been a major beneficiary of falling bond yields, which has resulted in a re-rating of bond-proxies which abound in the sector. Investments in MedTech companies made a notable contribution in the month, with ResMed benefitting from strong Q4 results, which saw devices grow by 2% year on year (despite tough comps outside of the US market) and masks up 13%. CSL was another key contributor during the month, driven by anticipation of strong 2H19 results in an undersupplied Immunoglobulin market and a strong flu season benefiting Seqirus.

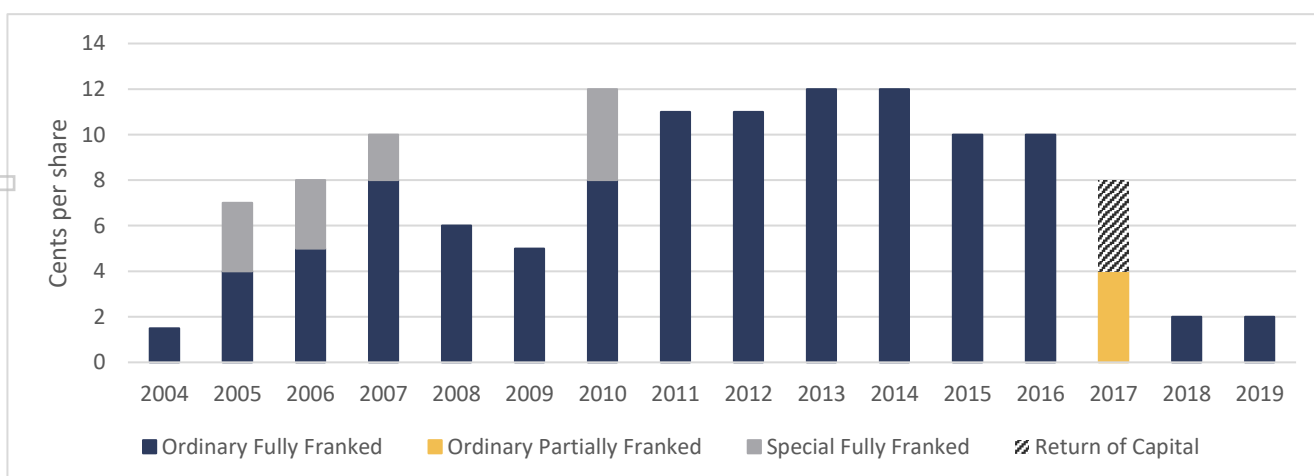
Investments in agriculture and gaming were the most notable performers in the consumer portfolio. Elders was the largest single contributor, with the company making a significant acquisition in the month which will provide further diversification for its business while consolidating its industry towards a duopoly.

Monthly Net Performance (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
2004		0.4	1.4	0.2	0.0	2.3	1.1	-0.3	4.6	2.8	4.4	2.4	20.8
2005	0.3	1.3	-0.9	-6.1	-0.4	4.8	2.0	2.7	4.8	-3.0	3.9	3.7	13.2
2006	1.5	2.0	6.4	2.9	-2.1	1.4	-3.2	4.3	1.7	7.2	2.8	2.5	30.6
2007	3.1	-1.6	3.5	1.1	2.7	2.0	-1.0	3.4	3.3	1.0	-0.3	-1.9	16.3
2008	-11.5	-8.4	1.4	4.4	1.5	-7.2	-1.3	5.1	-5.4	-16.3	-6.6	3.0	-36.1
2009	2.2	2.9	16.0	6.7	7.9	7.0	9.2	12.4	6.5	-0.7	0.8	0.1	96.9
2010	-3.5	2.2	4.2	-2.1	-7.1	-2.3	2.8	-3.9	2.3	0.0	2.7	12.0	6.4
2011	2.0	1.9	3.6	1.7	-1.8	-1.8	-4.1	-6.8	-8.4	6.5	-1.5	0.9	-8.6
2012	4.9	4.7	3.3	1.2	-2.4	0.7	3.7	3.6	0.3	-1.3	6.5	3.4	32.3
2013	3.4	1.6	3.0	2.7	0.5	2.2	3.8	3.5	2.8	4.0	-0.6	0.0	30.2
2014	-0.2	4.0	-1.4	2.6	1.2	0.3	-3.6	-2.4	1.4	-1.3	-2.5	-1.1	-3.2
2015	-1.2	1.0	3.0	0.8	-0.5	3.1	3.8	3.0	1.5	-1.6	0.4	2.0	16.2
2016	0.0	-2.1	1.4	-0.4	1.9	1.0	-0.3	-0.6	3.9	-0.5	-0.9	-0.2	3.1
2017	-0.7	-0.1	0.1	1.2	0.7	-0.5	0.3	-1.8	-0.4	-3.1	1.3	0.1	-3.0
2018	-0.6	0.7	0.9	0.9	0.0	-0.6	2.6	-1.6	0.2	-2.0	-2.9	-1.4	-3.7
2019	0.5	0.7	-1.0	-2.3	-0.8	0.7	2.1						-0.1

Dividend History

The Board is committed to paying fully franked dividends to shareholders, provided the Company has sufficient profit reserves and franking credits and it is within prudent business practices.



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