CONCENTRATED LEADERS FUND

ASX LISTED INVESTMENT COMPANY (TICKER: CLF) | MONTHLY INVESTMENT REPORT: MAY 2018

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 31 May

Total Investments	$111,618,739
NTA (pre-tax)	$80,337,739
Shares on Issue	59,401,557
NTA per Share (pre-tax on realised & unrealised gains)	1.35
NTA per Share (post-tax on realised & unrealised gains)	1.29
Share Price	1.235
Discount/Premium to NTA (pre-tax)	(8.67%)
Discount/Premium to NTA (post-tax)	(4.29%)
Dividend Yield (including franking)	6.07%

Fund Information

ASX Code	CLF
Date of launch	September 1987
Benchmark	S&P/ASX 200 Acc 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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Performance Overview and Outlook

Portfolio and Market Review

The portfolio returned 1.19% on a gross basis (pre-fees and taxes) during May versus the benchmark return of 1.09%. This equates to a 1.23% increase in pre-tax NTA and a 1.00% increase in the post -tax NTA. For the calendar year-to-date the portfolio has delivered strong relative performance returning 3.24% on a gross basis versus 0.99% for the benchmark – an outperformance of 2.25% over five months.

CSL (+9.1%) was a major contributor to the portfolio during the month, however it did cost us in relative terms as we are underweight both it and the Healthcare sector in aggregate due to valuation concerns (fwd PE 29.4x vs ASX200 of 15.4x). Conversely, our large underweight to Financials was a key driver of the portfolio's return in May and calendar year to date. In terms of individual stocks, Aristocrat Leisure (+12.71%), Macquarie Group (+8.13%), BHP Limited (+5.95%) and Lend Lease (+4.97%) were also major contributors for the portfolio. However, on the downside, our holdings in Treasury Wines (-13.06%), Ramsey Health Care (-5.19%) and QBE (-4.82%) detracted from performance.

Outlook

The S&P/ASX 200 Index is little changed since the start of the year; however, this masks a great degree on underlying volatility with the index registering a low of 5,751 and a high of 6,135 thus far. The dispersion of stock returns within the index has been significant with high P/E and momentum stocks winning the battle so far. We have (and continue to be) underweight several high growth/PE names on-valuation grounds as we are unable to justify their excessive multiples. Whether this outperformance continues in the second half of the year is yet to be seen, but one thing is for certain – these stocks cannot afford to disappoint on earnings or the market will punish them severely.

We have built what we consider to be a relatively balanced portfolio with a blend of companies that offer high growth (including CSL, A2M, TWE, TNE), high yield (including NAB, WBC, ECX, TAH) and GARP characteristics (including ALX, JHG, QBE, MQG and ORG). Our holdings and weightings are benchmark and style agnostic, which allows us to position the portfolio with the aim of delivering attractive risk adjusted returns in a range of market conditions. This balanced approach is important at present as uncertainty is heightened – the big four banks are under pressure, commodity prices are highly volatile, momentum is expensive, Australian house prices are retracing and internationally there is the potential for a global trade war.

With this uncertainty in mind, our portfolio is positioned for the following outcomes:

- Interest rates globally will increase, and liquidity will tighten with US and Europe undergoing Quantitative Tightening (QT). This will weigh on equities at current valuations. *We are not fully invested and have a large cash allocation.*
- The global economy will remain strong with the US being the highlight, while China will slow but only moderately. *We are overweight US and China earners.*
- The Australian dollar will weaken as the Australian-US interest rate differential widens and the US dollar strengthens. *We are overweight US earners and wary of companies with near-term funding requirements via the US*.
- Domestic interest rates are on hold for the foreseeable future, but credit is expected to tighten, and housing will come under further pressure. *We are underweight the banks.*
- Commodity prices are 'fair' at present. *We are neutral commodity exposure.*

Dr David Sokulsky
Chief Executive Office & Chief Investment Officer

Investment Themes

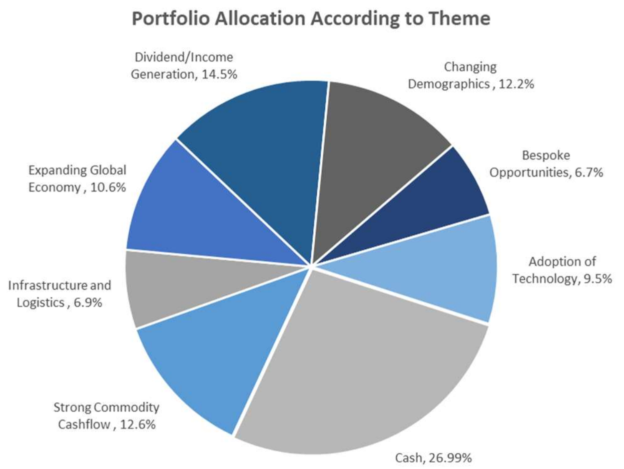
1. **Expanding Global Economy –** The global economy is expected to grow at greater than 4% in 2018 and we aim to leverage off this by investing in companies that source a significant portion of their revenues from offshore. We also aim to benefit from increased global income and a potential weakening of the Australian dollar.
2. **Changing Demographics –** It is no secret that the developed world is getting older and this is generating significant investment opportunities. We aim to identify companies that benefit from this changing demographic across a range of sectors including healthcare, funds management and the supply of desirable goods such as fresh food.
3. **Strong Commodity Cashflow –** The rebound in commodity prices has been strong since the price of oil bottomed in early 2016. We believe these prices, although subject to volatility, should be sustainable going forward given strong global economic growth, higher global inflation – particularly in the United States and increased corporate responsibility among producers.
4. **Adoption of Technology by Businesses –** One of the key themes over the next decade will be the continued adoption of technology by businesses. While most of the largest of these developments are taking place offshore, a number of Australian companies are well placed to benefit from this seismic shift. Valuation is the key with this theme, as many of these companies appear to be fully priced relative to their earnings outlook.
5. **Infrastructure and Logistics** – Infrastructure spending both domestically and abroad is set to increase over the next 5-10 years at both the state and federal level domestically. While this is not a new theme, we believe that many of the beneficiaries of this theme are attractively priced given the magnitude of the spending still to take place and the earnings growth currently being witnessed.

In addition, we also run two separate allocation buckets for income generation and bespoke opportunities.

Top 10 Holdings (as at 31 May 2018)

Company	Portfolio Allocation	Macro Theme
BHP BILLITON LIMITED (BHP)	4.85%	Strong Commodity Cashflow
RIO TINTO LTD	3.72%	Strong Commodity Cashflow
MACQUARIE GROUP LTD	3.07%	Expanding Global Economy
AMCOR LIMITED	3.02%	Expanding Global Economy
ORIGIN ENERGY LTD	3.01%	Strong Commodity Cashflow
LENDLEASE GROUP	2.94%	Infrastructure and Logistics
ARISTOCRAT LEISURE LTD	2.83%	Adoption of Technology
COSTA GROUP HOLDINGS	2.76%	Changing Demographics
TABCORP HOLDINGS	2.74%	Dividend/Income Generation
TECHNOLOGY ONE LTD	2.70%	Adoption of Technology
CASH/LIQUIDITY	**26.99%**	

Portfolio Breakdown (as at 31 May 2018)



Important Information

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