

NTA and Monthly Update – June 2018

Company at a Glance

ASX Code	ALF
Fund Size	AU\$314.4
Fund Strategy	Variable Beta
Share Price	\$1.03
Shares on Issue	267.8m
International Exposure (% of gross)	22.6%
Net Exposure	10.5%

Net Tangible Asset (NTA) Backing

	May 18	Jun 18
NTA Before Tax	\$1.22	\$1.22
NTA After Tax	\$1.23	\$1.22

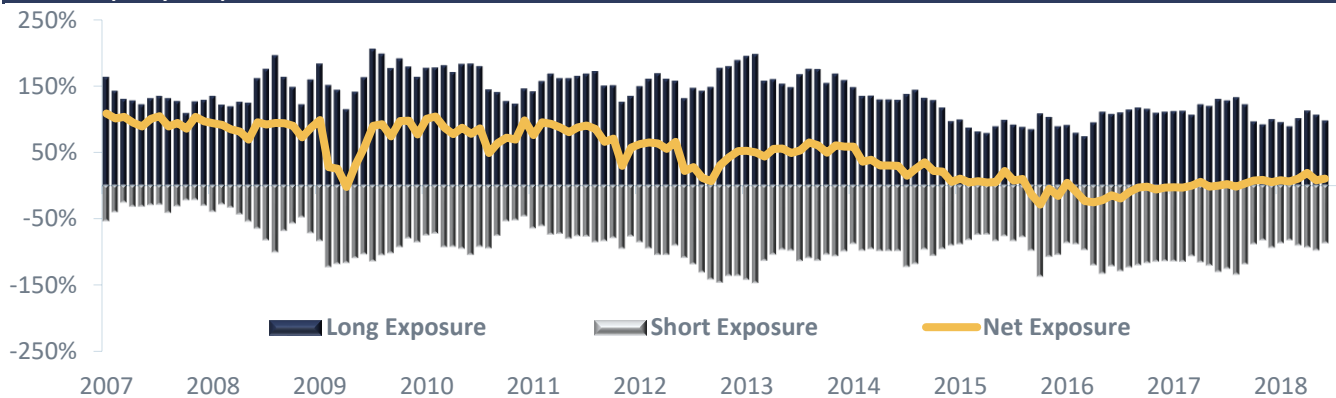
Gross Portfolio Structure

	May 18	Jun 18
Long Exposure	107.1%	98.3%
Short Exposure	-98.7%	-87.8%
Gross Exposure	205.8%	186.1%
Cash	91.6%	89.5%

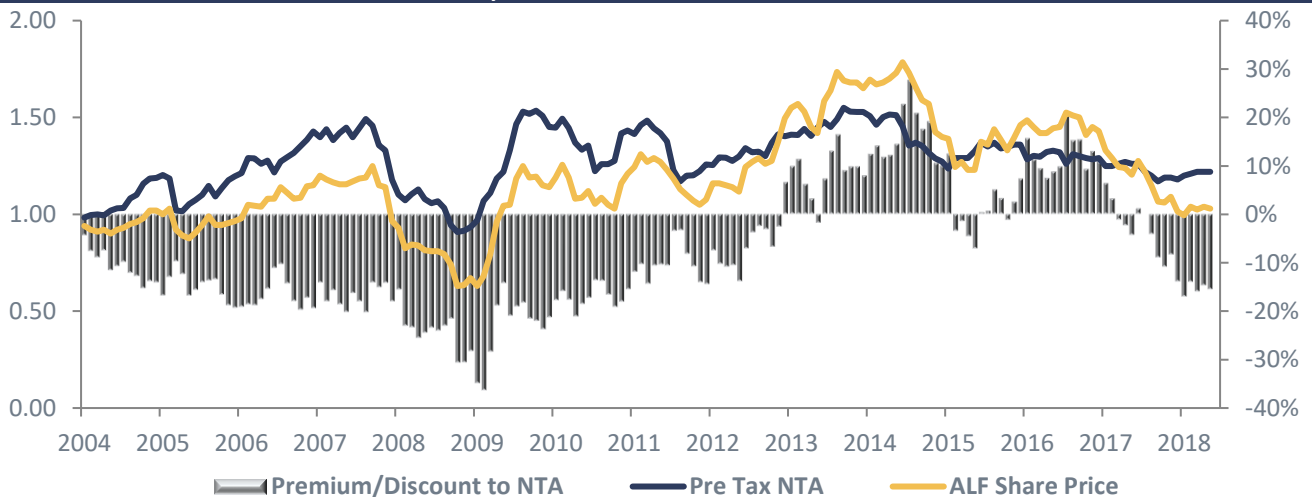
ALF Performance

	1 Mth	3 Mths	1 Yr	3 Yrs (pa)	5 Yrs (pa)	7 Yrs (pa)	S.I. (pa)
Portfolio Return (net)	-0.6%	0.4%	-2.3%	3.5%	5.4%	7.9%	11.8%
All Ords Accum Index	2.9%	8.0%	13.7%	9.5%	10.3%	9.0%	9.1%
Outperformance (net)	-3.5%	-7.6%	-16.0%	-6.0%	-4.9%	-1.1%	2.7%

Net Equity Exposure



Premium/Discount to NTA History



Month in Review

The Australian share market outperformed its global peers in June, buoyed by a weaker local currency and inbound capital flows, as investors rotated out of emerging markets. The outlook for growth in the domestic economy remains uncertain, with falling property prices and tighter availability of credit likely to weigh on household consumption. Geopolitical tensions continue to weigh on the minds of investors in global shares, however neither the looming global trade war nor the prospect of denuclearisation of the Korean Peninsula was sufficient to move markets significantly in either direction.

ALF's portfolio fell in value by 0.6% after all fees. With minimal net market exposure through the month, the Fund underperformed a strong local market, with the All Ordinaries Accumulation Index increasing by 2.9%. The Financials portfolio was the strongest performer in the month, followed by Basic Industries and Telecommunications. Healthcare, Real Estate and Information Technology were detractors from returns.

In the Consumer portfolio, the most notable performers were investments in global snacking company *Mondelez* and local gaming companies *Tabcorp* and *Aristocrat*. *Mondelez* recovered from its sell-off in the previous month, which had been fuelled by concerns about the outlook for emerging market economies. *Mondelez* remains a compelling investment, with international growth opportunities but a valuation more in keeping with challenged North America-centric peers.

A new position was established in *Premier Investments*, owner of the fast growing and high return Smiggle business. Our analysis indicates that *Premier Investments* is trading at a substantial discount to the sum of the value of each of its individual retail concepts. The Fund's long standing European pair, which reflected our preference for *Heineken* over *Carlsberg*, was closed during the month as it became clear that the difference in organic growth profiles for the two brewers will converge over the remainder of the year.

Across the global Healthcare sector, share prices were volatile as investors took profits on investments in the leaders (medical devices and life sciences), US pharmaceutical distributors were sold aggressively after *Amazon* acquired *PillPack*, providing it with a nationwide footprint in pharmaceuticals distribution in the US. Domestic healthcare shares continue to materially outperform international peers, although shares of *Ramsay Healthcare* declined further after the company unexpectedly announced it would miss its full year targets by a modest margin. It is clear the company is not immune to the domestic slowdown in procedure volumes despite management's previous commentary to the contrary. In light of these developments, we cut our investment in *Ramsay Healthcare* and await a better entry point.

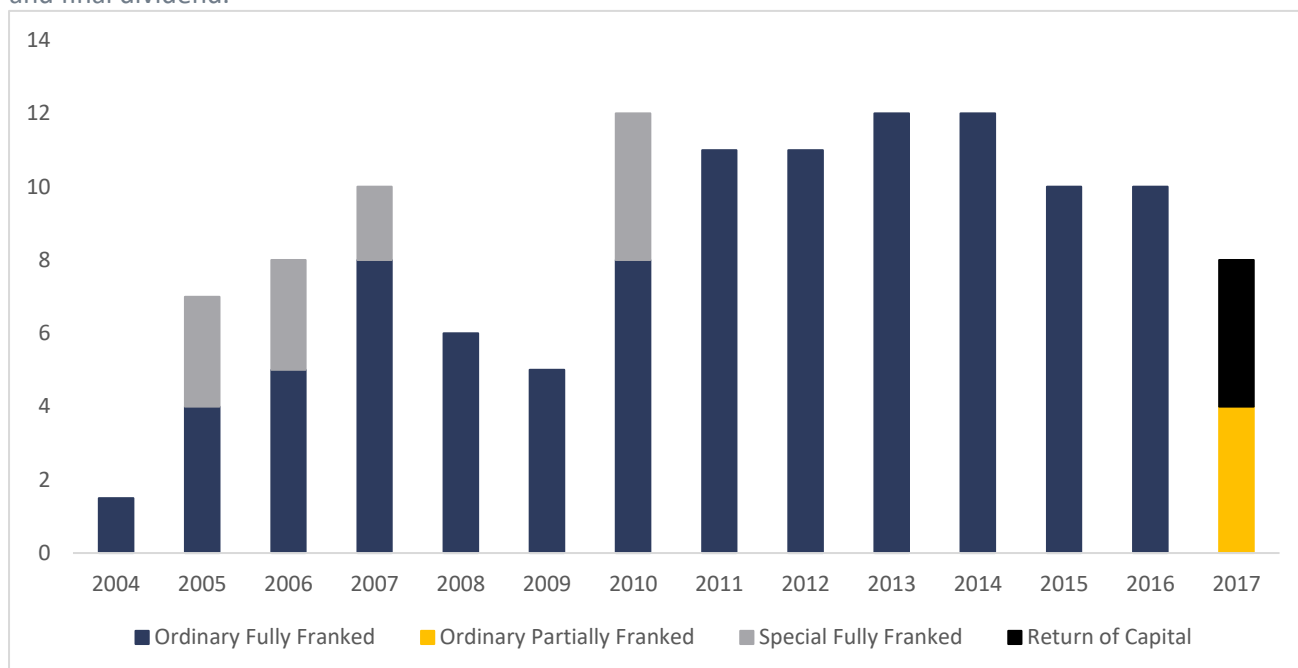
The Financials portfolio contributed positively to returns during the period, benefitting from an investment in UK-based *Clydesdale Bank (CYBG)*. Investors reacted positively to the June 18 announcement from the Boards of *CYBG* and *Virgin Money* that they had agreed on terms for an all-share offer to be made by *CYBG* for *Virgin Money*. In our view, the deal is strategically sensible and will materially increase the earnings power of the combined entity, representing 40% upside from current levels on our analysis. Strength across the domestic banking sector was also beneficial for the Fund, however we took the opportunity to reduce our net long exposure to the banks and increase short exposures in the real estate sector.

Mining shares were weaker in June, with soft economic data from China pushing the price of copper down by 10%. The price of Oil rallied on threats of disruptions to supply, resulting from tougher sanctions on Iran. We exited our position in *BHP Billiton* as the shares had considerably outperformed their global peers and fully reflect the future value that could be created from the sale of its US shale business. We added *South32* to the portfolio following their acquisition of *Arizona Mining*. This recently discovered asset offers exploration potential that could deliver a long life mine. Despite the acquisition cost, we expect the company can continue returning capital to shareholders. We initiated an investment in *Santos* after the company rejected Harbour Energy's takeover bid. With tightening global LNG markets, buoyant oil prices and high domestic gas prices, the company is well placed to add value through their undeveloped portfolio.

The outdoor advertising sector witnessed a deal frenzy in June, with *JC Decaux* making an offer for *APN Outdoor* and *Ooh Media* purchasing *Adshel*. While both deals require ACCC approval, we participated in the equity raising for *Ooh Media*, believing that this will create an enviable position in the structurally growing outdoor market. *Telstra* announced plans to cut 8,000 staff and rebased earnings expectations. This sent the telco sector lower, benefitting the Fund.

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. 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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