ASX LISTED INVESTMENT COMPANY (TICKER: CLF) | MONTHLY INVESTMENT REPORT: JUNE 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 30 June

Total Investments	**$111,739,224**
NTA	**$80,638,023**
Shares on Issue	**59,401,557**
NTA per Share (pre-tax)	**1.36**
NTA per Share (post-tax)	**1.29**
Share Price	**1.235**
Discount/Premium to NTA (pre-tax)	**(9.02%)**
Discount/Premium to NTA (post-tax)	**(4.03%)**
Fully Franked Dividend Yield	**6.36%**

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

Contact Information

Telephone	+61 2 9357 0788
Email	info@clfund.com.au
Registered Office Address	2 Paddington Street, Paddington NSW 2021
Principal Office Address	Level 12 Bligh Street, Sydney NSW 2000

Performance Overview and Outlook

Portfolio and Market Review

The portfolio returned 1.26% on a gross basis (pre-fees and taxes) during June versus the benchmark return of 3.27%. This equates to a 0.74% increase in pre-tax NTA and a 0.00% increase in the post -tax NTA. For the calendar year-to-date, the portfolio has delivered a return of 4.55% on a gross basis versus the benchmark 4.29%.

June was a difficult month for the portfolio with the Australian equity market significantly outperforming its global peers. The portfolio failed to keep up with the market due to four primary factors:

1. The portfolio is positioned defensively with greater than 20% of the portfolio in cash. While the heightened global risk environment and local market valuation arguably supports this positioning, we did not foresee the intense flow of capital which came into the local market as investors took advantage of a weaker Australian dollar and heightened risk in emerging markets.
2. The portfolio is underweight Energy, which rallied 7.7% in June. Our underweight is primarily due to our belief that the rally in the price of oil is overdone (Note: WTI Crude has retraced ~8% in July at the time of writing) and that this rally has led to what we perceive to be stretched individual corporate valuations in the sector.
3. The portfolio is underweight sectors including Healthcare, IT and Consumer Staples, which we believe are overvalued and benefitting in the short-term from momentum. Whilst this has cost the portfolio in recent months, we believe that a disciplined approach to investing remains the optimal strategy and that the earnings multiple currently being asked for many of these companies is excessive.
4. Individual stock selection cost the portfolio with Ramsay Healthcare (-12.37%), Fortescue Mining (-8.83%), Mirvac Group (-3.88%) and Downer Group (-2.73%) hurting the portfolio. Fortescue and Mirvac were exited during the month but none-the-less were a drag on performance. We continue to think Ramsay and Downer have much to offer and both have subsequently rebounded at the time of writing.

Outlook

The S&P/ASX 200 Index rallied 7.56% during the last quarter (Accumulation Index rallied 8.47%) despite what we consider to be less than favorable market conditions, already steep valuations and tepid earnings expectations. The index is currently trading at a 12-month forward price/earnings ratio of 15.9x, which is well above its historic average and makes it one of the more expensive equity markets in the developed world. Much of this recent advance has come from a rebound in the price of bank stocks and a continued run-up in price for high P/E and momentum stocks, both of which we think are due for some price moderation. For the banks, major headwinds remain in place with funding costs increasing, credit growth slowing and the housing market deteriorating. For high P/E and momentum stocks, the earnings season will be vitally important as the market is likely to punish any company that doesn't deliver earnings growth which justifies lofty multiples.

We expect to remain defensively positioned given current valuations as we head into earnings season, however we have earmarked several companies that we would like to invest in if valuations moderate and earnings remain strong. In the meantime, we continue to think that our portfolio is well balanced and offers a good combination of growth and yield, and which can deliver attractive risk adjusted returns in a range of market conditions.

Dr David Sokulsky
Chief Executive Office & Chief Investment Officer

Investment Themes

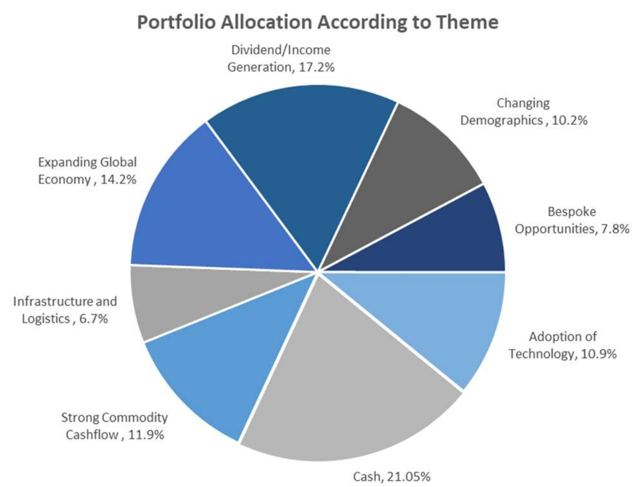
1. **Expanding Global Economy –** The global economy is expected to grow at greater than 4% in 2018 and we aim to leverage off this by investing in companies that source a significant portion of their revenues from offshore. We also aim to benefit from increased global income and a potential weakening 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 30 June 2018)

Company	Portfolio Allocation	Macro Theme
BHP BILLITON LIMITED (BHP)	5.77%	Strong Commodity Cashflow
NATIONAL AUSTRALIA BANK	3.68%	Dividend/Income Generation
COMMONWEALTH BANK OF AUSTRALIA	3.63%	Dividend/Income Generation
WESTPAC BANKING CORPORATION	3.54%	Dividend/Income Generation
ECLIPX GROUP LTD	3.40%	Dividend/Income Generation
RIO TINTO LTD	3.36%	Strong Commodity Cashflow
MACQUARIE GROUP LTD	3.32%	Expanding Global Economy
LENDLEASE GROUP	3.10%	Infrastructure and Logistics
AMCOR LIMITED	3.10%	Expanding Global Economy
ARISTOCRAT LEISURE LTD	3.04%	Adoption of Technology
CASH/LIQUIDITY	**21.05%**	

Portfolio Breakdown (as at 30 June 2018)



Important Information

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