
Australian Leaders Fund Limited (ALF)

ASX Announcement / Media Release



31st August 2017

ALF portfolio increased by 3.6%, while fully hedged throughout the year

Highlights

- Full year net profit of \$7m after tax
- Investment portfolio up 3.6% with market exposure fully hedged
- Strong performance from the long portfolio which increased by 20.5%
- 4.0 cents per share Return of Capital

Following a record profit in FY16, Australian Leaders Fund (ALF) reported an after-tax profit of \$7m for the financial year ending June 30, 2017. As at the end of the period, ALF's after-tax Net Tangible Asset Backing (NTA) was \$1.27, down from \$1.33 the previous year, following payment of 9 cents per share in dividends over the year, comprising a final dividend of 5 cents fully franked and an interim dividend of 4 cents, franked to 50%.

Commenting on the result, ALF Chairman Justin Braitling said "this business cycle has continued unabated for almost a decade, the associated bull market in shares is looking tired and running out of momentum. Valuations are stretched which makes shares inherently risky. With this backdrop, the Investment Manager has fully hedged the fund's exposure to movements in the share market through the addition of a matching short portfolio. While the short portfolio protects the fund from a fall in the share market, investors do not participate in a rising market either as occurred last year."

ALF's portfolio delivered a gross return of 3.6% for the period, falling well short of the benchmark which increased by 13.1%.

Notwithstanding this underperformance, the Company's objective is clear: "to achieve reasonable returns for our shareholders while avoiding drawdowns in the share market. The value in this strategy can be easily grasped when one observes the share market is still 8% below where it was ten years ago. Most investors are yet to fully recover the capital lost from this drawdown" Mr Braitling said. "If we can protect our investors from drawdowns they will end up well ahead".

In the past, ALF has paid a very high dividend yield on capital, generating amongst the highest yields in the Australian LIC peer group. The Board flagged at the half-year that the Company's payout ratio had become unsustainable in an enduring and historically low interest rate environment. Therefore, the Board began a process of moving the dividend to a more sustainable level.

Giving regard to the importance Shareholders place on investment income, and in light of the fact that ALF's net assets are currently less than issued capital, the Board felt it was appropriate to consider other capital management initiatives while this process was underway. To that end, the Board has declared a 4 cents per share Return of Capital, subject to approval

by Shareholders. “As a Board, we would expect the Company to return to paying full dividends as soon as retained earnings allow it” said Mr Braitling.

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About ALF

Australian Leaders Fund Limited (ASX:ALF) is a Listed Investment Company managed by Watermark Funds Management Pty Limited. Listed in January 2004, ALF provides investors with exposure to Watermark’s experience as a Long/Short Equity Investors, with the objective of delivering attractive absolute returns while reducing the risk of capital loss when risks in share markets are elevated. ALF holds a mixture of Australian and International shares. For more information visit www.wfunds.com.au