

NTA and Monthly Update – September 2017

Company at a Glance

ASX Code	ALF
Fund Size	AU\$327.9m
Fund Strategy	Variable Beta
Share Price	\$1.15
Shares on Issue	272.5m
Return of Capital (to be approved)	4 cents

Net Tangible Asset (NTA) Backing

	Aug 17	Sep 17
NTA Before Tax	\$1.24	\$1.24
NTA After Tax	\$1.26	\$1.25
Return of Capital	(\$0.04)	(\$0.04)
NTA After Tax & RoC	\$1.22	\$1.21

Gross Portfolio Structure

Long Exposure	133.0%	122.5%
Short Exposure	-134.6%	-119.2%
Gross Exposure	267.6%	241.7%
Cash	101.6%	96.7%

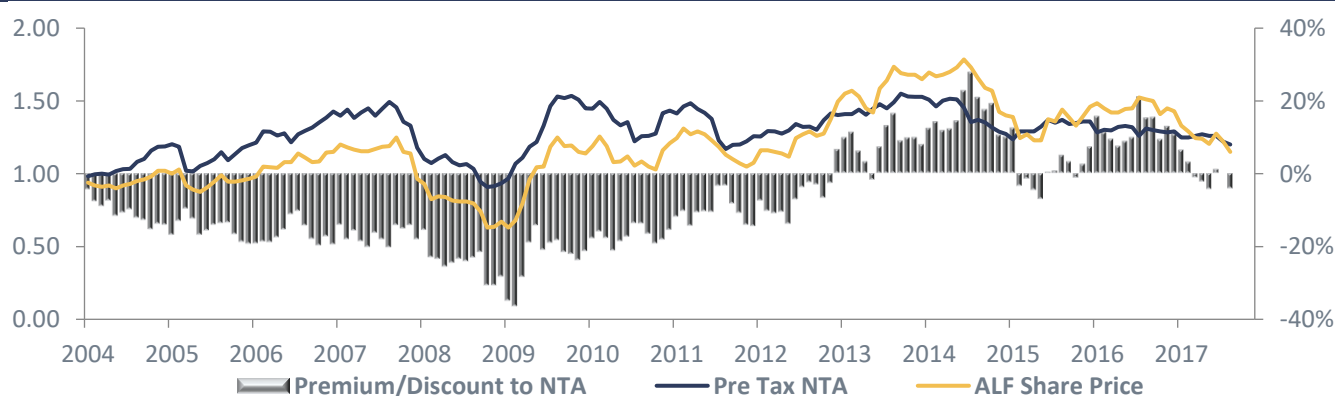
ALF Performance

	1 Mth	6 Mths	1 Yr	3 Yrs (pa)	5 Yrs (pa)	7 yrs (pa)	S.I. (pa)
Portfolio Return (net)	-0.4%	-0.6%	-2.9%	4.0%	10.2%	11.0%	12.6%
All Ords Accum Index	0.1%	-0.5%	8.5%	7.3%	10.1%	7.7%	8.7%
Outperformance (net)	-0.5%	-0.1%	-11.4%	-3.3%	0.1%	3.3%	3.9%

Net Equity Exposure



Premium/Discount to NTA History



Month in Review

Global equities rose again in September, led by markets in the US, Japan and Europe. With a temporary reprieve from geopolitical tensions and the details of President Trump's proposed tax reforms, the US dollar also rallied, leading to weakness in emerging markets. The Australian share market posted another negative month, with weakness in bulk commodity prices and a cooling east coast property market offsetting modest growth in spending by consumers and corporates.

The portfolio fell in value by 0.4% after all fees, trailing the benchmark All Ordinaries Accumulation index which rose by 0.1% in the month. There were modest gains from most sectors, with the exception of Healthcare – where challenges for domestic exposures continued, and Information Technology, where short positions that have been profitable for many months moved against the Fund.

There was continued strength in Energy markets, with Brent oil reaching a two year high. Total oil inventory continued to fall at the same time as OPEC members signalled a potential extension to production cuts. Importantly, US onshore producers are showing supply discipline as the oil rig count fell for four consecutive weeks. Our key holding in Anadarko Petroleum rallied 20% in the month after the company announced an unexpected buyback of \$2.5bn. We have been net long oil which worked well in September, however we used the strength to neutralize our position.

Mining companies retraced recent gains as mixed economic data emerged in China. Iron ore fell in response, but Aluminium surged on supply side reforms.

The Utilities sector was relatively unchanged in the month. Spark Infrastructure outperformed on the back of a draft decision for its Transgrid rate case. Contact Energy and Meridian Energy both performed well with continued wet conditions in New Zealand keeping hydro dams full ahead of the summer. National Grid hosted a capital markets day where they outlined their plan to have different geographical heads in Pennsylvania, New York and Rhode Island. We believe National Grid's US business is misunderstood and undervalued, and that fostering relationships with the different regulatory authorities will be a positive going forward.

Australian TMT shares were weak in September. TPG Telecom released its FY17 results which met expectations, however disappointing forward guidance led shares lower as negative impacts of moving customers onto the NBN continue to increase. The media sector was also weak after an initial rally last month on the back of potential media reform and consolidation – with global ad market data still weak and TV audience declines accelerating.

It was also a quiet month for global technology shares which moved higher. This was primarily led by semiconductor shares for a variety of reasons: 1) excitement around new applications such as AI accelerated; 2) memory manufacturers continue to expect supply to remain tight into next year which will sustain higher prices particularly in DRAM; and 3) semiconductor capital equipment company Applied Materials held an analyst day and espoused a 'stronger for longer' demand environment. Internet shares also performed strongly. Apple launched its new iPhone models, albeit excitement around the low-end iPhone 8 model seems muted on launch and there are concerns around delays for the iPhone X. The US media sector continued to perform poorly as concerns around cord cutting accelerate, although in contrast, the more advertising-exposed European media companies rebounded as macroeconomic conditions appeared to improve in key markets. The telecom sector also underperformed markedly.

The Funds' TMT portfolios performed well domestically but detracted from performance internationally. Domestically, the Funds benefitted from volatility in the media sector during the month. Shorts in the telecom sector also contributed strongly to performance. Globally, our core long holding in Vivendi performed strongly as the market is becoming more aware of upside to value in the music business. Key detractors from performance included short positions in semiconductor shares which benefitted from the broader sector rally during the month.

Global healthcare shares underperformed the broader market indices. European healthcare names were up on little news outside of a modest strengthening in the US\$ and a benign German election outcome. The rally in biotechnology shares stalled on the other hand, although we expect the sector will continue to outperform should US tax reforms proceed. Pharmaceutical and medical device shares continued to grind higher on subdued drug pricing rhetoric out of Washington. Healthcare service providers were impacted by the last-ditch effort by Senate Republicans to repeal and replace “Obamacare” which, if successful, would have posed a significant risk to healthcare service utilisation rates; a clear negative for the providers and for some managed care organisations (insurers). While the Republican effort failed, shares of healthcare providers did not recover. We believe this is a result of slowing utilisation trends across the US and the impact on demand for healthcare services from severe weather events. We will closely monitor medical device manufacturers’ September quarter results, for insights as to what else might be driving lower healthcare utilisation trends and for potential impacts to device production given their large manufacturing presence in Puerto Rico.

Australian healthcare shares continued to grind higher despite the poor quality FY17 results reported in August. Major divergences have emerged as Cochlear, F&P Healthcare, CSL and ResMed have reached eye-wateringly high valuations and appear ‘bullet-proof’, while a quality company like Ramsay has declined to a multi-month low. We see limited opportunity for alpha generation among domestic healthcare shares, where non-fundamental factors (crowding, scarcity value of growth in listed Australian companies) dominate share price performance.

The Fund’s healthcare positions detracted from performance, driven principally by shorts in European companies. Selective long positions in medical devices and biotechnology fared better. We made minimal changes to our positioning in September. Given the significant dislocation in valuation of Australian healthcare shares relative to peers and history, we continue to see more compelling investment opportunities offshore.

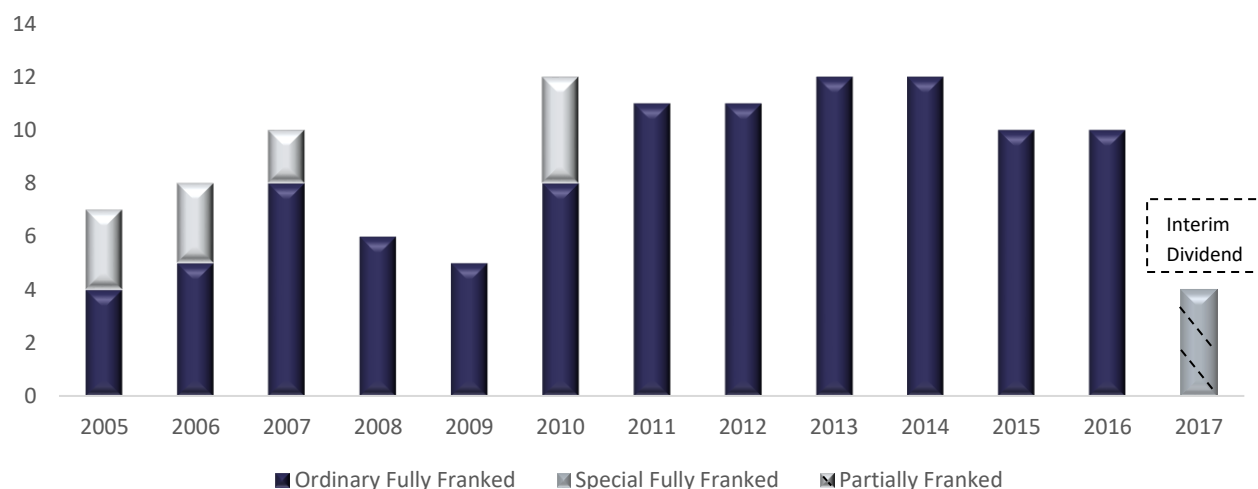
Steepening global yield curves saw financial shares generally outperform in September. Tax reforms are broadly seen as positive for US growth and potentially negative for the US federal budget deficit, both of which would result in higher yields. Internationally, we benefitted from long positions in Charles Schwab and Wells Fargo as these companies are seen to be beneficiaries of higher US rates and lower US taxes, while a short position in T. Rowe price, which rallied in sympathy with the S&P 500, detracted from returns. A long position in Westfield Group performed well, rallying as the US dollar appreciated against the AUD and as the shares of US retailers and mall operators rose. The largest detractor in the domestic portfolio came through a short position in Lend Lease which rallied on positive sentiment following an analyst trip to Kuala Lumpur and Singapore.

Industrial shares were buoyed in September by an uptick in leading economic indicators. The US PMI showed a notable increase, likely boosted by short term factors (hurricane activity) which will subside. Despite reasonable economic strength, high valuations of industrial shares relative to history lead us to retain a fully hedged exposure in this part of the portfolio. Better value is evident in the auto sector and the Fund benefitted from a recovery for automotive manufacturers from what were historically low valuations. Transport positions were also contributor in the month, partially offset by shorts in more cyclical manufacturing companies.

Consumer positions were a positive contributor to fund performance. Favourable performance was generated by paired positions in domestic supermarkets and European beverages. The largest detractor to returns came from the Fund’s short positions in US retail which have caught a bid on incremental improvements in news flow.

Dividend History

The Board is committed to paying an increasing stream of 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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