

## NTA and Monthly Update – November 2017

### Company at a Glance

ASX Code	ALF
Fund Size	AU\$311.1m
Fund Strategy	Variable Beta
Share Price	\$1.06
Shares on Issue	272.5m
Return of Capital (2HFY17)	4 cents

### Net Tangible Asset (NTA) Backing

	Oct 17	Nov 17
NTA Before Tax	\$1.21	\$1.19
NTA After Tax	\$1.23	\$1.20
Return of Capital	(\$0.04)	-
NTA After Tax & RoC	\$1.19	\$1.20

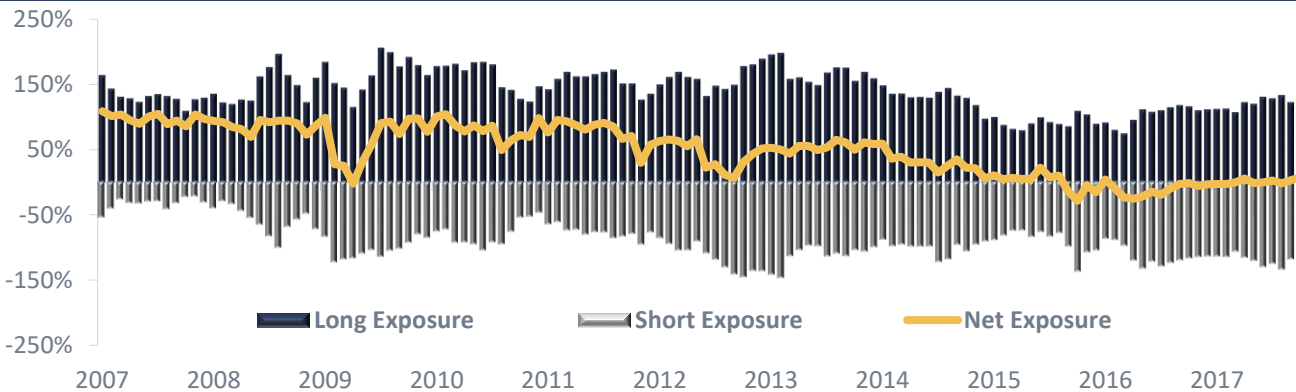
### Gross Portfolio Structure

	Oct 17	Nov 17
Long Exposure	97.2%	92.6%
Short Exposure	-89.6%	-83.7%
Gross Exposure	186.8%	176.3%
Cash	92.5%	91.1%

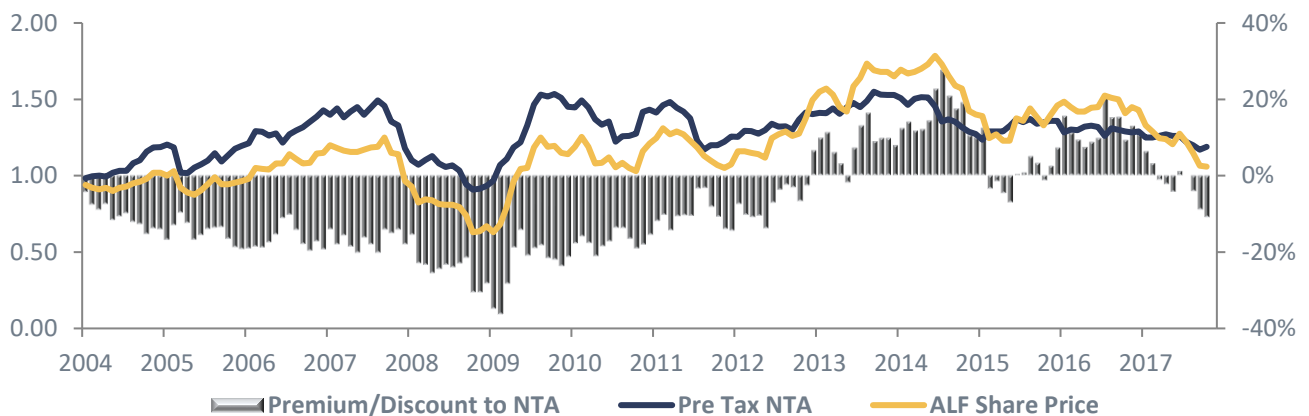
### ALF Performance

	1 Mth	6 Mths	2 Yrs (pa)	3 Yrs (pa)	5 Yrs (pa)	7 Yrs (pa)	S.I. (pa)
Portfolio Return (net)	1.3%	-4.3%	1.0%	4.7%	8.7%	10.3%	12.2%
All Ords Accum Index	1.9%	7.4%	12.4%	9.2%	10.7%	8.4%	9.1%
<b>Outperformance (net)</b>	<b>-0.6%</b>	<b>-11.7%</b>	<b>-11.4%</b>	<b>-4.5%</b>	<b>-2.0%</b>	<b>1.9%</b>	<b>3.1%</b>

### Net Equity Exposure



### Premium/Discount to NTA History



## Month in Review

Global equity markets continued their stellar run in to the end of 2017, with the US again the stand out performer. Economic data from the Eurozone was also strong, although this strength was not reflected in the performance of share markets in the region. This presents an opportunity to gain exposure to a surging industrial sector in Europe at levels that reflect appealing value. The Australian share market posted a modest gain for the month, belying strength early in the period which saw the ASX reach its highest level since January 2008. However, the announcement of a Royal Commission into Banking and Financial Services saw the market cool somewhat by month-end. Confidence amongst Australian businesses remains high, with consumers less so, which is reflected in weak retail sales which are at 30-year lows.

November was a good month for the Fund, which rose by 1.3% after all fees. The Fund remains close to fully hedged, retaining a slight net long exposure to the market. Positive contributions were made by both the domestic and international portfolios, while attribution at a sector level was also broad-based. Industrials and basic industries were the strongest performers, with financials also making a solid contribution.

Oil prices rallied as OPEC extended production cuts until the end of 2018. Energy companies continue to benefit from this tailwind, as well as focussed capital management. Royal Dutch Shell performed well following its investor day, where it guided to an increase in free cash flow through efficiency gains and portfolio rationalisation. The dividend yield remains attractive, especially considering the scrip component will be cancelled by the end of 2017.

Origin Energy performed well this month following a successful investor briefing, with positive news coming out of APLNG. Facing potential headwinds for its Energy Markets division that would result from a change of Government, and an acceleration of renewables targets, Origin appeased investors by announcing large cost reductions, with lower breakeven prices for oil within APLNG. Coupled with the recent increase in oil prices, the outlook for Origin, and particularly APLNG is looking positive.

A short position in PPL started to gain some traction this month as investors quizzed the company about its exposure to the UK. Following the Helm report and comments from Ofgem CEO Dermot Nolan, risk assessment for electricity producers in the UK has moved from lower returns to potential nationalization of the electricity grid. Although unlikely, this risk has not previously been priced in for PPL, and is starting to become better understood by investors. Our long position in National Grid remained steady, where energy policy risk is better understood and already reflected in the share price.

Movements in the prices of mining shares were benign, as investors continue to digest mixed economic signals in China. Our mining exposures performed well, led by investments in BHP and Teck Resources which benefitted from rising prices of oil and coking coal.

In Australia, Incitec Pivot and Orica both announced financial results. While Incitec shares rose on announcement of increased profits and a share buy-back, Orica guided for further headwinds in the year ahead which impacted its share price. The fund benefitted from these results.

Australian TMT shares rose with the broader market in November. Domain Holdings demerged from Fairfax Media with a strong debut upon listing, albeit the shares have faded since. Telecom shares (in particular TPG Telecom) rallied around hopes of an NBN restructure that may alleviate pressure on broadband margins. We are less optimistic given savings are likely to be directed towards consumers. Many domestic TMT companies provided updates at their AGMs during the month, with most reiterating guidance. Key contributors to performance included investments in TradeMe, which had been oversold due to premature concerns around Amazon's entry into the region, and the outdoor billboard companies. Our core investment in MYOB was the primary detractor, with investors taking profits following a strong run in the shares.

While Global TMT shares tracked sideways, there were a handful of event-driven price moves. These included the cancellation of a long-anticipated merger between telcos T-Mobile and Sprint in the US, and a lawsuit

filed from the US Department of Justice against AT&T's acquisition of Time Warner, placing that deal in jeopardy. Most notable contributors to performance were core investments in Vivendi and Vodafone, which reported better than expected quarterly results. An investment in China's second-largest video game publisher; NetEase also performed well, as the company successfully launched a local adaptation of the viral global game PUBG. A core short in firewall vendor Check Point was validated, with forward earnings guidance disappointing for the second quarter in a row.

The Fund is net long overseas banks, given we expect the inflationary and growth impulse generated by the proposed US tax reform to drive the price of banks in developed markets. In Australia, the month of November saw the announcement of a parliamentary royal commission into the banking sector. We believe the terms of reference disclosed are reasonably benign and took the opportunity presented by recent underperformance of the large domestic banks to increase our exposure following this announcement.

The Fund benefitted from a long position in Synchrony Financial in the US with the shares rallying following the purchase of eBay's consumer credit portfolio and a new long-term agreement to provide credit to eBay's customers. An investment in Allied Irish Bank also performed well as the company reported a strong 3Q17 trading update. Domestically, we were pleased with the success of the Netwealth IPO, which rallied 44% from its listing price.

Amongst consumer shares, defensive companies outperformed the more discretionary names. Holdings in Tabcorp, Woolworths and Bapcor all benefitted from positive trading updates delivered during the AGM season. A major milestone was passed when Tabcorp's proposed acquisition of Tatts Group received final approval from the Australian Competition Tribunal, with the deal now expected to close before year end.

Global consumer shares were up strongly in November, led by the United States where strong Thanksgiving weekend sales data was followed by enthusiasm about the implications of tax reform on consumer spending and corporate tax rates. We covered most of our US retail shorts prior to the rally, given the improving economic conditions, however shorts in consumer staples companies were a small detractor from performance over the month.

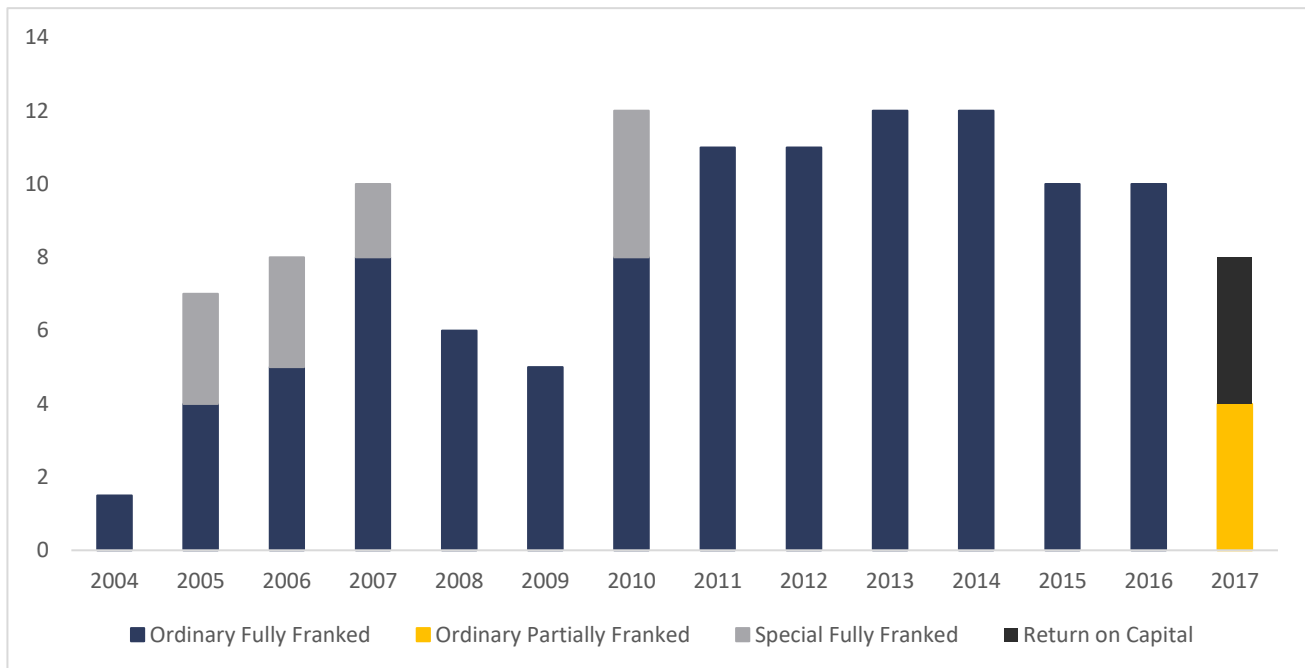
The current reflation cycle continues to provide impetus for shares in the industrial sector. Orders and activity levels in this cyclical part of the global economy strengthened further as synchronised growth across major economies gathered momentum. The Fund's investment in Volkswagen rallied as investors returned to the name following the settlement of diesel emissions charges. We expect this performance to continue, led by strong results from key brands - Porsche, Audi and VW. Honeywell also made a solid contribution in the month following the announcement of the spin out of their building products group. On the short side of the ledger the fund's position in Rolls Royce made an important contribution when the company walked away from long term cash flow targets.

Despite a volatile month for global healthcare shares, the Fund delivered modest positive returns in this part of the portfolio. Australian healthcare shares outperformed global peers on limited news flow, largely due to a softer A\$. Valuations hit extreme levels in October and extended well beyond historic averages. Accordingly, we have modestly increased our net short exposure in the domestic sector. A core investment in Ramsay Healthcare was a key contributor to returns.

International exposures also fared better, with investments in Merck & Co and Celgene recovering some of the prior month's losses. A new position was established in Nevro Corp, a medical device company leading the market in pain management (spinal cord neurostimulation). The shares suffered a setback following softer outlook commentary from management at the 3Q result, however we believe this will be a short-term setback and that dual tailwinds from new indications and the US opioid epidemic crisis are not being priced into the long-term value of the company.

## 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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