

NTA and Monthly Update – July 2018

Company at a Glance

ASX Code	ALF
Fund Size	AU\$323.9
Fund Strategy	Variable Beta
Share Price	\$1.04
Shares on Issue	267.6m
International Exposure (% of gross)	18.8%
Net Exposure	-4.6%

Net Tangible Asset (NTA) Backing

	Jun 18	Jul 18
NTA Before Tax	\$1.21	\$1.25
NTA After Tax	\$1.21	\$1.24

Gross Portfolio Structure

Long Exposure	98.3%	90.8%
Short Exposure	-87.8%	-95.4%
Gross Exposure	186.1%	186.2%
Cash	89.5%	104.6%

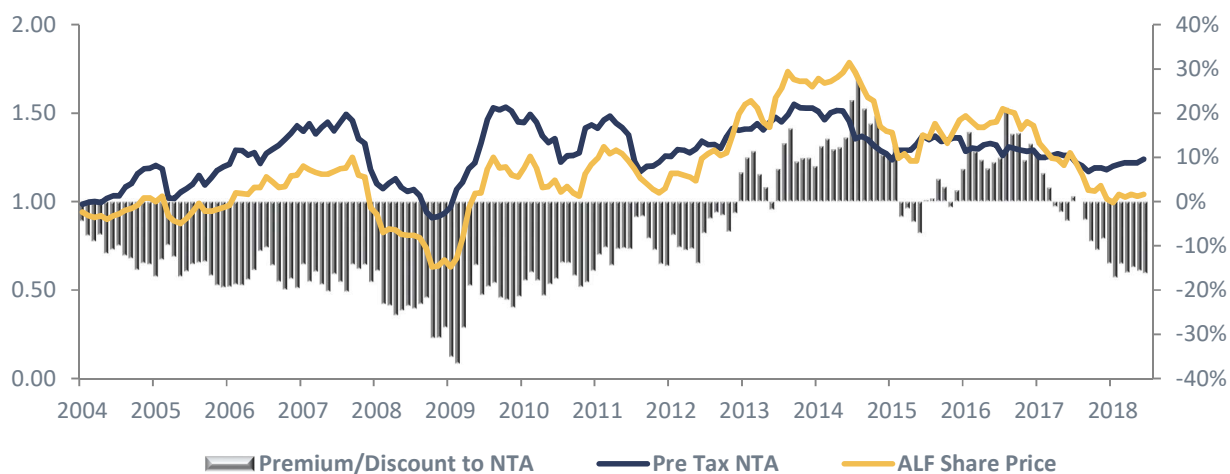
ALF Performance

	1 Mth	3 Mths	1 Yr	3 Yrs (pa)	5 Yrs (pa)	7 Yrs (pa)	S.I. (pa)
Portfolio Return (net)	2.6%	2.0%	0.0%	3.1%	5.2%	9.0%	12.0%
All Ords Accum Index	1.2%	5.7%	14.9%	8.4%	9.4%	9.7%	9.2%
Outperformance (net)	1.4%	-3.7%	-14.9%	-5.3%	-4.2%	-0.7%	2.8%

Net Equity Exposure



Premium/Discount to NTA History



Month in Review

July saw a continuation of key macroeconomic themes both domestically and abroad. Simmering tensions over trade have boiled over in emerging market shares, which sold-off again on concerns over the impact of tariffs on economic growth. The US economy however, continues to grow apace, further inflating the price of US shares. Closer to home, the Australian share market posted a solid gain, despite weaker commodity prices and a falling Australian dollar. The downturn in residential property is also a key concern for investors, although consensus over its impact on sectors seen as being most vulnerable to falling property prices (building materials, retailers) has presented opportunities to take the other side of specific crowded trades.

The Fund performed well in July, delivering a net return of 2.6%, its biggest monthly gain since September 2016. Pleasingly, every sector contributed, with both the long and short portfolios delivering positive absolute returns. Short exposures in the mining sector provided the strongest results at a sector level, with notable contributions also coming from the domestic TMT and Healthcare.

Mixed economic data from China weighed on mining shares in the month. The portfolio performed well, most notably via a long position in *Vale*, which rallied on increased premiums for high-grade iron ore, and a short position in a domestic copper miner which fell on weaker production guidance. We initiated a position in *Glencore*, a global mining company with a unique marketing business. The shares had suffered following a potential investigation by the US Department of Justice over operations in Nigeria, Venezuela and the Democratic Republic of Congo. The total value of these regions equates to one-quarter of the company's value, which is roughly the same quantum as the recent decline in the share price, suggesting the market has factored in a worst-case scenario.

An ACCC report into electricity supply and prices sent the shares of *AGL* and *Origin Energy* lower. We added to our holding in *Origin* believing they are better placed to handle lower wholesale prices. A stronger gas portfolio, more flexible generation and a highly cash generative APLNG will enable the company to de-lever the balance sheet and return to paying dividends.

A core investment in *Fairfax* performed well after receiving a merger offer with *Nine Entertainment* at a sizeable premium to the prevailing share price. We believe the merged vehicle will be well positioned for the medium term with a much broader distribution and a suite of assets capable of responding to the changing media landscape. While the deal makes a great deal of strategic and economic sense, we have reduced our holding in *Fairfax* following the share price rise.

Global Healthcare shares outperformed major global bourses in July, particularly in the pharmaceutical sector. Australian healthcare shares continued to grind higher albeit underperforming global peers. The Healthcare portfolio was a solid contributor to returns in July, with wins in select short positions and strong returns from investments in *Sonic Healthcare* in *Novartis* offshore. Following a period of solid performance, we exited our investment in *Sonic Healthcare* and initiated a new smaller position in *ResMed*. Domestic healthcare valuations remain stretched in our view, and we continue to hold a modest net short bias heading into the 2018 results period.

Financial shares performed in line with broad market indices in July. There was relatively little on the policy front to drive the sector, with both the US Federal Reserve Bank and Bank of England delivering rate-increases in line with market expectations. The Financials portfolio contributed positively to returns in the month, as gains in the banking, insurance and real estate sectors offset losses in the diversified financials.

A stand-out positive contributor was our long position in UK lender *CYBG PLC*, which continued to outperform following the recommendation of its all-share offer for *Virgin Money (VM)* in July. Analysts at many investment banks remain on research restriction in relation to their coverage of *CYBG* and as such, have not updated their earnings forecasts for the combined *CYBG/VM* entity. We continue to believe the market will be positively surprised by the value created by this merger, and forecast EPS >40p when the synergies are fully-earned around 2021. This would imply a stock on 7-9x P/E, which we think is too cheap. We also benefitted from long positions in Australian REITs: *Stockland* and *Mirvac* which, having both underperformed the real estate sector in recent months, rallied strongly with the broader sector in July.

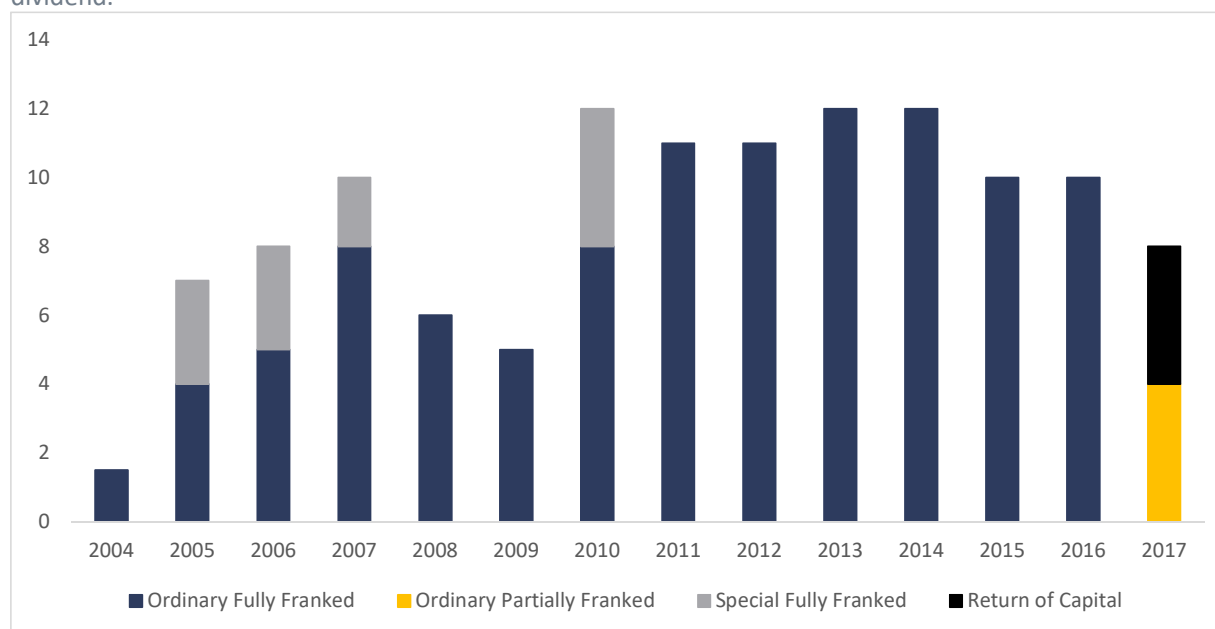
The strongest contributors to returns in the consumer sector were generated by gaming companies *Tabcorp* and *Aristocrat*. *Tabcorp* is benefiting from a stabilisation of its wagering business and changes made to the

payoff profile of the Powerball lottery which will see large jackpots occur more frequently. *Aristocrat* continues to score well on slot-buyer surveys with the Lightning Link, Dragon Link and Buffalo platforms consistently in the top performing machines on floor.

Breville and *Graincorp* were detractors from returns during July. In the case of *Breville* the market is concerned that its Chinese domiciled manufacturing could ultimately be subjected to US tariffs. Whilst none of *Breville*'s product categories have to date been considered for additional taxes, it is a risk that we are managing with a small position size. The Fund exited its position in *Graincorp* as the east coast drought intensified through July. While we believe the assets are ultimately worth more than the current share price, our modelling suggests the company will likely generate earnings below market expectations.

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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