NTA and Monthly Update – August 2018

Company at a Glance

ASX Code	ALF
Fund Size	AU$316.9
Fund Strategy	Variable Beta
Share Price	$1.07
Shares on Issue	267.6m
Dividend (FY18 Final)	2 cents
International Exposure (% of gross)	19.9%
Net Exposure	1.7%

Net Tangible Asset (NTA) Backing

	Jul 18	Aug 18
NTA Before Tax	**$1.25**	**$1.22**
NTA After Tax	$1.24	$1.22
Dividend Declared	-	($0.02)
NTA After Tax & Dividend	$1.24	$1.20

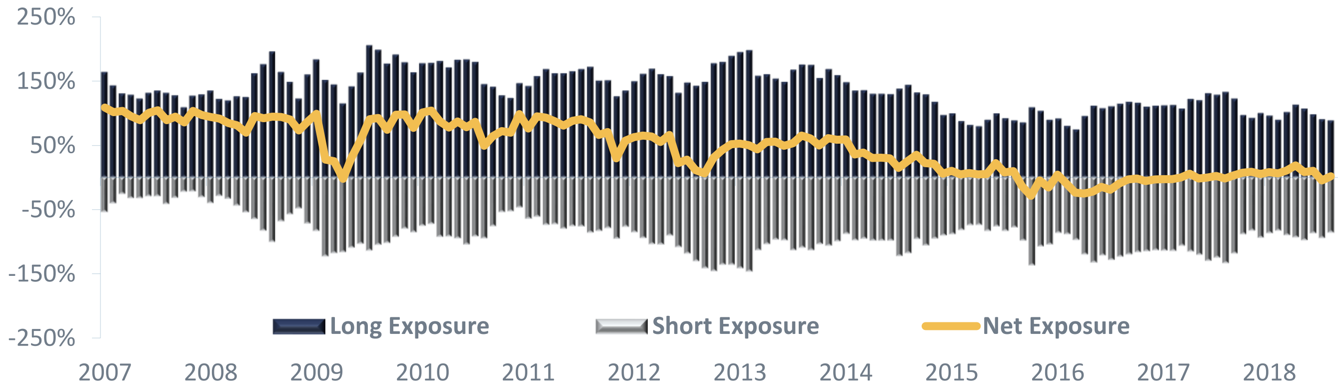
Gross Portfolio Structure

	Jul 18	Aug 18
Long Exposure	90.8%	88.8%
Short Exposure	-95.4%	-87.1%
Gross Exposure	186.2%	175.9%
Cash	104.6%	98.3%

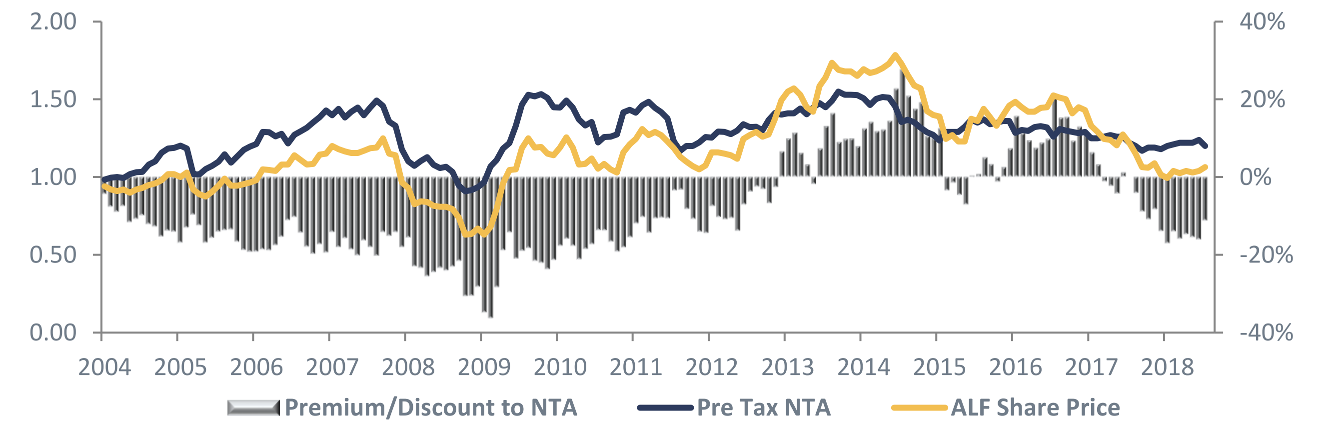
ALF Performance

	1 Mth	3 Mths	1 Yr	3 Yrs (pa)	5 Yrs (pa)	7 Yrs (pa)	S.I. (pa)
Portfolio Return (net)	-1.6%	0.4%	0.2%	1.6%	4.1%	9.8%	11.8%
All Ords Accum Index	1.7%	6.0%	16.0%	11.8%	9.2%	10.3%	9.2%
Outperformance (net)	**-3.3%**	**-5.6%**	**-15.8%**	**-10.2%**	**-5.1%**	**-0.5%**	**2.6%**

Net Equity Exposure



Premium/Discount to NTA History



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Month in Review

The Australian share market rose again in August, shaking off domestic political dramas, muted profit results; which saw aggregate earnings of listed Australian companies revised down for FY19 & 20 and a falling Australian dollar. Growth and momentum continue to be the driving factors behind share price performance, leading valuations for selected companies in the technology and healthcare sectors to levels not seen since the Dot Com boom.

Global shares also stayed true to recent form, with the US market continuing to push higher, while European and emerging markets faltered. Trade war tensions weighed particularly heavily on markets in China and Turkey, sparking contagion fears for European banks and weakness across commodity markets.

The Fund fell by -1.6% in August after all fees. Despite solid performance across most of the portfolio, the negative result was due almost entirely to two names within the TMT portfolio. We have been short *TPG* for some time and were caught offside by the proposed merger with Vodafone. In an NBN world, *TPG* was going to lose 30% of their broadband profits to the NBN in connection payments; the shares were very expensive and vulnerable. While a merger with Vodafone was always a prospect, the deal caught us by surprise. Under the proposed terms, *TPG* has ended up filling the NBN hole and became a stronger competitor to *Telstra*. The shares over-shot on the upside surging 50% costing the portfolio 1% of its performance. We also incurred a loss on investment in *SpeedCast* International- which fell sharply on the announcement of a disappointing result.

The strongest contributors to the Consumer portfolio in August came from recent investments in apparel and stationery retailer *Premier Investments* and kitchen appliance maker *Breville*. Premier has rallied in response to strong sales results from a number of domestic apparel peers which represents a marked change from the pressure the sector has been under in recent years. *Breville's* share price responded positively to strong full-year results and the news that the pilot project converting the German and Austrian markets to a direct distribution model has been a success. *Breville* will progressively convert other European markets to a direct model over the next few years to mirror the successful structure used in Australia and the United States.

A new position was established in the New Zealand casino group *SkyCity Entertainment Group*. The company owns local monopoly properties in Auckland, Adelaide and Darwin and smaller regional casinos in Hamilton and Queenstown. While the markets' expectation for *SkyCity* is fairly low, our confidence in the ability of the new management team to conjure modest growth and acceptable returns from their asset base has been steadily improving over the course of the last year.

Financial shares underperformed broad share market indices modestly in August, as global government bond yield curves continued to flatten. Within the Financials portfolio, we have benefitted from a long position in insurer *QBE*, following a strong 1H18 earnings reports which showed expanding underwriting margins, after several years of disappointment. Our position within *Janus Henderson* suffered on news that Andrew Formica will step-down as Co-CEO and leave Dick Weil as sole-CEO. Having met with Mr Weil in Sydney following their results, we are satisfied that there will be continuity in the strategy and believe the shares offer excellent value at below 10x earnings.

Australian Healthcare shares appreciated sharply in August, significantly outperforming global peers. Shares were buoyed by a falling Australian dollar while investors digested reporting of 2018 financial year results. Overall, healthcare results were mixed; on the positive side, *CSL's* results and year-ahead guidance were well received while *Ansell, Primary Healthcare, Healthscope, NanoSonic Inc* and *Sonic Healthcare* all disappointed. The Healthcare portfolio was flat in August where strength in long investments (*CSL, ResMed*) was offset by rallies in core short positions, particularly in smaller companies. The divergence in performance between perceived 'winners' and 'losers' in domestic healthcare shares continues to push through record levels, perplexingly at a time where we see growing downside risks (specifically *CSL, Cochlear* and *Fisher & Paykel*).

Both gold and mining shares fell in August as escalating trade tensions, and a stronger US dollar battered emerging markets. We held a neutral exposure to the sector protecting the fund from losses. While valuations are becoming attractive, softer Chinese demand in 2019 appears likely. The oil price rose despite the stronger US dollar, due to supply concerns and a fall in crude oil inventories. Our position in *Santos* performed well after the company executed a clever deal to acquire *Quadrant Energy*. The acquisition centres around assets very familiar to the company, and also provides exciting exploration potential. *Origin Energy*, however, impacted performance in the month. The company altered its accounting policy to include the cost of electricity hedges in the profit and loss statement, this lowered earnings by some 20% and not surprisingly led to a 20% fall in the share price. The business remains intact, and the de-gearing continues with rising oil prices supporting their APLNG investment. We increased our position following the fall.

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.