

NTA and Monthly Update – July 2020

Company at a Glance

ASX Code	ALF
Fund Size	AU\$201.1
Fund Strategy	Variable Beta
Share Price	\$0.87
Shares on Issue	192.4m
Net Exposure	-4.4%

Net Tangible Asset (NTA) Backing

	June 20	July 20
NTA Before Tax	\$1.12	\$1.14
NTA After Tax*	\$1.12	\$1.13
NTA After Tax & DTA/CTL**	\$1.04	\$1.04

Gross Portfolio Structure

Long Exposure	48.5%	65.1%
Short Exposure	-52.7%	-69.4%
Gross Exposure	101.2%	134.5%
Cash	104.2%	104.4%

*The After-Tax NTA includes a \$0.09 per share deferred tax asset, which is net of tax liabilities accrued in FY21. **Deferred Tax Asset (DTA) is comprised of prior years' tax losses. Current Tax Liability (CTL) is tax payable on profits generated in FY21.

Month in Review

The Australian share market kicked off the new financial year with a sluggish start in July, trailing most major indices. With little to excite investors in terms of the earnings outlook for shares, investor sentiment was further rattled on news of increased COVID-19 cases in Victoria, and a move to stage 4 lockdown. Given this backdrop, the RBA maintains its accommodative stance and the Government announced an extension of welfare and stimulus measures in a bid to ameliorate damage to the economy.

It was a solid month for fund performance, and ALF's portfolio rose by 1.3% after fees in the period. The benchmark All Ordinaries Accumulation Index rose by 0.9%. We have retained the defensive portfolio settings of recent months, carrying a modest net short exposure while looking tactically at opportunities at a stock and sector level. Strong contributions came from the IT and real estate portfolios, as well as in mining and energy.

The commodities sector continued to trade higher throughout July with most commodities other than coal performing. Gold was the standout performer, rallying 10% in the month towards US\$2000/oz. Oil continues to consolidate with higher production from the USA keeping a lid on prices, but inventory drawdowns indicate that demand is recovering. Outperformers during the month were FMG (strong end to the year and iron ore prices), OZL (copper prices) and WHC (poor pricing and guidance). While oil pricing was static, STO and SXY were able to outperform WPL and BPT with the differential largely coming down to operational performance. We continue to favour the optionality of STO over WPL and the value in SXY over BPT. We have pulled back our metals and mining exposure into results season and sit largely neutral on positioning.

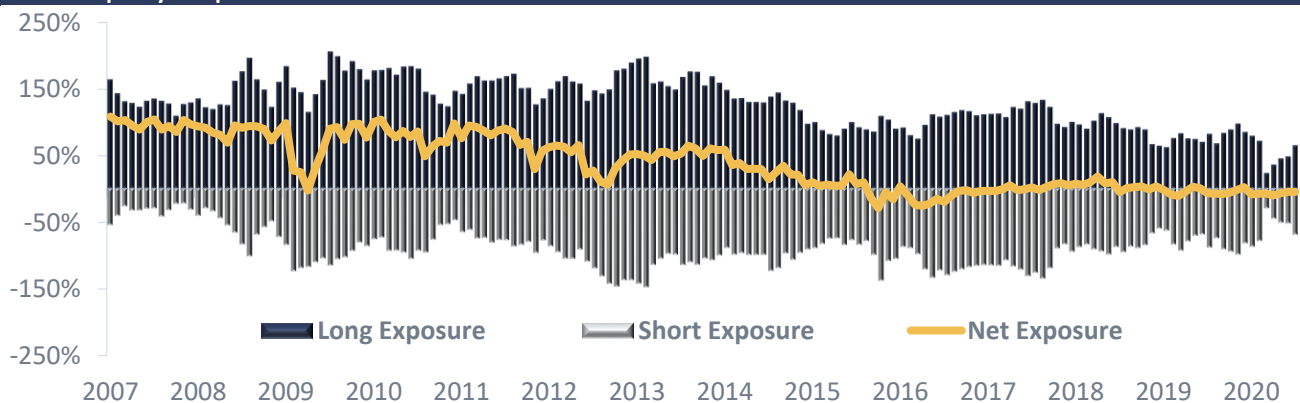
Financials had a solid month, with core investments in Sezzle, Goodman Group and QBE all posting gains. Sezzle delivered a quarterly update showing significant growth in both sales and customer additions as Americans switched spending habits online through the pandemic. Goodman group remains defensive proposition with logistics and industrial premise demand benefitting from the same shift to ecommerce requiring less bricks and mortar shop fronts and more focus on distribution from warehouses. QBE gave an update prior to its result this

month, comments around strong premium growth rates persisting and lack of major risks eventuating saw the stock outperform peers.

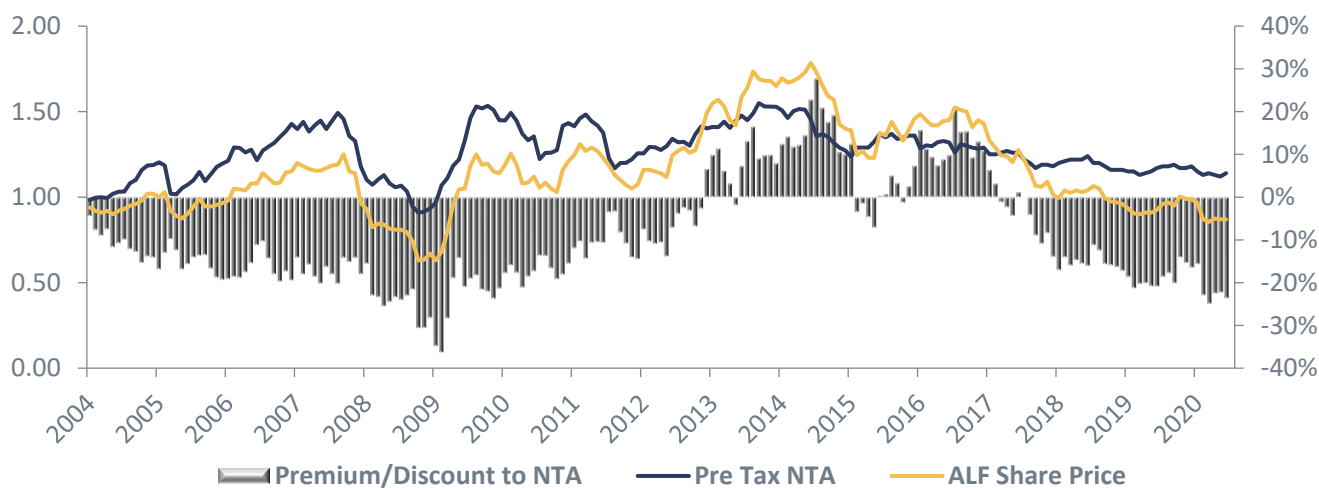
The TMT / HC book also performed well. In Healthcare we were quick to identify winners and losers from a resurgence of COVID19 in Victoria that could potentially spill over to New South Wales (between both c.60% of Australian GDP). In addition, our long position in Mesoblast started to rally in anticipation of the approval of its Ryoncil drug for the treatment of steroid refractory acute graft versus host disease (SR-aGVHD), a potentially life-threatening complication of an allogeneic bone marrow transplant. This potential approval in late September (Advisory Committee mid-August) would represent a major commercial milestone for Mesoblast. The TMT book benefited from shorts in highly valued tech names suffering from earnings pressure. Our longs instead benefited from a solid earnings outlook into the reporting season. Our position in Telstra was a key contributor in the month, as the market came to appreciate the tailwind from its recent price rises in mobile, as well as the solid cash flow underpinning of the dividend (4.5% vs. Australian 10-year bond yield of 0.8%).

The Consumer/Industrials sectors delivered a flat return in July. Casino stocks were a good source of returns on the short side as the market had failed to value the risk of multiple community lockdowns. We have now closed this short position and built a long position in select leisure stocks that have balance sheet resilience and the potential to emerge with stronger structural positions post the Covid-19 impact. As mentioned in last month's newsletter, we saw several discretionary retail stocks trading at valuations that didn't reflect the underlying risk in the economy. We gave up some performance in July as the market capitalised the benefit these retailers received from July Super withdrawals. Looking forward however, as stimulus measures reduce and job layoffs accelerate in a post-Jobkeeper environment, we expect these positions to deliver good returns.

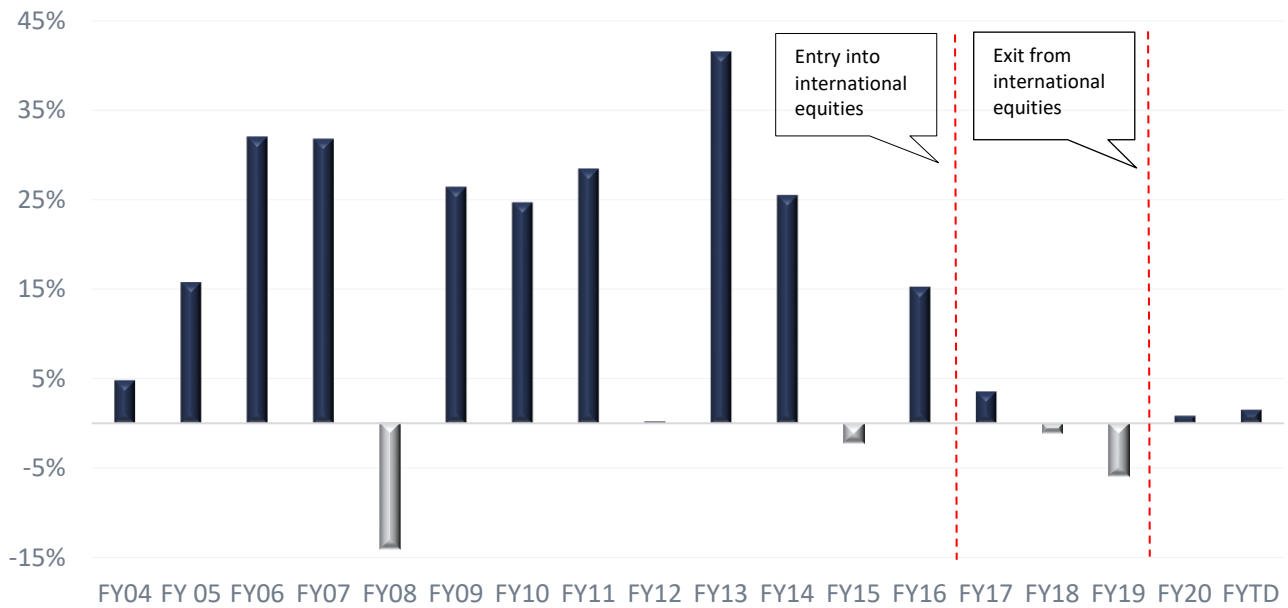
Net Equity Exposure



Premium/Discount to NTA History



Gross Portfolio Return

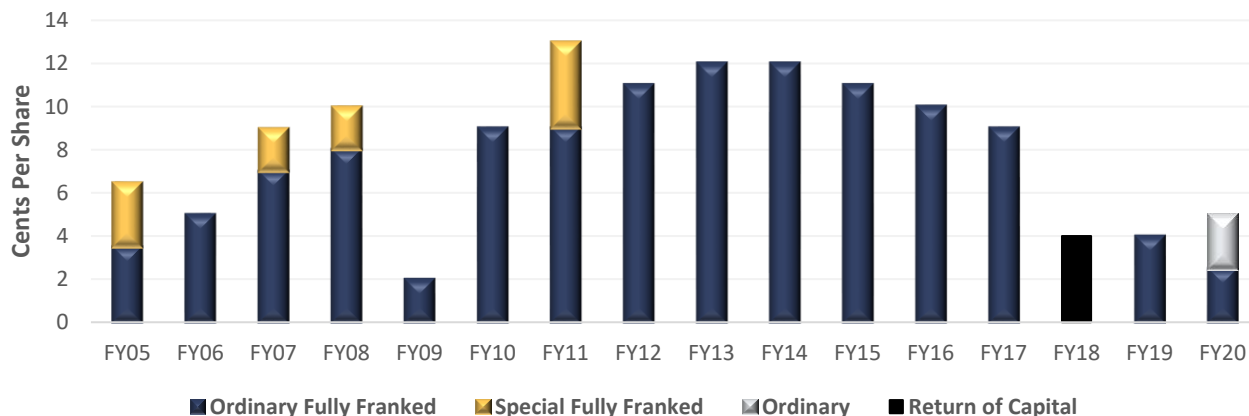


Monthly Net Performance (%)

Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
FY04								0.4	1.4	0.2	0.0	2.3	4.3
FY05	1.1	-0.3	4.6	2.8	4.4	2.4	0.3	1.3	-0.9	-6.1	-0.4	4.8	14.3
FY06	2.0	2.7	4.8	-3.0	3.9	3.7	1.5	2.0	6.4	2.9	-2.1	1.4	29.0
FY07	-3.2	4.3	1.7	7.2	2.8	2.5	3.1	-1.6	3.5	1.1	2.7	2.0	29.2
FY08	-1.0	3.4	3.3	1.0	-0.3	-1.9	-11.5	-8.4	1.4	4.4	1.5	-7.2	-15.5
FY09	-1.3	5.1	-5.4	-16.3	-6.6	3.0	2.2	2.9	16.0	6.7	7.9	7.0	18.7
FY10	9.2	12.4	6.5	-0.7	0.8	0.1	-3.5	2.2	4.2	-2.1	-7.1	-2.3	19.9
FY11	2.8	-3.9	2.3	0.0	2.7	12.0	2.0	1.9	3.6	1.7	-1.8	-1.8	22.9
FY12	-4.1	-6.8	-8.4	6.5	-1.5	0.9	4.9	4.7	3.3	1.2	-2.4	0.7	-2.3
FY13	3.7	3.6	0.3	-1.3	6.5	3.4	3.4	1.6	3.0	2.7	0.5	2.2	33.9
FY14	3.8	3.5	2.8	4.0	-0.6	0.0	-0.2	4.0	-1.4	2.6	1.2	0.3	21.6
FY15	-3.6	-2.4	1.4	-1.3	-2.5	-1.1	-1.2	1.0	3.0	0.8	-0.5	3.1	-3.4
FY16	3.8	3.0	1.5	-1.6	0.4	2.0	0.0	-2.1	1.4	-0.4	1.9	1.0	11.2
FY17	-0.3	-0.6	3.9	-0.5	-0.9	-0.2	-0.7	-0.1	0.1	1.2	0.7	-0.5	2.0
FY18	0.3	-1.8	-0.4	-3.1	1.3	0.1	-0.6	0.7	0.9	0.9	0.0	-0.6	-2.3
FY19	2.6	-1.6	0.2	-2.0	-2.9	-1.4	0.5	0.7	-1.0	-2.3	-0.8	0.7	-7.2
FY20	2.1	1.0	0.1	1.3	0.0	-0.4	1.3	-1.2	-3.3	1.2	-0.9	-1.5	-0.5
FY21	1.3												1.3

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.



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