CONCENTRATED LEADERS FUND

ASX LISTED INVESTMENT COMPANY (TICKER: CLF)

MONTHLY INVESTMENT REPORT: DECEMBER 2020

Fund Description

Concentrated Leaders Fund Limited (CLF) is a concentrated portfolio of leading Australian companies. The CLF investment team uses a top-down macro thematic, quantitative filters and bottom-up fundamental research.

Fund Objective

CLF is a geared listed investment company, which invests primarily in companies within the S&P/ASX 200 Accumulation index. CLF is focused on providing investors with capital growth and a consistent yield.

Net Tangible Assets (NTA) as at 31 December

Total Investments	**$101,220,030**
NTA	**$70,539,842**
Shares on Issue	**59,366,814**
NTA per Share (pre-tax) *	**$1.19**
NTA per Share (post-tax) *	**$1.13**
Share Price	**$1.27**
Premium/(Discount) to NTA (pre-tax)	**6.72%**
Premium/(Discount) to NTA (post-tax)	**12.39%**
Fully Franked Dividend Yield**	**6.75%**

* On realised and unrealised gains.
**Based on annual fully franked ordinary dividend of 6 cents

Fund Information

ASX Code	CLF
Date of launch	September 1987
Benchmark	S&P/ASX 200 TR Index

Service Providers

Custodian	National Australia Bank
Administrator	Fundhost Limited
Banker	National Australia Bank
Auditor	Deloitte Touche Tohmatsu
Legal Advisor	Watson Mangioni Lawyers

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Portfolio and Market Review

Investment Performance

Performance as at 31/12/2020 **	1 Month	3 Months	6 Months	12 Months	Financial YTD	Since Inception *
CLF	0.89%	10.61%	12.25%	5.57%	12.25%	25.39%
Benchmark	1.21%	13.70%	13.20%	1.40%	13.20%	21.57%
Value Add	-0.32%	-3.09%	-0.95%	4.17%	-0.95%	3.82%

* Inception date reflects when management of the fund was internalized as of 1 January 2018
** Gross performance excludes all expenses, fees and taxes. Net performance is reflected in the NTA calculations.

The portfolio returned +0.89% on a gross basis (pre-fees and taxes) in December versus the benchmark return of +1.21%. This equates to a 0.85% increase in pre-tax NTA and a 0.89% increase in the post-tax NTA, but a relative performance of -0.32%.

For the financial year to date, the portfolio has delivered a return of +12.25% on a gross basis versus the benchmark's +13.20%. This represents an under performance of 0.95%.

Market Review

The Australian market rose in December with the S&P/ASX 200 Total Return Index gaining 1.21% after rising 10.2% in November. Last month's rise was primarily driven by offshore market beta with local investors somewhat put off by a second COVID outbreak in Sydney's northern beaches, which saw several geographic lockdowns and border closures take place. The local market underperformed its global peers with the MSCI All Country World Index rising 4.14% (in USD terms). US stocks lead the way with a gain of 3.71%. This despite COVID-19 infections worsening in the US and the UK, and mayhem surrounding Donald Trump handing over of the presidency to Joe Biden.

This incredibly strong quarter capped off a stellar recovery of 48% from the March lows with the Australian market ending up 1.40% for the calendar year. Global equities returned 14.1% (in USD terms) for the calendar year.

There was little reason for the strength in global equities last month other than another smaller U.S. virus relief package adding to optimism and the thinking that we are finally coming to the end of Donald Trump's presidency and political sanity may not be far away.

Locally, there was great dispersion in sector returns with Information Technology and Materials performing strongly, while Utilities and Healthcare were weak. A stronger Australian dollar caused problems for several offshore earners with the AUD finishing the year at 0.7694 versus the US dollar.

1. **Information Technology (+9.4%)** rose incredibly strongly with Afterpay (APT) driving the bulk of these returns – it finished up 24.2% on little news except that it has become a top 20 ASX stock.
2. **Materials (+8.8%)** rallied strongly on higher iron ore prices as Vale's production was lower than expected and global optimism about COVID vaccines increased. Rio Tinto (+12.26%) and Fortescue (+28.52%) both performed incredibly strongly.
3. **Healthcare (-4.9%)** underperformed with Cochlear (COH) down 14.3% and sector heavyweight, CSL, down 5.99%. The sector has historically been sensitive to the Australian dollar and this may have had a negative impact.

Portfolio Review

The portfolio returned 0.89% in December.

From a sector perspective, our underweight to Information Technology and Materials had a negative impact on performance. We recently reduced our exposure to these sectors given price levels, but they have continued to go higher with some amazing market behavior now being observable.

In terms of stock selection, we had several strong performers including Fortescue (FMG) and BHP Group (BHP) but idiosyncratic news on several companies proved to be a headwind to performance. A lack of exposure to Afterpay (APT) and Rinto Tinto (RIO) were major detractors from performance.

At month end, the portfolio's cash increased to ~17.5% after we took profits on several positions early in the month after an incredibly strong month in November.

Major Contributors:

FMG (+28.52%) – Rose to a record high after iron ore prices reached 9-year highs around the middle of the month. Overall, Iron ore prices rose by more than 70% in 2020 to finish at ~$160/mt.

BHP (+15.84%) – As with FMG, BHP rallied on stronger iron ore prices. However, a rally in the price of oil also helped BHP with oil rising on the US stimulus package and hopes of a successful vaccine rollout.

NXT (+8.71%) – Rebounded strongly after falling by ~11% in November. NXT held their AGM in November and reaffirmed revenue, earnings, and capex guidance.

Major Detractors:

APX (-21.74%) – fell sharply after downgrading its FY 2020 earnings guidance. APX now expects to report full year underlying EBITDA of $106-$109 million, from its previous guidance of $125-$130 million.

A2M (-17.15%) – experienced its largest ever one-day fall after cutting its revenue and margin guidance amid reduced sales via its Daigou channel. The company now expects a lower profit margin of 26-29% and full year revenue to be NZ$1-1.1 billion versus earlier forecasts of NZ$1.8-1.9 billion.

QBE (-14.70%) –fell after projecting a full-year loss of $1.5 billion when it reports in February. The company was negatively impacted by Covid-19 related losses, California wildfires, hurricanes and a non-cash write off of goodwill assets in North America.

Sector Exposure

Sector	Weight (%)
Consumer Discretionary	5.8%
Consumer Staples	5.2%
Energy	1.8%
Financials	21.3%
Health Care	7.6%
Industrials	10.9%
Information Technology	2.3%
Materials	13.7%
Real Estate	11.5%
Telecommunication Services	0.0%
Utilities	2.2%
CASH/LIQUIDITY	17.8%

Top 10 Holdings in alphabetical order

Code	Company Name	Sector
AMC	AMCOR LIMITED	Materials
ANZ	AUSTRALIA AND NEW ZELAND BANKING	Financials
BHP	BHP BILLITON LIMITED	Materials
CBA	COMMONWEALTH BANK OF AUSTRALIA	Financials
CHC	CHARTER HALL GROUP STAPLED	Real Estate
CSL	CSL LIMITED	Health Care
MQG	MACQUARIE GROUP LTD	Financials
NAB	NATIONAL AUST. BANK	Financials
TCL	TRANSURBAN GROUP	Industrials
WOW	WOOLWORTHS GROUP LIMITED	Consumer

Outlook

The continued run up in equity markets is creating an increasingly dangerous environment for investors according to one of the greatest equity investors of all time, Jeremy Grantham. Mr Grantham says "I believe this event will be recorded as one of the great bubbles of financial history, right along with the South Sea bubble, 1929, and 2000".

It is yet to be seen whether this is a bubble or not and if/when it will burst, but as we have previously stated there seems to be little rationality in equity market behavior or pricing at present. Investors seem to be ignoring any and all risks and simply buying stocks on either the fear of missing out or a lack of investible alternatives. As a result, we have now moved beyond a 'goldilocks' environment to more of 'superhero' environment in which equities cannot be hurt and where they have the colloquial support of the masses. However, like every superhero they are likely to have a dark underbelly or a weakness that is exploitable. We do not know what this is for equities this time around, but unfortunately, we may find out soon.

Equity markets are consumed by three things at present:

1. Looking past the current economic situation, which continues to be horrendous in many parts of the world, to when the vaccines are rolled out and the world is back to normal,
2. Central banks and governments continuing to provide unprecedented levels of liquidity to support economies and companies, and
3. The world being a much better place to invest once the political uncertainty caused by Donald Trump is removed and the Democrats take control of the US parliament.

These three things are outweighing everything else. As a result, valuations are continuing to go skyward irrespective of valuations and in many cases corporate fundamentals. It should be quite transparent that the organic strength of equity markets is very poor. Companies and economies are being supported by governments and markets are being supported by central banks and the liquidity they are providing. Without this duo of support, the investment world would be very different. Going forward, for the status quo 'superhero' environment to carry on, this duo of support must continue indefinitely and must not produce any harmful side effects. Otherwise, the superhero's weakness will quickly come to the fore.

We are thankful that there is light at the end of the Covid-19 tunnel, but this is likely to be a longer tunnel with greater residual fallout than most investors are currently thinking. Likewise, the light will need to be blindingly bright to justify current market pricing otherwise markets need to be re-priced lower. We are concerned with the current environment and the volatility which may be coming and as such will operate with a high degree of caution, especially given the strength of equity markets in the last quarter of last year. As always, we will act prudently with your capital and do our best to deliver you returns you have come to expect.

Important Information

This announcement has been prepared by CLF for the purposes of providing general information only and does not constitute an offer, solicitation or recommendation with respect to the purchase or sale of any securities nor does it constitute financial product advice and does not take into account your individual investment objectives, tax or financial situation or needs. Past performance is not indicative of future performance. Before making an investment decision an individual should assess whether it meets their own needs and consult an appropriately licensed financial adviser. No warranty (express or implied) is made as to the accuracy, completeness or reliability of any statements, estimates or opinions or other information contained in these materials (any of which may change without notice) and to the maximum extent permitted by law, CLF disclaims all liability for any direct or indirect loss which may be suffered by any recipient through relying on anything contained in or omitted from these materials.

Authorisation

This announcement was authorised by the Board of Directors of Concentrated Leaders Fund Limited.