

## Australian Leaders Fund announces a solid, half-year profit in of FY2017 and continued strong performance from its international portfolio

### Highlights

- Net Tangible Asset backing at 31 December of \$1.30 per share after tax.
- ALF has traded at an average premium to the after-tax NTA of 11% since December 2015.
- Strong performance from the international portfolio.
- Interim dividend of 4 cents per share, partially franked.

### Company Update

Today the company announces a first half profit in FY2017 of \$4.2 million and declares an interim dividend of 4 cents per share, 50% franked. Australian Leaders Fund Limited (ASX: ALF) ('ALF' or the 'Company') is a listed investment company managed by Watermark Funds Management (the Manager).

Last year presented several challenges for investors, with shock election results in Europe and the US and even less predictable reactions thereto from share markets globally. The Company's portfolio has been set conservatively for some time, in recognition of the risks that continue to loom large for expensive equity markets. With the portfolio largely hedged, the Company's capital is protected as we move through the later stages of this bull market. This protection comes at a cost however, whereby the Company has not participated in the recent rally.

The Company's international portfolio outperformed the domestic though the period, providing valuable diversification of returns while conditions in the domestic market proved more challenging to navigate. International investments added 2.7% to Fund returns on a gross basis while the domestic portfolio detracted 0.6% from performance.

Performance at 31 December 2016	1 Mth	3 Mths	Fin. YTD	1 Yr	3 Yrs %pa	5 Yrs %pa	Since Inception %pa
ALF (net return)	-0.2%	-1.7%	1.3%	3.1%	5.1%	14.9%	13.4%
All Ords Accum	4.2%	4.4%	9.9%	11.6%	6.8%	11.6%	8.9%
<b>Outperformance (net)</b>	<b>-4.4%</b>	<b>-6.1%</b>	<b>-8.7%</b>	<b>-8.5%</b>	<b>-1.7%</b>	<b>3.3%</b>	<b>4.5%</b>

The Company's ability to hedge share market risks has proven its worth over time, with the portfolio outperforming its benchmark over the longer-term, while retaining an average net exposure to the share market over the last five years of just 23%. It is important that shareholders remain mindful of the role that a long/short strategy such as ALF should play in a broader portfolio. At times the return that the strategy produces will be materially different to the underlying share market. Over time this should provide valuable diversification benefits for shareholders, notwithstanding the weaker performance in the last half.

ALF remains well-positioned to weather any turbulence that might emerge in the coming months, as the effects of stimulatory measures taken by central banks in late 2015 begin to wane, and as global share markets attempt find sure-footing in an increasingly unstable geopolitical environment. We are also heartened by the knowledge that the returns that ALF can produce will ultimately be driven by our investment decisions rather than a rising market, a feature that will be of increasing importance given the lower returns expected from shares in the medium-term.

## Dividend and DRP

The Board has declared an interim dividend of 4 cents per share, 50% franked. Unlike long only strategies, which can stream franked dividends from the portfolio through to shareholders, ALF's dividend paying capacity is more heavily dependent on capital returns generated by the Manager as most of the Company's capital sits in the bank earning low interest. In a similar way, franking credits accrue as tax is paid on trading profits, allowing the Board to distribute franked dividends to investors. The franking balance is augmented to a lesser extent, by credits that flow through from the Company's long portfolio

ALF has been struggling against two headwinds in recent years, which have impacted the capacity to pay dividends. Firstly, in a market neutral position, the Fund receives less franking from its investment portfolio. Secondly, the Company has increased its exposure to international shares over the last two years, reducing the quantum of franking credits that flow through from the portfolio. As has been flagged in previous correspondence with shareholders, this will likely be an ongoing issue, albeit one the Manager feels is offset by the opportunities available in global markets.

For some time, the Board has prioritised the accrual of profit reserves, which provide a funding pool from which dividends can be paid. Due to periods of very strong performance in recent years, these reserves have allowed the Board to maintain a fully franked dividend that is very high relative to some of ALF's peers. Nevertheless, these profit reserves become depleted during periods of weaker performance, such as we have experienced in recent months. The Board therefore feel it is prudent to lower the dividend to a level that it feels is more sustainable and distribute franking credits to the extent that it can.

The Board believes that the interim dividend of 4 cents represents an attractive yield on shareholders' investment, and remains committed to paying franked dividends, where it is prudent to do so. The interim dividend will be paid on April 13th 2017 and the shares will trade ex on March 29th 2017.

A dividend reinvestment plan will operate with a 3% discount. The final election date for the DRP is 31st of April, 2017. Please contact Boardroom on 1300 737 760 for more information.

## Company Outlook

Shareholders will soon receive a copy of the latest edition of The Leading Edge, our quarterly newsletter outlining the Manager's views on the outlook for the global economy and recent geopolitical developments. It also provides an in-depth examination of investments in several industrial and the investment case that supports them. We continue to identify attractive investment ideas both domestically and offshore. The outlook for ALF is bright, notwithstanding the risks that remain for asset markets.

Yours sincerely,



Justin Braitley

Chairman