

Monthly Update – January 2017

Fund at a Glance

Fund Size	AU\$163m
Strategy FUM	AU\$253m
Fund Inception Date	August 2012
Fund Strategy	Equity Market Neutral
Application/Redemption	Daily
Management Fee	1.5%
Performance Fee	20%
Benchmark	RBA Cash Rate

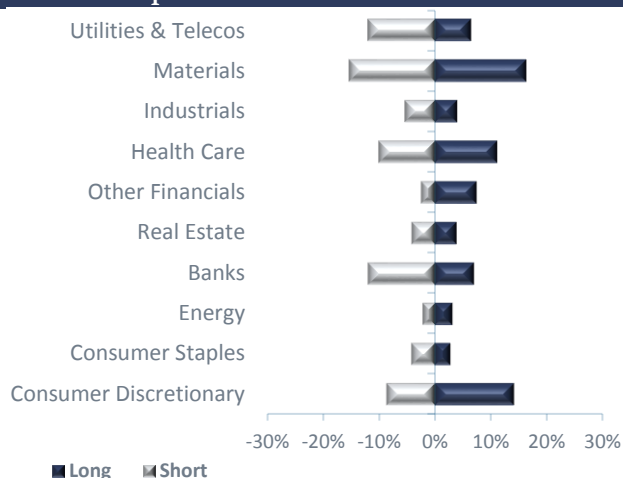
Return Characteristics¹

Positive Months	68.6%
Beta	-0.2%
Sharpe Ratio	1.5
Sortino Ratio	4.3
Standard Deviation (annualized)	7.3%
No. Long Positions	74
No. Short Positions	71
Gross Exposure	154%
International Exposure (% of Gross)	19%

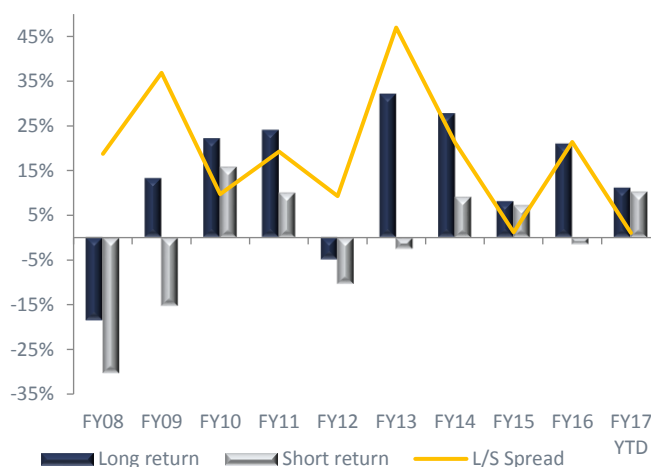
Performance

	1 Mth	6 Mths	Fin. YTD	1 Yr	2 Yrs (pa)	3 Yrs (pa)	S.I (pa)
WMNT (net return)	-0.8%	-0.8%	-0.2%	2.3%	12.3%	6.5%	13.0%
RBA Cash Rate	0.1%	0.8%	0.9%	1.7%	1.9%	2.1%	2.4%
Outperformance	-0.9%	1.6%	-1.1%	0.6%	10.4%	4.4%	10.6%

Sector Exposures



Long/Short Spread²



Gross Portfolio Structure

Investment Type	December 2016		January 2017	
	\$m	%	\$m	%
Listed Securities - Long	130.2	81.8	124.5	76.4
Listed Securities - Short	125.4	-78.8	126.0	-77.3
Net Exposure	4.8	3.0	1.5	-0.9
Cash	154.2	97.0	164.5	100.9
Capital	159	100	163	100

¹ Return Characteristics are for the period since inception. The Fund's inception date is August 2012.

² Long/Short spread shows the gross performance of the long and short portfolios. The Fund makes a profit where the long portfolio outperforms the short portfolio, after the payment of fees. Returns prior to the Fund's inception date are based on the return series from the long and short portfolios of the Australian Leaders Fund Ltd.

Month in Review

With bond markets largely benign in January, geopolitical events played the leading role driving global share markets. In the US, pre-Christmas gains were extended, led by cyclical industrials and financial shares. This momentum was tempered somewhat late in the month as investors struggled to interpret the implications of the increasingly erratic policy platform of the new Trump administration. European markets were weaker, with the prospect of further disruption to the fragile European Union looming large, as elections in France and the Netherlands draw near. Continued strength for commodity prices and a weakened US dollar also provided tailwinds for commodity producing economies.

The Fund fell in value by 0.8% in January with gains from the short book offset by losses across the long portfolio. Short positions in discretionary retail and healthcare worked well, while the mining sector continued to pose challenges and was the weakest performer.

The rotation away from defensive shares continues and we have monitored this trend closely for examples of good companies that have been oversold. *CSL Ltd* was one such example, with detailed valuation work suggesting that company represented good value below \$100 per share. This investment was a strong performer in the month. In other parts of the healthcare portfolio, our strategy has been to back the best science we can find while short-selling the shares of companies with weak product differentiation and which are subject to increased pricing pressures. Investments in *Seattle Genetics Inc* and *Juno Therapeutics* have both provided solid gains. These companies are leading the way in the development of new cancer treatments, using innovative biomechanical and biopharmaceutical products.

The telecommunications sector is another dynamic part of the share market, with rapid developments in technology and data consumption putting pressure on ageing business models and infrastructure. The Fund holds investments in companies that are exposed to rapidly growing telecom markets in China, benefitting from exponential growth in data consumption as mobile users transition to 4G networks. These are balanced by short positions in telecom operators located in more mature markets such as Australia and the US, with *Verizon Communications* being one example. The company has struggled in recent months, announcing weaker than expected profits and disappointing growth in subscriber numbers resulting from ever increasing competitive pressures. As with *AT&T*, *Verizon* is seeking to make a transformative acquisition of *Yahoo Inc's* core assets; a transaction which is looking increasingly uncertain given *Yahoo's* recent issues with data breaches.

Weaker trends within retailing (both domestically and abroad) are providing a rich vein of investment ideas. We have held a negative view on the outlook for domestic retailers for some time, and core short positions in this sector continue to add value. A short in US retailer *Target Corp* worked particularly well, with the company posting weak results from the Christmas shopping period, a trend reflected across much of the sector.

Performance in banking and diversified financials was softer in January, after strong gains for the sector in the final quarter of 2016. There was little news through the month in terms of the fundamental backdrop, with the yield curve unchanged and modest credit growth. We retain our circumspect view on the outlook for share markets and believe that there is limited prospect - particularly for Australian and Canadian banks, to grow earnings in the medium-term. The Fund is net short these parts of the market as a result.

Basic industries continued to drive strength across global share markets. The prices of most industrial and precious metals were stronger again in January while bulk commodities posted fresh gains. Our preference has been to retain a balanced exposure in this part of the portfolio, which has been a drag on performance relative to the broader mining sector. With the price of iron ore now at the highest level since late 2014 and well above long-term forecasts, we expect our short position (which has been costly in recent months) will bear fruit in the medium-term. An investment in *Hess Corp* gave back recent gains, with the company guiding to weaker production growth in 2017 than was expected.



Monthly Net Performance (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012	-	-	-	-	-	-	-	1.36	0.97	0.00	6.51	2.88	11.72
2013	-0.71	0.21	4.60	1.55	5.83	5.31	1.11	2.57	1.43	1.86	0.35	-0.06	24.05
2014	1.71	1.45	-1.17	2.80	1.21	0.84	-4.38	-1.77	2.52	-1.57	-1.58	-1.32	-1.26
2015	-1.18	0.70	3.23	0.96	-0.61	3.39	3.82	4.04	2.73	-1.36	1.53	2.93	20.19
2016	-0.14	-1.93	1.13	0.53	1.08	1.76	0.60	-1.46	2.23	-0.34	-0.46	0.07	3.03
2017	-0.81												-0.81

Research Ratings



Platform Availability

Macquarie Wrap
BT Wrap
BT Panorama
Asgard
Netwealth
IOOF Pursuit
Mason Stevens
Powerwrap
Hub24

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