



NTA and Monthly Update – June 2017

Company at a Glance

ASX Code	WGF
ASX Code Options	WGFO
Fund Size	AU\$89.4m
Fund Strategy	Global Market Neutral
Share Price	\$1.02
Shares on Issue	82.8m
Option Price	1.5 cents

Net Tangible Asset (NTA) Backing

	May 17	Jun 17
NTA Before Tax	\$1.09	\$1.08
NTA After Tax	\$1.08	\$1.08

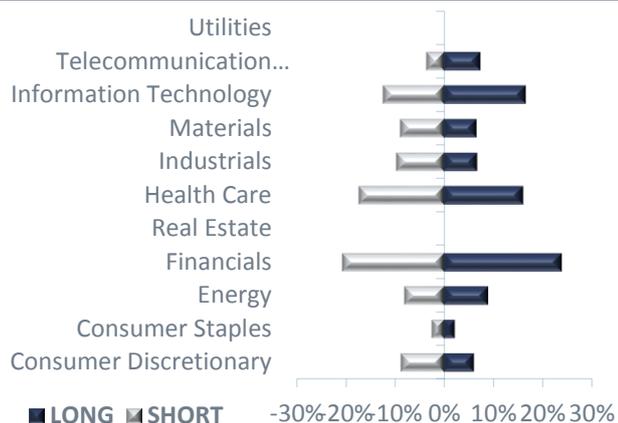
Gross Portfolio Structure

Long Exposure	84.0%	95.0%
Short Exposure	-85.1%	-92.5%
Gross Exposure	169.1%	187.5%
Cash	101.1%	97.5%

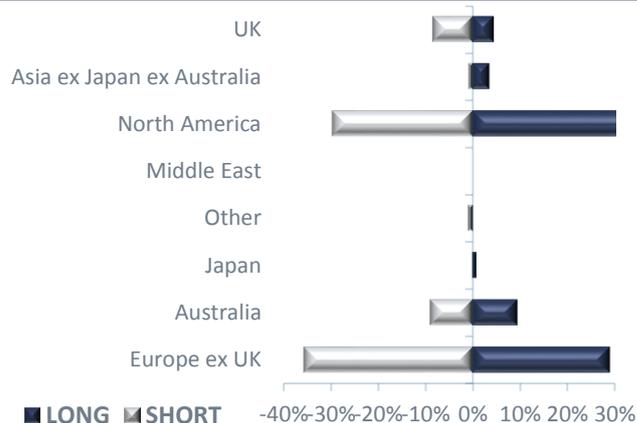
Performance

	1 Mth	3 Mths	6 Mths	Fin. YTD	1 Yr	2 Yrs (pa)	S.I.
Portfolio (net return)	-0.2%	0.6%	0.8%	-	-	-	0.8%
RBA Cash Rate	0.1%	0.4%	0.7%	-	-	-	0.7%
Outperformance	-0.3%	0.2%	0.1%	-	-	-	0.1%

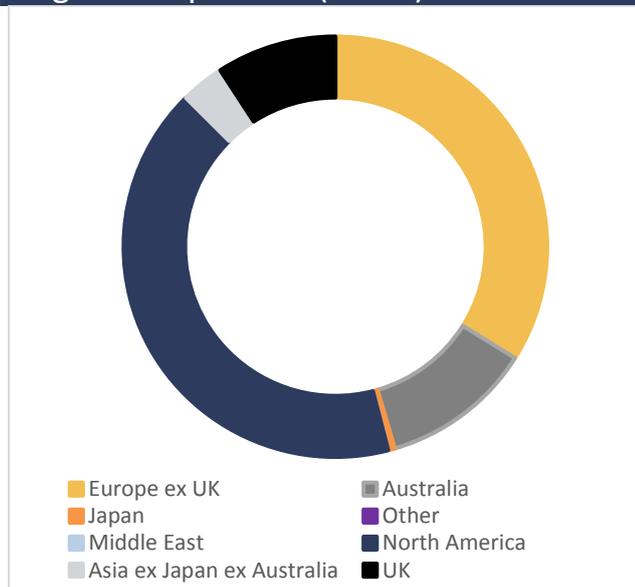
Sector Exposures



Regional Exposures (Net)



Regional Exposures (Gross)



Contributors/Detractors

Top 3 Contributors	
Allergan plc	0.2%
Australia and New Zealand Banking Group Limited	0.1%
Juno Therapeutics, Inc.	0.1%
Top 3 Detractors	
Kroger Co.	-0.4%
Au Optronics Corp	-0.4%
Roche Holding Ltd	-0.3%



Month in Review

With consensus between central bankers forming around a move towards tighter monetary policy settings, malaise in share markets gave way to volatility in June, with most major share indices posting falls. Having led the way in the effort to normalise interest rates, the US Federal Reserve announced its third rate hike in 6 months, finding comfort from continued strength in the performance of the domestic economy. European and Canadian markets proved more skittish at the prospect of rising rates, with sharp increases in local bond yields signalling an ominous warning for investors in shares of potential for market falls once this policy shift begins in earnest.

The portfolio fell in value by 0.2% after all fees, and finished its first 6 months with a net return of 0.8%. At a sector level, a long bias to financials worked well in the month, along with energy exposures. The mining and consumer discretionary sectors were the biggest detractors.

The extent to which Central Banks are coordinated - if not in practice then at least in intent – was reflected in the minutes of meetings and resulting commentary through the month. Specifically, the minutes from the UK Monetary Policy Committee showed three of the eight members voted to raise interest rates from 25bps to 50bps at its June meeting, an increase from just one of eight voting for a rate rise at the May meeting. Secondly, the minutes from the June meeting of the ECB Governing Council showed that officials discussed whether to end the Central Bank's commitment to increase the rate of bond purchases if the European economy deteriorated. Finally, the US FOMC raised its Federal Funds Target rate 25bps to a range of 100-125bps.

The Fund's financials positions performed well in June. The domestic portfolio benefitted from a long position in Henderson Group, which completed its merger with Janus, and a short position in QBE Group which issued an earnings downgrade. Internationally, a long position in Allied Irish Bank made a solid contribution, following its recent re-IPO, as did an investment in Wells Fargo which exceeded market expectations in the US Fed's annual Comprehensive Capital Analysis and Review (CCAR). The Fund's long bias in financials was reduced towards the end of the month.

Hawkish overtones from the head of the ECB and a stronger EURO drove a rotation out of defensive sectors like healthcare, into more inflation/interest rate sensitive exposures. After stellar performance in the prior 3 months, European healthcare names bore the brunt of this rotation. US biotechnology shares caught a strong bid following a spate of positive clinical trial results, softening in the rhetoric around drug pricing out of Washington DC and increased speculation of M&A in the sector. Notwithstanding the softer government rhetoric, we maintain that the structural drivers of drug pricing pressure are yet to have their full impact.

Prices of Australian healthcare companies continue to push higher, with valuations now reaching extreme levels. Sector heavyweights such as CSL, Cochlear, Resmed and Sonic Healthcare; all hit record highs in June with most valuation metrics pushing well above 1x standard deviation versus historic levels. This momentum is being supported by a range of factors, including capital inflows as investors rotate out of financial shares and positioning for a weaker Australian dollar. Domestic positions detracted from performance in June, while international positions fared better due to positive contributions from European shorts, as well as investments in Nevro, Celgene and Allergan.

Having almost singularly led the US share market higher in recent times, the technology sector suffered its worst month in nearly 2 years, with the US technology index down 3%. Most of the weakness was seen in the semiconductor sector, which fell by 5%, while internet and software companies mostly recovered losses from earlier in the month. Hardware names felt the pressure of concerns that this year's iPhone release in September is facing supply challenges and may be delayed. June was also a month to forget for the global telco sector which fell by 4% as global bond yields rallied. Consolidation in the US now seems to be on hold for the time being, while regulation in Europe has become more heavy-handed.

Our TMT portfolio is well hedged and remained resilient during the month, reporting flat performance through this volatility. Shorts in European broadcasters performed well, helped by price falls due to the continued



dislocation of TV advertising revenues from macroeconomic conditions. A short in STMicroelectronics also contributed strongly.

Global consumer staples shares declined in June for the first time this year, while their Australian peers extended a recent run of weakness. The more economically sensitive consumer discretionary shares were largely flat in both global and domestic markets. A new long position was established during the month in Bapcor (aftermarket auto-parts) following the market sell-off, while the company digests its recent acquisition of Hellaby's. An investment in US supermarket Kroger was sold down in response to increasing competitive intensity in the US grocery market.

In aggregate, consumer positions detracted from performance over the month, in particular US investments in Kroger and O'Reilly Automotive; as any sign of trading weakness in US consumer stocks was assumed by the market to imply permanent disruption by Amazon. Strong returns were generated from short positions in US companies Campbell Soup and Best Buy.

Industrial shares were flat in June – valuations are high by historical standards, however leading economic indicators of the industrial sector continued to show reasonable strength in the US and Europe, with China maintaining momentum. Given the strength of the Euro, European industrials with large offshore businesses underperformed their US peers. Infrastructure was a positive contributor, with the funds appropriately positioned for a sell-off on rising in bond yields, while capital goods and transport were slight detractors. The Fund remains fully hedged, with investments in higher quality companies benefitting from restructuring and themes such as industrial internet, balanced by short positions in more cyclical shares, on high valuations and carrying risk of disappointment.

Mining shares continued their recent declines before staging a rally in the second half of the month. Chinese Government news outlet Xinhua reported the need for “loose credit conditions”, while the Chinese Ministry of Finance announced it would increase liquidity in the bond market. The oil price fell as focus shifted from OPEC optimism to rising US inventories, while the gold price dropped in response to central bank commentary.

We reduced our short exposure in mining through the month, largely via an increased holding in BHP Billiton. The company announced the appointment of new Chairman Ken MacKenzie, who comes with an impeccable track-record at industrial company Amcor. We have already seen two broker upgrades since the appointment which has assisted short term performance. We remain balanced in our Energy portfolio but used recent weakness to initiate an investment in Haliburton. The downturn in oil has devastated the US onshore services industry. 2016 was an annus horribilis with no service company producing a profit. We view this as unsustainable, especially in light of the continued productivity improvements and growing production levels. Haliburton is extremely well positioned to benefit from this recovery.

The basic industries portfolio detracted from performance in the month as the mining sector rallied. We were well positioned for the sell-off in oil however, with our short in oil supermajor Total SA, contributing to performance.

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