

## NTA and Monthly Update – September 2020

### Company at a Glance

ASX Code	ALF
Fund Size	AU\$203.6
Fund Strategy	Variable Beta
Share Price	\$0.95
Shares on Issue	192.1m
Net Exposure	11.2%

### Net Tangible Asset (NTA) Backing

	Aug 20	Sep 20
NTA Before Tax	\$1.15	\$1.15
NTA After Tax*	\$1.14	\$1.14
NTA After Tax & DTA/CTL**	\$1.05	\$1.05

### Gross Portfolio Structure

Long Exposure	53.6%	52.1%
Short Exposure	-54.6%	-40.9%
Gross Exposure	108.2%	93.0%
Cash	101.1%	88.8%

\*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

Australian equities declined in September, ending a five-month rally as investors faced renewed fears over a more extreme 2nd wave of coronavirus cases globally as well as global growth concerns. The ASX200 fell 4% over the month, dragging what had been a largely flat quarter-to-date into negative territory, led by weakness in Energy, Consumer Staples and Technology shares.

The portfolio delivered -0.3% net of fees, reflecting our largely defensive positioning. Although our long and short positions were broadly balanced, we used weakness in the market to accumulate length and pivot the portfolio toward more cyclical pockets such as media and building materials. Strong contributions came from Contractors and Media in September.

**Financials** had a weaker month in September. This was primarily driven by key long positions in QBE and APT. QBE lost its CEO Pat Regan, which weighed in on the stock while Chairman Mike Wilkins has stepped into the role temporarily. Afterpay traded weaker on the back of Paypal announcing its own a "pay in 4 product". The key determinant of Afterpay's success in defending market share will be its ability to leverage its sale leads platform. It has proven successful at deterring competitors in the past, as seen in its frequency of use. Afterpay's customers who have been using the product for more than 3 years use it an average of 25x a year. This is 2-3x its competitor's customer usage.

The **Consumer** and **Industrials** sectors delivered a positive return in September. The key contributors come from both the long and short portfolio. The long portfolio profited from positions in 'open up' defensives including Coca-Cola Amatil and Sky City Entertainment. These and other usually defensive companies continue to trade below historic valuations and are likely best placed as the economy transitions to a more normal consumer environment in months ahead. Our short portfolio benefited from exposure to the infant formula segment, which is currently experiencing inventory issues through supply chain disruption and market share gains by competing Chinese brands. Looking ahead, the economy is likely to be driven forward via a propped-up property sector. As such we have built positions to benefit from this likely tailwind.

**Commodities** were broadly weaker over the month of September, except for the coal complex (both metallurgical and thermal) which managed to find some support on the back of supply curtailments. Strength in the USD weighed on Gold which saw its largest monthly decline (-4.2%) in over a year, as well as oil (WTI -5.6%) which suffered from a sobering demand outlook and sell-off in global equity markets.

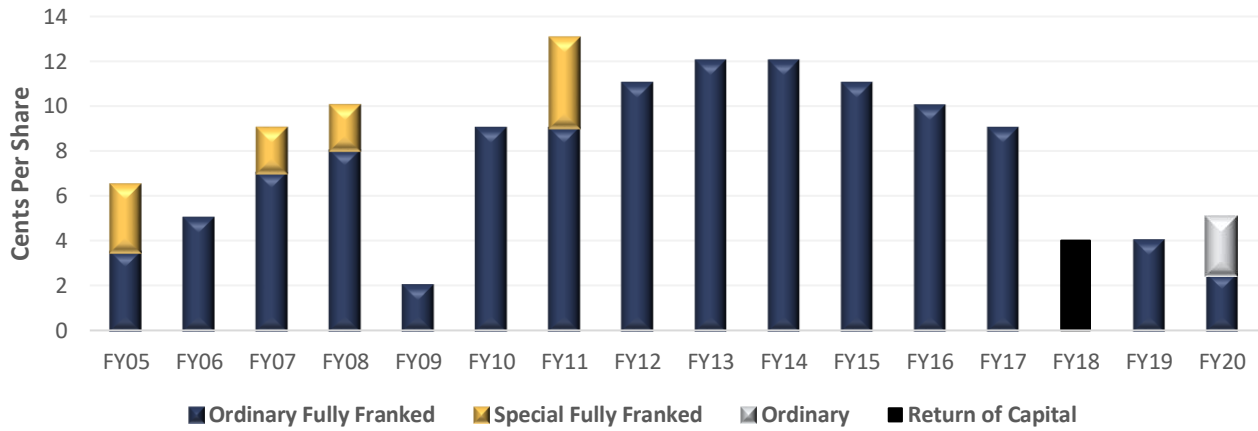
Outperformers during the month were WHC (turnaround in thermal prices) and MIN (iron ore decline). Over the month, we continued to increase our gold exposure whilst maintaining broadly neutral settings in base, bulk and energy sectors.

The **TMT** and **Healthcare** sector was up for the month of September. Among our winners, our long position in oOh!media (OML) stands out after putting on a 40% re-rating. There are many reasons why we like OML, it is a strategic asset, in a duopolistic market, and unlike TV or Print or Radio does not face any structural threats. Once balance sheet concerns were addressed with the capital raise in April and 1H results, the debate for OML was always a matter of when not if. Audiences are slowly but surely returning post COVID-19 and it is only a matter of time until advertising budgets follow. When we initiated the position, the stock was trading at 5.0-5.5x normalised EBITDA compared to a historical multiple of 10x. Within Healthcare, our position in Cochlear benefited from increased evidence of resumption in elective procedures.

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	<b>4.3</b>
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	<b>14.3</b>
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	<b>29.0</b>
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	<b>29.2</b>
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	<b>-15.5</b>
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	<b>18.7</b>
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	<b>19.9</b>
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	<b>22.9</b>
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	<b>-2.3</b>
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	<b>33.9</b>
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	<b>21.6</b>
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	<b>-3.4</b>
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	<b>11.2</b>
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	<b>2.0</b>
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	<b>-2.3</b>
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	<b>-7.2</b>
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	<b>-0.5</b>
FY21	1.3	1.4	-0.3										<b>2.4</b>

## 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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