

# Investment Update and NTA Report

31 January 2015



## Month in Review

January was a strong month for share markets around the world as Central Banks sought to battle falling rates of growth and inflation with interest rate cuts and quantitative easing. In Europe, the ECB's announcement of a large scale bond buying program saw European stock markets post strong gains. The US market was weaker however, as a rising US dollar weighed on corporate profits.

The domestic share market rose by 3.2% in January, buoyed by a falling currency and in anticipation of a drop in the RBA cash rate. With further rate cuts expected, investors' demand for income continues to be a dominant theme. Notwithstanding this recent market rally, growth in the economy is forecast to be weak and risks are elevated. The Company's portfolio is conservatively positioned, with very low net exposure to the share market.

The portfolio delivered a return of -1.18% for the month. After a promising start, early gains were lost as a number short positions suffered adverse moves in the final week of January. This negative momentum was exacerbated on the last day of the month, with a significant fall in the price of Tiger Resources, a copper miner in which the Company has a small position. Weaker performance was offset in part by strong returns from exposures in the gold sector.

As a sector of the market buoyed by the stimulatory forces mentioned above, defensive shares look fully valued. The Company retains a net positive exposure in the sector however, with infrastructure and telecommunications as preferred industries.

Financial shares rallied with the broader market in January, with wealth managers, banks and real estate companies posting strong gains as a result of the continued decline in government bond yields. A key contributor was our position in Henderson Group which benefited from positive sentiment around the announcement of quantitative easing in Europe.

Gains were also made in January from positions in retailers such as Super Retail Group. Despite our cautious outlook for the domestic economy in general, interest rate cuts and a marked drop in petrol prices have provided relief for household budgets, which in turn stimulates discretionary spending.

Resource companies continued to struggle in January, with further falls in commodity prices. This sector has proven difficult to manage in recent months, with stock and commodity specific issues weighing on the performance of the portfolio despite having no net exposure in the sector. While short-term volatility is a distraction, we are confident that the investment theses supporting the Company's individual positions in the sector will play out as expected over time.

## Net Tangible Asset (NTA) Backing

Month	December 2014	January 2015
NTA before tax on unrealised gains	\$1.29	\$1.27
NTA after tax	\$1.31	\$1.30

## Performance (Net of all Fees and Expenses)

Period	S&P/ASX All Ordinaries Accum. Index	Net Equity Exposure	Contribution Market <sup>1</sup>	Security Selection <sup>2</sup>	ALF (net returns)
1 Mth	3.0%	9.7%	0.3%	-1.5%	-1.2%
6 Mths	0.9%	21.0%	-0.3%	-6.6%	-6.9%
Fin. YTD	5.4%	20.6%	0.5%	-10.8%	-10.3%
1 Yr	11.3%	27.2%	3.2%	-7.3%	-4.1%
3 Yrs p.a.	13.5%	41.2%	4.8%	11.5%	+16.3%
5 Yrs p.a.	8.4%	56.0%	3.0%	7.7%	+10.7%
Since Inception p.a	9.4%	-	-	-	+13.9%

<sup>1</sup> The "Market" column displays the contribution to return achieved in the period from the Fund's exposure to the share market weighted on a monthly basis. Due to timing differences and an adjustment for cash holdings, the contribution is not necessarily the same as the average equity exposure for the period multiplied by the market return.

<sup>2</sup> All fees and expenses are netted off against stock selection

### Australian Leaders Fund

ASX Code	ALF
Listed	Feb 2004
Capital	\$322.7m
Market capitalisation	\$356.7m
Share price	\$1.40
NTA before tax	\$1.27
Shares on issue	254.8m
Fully franked dividend (1H15)	5.0c
Dividend yield (fully franked)	7.1%

### Company Overview

The Australian Leaders Fund (ALF) is a listed investment company, comprising a portfolio of publicly traded Australian shares. As a Long/Short Equity fund the manager looks to take advantage of mispricing opportunities across the full breadth of the share market. As a 'variable beta' fund at any point in the investment cycle the fund may be fully invested, market neutral or short the market depending on the market outlook. Watermark aims to add value through both security selection and the hedging of share market risks. It is the Board's intention to try and deliver to shareholders a consistent and growing stream of fully franked dividends over time.

### Investment Strategy

The primary goal of the investment process is the identification of mispriced securities. The manager looks to buy the shares of good companies on occasions when they are undervalued by the share market. ALF is different to other funds however, in also selling short the shares of businesses that are fundamentally challenged, where these shares can be sold for more than they are worth. Proceeds raised from selling these shares are an additional source of funds for the company's balance sheet. These funds can either be retained in cash as a hedge for the fund's assets, or re-invested in the shares that the manager prefers. By adjusting the relative size of the 'long' and 'short' portfolios and the degree of hedging in place, the manager can set the amount of market risk (beta) retained in the fund.

### Investment & Management Team

**Justin Braitling**  
Chief Investment Officer/Portfolio Manager

**Tom Richardson, CFA**  
Senior Investment Analyst

**Joshua Ross**  
Investment Analyst

**Omkar Joshi, CFA**  
Investment Analyst

**Delian Entchev**  
Investment Analyst

**Tim Bolger**  
COO & Head of Distribution

**Shannon Wells**  
Office Manager

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## Fund Attribution

In January, the Long Portfolio increased by 1.8%, underperforming the FTSE AFSA Index which increased by 3.2%. The portfolio of securities that ALF has borrowed and sold (short) increased by 3.3%, outperforming the FTSE AFSA Index, and detracting from performance. In aggregate, the total portfolio was down 1.1 % on a gross basis in January, underperforming the FTSE AFSA Index by 4.3%. At the end of January, ALF has 11% of net Shareholders Funds invested in equities with the balance retained in cash (89%).

	1 Month Return (%)			6 Month Return (%)			Financial YTD Return (%)		
	Portfolio <sup>1</sup>	Benchmark <sup>2</sup>	Attribution <sup>3</sup>	Portfolio <sup>1</sup>	Benchmark <sup>2</sup>	Attribution <sup>3</sup>	Portfolio <sup>1</sup>	Benchmark <sup>2</sup>	Attribution <sup>3</sup>
Long Portfolio	1.8%	3.2%	-1.4%	-6.0%	1.1%	-8.6%	-2.5%	5.7%	-9.7%
Short Portfolio	3.3%	3.2%	-0.1%	-1.8%	1.1%	3.0%	5.8%	5.7%	-0.4%
Cash			-2.8%			-1.8%			-5.2%
<b>Total</b>	<b>-1.1%</b>	<b>3.2%</b>	<b>-4.3%</b>	<b>-6.3%</b>	<b>1.1%</b>	<b>-7.4%</b>	<b>-9.6%</b>	<b>5.7%</b>	<b>-15.3%</b>

<sup>1</sup> The "Portfolio" column displays the return achieved in the period from the Investment Portfolio (long) and from the Borrowed Securities portfolio (short) separately. The Total Portfolio performance, representing the underlying return achieved on Shareholder's Funds is a weighted return of the long and short portfolios as well as cash. As such this column will not sum.

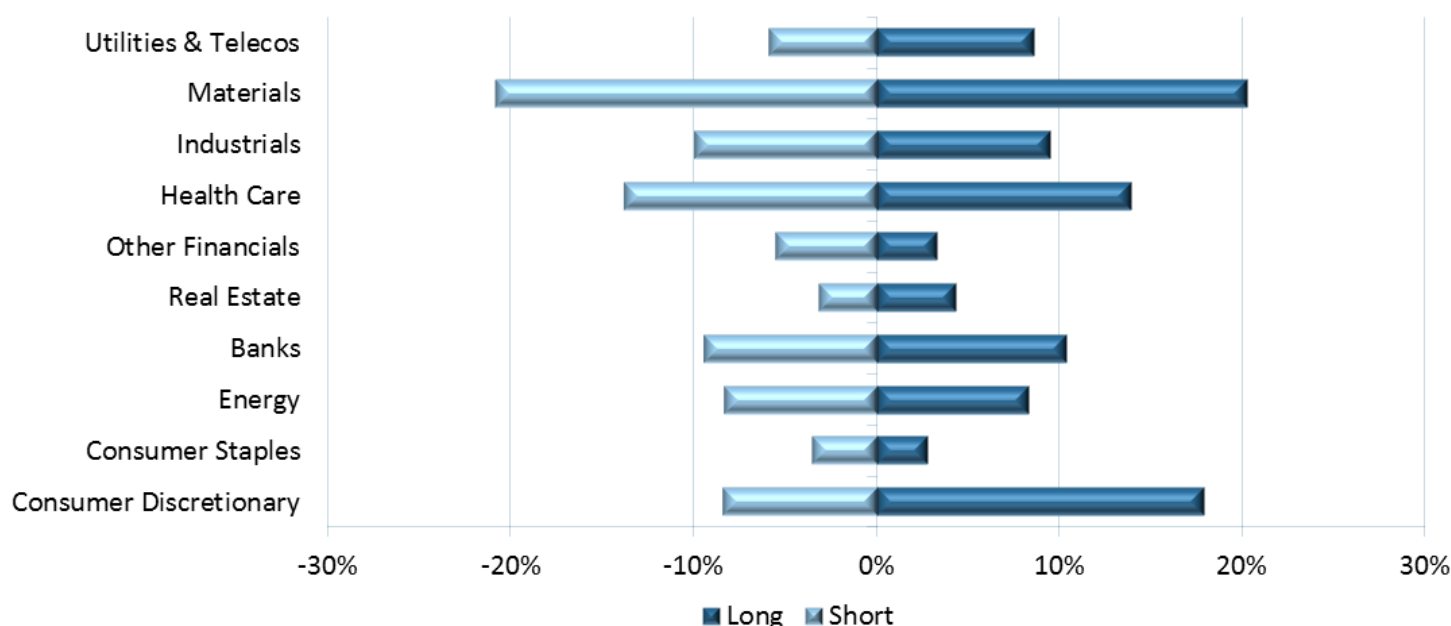
<sup>2</sup> For the purposes of reporting Long/Short attribution we use the FTSE ASFA index - which is a broader index to the All Ordinaries Accumulation with minor differences, the performance numbers reported in Table 2 use the All Ordinaries Accumulation Index series.

<sup>3</sup> Attribution shows the contribution to the outperformance of Shareholder's Funds in the period coming from the Investment Portfolio (long) and the portfolio of Borrowed Securities (short) as well as from the cash retained on the Balance Sheet. Each contribution sums to the overall outperformance of shareholders' funds.

## Gross Portfolio Structure

Investment Type	31 December 2014		31 January 2015	
	\$m	%	\$m	%
Listed Securities - Long	318	97%	322	100%
Listed Securities - Short	-298	-91%	-288	-89%
<b>Net Exposure</b>	<b>19</b>	<b>6%</b>	<b>34</b>	<b>11%</b>
Cash	307	94%	289	89%
<b>Capital</b>	<b>327</b>	<b>100%</b>	<b>323</b>	<b>100%</b>

## Sector Exposures

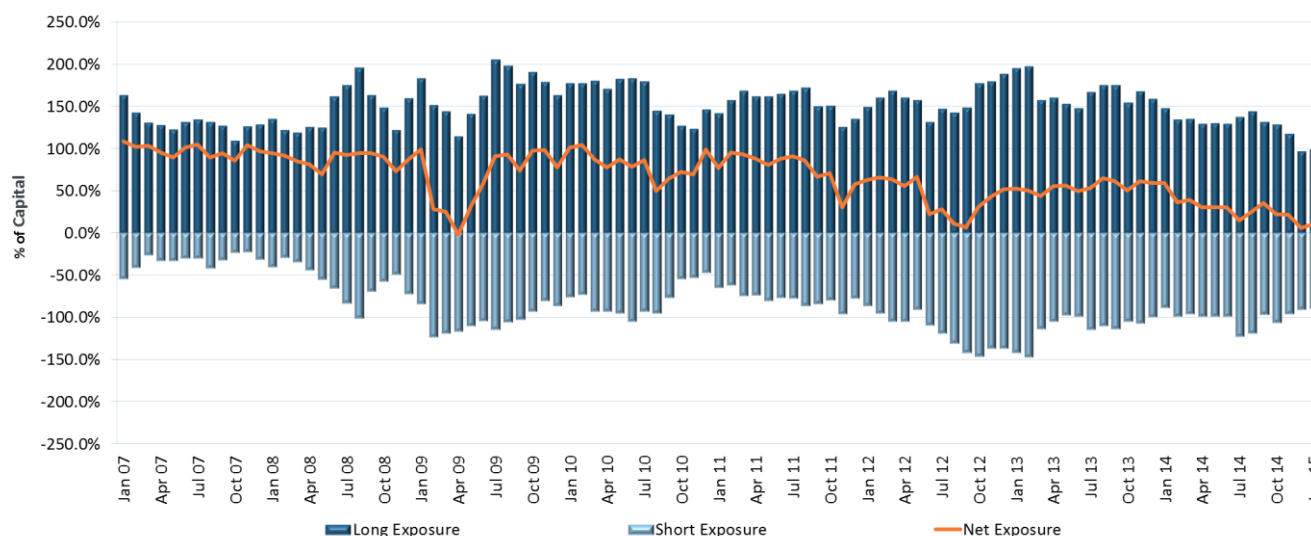


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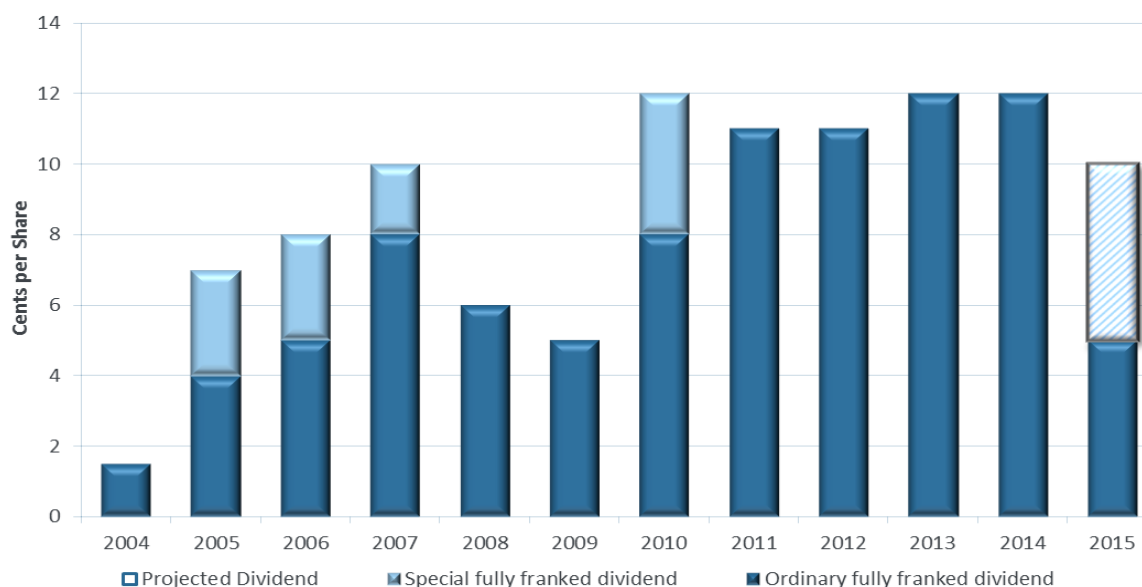


## Net Equity Exposure



## Dividend History

The Board is committed to paying an increasing stream of fully franked dividends to shareholders, provided the Company has sufficient profit reserves and franking credits and it is within prudent business practices. Dividends are paid on a six-monthly basis and the dividend reinvestment plan is available to shareholders for both the interim and final dividend.



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