

NTA and Monthly Update – May 2016

Company at a Glance

ASX Code	ALF
Fund Size	AU\$361.3m
Fund Strategy	Variable Beta
Share Price	\$1.42
Shares on Issue	269.9m
Dividend (HY16 Interim)	5 cents
Dividend Yield (annualised))	7.0%

Net Tangible Asset (NTA) Backing

	Apr 16	May 16
NTA Before Tax	\$1.30	\$1.32
NTA After Tax	\$1.30	\$1.32

Gross Portfolio Structure

Long Exposure	95.6%	111.6%
Short Exposure	-120.9%	-133.4%
Gross Exposure	216.5%	245.0%
Cash	125.3%	121.9%

Month in Review

The Australian share market continued to rally in May, buoyed by the RBA's cut in the cash rate. The consequent fall in the Australian dollar put a halt to recent momentum in the resources sector, which was the weakest performer in the month. Contrary to expectations, the share market rose on news that the US Fed intends to continue tightening rates now that it is more comfortable with the growth outlook.

ALF has been net short the share market since February, given our view that this relief rally will be short-lived, in the absence of some sustainable improvement in global growth or corporate earnings. The Fund underperformed the share market in May, rising by 1.9% as compared with the All Ordinaries Accumulation index which returned 3.1%. Highlights included the strong performance of investments in *Fairfax Media*, *Super Retail Group* and *Smartgroup Corp*. The Fund's short exposures in the transport sector also made a positive contribution.

The domestic economy continues to slow, which prompted the RBA to cut rates in an attempt to stave off looming deflationary pressures. Headwinds remain for retailers, with consumer confidence materially weaker since the announcement of the Federal election. We hold several short positions in the retail grocery sector, balanced by an investment in *Super Retail Group*. The Fund's net short exposure in building materials weighed on performance in May.

Defensive sectors were the strongest performers in the month, with healthcare names leading the way. Notwithstanding the Fund's net short exposure to the domestic healthcare sector, performance was positive due to a strong contribution from offshore investments in *Merck & Co* and *Medtronic* along with our investment in *Ramsay Healthcare*. Infrastructure and utility shares rallied strongly, buoyed by investors' renewed appetite for yield. A successful investment in *Group Eurotunnel* was closed out late in the month, with uncertainty around the potential for 'Brexit' likely to weigh on the stock.

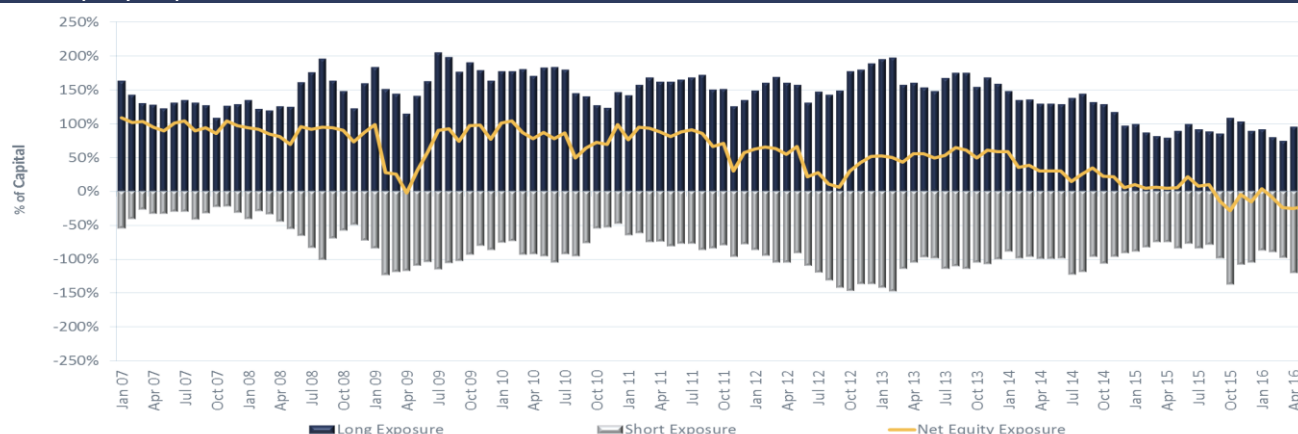
Bank shares led the market higher, although first half profit results announced through the month were mixed and suggest that the underlying trends impacting banks' profits are subdued. Our analysis of banks here and abroad indicates that the Australian banks and their Canadian peers are expensive on a range of measures. On that basis and in view of the subdued trends reflected in the first half results, we retain our net short exposure to both the Australian and Canadian banks. Investments in *QBE Insurance Group* and *American International Group* were solid performers in May although the net long exposure in this sector has been reduced.

Commodity prices came under pressure during the month given rising expectations of a US rate hike. Steel prices in particular suffered heavy falls, which led in turn to a fall in the iron ore price. The Oil price on the other hand was stronger, with production now at lows not seen for two decades. We have initiated an investment in *Royal Dutch Shell*, with an expectation that the recent merger with *BG Group* will yield opportunities for portfolio optimisation. The Fund's investment in Lithium producer *Orocobre* continues to perform well, as demand for the commodity surges with the uptake of electric vehicles.

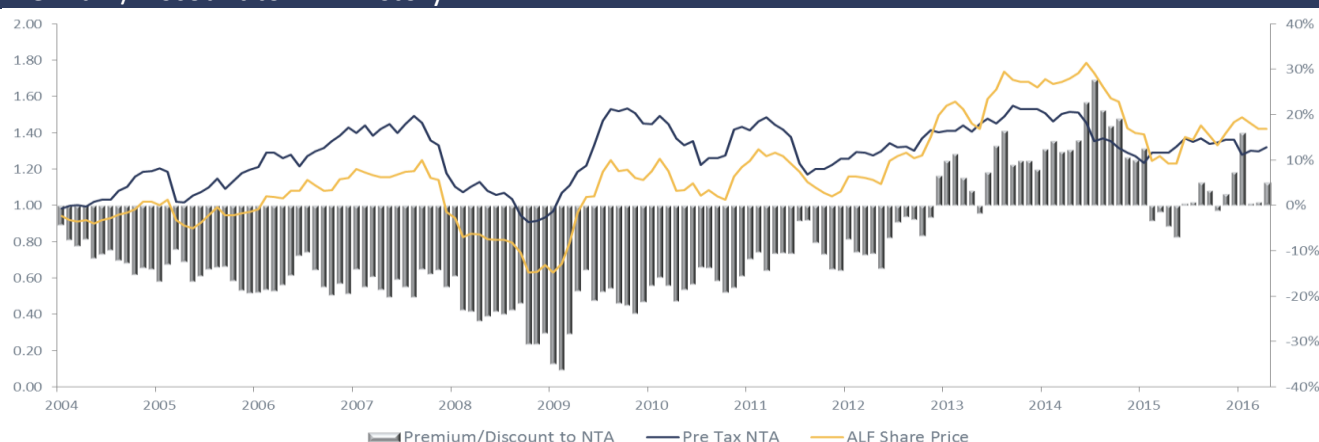
ALF Performance

	1 Mth	6 Mths	1 Yr	3 Yrs (pa)	5 Yrs (pa)	7 yrs (pa)	S.I. (pa)
Portfolio Return (net)	1.9%	2.8%	13.6%	9.7%	10.7%	15.0%	13.9%
All Ords Accum Index	3.1%	6.7%	-1.2%	8.1%	7.3%	9.9%	8.7%
Outperformance (net)	-1.2%	-3.9%	14.8%	1.6%	3.4%	5.2%	5.2%

Net Equity Exposure

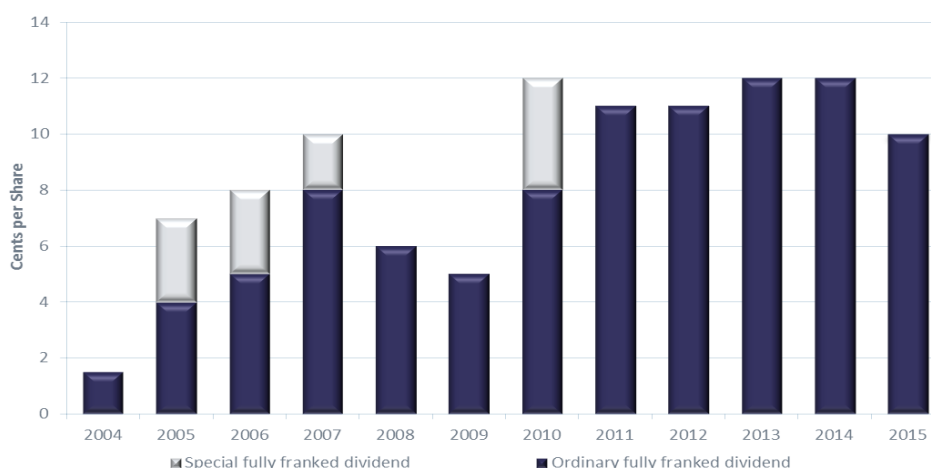


Premium/Discount to NTA History



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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