

## NTA and Monthly Update – August 2016

Company at a Glance		Net Tangible Asset (NTA) Backing		
ASX Code	ALF		July 16	Aug 16
Fund Size	AU\$351.2m	<b>NTA Before Tax</b>	<b>\$1.32</b>	<b>\$1.31</b>
Fund Strategy	Variable Beta	NTA After Tax	\$1.33	\$1.33
Share Price	\$1.53	Dividend Declared	(\$0.00)	(\$0.05)
Shares on Issue	269.9m	NTA After Tax & Dividend	\$1.33	\$1.28
Dividend (HY16 Interim)	5 cents	Gross Portfolio Structure		
Dividend Yield (annualised))	6.5%	Long Exposure	110.4%	114.8%
		Short Exposure	-129.6%	-124.4%
		Gross Exposure	240.0%	239.2%
		Cash	119.2%	109.6%

### Month in Review

August was a disappointing month for the Fund, with strong performance from the international portfolio and solid profit results for some core positions offset by a handful of single-stock losses. The portfolio value fell by 0.6% after all fees, as compared with the All Ordinaries Accumulation Index, which fell by 1.3%.

The Australian earnings reporting season produced a mixed bag of results, reflecting an overall theme of weak growth across most sectors. The residential property sector remains one of the few pockets of growth for the domestic economy, with companies exposed to this thematic producing solid profit results. Mining and energy companies also bucked the trend, buoyed by continued strength in the price of oil and bulk commodities. Persistent deflationary trends in the domestic economy saw the RBA make a further cut to the cash rate in August, while central banks in Europe and the USA continue to unnerve markets as they grapple with plans for continued stimulatory initiatives.

Amongst defensive sectors, healthcare shares made a strong contribution to returns in the month, with a number of short positions performing strongly. On balance, profit results in this sector were disappointing, with one-off income items and accounting irregularities often masking subdued operating conditions and weak underlying trends. A stand-out performer was the Fund's short position in *Novo-Nordisk* which downgraded its profit forecast in the face of increased pricing pressures for its flagship insulin product. In the gaming sector, we have switched a core investment in *Tabcorp* into *Tatts Group* reflecting the value of its dominant lottery business in this low growth environment.

Cyclical shares continue to struggle in the lethargic domestic economy, with trends in retail sales and household income growth weighing on corporate profits. A surprise earnings downgrade for *APN Outdoor* saw the company's shares fall 35%, materially detracting from returns in the month. We retain a positive view on the trends for outdoor advertisers and have used the recent weakness to add to our position. Notwithstanding the weak retail sales data, consumer confidence remains strong. Coupled with the strength in the residential property sector, retailers such as JB Hi Fi and Harvey Norman continue to perform well. The Fund is participating in this theme through an investment in Super Retail Group, although we remain circumspect on the prospects for retailers in the medium term.

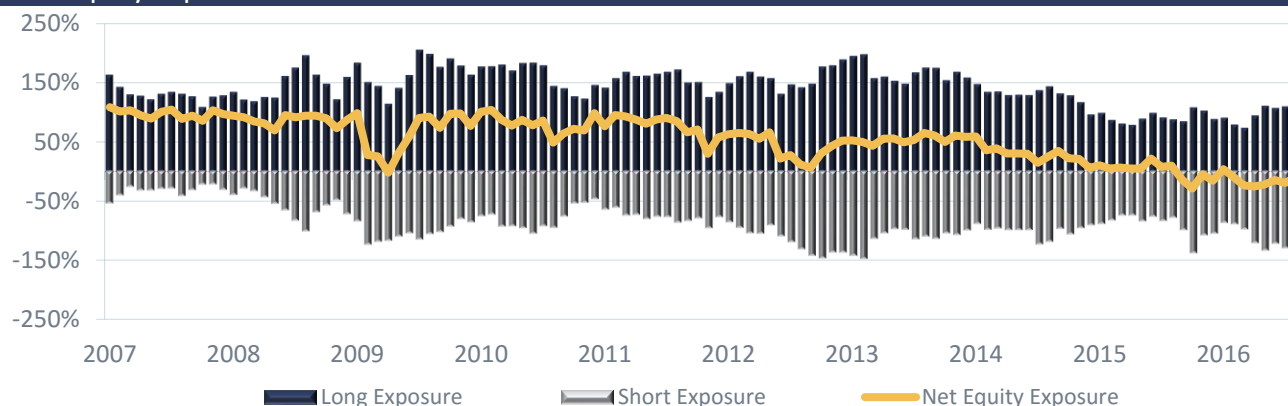
Financial shares were another strong contributor, particularly from within the diversified financial and insurance sectors. In the international portfolio, an investment in the Dutch financial services company *ING Groep* was a standout performer while closer to home, an investment in *Flexigroup* performed well on a strong profit result. In the insurance sector, it was another international investment in *American International Group* which provided the strongest return, while a timely exit from an investment in *QBE Insurance Group* avoided a loss, which disappointed with its FY16 result.

There was significant variability within the commodities complex in August, with oil and bulk commodities performing well while the prices of copper and gold suffered falls. The fund has retained a largely balanced exposure to mining and energy shares in recent months, however a modest short exposure to iron ore producers weighed on performance given the recent strength in the sector. Uncertainty from investors around the acquisition of an interest in a new gold mine, saw shares in *Evolution Mining* underperform the broader sector, which also detracted from returns in the month.

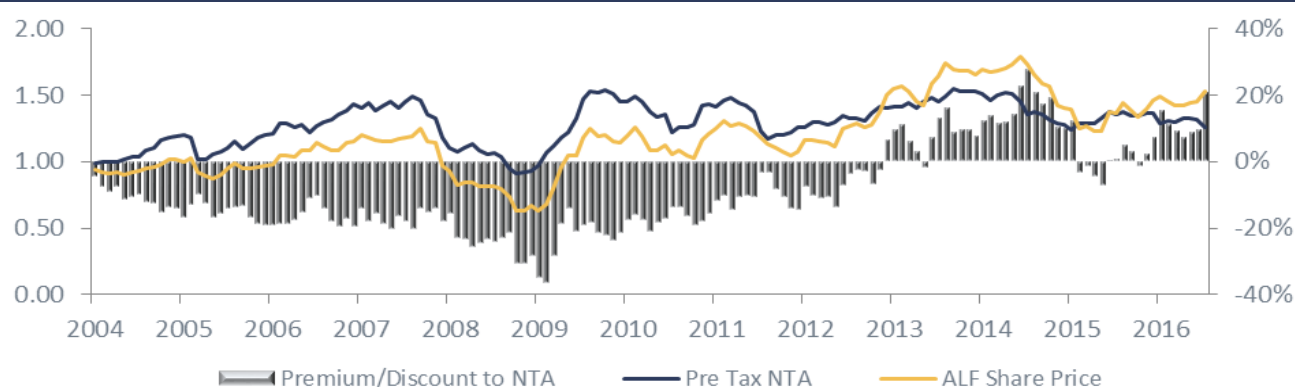
## ALF Performance

	1 Mth	6 Mths	1 Yr	3 Yrs (pa)	5 Yrs (pa)	7 yrs (pa)	S.I. (pa)
Portfolio Return (net)	-0.6%	3.0%	3.1%	6.4%	13.6%	10.7%	13.6%
All Ords Accum Index	-1.3%	14.2%	10.7%	7.1%	9.5%	7.5%	8.7%
<b>Outperformance (net)</b>	<b>0.8%</b>	<b>-11.2%</b>	<b>-7.6%</b>	<b>-0.7%</b>	<b>4.1%</b>	<b>3.2%</b>	<b>4.9%</b>

## Net Equity Exposure

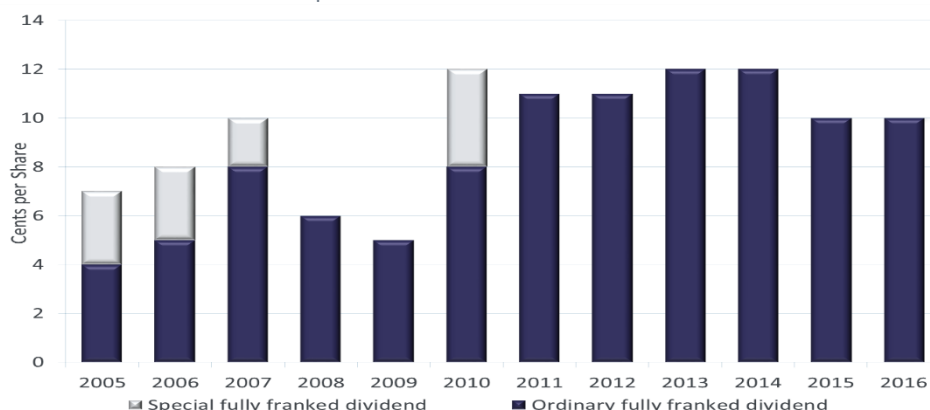


## Premium/Discount to NTA History



## 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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