



## NTA and Monthly Update – January 2017

### Company at a Glance

ASX Code	ALF
Fund Size	AU\$348.2m
Fund Strategy	Variable Beta
Share Price	\$1.43
Shares on Issue	271.3m
Dividend (HY16 Interim)	5 cents
Dividend Yield (annualised)	7.0%

### Net Tangible Asset (NTA) Backing

	Dec 16	Jan 17
<b>NTA Before Tax</b>	<b>\$1.29</b>	<b>\$1.29</b>
NTA After Tax	\$1.30	\$1.29

### Gross Portfolio Structure

Long Exposure	111.5%	112.3%
Short Exposure	-114.5%	-114.9%
Gross Exposure	226.0%	227.2%
Cash	103.0%	102.6%

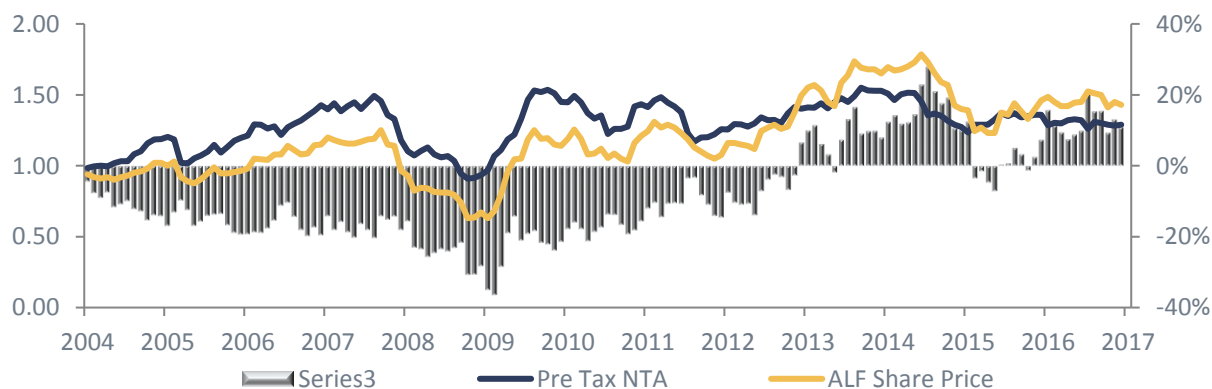
### ALF Performance

	1 Mth	6 Mths	1 Yr	3 Yrs (pa)	5 Yrs (pa)	7 yrs (pa)	S.I. (pa)
Portfolio Return (net)	-0.7%	0.9%	2.4%	4.9%	13.6%	10.4%	13.3%
All Ords Accum Index	-0.8%	2.6%	17.1%	7.5%	10.3%	7.6%	8.8%
<b>Outperformance (net)</b>	<b>0.1%</b>	<b>-1.7%</b>	<b>-14.7%</b>	<b>-2.6%</b>	<b>3.3%</b>	<b>2.8%</b>	<b>4.5%</b>

### Net Equity Exposure



### Premium/Discount to NTA History



## Month in Review

With bond markets largely benign in January, it was geopolitical events that played the leading role in driving global share markets. In the US, pre-Christmas gains were extended, led by cyclical industrials and financial shares. This momentum was tempered somewhat late in the month as investors struggled to interpret the implications of the increasingly erratic policy platform of the new Trump administration. European markets were weaker, with the prospect of further disruption to the fragile European Union looming large, as elections in France and the Netherlands draw near. Continued strength for commodity prices and a weakened US dollar also provided tailwinds for commodity producing economies.

The portfolio performed in line with the benchmark All Ordinaries Accumulation Index during January, falling by 0.7% net of fees. Given its net short exposure to the falling share market, fund performance came primarily from the short portfolio. Short positions in discretionary retail and healthcare worked well, while the mining sector continued to pose challenges and was the weakest performer. The international portfolio currently represents 43% of the Company's overall exposure and made a solid contribution in January.

The rotation away from defensive shares continued in January and we have monitored this trend closely for examples of good companies that have been oversold. *CSL Ltd* was one such example with detailed valuation work suggesting that company represented good value below \$100 per share. This investment was a strong performer in the month. In other parts of the healthcare portfolio, our strategy has been to back the best science we can find while short-selling the shares of companies with weak product differentiation and which are subject to increased pricing pressures. Investments in *Seattle Genetics Inc* and *Juno Therapeutics* have both provided solid gains. These companies are leading the way in the development of new cancer treatments, using innovative biomechanical and biopharmaceutical products.

The telecommunications sector is another dynamic part of the share market, with rapid developments in technology and data consumption putting pressure on ageing business models and infrastructure. The Fund holds investments in companies that are exposed to rapidly growing telecom markets in China, benefitting from exponential growth in data consumption as mobile users transition to 4G networks. These are balanced by short positions in telecom operators located in more mature markets such as the US, where we have a short in *Verizon Communications*. The company has struggled in recent months, announcing weaker than expected profits and disappointing growth in subscriber numbers resulting from ever increasing competitive pressures. As with *AT&T*, *Verizon* is seeking to make a transformative acquisition of *Yahoo Inc's* core assets; a transaction which is looking increasingly uncertain given *Yahoo's* recent issues with data breaches.

Weaker trends within retailing (both domestically and abroad) are providing a rich vein of investment ideas. We have held a negative view on the outlook for domestic retailers for some time, and core short positions in this sector continue to add value. A short in US retailer *Target Corp* worked particularly well, with the company posting weak results from the Christmas shopping period, a trend reflected across much of the sector.

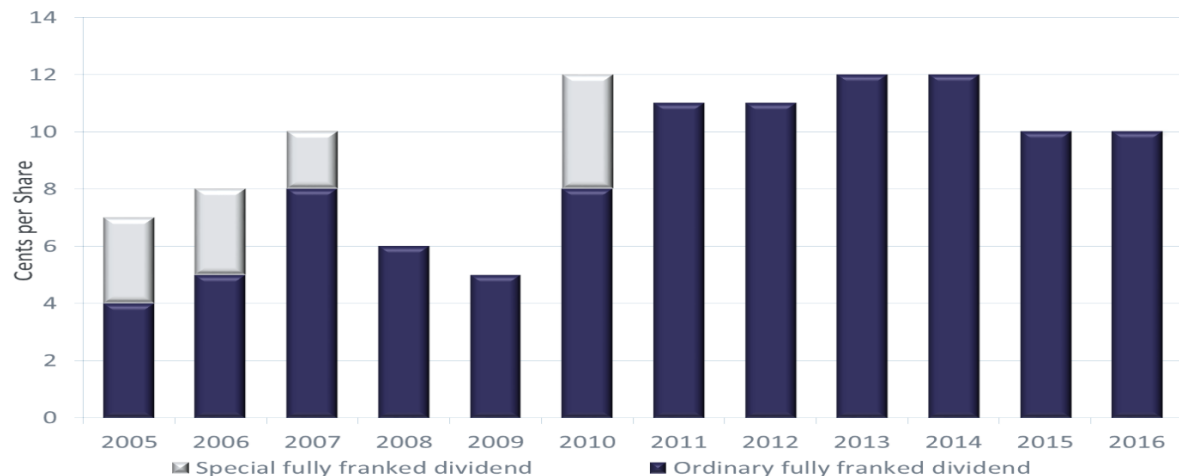
Performance in banking and diversified financials was softer in January, after strong gains in the final quarter of 2016. There was little news through the month in terms of the fundamental backdrop, with the yield curve unchanged and modest credit growth. We retain our circumspect view on the outlook for share markets and believe that there is limited prospect, particularly for Australian and Canadian banks, to grow earnings in the medium-term. The Fund is net short as a result.

Basic industries continued to drive strength across global share markets. The prices of most industrial and precious metals were stronger again in January while bulk commodities posted fresh gains. Our preference has been to retain a balanced exposure in this part of the portfolio, which has been a drag on performance relative to the broader mining sector. With the price of iron ore now at the highest level since late 2014 and well above long-term forecasts, we expect our short position (which has been costly in recent months) will bear fruit in the medium-term. An investment in *Hess Corp* gave back recent gains, with the company guiding to weaker production growth in 2017 than was expected.



## 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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