

NTA and Monthly Update – May 2019

Company at a Glance

ASX Code	ALF
Fund Size	AU\$256.8
Fund Strategy	Variable Beta
Share Price	\$0.91
Shares on Issue	242.5m
Net Exposure	3.5%

Net Tangible Asset (NTA) Backing

	Apr 19	May 19
NTA Before Tax	\$1.13	\$1.14
NTA After Tax	\$1.14	\$1.14

Gross Portfolio Structure

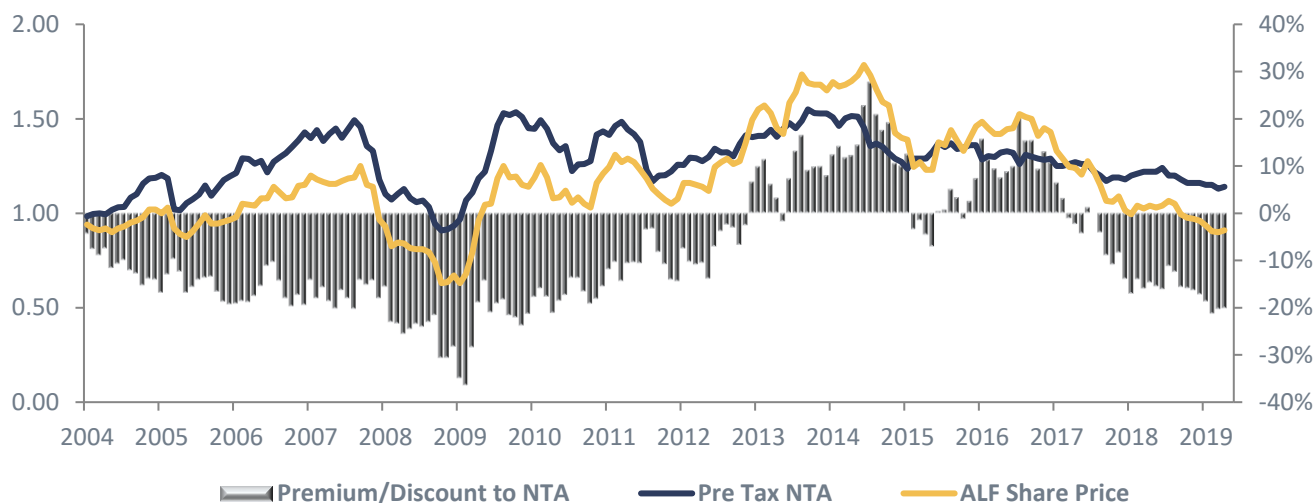
Long Exposure	75.4%	74.5%
Short Exposure	-79.3%	-71.0%
Gross Exposure	154.7%	145.5%
Cash	104.0%	96.5%

	1 Mth	3 Mths	1 Yr	3 Yrs (pa)	5 Yrs (pa)	7 Yrs (pa)	S.I. (pa)
Portfolio Return (net)	-0.8%	-4.1%	-8.3%	-2.4%	-0.2%	7.1%	10.5%
All Ords Accum Index	1.7%	5.0%	10.5%	10.5%	8.0%	11.3%	9.1%
Outperformance (net)	-2.5%	-9.1%	-18.8%	-12.9%	-8.2%	-4.2%	1.4%

Net Equity Exposure



Premium/Discount to NTA History



Month in Review

After a weak start to the month, the Australian share market rallied strongly in the second half of May, following the surprise re-election of the Coalition Government. Banks, construction companies and private health insurers all rebounded as the threat of Labor's more onerous policy agenda was removed. In contrast, global share markets were lower across the board, as trade tensions escalated and the outlook for economic growth remains weak.

The value of the portfolio fell by 0.85% after all fees in May, as compared to the benchmark All Ordinaries Accumulation Index, which rose for the fifth straight month by 1.67%. There were a number of positive signs for the Fund, with solid gains in the Consumer and TMT portfolios underpinned by strong performance from new investments in a selection of mid and small cap companies. Unfortunately, a number of surprise earnings downgrades detracted from performance, while the relief rally for banks real estate companies led to losses in the Financials portfolio.

The TMT book had a solid month, with a high hit-rate of winners. Detailed fundamental analysis leading up to earnings announcements in May paid dividends, and we were reassured to see that despite very expensive valuations for tech names, these shares still respond to beats and misses. An investment in Telstra continues to perform well driven by investors' appetite for defensive exposures and high dividend yields. SEEK has been another successful investment, and the market is now starting to appreciate the opportunity for the company to unlock value by leveraging pricing, in much the same way as REA has done in real estate.

In Healthcare, short exposures detracted from returns as shares across the sector rallied on the election result. Investments in CSL and Sonic continued to grind higher driven by strength in end markets for immune globulin and a search for defensives, respectively.

Financials detracted from returns, given the Fund's modest net short exposure to banks and real estate companies. Along with the election result, the sector was buoyed by APRA's loosening of lending standards and the expectation of an interest rate cut. We believe optimism around the housing sector will continue, even if data points over the next few months suggest otherwise. Accordingly, we have adopted a neutral approach to housing-related exposures as we discern whether election sentiment is enough to drive a sustained rebound in the housing market.

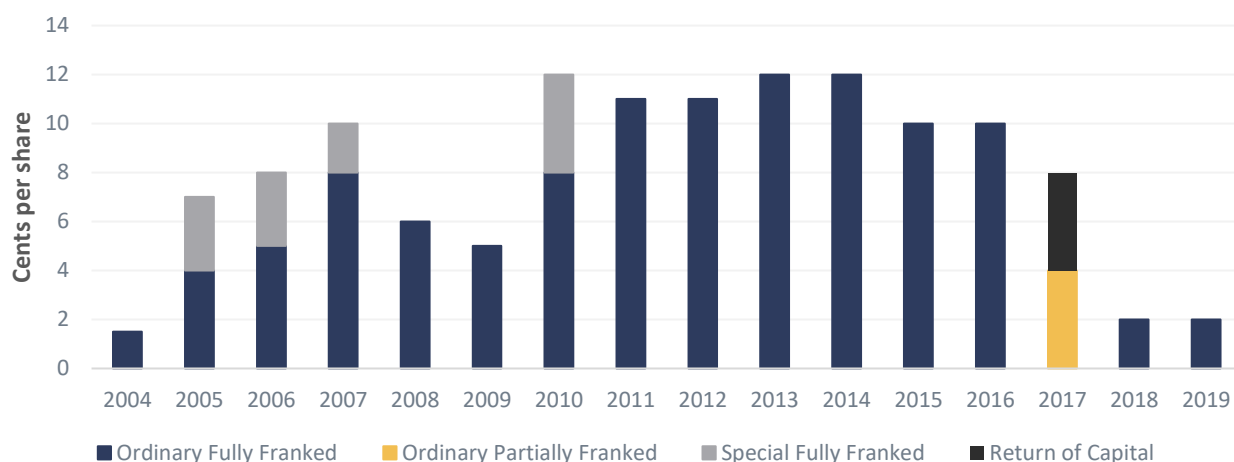
An investment in fintech company EML Payments was a strong performer in May. EML announced an acquisition of the number 2 player in mall gift cards (EML is no.1) along with additional contracts with salary packaging company Smart Group. We continue to see value in the name as a multiyear growth story unfolds. Conversely, Link Administration Holdings disappointed, announcing a profit warning on the last day of the month. We continue to see value in the company; however we understand investor caution in the absence of positive near-term catalysts.

In commodities, base metals were weak on lower demand expectations and poor PMI data. The gold price lifted towards the end of the month as investors sought safety, with the Australian names outperforming their global peers. We added Northern Star Resources and Newcrest Mining to the portfolio as key gold positions. Iron ore continued to rally on strong steel production out of China and limited supply from Brazil, however, steel producers are facing margin compression in China, Europe and the US. We anticipate this strength to continue into the latter half of the year until additional supplies come into the market. We were positioned conservatively in the energy sector due to the risk of oversupply, and this was confirmed throughout the month, with oil stockpiles building in the US and weak thermal coal pricing. We continue to be bearish on thermal coal due to a structural supply shift in China, low gas pricing and reduced burn rates at Chinese power generators.

The Consumer portfolio contributed positively to portfolio returns in May with short positions in agriculture and automotive parts were most notable. The Fund remains positioned for a more robust consumer outlook; however, we view recent rhetoric of a potential housing recovery as a red herring. With significant vested interest in a housing recovery, it is important to maintain a healthy scepticism when assessing anecdotes and 'adjusted' data points.

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. 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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