

NTA and Monthly Update – June 2019

Company at a Glance

| | |
|-----------------|---------------|
| ASX Code | ALF |
| Fund Size | AU\$257.8 |
| Fund Strategy | Variable Beta |
| Share Price | \$0.91 |
| Shares on Issue | 241.7m |
| Net Exposure | 1.3% |

Net Tangible Asset (NTA) Backing

| | May 19 | June 19 |
|----------------|--------|---------|
| NTA Before Tax | \$1.14 | \$1.15 |
| NTA After Tax | \$1.14 | \$1.14 |

Gross Portfolio Structure

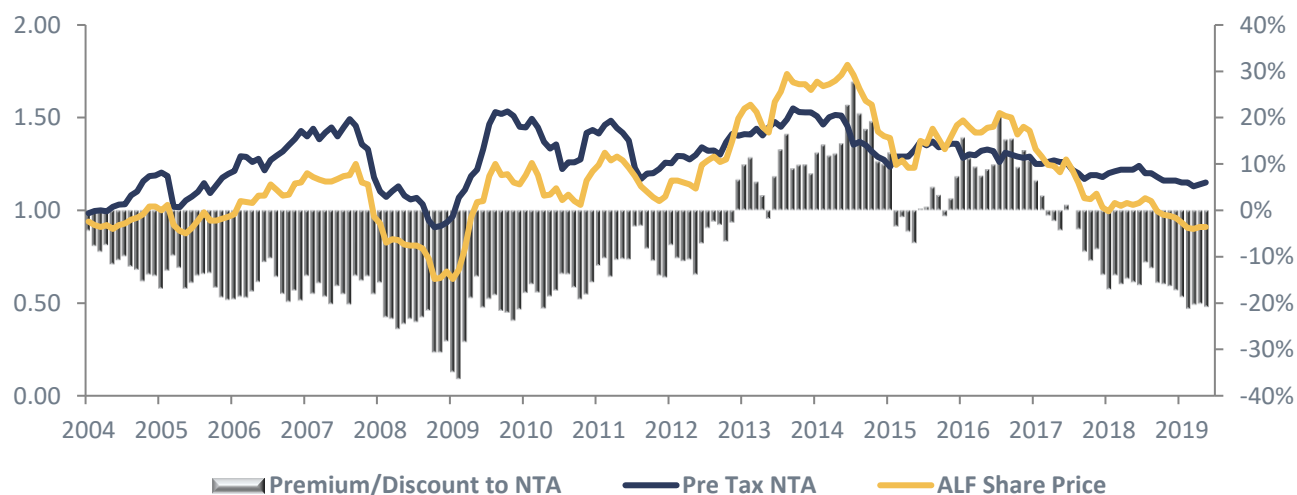
| | | |
|----------------|--------|--------|
| Long Exposure | 74.5% | 70.2% |
| Short Exposure | -71.0% | -68.9% |
| Gross Exposure | 145.5% | 139.1% |
| Cash | 96.5% | 98.7% |

| | 1 Mth | 3 Mths | 1 Yr | 3 Yrs (pa) | 5 Yrs (pa) | 7 Yrs (pa) | S.I. (pa) |
|-----------------------------|--------------|---------------|---------------|---------------|--------------|--------------|-------------|
| Portfolio Return (net) | 0.7% | -2.5% | -7.2% | -2.5% | -0.1% | 7.1% | 10.5% |
| All Ords Accum Index | 3.4% | 7.8% | 11.0% | 12.6% | 9.0% | 11.8% | 9.3% |
| Outperformance (net) | -2.7% | -10.3% | -18.2% | -15.1% | -9.1% | -4.7% | 1.2% |

Net Equity Exposure



Premium/Discount to NTA History



Month in Review

Global share markets rallied in June, buoyed by expectations that the US Federal Reserve would cut rates in the face of fading economic growth. Hopes that trade tensions would abate also helped investors' confidence, with Presidents Trump and Xi negotiating a temporary ceasefire at the G-20 summit in Japan. The local sharemarket underperformed global peers but staged a strong finish to the 2019 financial year, delivering an 11% return for the 12 months to June 30, 2019.

The Fund rose by 0.7% in June after all fees, as compared to the benchmark All Ords Accum index which rose by 3.4%. While performance relative to the surging share market has been poor, we maintain the conservative, market neutral portfolio settings, given the risks that we see for this expensive share market. The strongest contributions to returns came from investments in defensive parts of the market such as telecommunications and utilities, while the Fund's gold exposures also did well. Shorts in the high-flying technology sector were the biggest detractors in the month.

Investments in agriculture and gaming were notable contributors in the Consumer portfolio. We expect the difficult outlook for Australian consumers will continue and have positioned the portfolio around exposures that should perform irrespective of these headwinds. The Australian agriculture cycle appears to be near its lows, presenting opportunities to build investments in companies whose shares seem to be priced for drought into perpetuity. Importantly, the Bureau of Meteorology (BOM) removed its El Nino warning in June. In our experience, the BOM is conservative, informing its publicly stated views in order to avoid 'flip-flops' in its forecasting. As a result, it typically waits for strong signals before adjusting its outlook, making this recent announcement an important signpost for the agricultural sector.

The TMT portfolio was a modest detractor from returns, driven by short positions in high flying growth companies which continued to re-rate higher. An investment in Telstra generated solid returns, on increased certainty as to the normalised path of earnings post the rollout of the NBN and a lower degree of competitive intensity in mobile markets. An investment in News Corp also benefited from an announcement of its strategic review of News America Marketing (NAM). This triggered a 12% jump in the share price, on expectations of more portfolio movements that might help reduce the discount on the holding company.

In healthcare, our investment in CSL performed well, reflecting healthy immunoglobulin (IG) end-market demand and in spite of a well-flagged air pocket in albumin revenue recognition in FY20, driven by the company's transition to its own distribution model in China.

Investments in insurance companies Steadfast and IAG were the best performers in the Financials portfolio. With investors gravitating strongly to growth and yield exposures, both these stocks have outperformed. We have since trimmed back our position in IAG, finding it difficult to justify the current valuation. An investment in fintech company EML payments also did well, with the share price making a new high in the month. We see a multi-year growth story for EML, which benefits from 3 major themes: bespoke services in Australia; rationalisation of card programs in Europe and the US; and the legalisation of online gaming in the US.

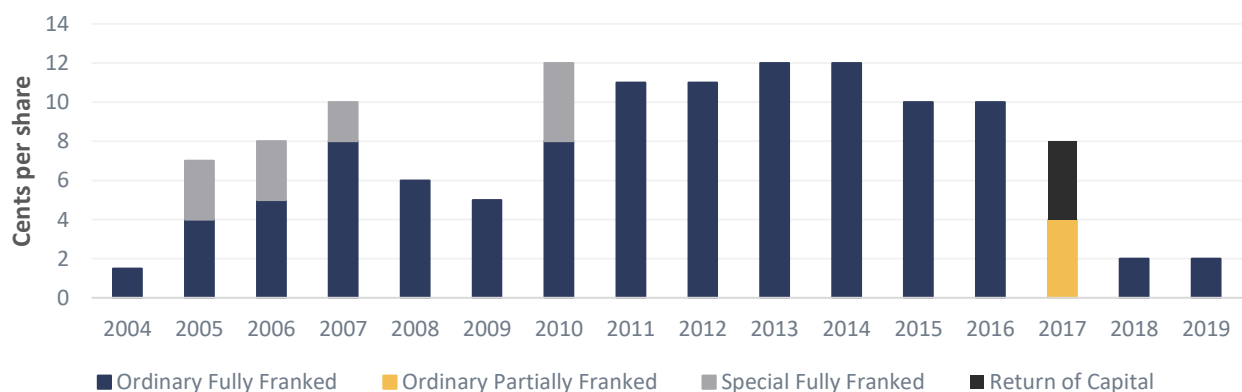
We visited China in June, to get a gauge on the impact of trade tensions and for a local Chinese perspective on the current iron ore market. Growth is slowing and overall, the mood was cautious on expectations for the second half of 2019, across the metals complex. Our contacts were confident that trade tensions could be withstood, and they are bracing for this to continue on a longer-term basis. Iron ore continues to be a strong theme and tighter supply drove the reference price over US\$100/t in the month. The next quarter should test pricing, as the construction industry enters a slower period and iron ore shipments from Brazil begin to arrive. Thermal coal continues to be sold off with prices falling from US\$80/t to US\$70/t on an oversupplied Chinese market, building inventories and poor demand. We are net short coal miners and expect further price pressure.

Gold was the story of the month, breaking through resistance levels following the US Fed positioning for a rate cut cycle. Investments in Northern Star and Newcrest Mining performed well, although, with a partially hedged exposure to the gold sector, short positions offset some of these gains. We remain net long in the gold sector, given risks to the global economy and investors' appetite for safety in a low rate environment. We initiated investments in Oz Minerals and Sandfire Resources in the month, with the shares of both companies offering value, despite favourable supply conditions and strengthening commodity prices.

| Monthly Net Performance (%) | | | | | | | | | | | | | |
|-----------------------------|-------|------|------|------|------|------|------|------|------|-------|------|------|-------|
| Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | CYTD |
| 2004 | | 0.4 | 1.4 | 0.2 | 0.0 | 2.3 | 1.1 | -0.3 | 4.6 | 2.8 | 4.4 | 2.4 | 20.8 |
| 2005 | 0.3 | 1.3 | -0.9 | -6.1 | -0.4 | 4.8 | 2.0 | 2.7 | 4.8 | -3.0 | 3.9 | 3.7 | 13.2 |
| 2006 | 1.5 | 2.0 | 6.4 | 2.9 | -2.1 | 1.4 | -3.2 | 4.3 | 1.7 | 7.2 | 2.8 | 2.5 | 30.6 |
| 2007 | 3.1 | -1.6 | 3.5 | 1.1 | 2.7 | 2.0 | -1.0 | 3.4 | 3.3 | 1.0 | -0.3 | -1.9 | 16.3 |
| 2008 | -11.5 | -8.4 | 1.4 | 4.4 | 1.5 | -7.2 | -1.3 | 5.1 | -5.4 | -16.3 | -6.6 | 3.0 | -36.1 |
| 2009 | 2.2 | 2.9 | 16.0 | 6.7 | 7.9 | 7.0 | 9.2 | 12.4 | 6.5 | -0.7 | 0.8 | 0.1 | 96.9 |
| 2010 | -3.5 | 2.2 | 4.2 | -2.1 | -7.1 | -2.3 | 2.8 | -3.9 | 2.3 | 0.0 | 2.7 | 12.0 | 6.4 |
| 2011 | 2.0 | 1.9 | 3.6 | 1.7 | -1.8 | -1.8 | -4.1 | -6.8 | -8.4 | 6.5 | -1.5 | 0.9 | -8.6 |
| 2012 | 4.9 | 4.7 | 3.3 | 1.2 | -2.4 | 0.7 | 3.7 | 3.6 | 0.3 | -1.3 | 6.5 | 3.4 | 32.3 |
| 2013 | 3.4 | 1.6 | 3.0 | 2.7 | 0.5 | 2.2 | 3.8 | 3.5 | 2.8 | 4.0 | -0.6 | 0.0 | 30.2 |
| 2014 | -0.2 | 4.0 | -1.4 | 2.6 | 1.2 | 0.3 | -3.6 | -2.4 | 1.4 | -1.3 | -2.5 | -1.1 | -3.2 |
| 2015 | -1.2 | 1.0 | 3.0 | 0.8 | -0.5 | 3.1 | 3.8 | 3.0 | 1.5 | -1.6 | 0.4 | 2.0 | 16.2 |
| 2016 | 0.0 | -2.1 | 1.4 | -0.4 | 1.9 | 1.0 | -0.3 | -0.6 | 3.9 | -0.5 | -0.9 | -0.2 | 3.1 |
| 2017 | -0.7 | -0.1 | 0.1 | 1.2 | 0.7 | -0.5 | 0.3 | -1.8 | -0.4 | -3.1 | 1.3 | 0.1 | -3.0 |
| 2018 | -0.6 | 0.7 | 0.9 | 0.9 | 0.0 | -0.6 | 2.6 | -1.6 | 0.2 | -2.0 | -2.9 | -1.4 | -3.7 |
| 2019 | 0.5 | 0.7 | -1.0 | -2.3 | -0.8 | 0.7 | | | | | | | -2.2 |

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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