

## NTA and Monthly Update – September 2019

### Company at a Glance

ASX Code	ALF
Fund Size	AU\$265.0
Fund Strategy	Variable Beta
Share Price	\$0.97
Shares on Issue	240.2m
Net Exposure	-7.5%

### Net Tangible Asset (NTA) Backing

	Aug 19	Sep 19
NTA Before Tax	\$1.18	\$1.18
NTA After Tax	\$1.17	\$1.17*

### Gross Portfolio Structure

Long Exposure	68.0%	83.6%
Short Exposure	-74.8%	-91.2%
Gross Exposure	142.9%	174.8%
Cash	106.8%	107.5%

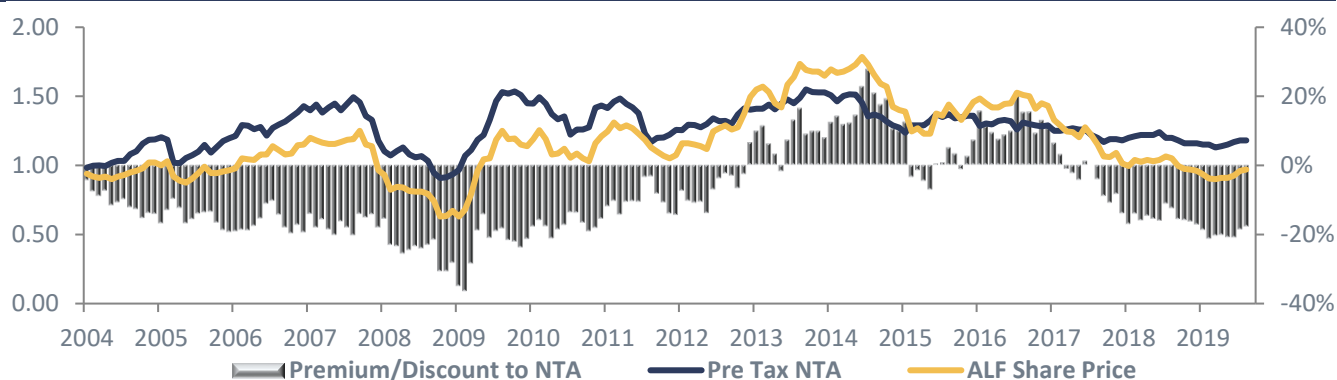
\*The After-Tax NTA includes a \$0.06 per share deferred tax asset and is net of deferred tax liabilities accrued in the current financial year. The Board has also declared a \$0.025 per share dividend to be paid on 29 November, 2019

	1 Mth	3 Mths	1 Yr	3 Yrs (pa)	5 Yrs (pa)	7 Yrs (pa)	S.I. (pa)
Portfolio Return (net)	0.1%	3.1%	-5.3%	-2.5%	1.5%	6.5%	10.5%
All Ords Accum Index	2.1%	2.8%	12.1%	11.7%	9.7%	11.0%	9.3%
<b>Outperformance (net)</b>	<b>-2.0%</b>	<b>0.3%</b>	<b>-17.4%</b>	<b>-14.2%</b>	<b>-8.2%</b>	<b>-4.5%</b>	<b>1.2%</b>

### Net Equity Exposure



### Premium/Discount to NTA History



## Month in Review

September was a solid month for global equity markets, which were buoyed by coordinated stimulus from central banks in Europe and the US. In a departure from recent trends, there was a sharp rotation from defensive exposures, back to more cyclical, 'value' names. This trend was reflected in the local share market, where cyclical sectors such as banking and consumer discretionary outperformed at the expense of defensive sectors such as healthcare and telecommunications. Absent any marked improvement in economic conditions and with geopolitical tensions continuing to simmer, it remains to be seen whether these recent trends can be sustained, or whether we will see markets capitulate as they did in the last quarter of 2018.

Given its defensive positioning, the Fund underperformed its benchmark in the month, delivering an 0.1% return after all fees as compared to the All Ordinaries Accumulation Index which rose by 2.1%. We have maintained a small net short exposure in recent months, with the portfolio tilted towards long exposures in defensive parts of the market and short the more economically sensitive cyclical sectors. While this did not work in September, losses were mostly contained and offset by strong performance in sectors such as Information Technology.

Commodity markets bifurcated in September, with iron ore rallying while most other base and precious metals markets tracked sideways or fell. Strength in iron ore was driven by restocking at Chinese mills prior to a national holiday in early October. The price of gold faded through the month despite poor global economic data and gold equities gave up some of the gains made throughout August. Oil markets were rocked by a drone attack on a Saudi Arabian facility; however, markets shook off the risk of supply interruption, selling off a temporary spike in prices. Santos and Independence Group were key contributors in the month.

The consumer sector was a strong contributor to performance. This was driven by three investments in small-cap companies: BWX Limited, Baby Bunting and PointsBet Holdings. We have written about BWX and PointsBet recently, however, Baby Bunting (BBN) warrants some discussion. The company holds a near-monopolistic position in the domestic baby goods category (it has 53 stores where the next largest competitor has 3). BBN remains in the early stages of several value generative strategies including its digital rollout, private-label expansion and the development of adjacencies to the core retailing offer. We took some profits in the month due to the strong share price performance, however the stock remains reasonably priced at 20x PE (FY20).

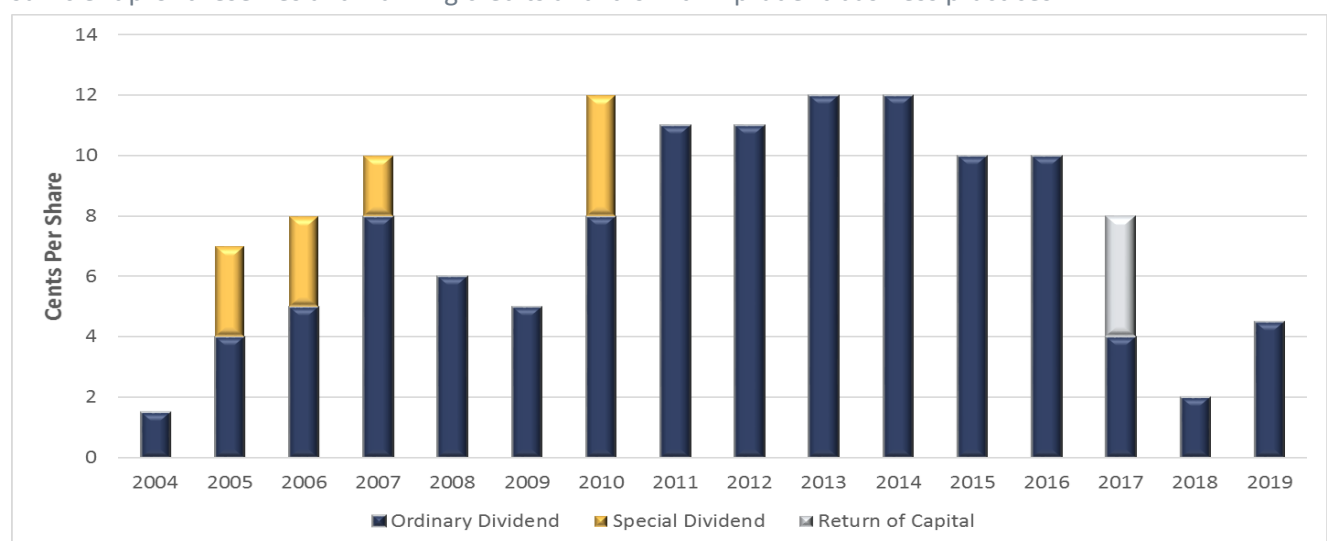
In healthcare an investment in Paradigm Biopharma was a stand-out performer. Paradigm has re-purposed an existing drug (Pentosan Polysulphate Sodium or PPS) for the treatment of osteoarthritis (OA) of the knee. With no effective treatments currently on offer for anything more than mild cases of OA, the most common approach involves use of opioids, which are addictive and required in increasingly large doses for effective management of acute pain. Recent clinical data from Paradigm's Phase 2B trial, as well as anecdotal evidence from its patients in Special Access Scheme in Australia (i.e. compassionate use), confirms that Pentosan is highly effective in the treatment of the symptoms of OA and could potentially slow down the pace of cartilage deterioration. Paradigm shares have already rallied 75% in the last month, but our valuation work suggests further upside if the company manages to get it through FDA approval and into commercialization in the US market. Our position in Integral Diagnostics was another key contributor during the month. Weak Medicare data in August spawned concerns about a sector-wide slowdown, but deeper analysis reveals that higher value-add imaging modalities such as MRI and CT scans continue to outgrow the rest of the system, providing support to Integral's business mix.

An investment in IOOF Holdings performed well in the month, with APRA losing its key case against the company and its executives. This has revived expectations that its acquisition of ANZ's platforms business will be approved, which will be highly accretive to IOOF's earnings. We took an opportunity to initiate this investment following the release of the company's financial results, which saw its shares fall as a result of its ~\$240m remediation charge.

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	2.1	1.0	0.1				1.0

## 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.



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