

NTA and Monthly Update – December 2020

Company at a Glance

ASX Code	ALF
Fund Size	AU\$211.5
Fund Strategy	Variable Beta
Shares on Issue	192.1m

Net Tangible Asset (NTA) Backing

	Nov 20	Dec 20
NTA Before Tax	\$1.104	\$1.100
Current tax liability (CTL)	\$-0.021	\$-0.020
NTA After Tax	\$1.083	\$1.080

Month in Review

Australian equities had a solid month delivering 1.2% in December. This followed a 10% move in November, which saw the ASX200 close up 1.4% over the calendar year 2020. December's performance was primarily supported by rising commodity prices where BHP, RIO and FMG all delivered double digit gains in the month. Value stocks saw follow through in outperformance from November as rising bond yields continue to put pressure on expensive stocks.

Financials contribution to the portfolio was flat for December. Key positions in private health insurers and NIB holdings generated positive returns. NIB appeared late in the financials rally of November which saw it have solid a December. Both Medibank and NIB was supported by a government price increase approval that was slightly ahead of expectations. This was partly offset by a weaker performance in long positions across the portfolio. We saw profit-taking in many positions that had a strong November. Among these were retail REITs and QBE (which also gave a late December downgrade).

The Technology portfolio consisted of mixed returns in December. Our long positions in small caps, Nitro Software and Family Zone Cyber Safety, performed well while large-cap names such as Domain were flat. We continue to support Domain and hold it as a key beneficiary of the improving housing market.

The Consumer/Industrial sectors delivered a negative contribution in December. Our short positions in ecommerce and grocery names were key drivers of outperformance in November, however some of this was given back in December. Ecommerce stocks rallied in December in-line with international peers. This was somewhat counterintuitive given northern hemisphere ecommerce retailers are likely to benefit from increased instances of Covid-19 lockdown, a tailwind that Australian domestic ecommerce retailers are unlikely to see. While Australian ecommerce retailers are likely to deliver strong Christmas sales like their brick-n-mortar peers, the sector is overvalued. This should become evident as the retail landscape normalises into 2021.

Our medium term view is unchanged. The reflation trade continues for another 12-18mths. Real interest rates at -1.6% are far too low for the recovery that is happening. Bond yields are moving higher as inflation expectations build for outer years as policymakers appear to have abandoned inflation targeting. With this backdrop, all the reflation indicators are doing what you would expect. The USD is under pressure, commodity prices are rallying everywhere, risk markets are rising (EM, corporate spreads, equities). At the same time, we have all the hallmarks of bubbles forming in certain speculative asset classes like Cryptocurrencies, commodities, emerging technologies. With interest rates at such low levels- M&A and IPO activity is quickly moving back to record levels. All these indicators signal a bubble environment is forming for risk assets more broadly.

In the short term, share markets are overbought and at risk of a correction. Typically late in a cycle, volatility should increase such corrections as they happen can be quite violent, so watch out.

Having increased our exposure in the October sell off, we picked up the November rally but are now moving back to fully hedged settings to take advantage of the next inevitable pull back. We will only have a modest exposure to equities here so late in the cycle with our principal objective being the preservation of capital as the bubble in asset values will inevitably burst, probably sometime next year.

Monthly Net Performance (%)													
Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FYTD
FY04								0.4	1.4	0.2	0.0	2.3	4.3
FY05	1.1	-0.3	4.6	2.8	4.4	2.4	0.3	1.3	-0.9	-6.1	-0.4	4.8	14.3
FY06	2.0	2.7	4.8	-3.0	3.9	3.7	1.5	2.0	6.4	2.9	-2.1	1.4	29.0
FY07	-3.2	4.3	1.7	7.2	2.8	2.5	3.1	-1.6	3.5	1.1	2.7	2.0	29.2
FY08	-1.0	3.4	3.3	1.0	-0.3	-1.9	-11.5	-8.4	1.4	4.4	1.5	-7.2	-15.5
FY09	-1.3	5.1	-5.4	-16.3	-6.6	3.0	2.2	2.9	16.0	6.7	7.9	7.0	18.7
FY10	9.2	12.4	6.5	-0.7	0.8	0.1	-3.5	2.2	4.2	-2.1	-7.1	-2.3	19.9
FY11	2.8	-3.9	2.3	0.0	2.7	12.0	2.0	1.9	3.6	1.7	-1.8	-1.8	22.9
FY12	-4.1	-6.8	-8.4	6.5	-1.5	0.9	4.9	4.7	3.3	1.2	-2.4	0.7	-2.3
FY13	3.7	3.6	0.3	-1.3	6.5	3.4	3.4	1.6	3.0	2.7	0.5	2.2	33.9
FY14	3.8	3.5	2.8	4.0	-0.6	0.0	-0.2	4.0	-1.4	2.6	1.2	0.3	21.6
FY15	-3.6	-2.4	1.4	-1.3	-2.5	-1.1	-1.2	1.0	3.0	0.8	-0.5	3.1	-3.4
FY16	3.8	3.0	1.5	-1.6	0.4	2.0	0.0	-2.1	1.4	-0.4	1.9	1.0	11.2
FY17	-0.3	-0.6	3.9	-0.5	-0.9	-0.2	-0.7	-0.1	0.1	1.2	0.7	-0.5	2.0
FY18	0.3	-1.8	-0.4	-3.1	1.3	0.1	-0.6	0.7	0.9	0.9	0.0	-0.6	-2.3
FY19	2.6	-1.6	0.2	-2.0	-2.9	-1.4	0.5	0.7	-1.0	-2.3	-0.8	0.7	-7.2
FY20	2.1	1.0	0.1	1.3	0.0	-0.4	1.3	-1.2	-3.3	1.2	-0.9	-1.5	-0.5
FY21	1.3	1.4	-0.3	1.7	1.8	-0.3							6.0

Disclaimer: This document is issued by Watermark Funds Management Pty Ltd (ABN 98 106 302 505, AFSL 250897) in relation to the Australian Leaders Fund Ltd. The information provided is general information only. It does not constitute financial, tax or legal advice or an offer or solicitation to subscribe for units or shares in any fund of which the Manager is the contracted Investment Manager. The information in this document has been prepared without taking account of your objectives, financial situation or needs. The manager, their affiliates and associates accept no liability for any inaccurate, incomplete, or omitted information of any kind or any losses caused by using this information. Past fund performance is not indicative of future performance.