CONCENTRATED LEADERS FUND

ASX LISTED INVESTMENT COMPANY (TICKER: CLF) | MONTHLY INVESTMENT REPORT: NOVEMBER 2019

Fund Description

Concentrated Leaders Fund Limited (CLF) is a concentrated portfolio of leading Australian companies. The CLF investment team uses a top-down macro thematic, quantitative filters and bottom-up fundamental research.

Fund Objective

CLF is a geared listed investment company, which invests primarily in companies within the S&P/ASX 200 Accumulation index. CLF is focused on providing investors with capital growth and a consistent yield.

Net Tangible Assets (NTA) as at 30 November

Total Investments	**$113,584,021**
NTA	**$83,145,872**
Shares on Issue	**59,401,514**
NTA per Share (pre-tax) *	**$1.40**
NTA per Share (post-tax) *	**$1.34**
Share Price	**$1.27**
(Discount)/Premium to NTA (pre-tax)	**(9.29)%**
(Discount)/Premium to NTA (post-tax)	**(5.22)%**
Fully Franked Dividend Yield	**10.40%**

* On realised and unrealised gains.

Fund Information

ASX Code	CLF
Date of launch	September 1987
Benchmark	S&P/ASX 200 TR Index

Service Providers

Custodian	National Australia Bank
Administrator	Fundhost Limited
Banker	National Australia Bank
Auditor	Deloitte Touche Tohmatsu
Legal Advisor	Watson Mangioni Lawyers

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Portfolio and Market Review

Investment Performance

Performance as at 30/11/2019 **	1 Month	3 Months	6 Months	12 Months	Financial YTD	Since Inception *
CLF	3.44%	4.86%	8.06%	18.73%	5.34%	19.57%
Benchmark	3.28%	4.80%	9.24%	25.98%	5.34%	22.55%
Value Add	0.16%	0.06%	-1.18%	-7.25%	0.00%	-2.98%

* Inception date reflects when management of the fund was internalized as of 1 January 2018
** Gross performance excludes all expenses, fees and taxes. Net performance is reflected in the NTA calculations.

The portfolio returned+ 3.44% on a gross basis (pre-fees and taxes) in November versus the benchmark return of +3.28%. This equates to a 4.48% increase in pre-tax NTA and a 3.88% increase in the post-tax NTA.

For the financial year to date, the portfolio has delivered a return of +5.34% on a gross basis versus the benchmark's +5.34%. This represents a relative performance of +0.00%.

Market Review

The S&P/ASX 200 Total Return Index gained 3.28% during November, which was the fourth largest monthly gain for the year. The index outperformed relative to the rest of the world, with the MSCI All Country World Index gaining 2.6%. It was a strong month for technology companies with the NASDAQ rising 4.5% while technology was also the best sector on the ASX with a gain of 10.6%. Yield sensitive sectors, REITS and Utilities, fell.

Global bond yields started the month with a significant sell-off, before rallying into month end. US bond yields rose 9 bps over the month, however Australian 10-year bond yields fell 11 bps as RBA commentary on the potential for QE weighed.

Markets remain focused on the ongoing trade dispute between the US and China. Early in November China raised hopes of a trade deal being agreed after the US rolled back some tariffs, however this was negated when President Trump announced he was yet to agree to a tariff roll back.

In Australia, National CoreLogic dwelling prices roses 1.5% month on month in November with strong gains in Sydney (+2.3%) and Melbourne (+2.3%). Retail sales missed expectations in September, rising 0.2% versus expectations of +0.4%. In the US, data was broadly stronger, manufacturing ISM rose modestly to 48.3, non-farm payrolls beat expectations rising 128k and average hourly earnings remained steady at 3.0% year on year.

In terms of domestic sector performance, the primary movers were:

1. Information Technology (+10.9%) was the best performing sector with XRO (+17.8%) advancing after posting a solid 1H20, underpinned by strong growth in subscribers here and in the UK. CPU (+11.9%) and APT (+9.5%) were also higher over the month,
2. Healthcare (+8.9%) performed strongly with CSL (+10.7%) and COH (+10.6%) being the standout performers,
3. Financials (-3.5%) was the worst performing sector with 4 of the 5 worst performers in the ASX100 being banks (WBC -10.2%, BOQ -10.1%, NAB -6.6%, BEN -5.8%). The continuing weak operating environment, expectation of capital raisings and AUSTRAC beginning civil proceedings against WBC all weighed.

Portfolio Review

The portfolio outperformed during the month by 0.16%.

Our exposure to offshore growers and technology added to returns during the month following solid AGM and business updates for several of our holdings.

Our underweight exposure to financials continued to add to returns with the market beginning to price in the elevated risks to these businesses, being increased capital requirements, increased remediation costs, shrinking margins, increased competition and poor customer satisfaction. While we are pleased the market is beginning to incorporate these flaws into valuations for these companies, we remain underweight as we see further downside for bank valuations.

It was pleasing that we were still able to outperform the market over the month despite our cash position.

Major Contributors:

WBC (-10.2%) – Fell sharply as it announced a $2bn institutional placement plus a $500m SPP while also cutting their dividend to $0.80 per share. AUSTRAC will also begin civil proceedings against the company in relation to alleged contraventions of WBC's obligations under the AML and Counter Terrorism Financing Act.

TNE (+24.7%) – Rebounded in November after the company announced 50% profit growth in FY19.

A2M (+22.7%) – Rose strongly after the company upgraded its 1H20 revenue and EBITDA margin guidance at its AGM.

Major Detractor:

GEM (-23.5%) – Fell sharply after downgrading its earnings outlook at its investor day driven by higher than expected costs and lower than expected occupancy growth.

APA (-5.6%) – No stock specific news. The company postponed its investor day leading to speculation the company is closing in on a US acquisition.

ALX (-3.2%) – ALX announced a capital raising to acquire a further 6% interest in APRR, a toll road group in France, increasing its indirect interest to 31%.

Sector Exposure

Sector	Weight (%)
Consumer Discretionary	8.2%
Consumer Staples	5.6%
Energy	1.5%
Financials	16.6%
Health Care	6.5%
Industrials	11.8%
Information Technology	7.0%
Materials	10.2%
Real Estate	7.4%
Telecommunication Services	0.0%
Utilities	2.8%
CASH/LIQUIDITY	**22.4%**

Top 10 Holdings in alphabetical order

Code	Company Name	Sector
A2M	A2 MILK COMPANY	Consumer Staples
ALX	ATLAS ARTERIA LTD	Industrials
AMC	AMCOR LIMITED	Materials
BHP	BHP BILLITON LIMITED	Materials
CBA	COMMONWEALTH BANK OF AUSTRALIA	Financials
CSL	CSL LIMITED	Health Care
MQG	MACQUARIE GROUP LTD	Financials
NXT	NEXTDC LIMITED	Information
TCL	TRANSURBAN GROUP	Industrials
WEB	WEBJET LIMITED	Consumer

Outlook

Global equity markets continue to charge higher on the back of lower interest rates and the hope that the US and China will reach a trade deal before the end of year.

There seems to be no stopping equity markets with a Boris Johnson victory in the UK election highly likely to see a resolution to the Brexit drama which has cast a shadow over the UK economy for well over a year. This should be a positive catalyst for Europe and the broader global economy with the Tories expected to increase fiscal spending by ~1.5% of GDP.

Likewise, reports suggest that the US and China are close to signing a 'phase 1' trade deal, which should also spur confidence and deliver a positive impetus for markets. We however remain cautious with regards to a deal, given that the world has seen this script before and the actual substance of a phase 1 deal is limited, with few of the original US concerns, such as intellectual property rights, currency manipulation and the trade balance, being addressed.

Our concerns regarding the equity market are primarily based on valuations with the market multiple expanding to 17.5x next years earnings, despite a weaker domestic economy and declining earnings growth. Yes, interest rates have fallen to record lows, and this makes equity yields more attractive, but we don't think the fundamentals support such a lofty valuation. This has made it increasingly difficult to find attractive investments in the local market and we are patiently waiting for valuations to normalize before deploying our cash holding.

We have been under-weight the banking sector since we started managing the portfolio and their collective performance in November clearly justified this strategic positioning. Despite banks becoming cheaper over the month, we still do not think they have the governance, earnings growth or macro tailwinds that we would like to see in order for them to be attractive investments. It is likely that the government and regulatory issues will continue to hinder earnings with costs increasing and net interest margins declining. In addition, there is renewed uncertainty about the quantum of dividends they will pay going forward and whether they will need to raise more capital.

We continue to favour offshore growers with the bias for the Australian dollar being to the downside. We have made few changes to the portfolio except to take profits on outperforming positions and add to a number of high growth companies which have sold off in recent months. We maintain a balanced portfolio and are overweight quality yield stocks which should continue to benefit from a lower interest rate environment and quality offshore growth stocks. Our cash holding has been a key detractor for our returns but will position us in good stead when valuations normalise, allowing us to deploy the capital at much more attractive prices compared to current valuations.

Important Information