



CONCENTRATED LEADERS FUND

ASX LISTED INVESTMENT COMPANY (TICKER: CLF)

MONTHLY INVESTMENT REPORT: JANUARY 2020

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 31 January

Total Investments	\$113,842,146
NTA	\$84,025,798
Shares on Issue	59,401,514
NTA per Share (pre-tax) *	\$1.41
NTA per Share (post-tax) *	\$1.34
Share Price	\$1.32
(Discount)/Premium to NTA (pre-tax)	(6.38)%
(Discount)/Premium to NTA (post-tax)	(1.49)%
Fully Franked Dividend Yield	10.28%

* 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 31/01/2020 **	1 Month	3 Months	6 Months	12 Months	Financial YTD	Since Inception *
CLF	2.59%	5.41%	4.16%	17.54%	7.35%	21.85%
Benchmark	4.98%	6.08%	5.11%	24.72%	8.20%	25.87%
Value Add	-2.39%	-0.67%	-0.95%	-7.18	-0.85%	-4.02%

* 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 2.59% on a gross basis (pre-fees and taxes) in January versus the benchmark return of 4.98%. This equates to a 2.92% increase in pre-tax NTA and a 2.29% increase in the post-tax NTA.

For the financial year to date, the portfolio has delivered a return of +7.35% on a gross basis versus the benchmark's +8.20%. This represents a relative performance of -0.85%.

Market Review

The S&P/ASX 200 Total Return Index (+4.98%) significantly outperformed the rest of the world in January, with the MSCI All Country World Index returning -0.7% and the S&P 500 Index losing 0.2% (both in USD terms).

The Australian market was heavily influenced by market heavyweights CSL and CBA, which returned 13.2% and 6.7% respectively. Both are now among the most expensive companies in their respective sectors in the world (based on forward looking price/earnings ratio). The domestic healthcare sector excelled as a result of increased risk regarding the spread of the Coronavirus. Conversely, the domestic banking and IT sectors advanced strongly given their non-exposure to Asia and the Coronavirus.

Global equity markets were heavily impacted by the Coronavirus and a 15% fall in the price of oil. The Coronavirus saw the Hang Seng Index fall 6.7% and the MSCI Emerging Markets Index fall 3.3%. The potential impact of the virus on Asian and global GDP saw increased concerns over the demand for oil – which subsequently saw OPEC cut its forecast for global oil demand. OPEC said 2020 demand for its crude will average ~29 million bpd, which is ~200,000 bpd less than previously forecast.

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

- Health Care (+12.0%)** was the best performing sector with RMD (+14.4%) being the best performer. CSL (+13.2%) also performed strongly and was the major contributor to the market index given its market capitalization.
- Information Technology (+10.2%)** rose strongly as the buy-now-pay-later provider APT (+31.7%) outperformed the broader index following the completion of its oversubscribed SPP. APT has now advanced 142% over the last 12 months which is one of the best performers in the S&P/ASX 200 Index.
- Energy (+0.6%)** was the worst performing sector as a result of the fall in oil prices, however it did manage to eke out a positive return. The energy sector has been the worst performing sector in the index over the last 12 months.

Portfolio Review

The portfolio underperformed by -2.39% in January. January's result was clearly disappointing, especially given how well the portfolio performed in December. However, it is difficult to keep up with a runaway market that continues to get more expensive despite increased risks and weakening fundamentals. As a result of our fundamental views, we increased our cash holding to 27% (non-utilization of CLF's debt funding facility) which has dragged on performance.

Our underweight position in Healthcare, which appears excessively expensive (being on a sector forward P/E ratio of 38.6x versus a 5-year average of 25x) was a major drag. Our overweight to technology stocks (although we don't hold APT) was a contributor to performance.

Disappointingly, we cannot attribute our performance during the month entirely to sector performance and cash. Several individual companies were adversely impacted by earnings updates and the Coronavirus. These include Treasury Wine Estate, Webjet and Downer Group.

Major Contributors:

NXT (+15.3%) – rose strongly with the IT sector in general. NXT was driven by improved US corporate earnings. Macquarie Infrastructure and Real Assets (MIRA)'s takeover of competitor AirTrunk at a multiple of ~30x EV/EBITDA also gave the market confidence regarding NXT's valuation.

CSL (+13.2%) – Continued its meteoric rise with healthcare companies globally being re-rated higher over Coronavirus concerns and the potential for several companies, including CSL, to provide a solution.

NST (+11.4%) – Northern Star rallied along with the price of gold as investors sought ways to hedge the potential impact of the Coronavirus and its impact on Global GDP.

Major Detractor:

TWE (-19.8%) – Treasury Wine downgraded FY20 earnings growth to 5-10% (from 10-15%) due to challenging trading conditions in the US. Concerns over empty restaurants in China and hence a reduced demand for premium wine only added to their woes during the month.

WEB (-9.8%) – Fell sharply after broker research suggested that Google's new travel-booking features would dramatically impact Webjet's earnings. Webjet subsequently described the report as inaccurate in terms of how much traffic is driven by Google. Increased travel concerns given the Coronavirus also impacted its share price.

DOW (-9.3%) – Downer announced a 35% drop in interim net profit to \$91.4 million. The downgrade was due to increased costs regarding the upgrade of the APA Group's Orbost gas plant and the construction of OZ Minerals' Carrapateena copper gold mine project.

Sector Exposure

Sector	Weight (%)
Consumer Discretionary	6.5%
Consumer Staples	4.4%
Energy	1.5%
Financials	20.3%
Health Care	6.3%
Industrials	10.6%
Information Technology	4.3%
Materials	10.3%
Real Estate	5.7%
Telecommunication Services	0.0%
Utilities	2.9%
CASH/LIQUIDITY	27.2%

Top 10 Holdings in alphabetical order

Code	Company Name	Sector
ALX	ATLAS ARTERIA LTD	Industrials
AMC	AMCOR LIMITED	Materials
APA	APA GROUP	Utilities
BHP	BHP BILLITON LIMITED	Materials
CBA	COMMONWEALTH BANK OF AUSTRALIA	Financials
CSL	CSL LIMITED	Health Care
MQG	MACQUARIE GROUP LTD	Financials
NAB	NATIONAL AUST. BANK	Financials
TCL	TRANSURBAN GROUP	Industrials
WBC	Westpac Banking Corp	Financials

Outlook

The investment environment has become increasingly unpredictable recently with the Coronavirus, corporate earnings, the price of oil and the US political situation dominating thoughts.

Heading into 2020, most investors seem to be expecting global economic growth to improve this year with a rebound in trade, following the signing of a phase one trade deal between the US and China, being the main driver. However, just when it appeared that the global economy was improving, China announced the outbreak of the deadly Coronavirus. Economically, this has severely impacted global travel, cross-border business and global supply chains. The ultimate severity of the virus is unknown, but it appears that it will significantly impact economic growth around the world at least in the short term.

An important question for investors is whether the impact of the virus will be short-lived or whether it potentially spreads beyond China and has a more medium-term impact on societies, economies and markets. The market seems to be pricing in a relatively short-term impact and is looking at the Severe Acute Respiratory Syndrome (SARS) experience in 2003 for guidance. However, China was not as important to the global economy in 2003 as it is now, and its citizens were not as mobile in aggregate. Hence, the potential risk of the inflection spreading both economically and personally is much greater.

Domestically, the Australian economy is expected to experience weaker growth during the first quarter of 2020 with the Coronavirus severely denting Chinese tourism, student arrivals and retail/restaurant spending. This comes in addition to several months of horrendous bushfires followed quite amazingly by severe flooding.

The bright spot for Australia has been the rebound in house prices, which has been surprisingly strong. However, a booming housing market creates a problem for the Reserve Bank of Australia (RBA), which would like to cut rates to support the economy but may not be able to as this would risk the creation of a housing bubble. As such, the policy uncertainty in Australia has risen significantly in recent months and it may see volatility pick up depending on what course the RBA decides to take.

Except for a small initial reaction, markets have largely shrugged off the Coronavirus and the RBA's dilemma, with momentum and liquidity proving far too strong for these fundamental concerns. This potentially creates a dangerous environment for equities as sentiment and momentum can turn quickly. This disregard for risk is one of the key reasons we continue to hold a large allocation to cash – we don't think this is the type of environment in which to deploy leverage into equity beta. We prefer to be risk conscience and pragmatic with our deployment of leverage in our role as stewards of your capital.

CLF hopes that you, your families, and your friends are all safe given the spread of the Coronavirus, bushfires and floods.

Important Information

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