CBG ASSET MANAGEMENT

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THE AUSTRALIAN FUND MANAGER AWARDS

CBG Australian Equities Fund – September 2015

The CBG Australian Equities Fund returned -0.3% in September, outperforming the S&P/ASX200 Accumulation Index return of -3.0%. While the market was again pressured during the month, it was pleasing to see the portfolio outperform the market to remain broadly flat.

For the September quarter, the portfolio returned –0.7% vs the market at -6.3%. This was the market's worst quarterly decline in four years.

The month's trading was volatile with markets stumbling early as Chinese and US manufacturing PMIs came in worse than expected. The market recovered some ground before the Fed postponed raising rates in the US. This was broadly interpreted as a sign of weakness in the global economy and equities, commodities and bonds were subsequently sold off. Markets rebounded again late in the month but still finished in the red. The MSCI World Accumulation Index declined 3.6% in September, while the Nikkei 225 fell 7.3%, the German Dax dropped 5.8%, and the FTSE 100 and the S&P 500 were 2.9% and 2.5% lower respectively.

Across the Australian market industry sectors, energy (-12.2%), resources (-8.2%) and materials (-4.9%) underperformed, while information technology (+6.1%), consumer discretionary (-1.3%) and consumer staples (-1.5%) outperformed.

Performance (to 30 September 2015)

Fund Objective:

To outperform the S&P/ASX200 Accumulation Index over a rolling five-year period before fees, taxes and expenses.

	Fund %	Benchmark %*	Excess
1 Month net	**-0.3**	-3.0	**+2.6**
6 Month net	**-9.9**	-12.7	**+2.8**
1 Year net	**4.9**	-0.7	**+5.6**
3 Years net annualised	**14.8**	9.4	**+5.5**
5 Years net annualised	**8.3**	6.5	**+1.8**
Since inception net annualised **	**6.1**	4.5	**+1.7**
Since inception net total return **	**76.4**	51.9	**+24.5**

Note: Fund performance is post fees.
** S&P/ASX 200 Accumulation Index*
*** Inception date 27 March 2006*

Fund Commentary

Bellamy's Australia (BAL, 1.2% portfolio weight) returned 42.4% as brokers upgraded forecasts post the FY15 result announcement on 21 August. BAL appears to be in an upgrade cycle with the market now factoring in 60% revenue growth and 113% NPAT growth in FY16. This follows a FY15 revenue result that was 58% ahead of prospectus forecast and NPAT that was 10% above the top-end of the upgraded guidance provided in June 2015.

Sealink Travel Group (SLK, 0.8%) returned 32.2% following the $40m equity capital raising to fund the $125m purchase of Transit Systems Marine, an operator of passenger ferry and vehicular barge services in south-east Queensland and Gladstone. The transaction is expected to be immediately EPS accretive prior to anticipated acquisition amortisation, synergies and transaction costs.

IPH Limited (IPH, 1.4%) returned 27.3% as it announced the acquisition of Pizzeys Patent and Trade Mark Attorneys, the fourth largest filer of patent applications at the Australian Patent Office (as at 31 August 2015). IPH was listed in November 2014 at A$2.10 and has returned 235% since listing (to 30 September 2015, including dividends).

Retail Food Group (RFG, 0.5%) returned -19.1% as the market digested a mixed FY15 result. Of particular concern was organic earnings growth in a number of RFG's traditional businesses being negative in the second half of FY15. With an uncertainty earnings outlook, we have reduced our position in RFG over recent months.

Lend Lease (LLC, 2.8%) returned -10%. With little in the way of company specific newsflow, the decline seemed driven by increased concern that the property cycle has now peaked in Australia.

Qube Holdings (QUB, 1.0%) returned -8.7% following a lack of clear earnings guidance by management at the FY15 result and soft outlook commentary for FY16. While FY16 earnings are expected to be impacted by the expiry of contracts in the FY15 year, the longer term earnings growth thesis remains on track.

Top Ten Holdings (as at 30 September 2015)

	ASX Code	Stock Name	Weighting	
			Fund %	ASX %
1	CBA	COMMONWEALTH BANK OF AUSTRALIA	9.4%	9.4%
2	ANZ	ANZ BANKING GROUP LIMITED	8.3%	6.0%
3	WBC	WESTPAC BANKING CORPORATION	7.3%	7.2%
4	TCL	TRANSURBAN GROUP	5.4%	1.4%
5	HGG	HENDERSON GROUP	4.8%	0.3%
6	BTT	BT INVESTMENT MANAGEMENT LTD	4.4%	0.1%
7	NAB	NATIONAL AUSTRALIA BANK LIMITED	4.4%	6.1%
8	MQA	MACQUARIE ATLAS ROADS GROUP	4.4%	0.1%
9	SYD	SYDNEY AIRPORT	3.8%	1.0%
10	MFG	MAGELLAN FINANCIAL GROUP	3.1%	0.2%

Market commentary

While the Australian market performed broadly in line with global peers in local currency terms, it underperformed in USD terms given the fall in the AUD. The AUD fell below US$0.70 during the month for the first time since early 2009.

Australian economic data was mixed over the period. The unemployment rate fell to 6.2% while retail sales for July fell a worse-than-expected 0.1% month-on-month and real GDP for Q2 rose a weaker-than-expected 0.2% qoq, the slowest pace in four years. The NAB survey of business conditions for August rose to 10.7 (previous: 6.0) though the business confidence index fell to 0.7 (previous: 3.5). With Malcolm Turnbull deposing Tony Abbott to become Australia's fifth Prime Minister in five years there are renewed hopes for improved business confidence. In the face of this mixed data, the RBA left the cash rate steady at 2.0% for September.

Offshore economic data was also mixed. In the US, the ISM manufacturing index for August came in below market expectations though the non-manufacturing index provided a slight beat. Non-farm payrolls also underperformed expectations though the unemployment rate unexpectedly fell to 5.1% and job openings for July increased to an all-time high. Despite the positive jobs data, in one of the most closely watched decisions in recent times, the Fed left rates on hold citing external concerns as the primary driver for the decision. This unnerved the market.

In China, the August “official” PMI reading fell to the lowest level in three years while another PMI index (Caixin-Markit Flash) for September fell to the lowest level since March 2009. While Retail sales outperformed market expectations, imports for August were particularly weak at -13.8% yoy. In Europe, unemployment edged down slightly in July and real GDP for the 2Q for the Euro area increased 1.4% qoq. However, the Manufacturing Flash PMI dropped 0.3 points to 52.0 and surveyed consumer confidence dropped by 0.2 points.

Finally, market impacting newsflow from across the globe was broadly negative with rate cuts announced by Central banks in New Zealand, Norway and India, Canada entering a technical recession, Brazil's credit rating cut to junk by S&P, inflation data stoking global deflation fears and Volkswagen confessing to installing emissions testing defeat devices in its diesel vehicles which may adversely impact German economic conditions.

The aggregate Australian equity market is now trading on a forward PE of 14.3x (from 14.6x, source: Morgan Stanley), which is slightly below the 20 year average of 14.6x. The forecast dividend yield for the market is currently 5.4% (from 5.2% in August) suggesting that value is emerging in the market.

Ronni Chalmers
Chief Investment Officer

How to invest

The CBG Australian Equities Fund can be purchased inside the FSP Super Fund, FSP Prestige Plus IDPS and Macquarie Wrap. For more information, please contact your Financial Adviser or call (02) 8599 1160.

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