CBG ASSET MANAGEMENT

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THE AUSTRALIAN FUND MANAGER AWARDS

CBG Australian Equities Fund – October 2015

The CBG Australian Equities Fund returned +5.0% in October, outperforming the S&P/ASX200 Accumulation Index return of +4.4%. October was the best month for global equities in four years as the weakening global economic backdrop saw the Federal Reserve hold off on raising rates, the People's Bank of China cut rates and further speculation of more easing from the ECB and Bank of Japan. Australian equities, whilst performing strongly, underperformed global peers.

Globally, the Nikkei was up 9.8%, the Dow Jones Industrial Average was up 8.5%, the S&P 500 was up 8.3%, the Nasdaq was up 9.4%, and the FTSE increased 4.9%.

Across the Australian market industry sectors, energy (+8.0%), utilities (+7.0%), health care (+6.1%) and consumer discretionary (+5.7%) outperformed, while consumer staples (+0.4%) and telcos (-2.9%) underperformed.

Performance (to 31 October 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	**5.0**	4.4	**+0.7**
6 Month net	**-3.1**	-7.3	**+4.3**
1 Year net	**5.8**	-0.7	**+6.6**
3 Years net annualised	**15.1**	9.9	**+5.3**
5 Years net annualised	**9.0**	7.1	**+1.9**
Since inception net annualised **	**6.6**	4.9	**+1.7**
Since inception net total return **	**85.3**	58.5	**+26.8**

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

Fund Commentary

Iproperty Group (IPP) returned 19.4% after receiving a takeover bid from REA Group (also held by the fund) valuing IPP at $751m. IPP owns online property websites that have market leading positions in a number of Asian countries and is well positioned to benefit as advertising spend shifts to online in the region. Prior to the bid, REA owned 23% of IPP.

BT Investment Management (BTT) was up 19.4% as it delivered its full year result. FY15 NPAT was up 4% vs FY14, driven by strong inflows from its UK based business JOHCM. The result was notable in that FY14 had been a very strong year of profit growth, driven by large performance fees. The outlook remains positive for the group with a growing proportion of funds under management coming from higher margin products.

Magellan Financial Group (MFG) increased 18.6% for the month, benefitting from the rally in global stock markets and as the group recorded $800m of institutional inflows after 5 months of neutral flows on the institutional side. During October, MFG released its funds under management

(FUM), which showed total FUM at $38.7B at 30 September, up 2% vs 31 August. MFG experienced total net inflows of $966m in September.

Medibank (MPL) declined 2.0% during the month, as its defensive earnings stream saw it lag higher beta stocks. Towards the end of the month, the company held its first investor day since listing, where it outlined its future strategy. Customer retention will be a key focus over the next year. The near-term earnings outlook for the group remains solid, with premium growth of 5-6% expected over the medium term.

ANZ bank (ANZ) increased 0.5% after reporting its FY15 result. Net profit after tax was $7.2B, up 1.5% vs FY14, however EPS was flat due to higher shares on issue. The FY15 dividend was also flat vs FY14. The result saw the Australian retail and business banking segments continue their momentum, however this was more than offset by institutional margin pressure, deterioration in asset quality and a weak fourth quarter contribution from global markets.

Top Ten Holdings (as at 31 October 2015)

	ASX Code	Stock Name	Weighting	
			Fund %	ASX %
1	CBA	COMMONWEALTH BANK OF AUSTRALIA	9.3	9.8
2	ANZ	ANZ BANKING GROUP LIMITED	7.6	5.7
3	WBC	WESTPAC BANKING CORPORATION	7.3	7.5
4	BTT	BT INVESTMENT MANAGEMENT LTD	5.3	0.1
5	TCL	TRANSURBAN GROUP	5.3	1.5
6	HGG	HENDERSON GROUP	5.1	0.3
7	MQA	MACQUARIE ATLAS ROADS GROUP	4.2	0.1
8	NAB	NATIONAL AUSTRALIA BANK LIMITED	4.0	5.6
9	MFG	MAGELLAN FINANCIAL GROUP	3.6	0.2
10	AIA	AUCKLAND INTERNATIONAL AIRPORT	3.2	0.0

Market commentary

The Reserve Bank of Australia left the official cash rate unchanged at 2.0% during October. The RBA said the global economy is expanding at moderate pace, with some further softening in conditions in China and East Asia recently, whilst the US is showing stronger growth. Key commodity prices are much lower than a year ago, in part reflecting increased supply, which has lowered Australia's terms of trade. Domestically, the RBA said it expects the moderate expansion in the economy to continue, with inflation likely to remain consistent with the target over the next one to two years, even with the lower exchange rate.

US long bond yields finished the month higher after the Fed appeared to leave the door open to tightening monetary policy at its next meeting in December.

During the month, a notable event in the Australian banking sector was out of cycle interest rate increases by all of the big four banks on variable rate residential mortgages of between 15 and 20 basis points. Also, October saw ANZ, WBC and NAB report their full year results, which showed modest earnings growth as the tailwind of declining bad debts reversed. During the month, Westpac announced a $3.5B capital raising aimed at improving its capital position.

China economic data continues to weaken, with 3Q 2015 real GDP growth of 6.9%, the weakest pace since 1Q 2009. Industrial production growth for September was below expectations at 5.7%, whilst CPI growth for September decelerated to 1.6%. During the month, the People's Bank of China announced a 25 basis point cut to the benchmark deposit rate and lending rate. The PBC also cut reserve requirements on bank deposits from 17.5% to 17.0%. Additionally, after more than 30 years, China finally announced the full relaxation of the "one child" policy nationwide.

Commodities prices generally fell during the month on a weakening global economic backdrop. Iron ore continued its falls, declining 9% to below US$50/tonne. Base metals were also generally weak, with Aluminium falling heavily to a new six year low. The US natural gas price fell over 20% during the month, driven by a higher than expected rise in natural gas inventory.

The aggregate Australian equity market (ex-resources) is now trading on an FY16 PE of 14.6x (source: Macquarie Research), in line with the 20 year average. The forecast dividend yield for the market is currently 5.0% suggesting that value is emerging in the market. Whilst the vast majority of the ASX 20 (61% of the ASX 200 by market weight) has weak forecast earnings growth over the next few years, the fund continues to focus on stocks outside the ASX20, which in many instances are growing much faster than the overall economy.

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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