CBG ASSET MANAGEMENT

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THE AUSTRALIAN FUND MANAGER AWARDS

CBG Australian Equities Fund – December 2015

The CBG Australian Equities Fund returned 2.5% in December, compared with the S&P/ASX200 Accumulation Index return of 2.7% (-0.2% outperformance).

For the financial year to date, the Fund returned 10.2%, which compares very favourably to the Index return of -0.5%, (10.7% outperformance) while for the 12 months to 31 December 2015, the Fund returned 10.9%, compared to the Index return of 2.6% (8.3% outperformance).

Over the month, Australian equities initially fell in anticipation of the US Federal reserve finally raising interest rates, but finished the year quite strongly. Across the market industry sectors, consumer staples (+7.1%), consumer discretionary (+6.3%), telcos (+4.3%) and REITs (+4.0%) outperformed in particular. The energy sector (-7.5%) was the biggest underperformer with Brent oil down 16.5% over the month.

Australian equities outperformed relative to international markets over the month, with some relatively large dips experienced across the various markets. The S&P500 declined 1.6%, broadly in line with the FTSE 100 (-1.7%), while the Nikkei (-3.5%) and the German Dax (-5.6%) saw more substantial falls. Conversely, the Shanghai Composite gained 2.7%.

Performance (to 31 December 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	**2.5**	2.7	**-0.3**
6 Month net	**10.2**	-0.5	**+10.7**
1 Year net	**10.9**	2.6	**+8.3**
3 Years net annualised	**15.6**	9.2	**+6.4**
5 Years net annualised	**9.3**	7.0	**+2.4**
Since inception net annualised **	**7.1**	5.0	**+2.1**
Since inception net total return **	**96.3**	61.7	**+34.6**

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

Fund Commentary

Stocks which contributed alpha in the period included Auckland International Airport (AIA, 3.3% portfolio weight) which returned 15% as the market digested the strong traffic figures for October and November. International traffic, one of the core profit drivers for the business, is up 6.5% YTD with particularly strong growth coming out of New Zealand (+5.8% YTD) and China (+29%). Auckland International Airport is New Zealand's major international gateway and as such is well placed to benefit from the ongoing boom in travel demand from the Asian region.

Technology One (TNE, 1.6% weight) returned 14% after releasing a solid FY15 result in late November 2015 and pointing to a robust outlook. TNE is Australia's largest enterprise software company, with offices across six countries, a suite of 14 products and over 1000 customers. It has the largest technology research and development (R&D) centre in Australia with over 300 developers and is currently benefiting from both the rollout of new products and the generational shift from "on premise" software to cloud based software.

Lendlease Group (LLC, 2.8%) returned 12% after announcing a co-investor to the Barangaroo South Precinct. The sale of a 25% interest in Tower One at Barangaroo South has reduced LLC's required equity commitment to the project by $350m to $175m.

Millennium Services (MIL, 1.2%) returned 10%. MIL is a cleaning and security service provider that has recently expanded its services to integrate hygiene, maintenance, landscape maintenance and concierge services. MIL operates across the Australian Eastern, Southern Seaboards and New Zealand. MIL is a small cap that was listed on the ASX in November 2015 and has a solid outlook with it looking to grow both organically and through acquisitions.

Resmed (RMD, 1.1%) declined 11% in anticipation of round three of competitive bidding for distributor contracts in some US regions commencing in January 2016. The broader health care space was also generally sold off in the period on the back of proposed regulatory changes.

Suncorp Group (SUN, 2.2%) declined 9% after surprising the market with lower-than-expected 1H16 underlying margin guidance of c10%. This compared to consensus expectations of approximately 13.0% and to the FY15 level of 14.7% and was driven by claims cost inflation partially due to the lower AUD.

Top Ten Holdings (as at 31 December 2015)

	ASX Code	Stock Name	Weighting	
			Fund %	ASX 200%
1	CBA	COMMONWEALTH BANK OF AUSTRALIA	9.9%	10.6%
2	ANZ	ANZ BANKING GROUP LIMITED	7.7%	5.9%
3	WBC	WESTPAC BANKING CORPORATION	7.2%	8.1%
4	TCL	TRANSURBAN GROUP	5.4%	1.5%
5	HGG	HENDERSON GROUP	4.9%	0.3%
6	BTT	BT INVESTMENT MANAGEMENT LTD	4.4%	0.2%
7	MQA	MACQUARIE ATLAS ROADS GROUP	4.1%	0.1%
8	NAB	NATIONAL AUSTRALIA BANK	4.0%	5.8%
9	MFG	MAGELLAN FINANCIAL GROUP	3.9%	0.3%
10	AIA	AUCKLAND INTERNATIONAL AIRPORT	3.3%	0.0%

Market commentary

The Fed funds decision weighed heavily on the Australian market in the first half of December before the actual decision by the Fed to raise rates for the first time in nearly a decade (by 0.25pts), coupled with a Santa rally, saw the market rally for nine consecutive days for the first time since February 2015.

However, despite this rally, ongoing pressure in commodity markets was again a feature of the month with Brent crude falling a further 17% to US$35.75 reflecting weak seasonal demand and concerns around increasing supply. Conversely, iron ore had some relief increasing 1.4% to US$43.57 per tonne.

Australian economic data was generally positive in December with the unemployment rate edging down by 0.1% to 5.8% (with 71,400 net new jobs), the participation rate increasing to 65.3% and the NAB business confidence survey improving 4.8%. While the Westpac Consumer index fell slightly month-on-month, it was up 11% on the pcp. With the majority of data points broadly positive, the RBA left the cash rate unchanged at 2.0%. Somewhat surprisingly, despite the increase in rates in the US, the AUD appreciated against the USD (+0.58c to 72.86c).

The Federal Government released its Mid-Year Economic and Fiscal Outlook ("MYEFO") in December which recalibrated the budget outlook released in May. The headline cash deficit for the year ending June 2016 is now projected to reach $37.4bn (+$2.3bn) with a return to surplus not expected until 2020-21.

While the US Federal Reserve's raising of interest rates (from a range of 0.00-0.25% to 0.25-0.50%) was expected, and was seen as a vote of confidence in the growth outlook for the world's biggest economy, the move did little for US markets over the month with the Dow, S&P500 and NASDAQ all down 1.5-1.6%. Labour market data continues to surprise on the upside while other indicators such as building permits, housing starts, new home sales and consumer confidence all supported the Fed rates lift-off. While lift off has now occurred, further increases are likely to be heavily data dependent with the market only expecting a slow ramp up in rates.

Chinese economic data was mixed with NBS Non-manufacturing PMI up 0.5% to 53.6, but NBS manufacturing PMI falling to 49.6, its lowest level since August 2012. FX reserves fell US$87bn marking the six monthly decline in seven months as exports continued to contract and imports picked up moderately. The Chinese economic outlook continues to weigh on world markets (and Australia in particular) and this is likely to be an ongoing concern for the market in 2016.

While Eurozone PMI held up over the period, core CPI inflation fell by 0.2% to +0.9%. The ECB cut the deposit rate by 10bp to -0.3% in order to provide further stimulus to the Eurozone and announced a six month extension to the duration of its QE programme, taking the programme out to March 2017.

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