CBG ASSET MANAGEMENT

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THE AUSTRALIAN FUND MANAGER AWARDS

CBG Australian Equities Fund – January 2016

The CBG Australian Equities Fund returned -5.9% in January, compared with the S&P/ASX200 Accumulation Index return of -5.5% (0.4% underperformance).

For the rolling 12 months, the Fund returned +0.5%, which compares very favourably to the Index return of -6.1%, (6.7% outperformance).

January saw global indices fall materially as concerns around Chinese economic growth intensified. Commodity markets once again resumed their loss leadership with the Materials and Energy sectors falling -9.1% and -6.5% respectively. In addition, a sharp fall in the oil price increased fears of weakening global economic growth. At the end of the month, global equity indices recovered off their lows on hopes the Federal Reserve will slow the pace of future interest rate hikes.

Performance (to 31 January 2016)

Fund Objective:
To outperform the S&P/ASX200 Accumulation Index over a rolling five-year

	Fund %	Benchmark %*	Excess
1 Month net	**-5.9%**	-5.5%	**-0.4%**
6 Month net	**-1.6%**	-9.9%	**+8.3%**
1 Year net	**0.5%**	-6.1%	**+6.6%**
3 Years net annualised	**11.4%**	5.5%	**+5.9%**
5 Years net annualised	**7.9%**	5.7%	**+2.2%**
Since inception net annualised **	**6.4%**	4.4%	**+2.0%**
Since inception net total return **	**84.7%**	52.8%	**+31.9%**

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

Fund Commentary

Medibank (MPL, 0.0% portfolio weight) returned 15% in the month, boosted by a positive earnings guidance, where the company guided for FY16 health insurance operating profit of ~$470m, which was an upgrade of 27% from previous guidance. The key driver of the upgrade was better than expected claims expense outcomes. Following the rise in the stock price, MPL was trading on an FY17 PE multiple of 18x and with the stock reaching our target price, the fund exited the position.

Resmed (RMD, 1.4%) returned 8% after it reported results for the second quarter of FY16. Revenue was up 7% (or 13% on a constant currency basis), whilst NPAT was up 5% vs pcp. A key highlight was strong US sales of both flow generators and masks. With a strong balance sheet, RMD continued its share buyback program.

Macquarie Atlas Roads (MQA, 5.0%) returned 5% after it reported another solid traffic update from its portfolio of assets. Traffic growth in 4Q15 of 2.9% (APRR in France) and 6.8% (Dulles Greenway in the US) was achieved, which combined with toll increases and largely fixed costs, positions MQA to deliver increases in distributions going forward.

BT Investment Management (BTT, 2.5%) fell 19% as sentiment towards funds management businesses weakened due to the sharp fall in global stock market indices in January. In addition, retail inflows to the UK based JO Hambro business moderated in 1Q16. The fund recently reduced its position in BTT, following strong outperformance over the last five years.

Magellan Financial Group (MFG, 3.4%) fell 18% in the month. As with BTT, the stock was impacted by the fall in global stock markets which saw listed fund managers sold off.

ANZ Banking Group (ANZ, 6.8%) fell 14% in line with listed banks both domestically and offshore as fears of slowing global economic growth increased. The weakening earnings outlook, which could place downward pressure on dividends, was a key concern for the market.

Top Ten Holdings (as at 31 January 2016)

	ASX Code	Stock Name	Weighting	
			Fund %	ASX 200%
1	CBA	COMMONWEALTH BANK OF AUSTRALIA	10.1%	10.1%
2	WBC	WESTPAC BANKING CORPORATION	7.6%	7.5%
3	ANZ	ANZ BANKING GROUP LIMITED	6.8%	5.2%
4	TCL	TRANSURBAN GROUP	6.6%	1.8%
5	MQA	MACQUARIE ATLAS ROADS GROUP	5.0%	0.1%
6	HGG	HENDERSON GROUP	4.2%	0.3%
7	AIA	AUCKLAND INTERNATIONAL AIRPORT	3.9%	0.0%
8	NAB	NATIONAL AUSTRALIA BANK	3.8%	5.1%
9	SYD	SYDNEY AIRPORT	3.5%	1.1%
10	MFG	MAGELLAN FINANCIAL GROUP	3.4%	0.2%

Market commentary

Global equity markets endured a weak start to the year, falling sharply during the month, albeit with some recovery towards the end of the month on the hope that central bank actions may provide some positive stimulus.

Investor fears were centred around a weakening Chinese economy and currency, a collapsing oil price and a disappointing US earnings season. China in particular, was one of the worst performing markets, with the Shanghai Composite falling 23% over the month.

Unsurprisingly, defensive sectors such as Utilities, Telcos and Consumer Staples outperformed, both domestically and globally. Materials and Financials were the worst performing sectors.

Global government bond yields fell throughout the month on weakening US and Chinese economic data and dovish central bank statements before falling sharply on the final trading day of the month when the Bank of Japan adopted negative interest rates. The Japanese government 10 year bond yield ended the month at an all-time low of 0.11%. The Australian government 10 year bond yield fell 24 basis points during the month to 2.58%.

In commodities, Brent oil fell 4.5% to US$34.74 per barrel, iron ore fell 1.4% to US$41.50 per tonne, whilst gold bucked the trend, rising 5.3% to US$1,111.80 per ounce.

Following the decline in the ASX 200 in January, the ASX Industrials (ex Resources, REIT's and Banks) is currently trading on a 12 month forward PE of 16.3x, in line with the 20 year average.

The February reporting season should shed some light on the current trading environment for our portfolio and the market more broadly. The investment team will be meeting with numerous companies in the month to update our investment outlook and valuations post their result releases to the ASX.

Whilst market sentiment is currently poor, potential positives for the market over the next 12 months include: “lower for longer” monetary policy from global central banks and broad stimulus from lower energy prices, particularly for retail and consumer stocks.

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