CBG ASSET MANAGEMENT

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# CBG Australian Equities Fund – February 2016

The CBG Australian Equities Fund returned -4.8% in February, below the S&P/ASX200 Accumulation Index return of -1.8%.

For the rolling 12 months, the fund returned -10.4%, outperforming the index return of -13.7%.

Over 3 years, the fund has returned 7.6% per annum, which compares favourably to the index return of 3.0% per annum.

Global equity markets have posted negative returns over the past 12 months on concerns about global growth, compounded by the dramatic fall in the oil price. The negative trajectory continued into February, although markets commenced a rally mid-month which has continued into March. This coincided with an intra-month rally in the iron ore and oil prices of 17% and 27% respectively.

Across the Australian market industry sectors in February, resources (+7.2%) and industrials (+6.2%) were the best performing sectors, while banks (-8.2%) and diversified financials (-7.8%) were the worst performing. The relative performance of the Fund in the month was impacted by an underweight position in resources, whereas this position has served investors well over the past 4 years. The decision of Western Union not to lodge a formal bid for Ozforex also impacted performance in the month of February.

## Performance (to 29 February 2016)

**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** | **-4.8%** | -1.8% | **-3.0%** |
| **6 Month net** | **-0.6%** | -4.0% | **+3.4%** |
| **1 Year net** | **-10.4%** | -13.7% | **+3.3%** |
| **3 Years net annualised** | **7.6%** | 3.0% | **+4.6%** |
| **5 Years net annualised** | **6.2%** | 4.9% | **+1.3%** |
| **Since inception net annualised **** | **5.8%** | 4.2% | **+1.6%** |
| **Since inception net total return **** | **75.9%** | 50.2% | **+25.7%** |

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

## Fund Commentary

Auckland International Airport (AIA, 4.0% weight) produced a strong return in the month, gaining 13% following a solid monthly traffic release and first half result where management increased underlying NPAT guidance by 8% at the mid-point of the provided range. The company reported international passenger growth of 7% for the half year and impressive retail income growth of 21%. The strong passenger growth is expected to continue with airlines in the process of adding significant new capacity to their Auckland routes.

Macquarie Atlas Roads Group (MQA, 5.5% weight) was another strong performer, returning 10.5% for the month in the context of a solid full year result. MQA's key asset, the APRR toll road in France, reported EBITDA up 4.5% on the prior year and the company reconfirmed guidance for 2016 distributions of 18cps, up 12.5% on 2015.

Stocks which detracted from performance in the month included Ozforex (OFX, 1.2% weight), which returned -39% following the termination of discussions with Western Union and a disappointing earnings update. Western Union had been in exclusive due diligence with OFX for 10 weeks and OFX management were confident of a deal, but Western Union ultimately did not proceed with an offer. OFX also updated the market that fee and commission income increased by only 9% in the December quarter, which was below expectations, reflecting reduced marketing activity as the company prepared for a rebranding to a single global brand. Management plans to accelerate marketing efforts post the rebranding and has retained a target for $200m in revenues by the 2019 financial year, implying growth of 24% per annum over the next 3 years.

IPH (IPH, 1.1% weight), a leading intellectual property services firm in the Asia Pacific region, returned -22% following a first half result which came in at the lower end of the company guidance range. Nonetheless, the company reported net profit growth of 79% on the prior year, or approximately 23% excluding the benefit of acquisitions and exchange rate changes. The stock returned 49% for the 12 months to the end of February.

Bellamy's (BAL, 1.3% weight) was another stellar 2015 performer which produced a negative return in February, down 21%. The company reported net profit up 294% on the prior corresponding period to $14m and consensus earnings forecasts were upgraded. However, management's guidance on margins for the next half was not as strong as expected. Investors are also concerned about potential regulatory change in China that would disrupt the "grey market" sales channel which has been a key driver of growth. The company does have direct sales channels in place, which provide a significantly higher price point than selling to grey market distributors in Australia. However, the prospect of disruption to the important grey market channel has increased near term earnings uncertainty. Commensurate with this change in the risk profile, the Fund reduced its position in BAL during the month.

## Top Ten Holdings (as at 29 February 2016)

| | ASX Code | Stock Name | Weighting | |
|---|---|---|---|---|
| | | | Fund % | ASX 200% |
| 1 | CBA | COMMONWEALTH BANK OF AUSTRALIA | 9.4% | 9.4% |
| 2 | WBC | WESTPAC BANKING CORPORATION | 7.7% | 7.5% |
| 3 | TCL | TRANSURBAN GROUP | 6.8% | 1.8% |
| 4 | ANZ | ANZ BANKING GROUP LIMITED | 6.7% | 5.1% |
| 5 | MQA | MACQUARIE ATLAS ROADS GROUP | 5.5% | 0.1% |
| 6 | HGG | HENDERSON GROUP | 4.1% | 0.3% |
| 7 | AIA | AUCKLAND INTERNATIONAL AIRPORT | 4.0% | 0.0% |
| 8 | MFG | MAGELLAN FINANCIAL GROUP | 3.7% | 0.2% |
| 9 | NAB | NATIONAL AUSTRALIA BANK LIMITED | 3.7% | 5.0% |
| 10 | SYD | SYDNEY AIRPORT | 3.4% | 1.1% |

## Market commentary

The February company reporting season was a key focus for Australian equity investors in the month. Overall, results were slightly ahead of consensus expectations, which provided a measure of relief to investors concerned about the economic environment. The negative return for the market in the month was therefore more a reflection of global macro concerns than company results.

Following reporting season, the consensus expectation for FY2016 EPS growth for the market ex resources is 3.6%, with resources earnings expected to decline by a material 63.7%. The current EPS growth expectation for the market ex resources represents a lower growth year relative to the 6.0% recorded in FY2015. However, this is predominantly due to the largest capitalisation stocks, including the impact of share issuance by the major banks. Median earnings per share growth expected for the market ex resources is a more respectable 6.0%.

Domestic economic data in the month was mixed, with residential building activity remaining strong and private capex intentions providing a rare (in recent times) positive surprise, while employment growth was weaker, with the unemployment rate edging up to 6.0% and retail sales also coming in below expectations. The Australian dollar strengthened during February, rising half a cent against the USD to finish the month at 71.4c, likely assisted by the increase in commodity prices.

Overseas economic data was negative on balance, with US manufacturing indices and payrolls surprising to the downside, while retail sales marginally outperformed expectations. Chinese exports missed expectations, down 11% on the prior year, while lending activity strengthened and the People's Bank of China announced a 50bp reduction to bank reserve requirements. European manufacturing indices weakened, while remaining in positive territory.

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