CBG ASSET MANAGEMENT

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CBG Australian Equities Fund – March 2016

The CBG Australian Equities Fund returned 3.6% in March, compared with the S&P/ASX200 Accumulation Index return of 4.7%.

For the financial year to date, the Fund returned 2.3%, comfortably outperforming the index return of -3.3%, while over 3 years, the fund has returned 9.3% per annum compared to the index return of 5.4% per annum.

During the month, independent ratings agency Independent Investment Research upgraded the CBG Australian Equities Fund from "Recommended" to Recommended Plus".

March was a positive month for global equity markets (MSCI World Index +6.5%) following a weak start to the calendar year. It was a month of "risk on" with central bank policy still accommodative (the ECB cut rates and the US Federal Reserve pulled back on its interest rate hike path). Iron ore prices rallied once again (+10%) helping to push the AUD up 7% vs the USD (to $0.766), and see it reach its highest level since July 2015.

Across the Australian market industry sectors Financials (+6.7%), Materials (+6.1%) Energy (+5.8%) and Consumer Discretionary (+5.1%) outperformed, while defensive sectors such as Healthcare (+0.3%) and Utilities (+0.8%) lagged.

Performance (to 31 March 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	**3.6%**	4.7%	**-1.1%**
6 Months net	**3.3%**	3.6%	**-0.2%**
1 Year net	**-6.9%**	-9.6%	**2.7%**
3 Years net annualised	**9.3%**	5.4%	**+4.0%**
5 Years net annualised	**6.6%**	5.7%	**+0.9%**
Since inception net annualised **	**6.2%**	4.6%	**+1.6%**
Since inception net total return **	**82.3%**	57.3%	**+25.0%**

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

Fund Commentary

Aconex (ACX, 2.1% weight) performed strongly, up 27.1% for the month (+100% for the financial year to date). ACX announced the acquisition of CONJECT during the month, a cloud and mobile collaboration service provider in Europe. The A$93m acquisition was funded via a A$120m placement. CBG participated in the raising. ACX is a collaboration software company that offers an online platform to the global construction industry and, with the acquisition this month, is consolidating its leadership position in Europe.

IOOF Holdings (IFL, 2.3%) gained 9.6% following a solid 1H16 result in late February, delivered on the back of strong cost performance (including better-than-expected Shadforth synergies). IFL offers exposure to Australia's growing superannuation system but with arguably lower risk than pure fund managers as IFL's Advice and Platforms businesses (c80% of NPAT) are not directly impacted by asset allocation changes and fund performance.

National Australia Bank (NAB, 3.9%) increased 8.5%. The sector caught some favour from investors in the month, as comments in APRA’s Insights publication (No 1 for 2016) were seen to extend the timeframe for building capital levels. This outperformance also came despite ANZ increasing its credit impairment guidance for 1H16 late in the month and the market drawing negative read-throughs for the rest of the banking sector.

Wellard (WLD, 0.3%) shed 21.4% despite the MV Ocean Outback returning to operations after completing repairs to a defective crankshaft in Singapore. WLD’s full fleet is now back in operation as it enters a period of traditionally high livestock demand. WLD has had a tough start to life as a listed entity but the growth outlook remains strong with two further pre-export facilities in Australia and two additional vessels (in April 2016 and 2H17) expected to increase current transport capacity by 78% and drive double digit earnings growth over coming periods.

Sirtex Medical (SRX, 1.4%), declined 9.6% as the Company announced the upcoming departure of a key senior executive that some saw as a potential CEO candidate. With guidance for near term dose sales growth at least in line with the 5 year average of 20% per annum and the release of data from the SARAH study in 2H CY16 to provide a significant new catalyst to assess the long term market potential, we continue to see value in SRX.

Resmed (RMD, 1.4%) declined 8.2% as the AUD appreciated sharply against the USD and the market considered the potential for lower margins following cuts to reimbursements in the USA. The average reduction for continuous positive airway pressure devices was c15%, while the rates on masks that attach to the devices were cut by c14%. We see this as providing only a c1% headwind to earnings and, with margins having bottomed in 4Q15, combined with ongoing revenue growth and accretion from the Brightree acquisition, we see potential for strong earnings growth in 2H16 and FY17. We increased our position in RMD during the month.

Top Ten Holdings (as at 31 March 2016)

	ASX Code	Stock Name	Weighting	
			Fund %	ASX 200%
1	CBA	COMMONWEALTH BANK OF AUSTRALIA	10.4%	9.5%
2	WBC	WESTPAC BANKING CORPORATION	7.8%	7.6%
3	ANZ	ANZ BANKING GROUP LIMITED	6.8%	5.1%
4	MQA	MACQUARIE ATLAS ROADS GROUP	5.4%	0.1%
5	TCL	TRANSURBAN GROUP	5.3%	1.7%
6	HGG	HENDERSON GROUP	4.3%	0.2%
7	NAB	NATIONAL AUSTRALIA BANK LIMITED	3.9%	5.2%
8	MFG	MAGELLAN FINANCIAL GROUP	3.7%	0.2%
9	AIA	AUCKLAND INTERNATIONAL AIRPORT	3.5%	0.0%
10	SYD	SYDNEY AIRPORT	3.4%	1.1%

Market commentary

The Australian market posted its first positive monthly return for the calendar year in March, driven by accommodative central bank policy and a selloff in the USD. Australian miners and banks led the way, while defensive names tended to underperform. Aussie 10 year bonds increased 9bp to 2.49%. Commodity prices were generally higher over the month. Iron ore (+10%, after increasing 19% on 7 March alone) and oil (+9%) posted strong gains, while base metals were mixed with aluminium down (-7%) and copper up (+4%).

Australian economic data was mixed in the period with employment rising a weaker-than-expected 0.3k (consensus +13.5k) though the unemployment rate edged down by 0.2% to 5.8% as the participation rate declined 0.2pts to 64.9%. The NAB Survey of Business conditions rose to +8.3 (from +5.4) while real GDP grew at a stronger-than-expected 0.6% qoq (consensus +0.4%), +3.0% yoy. With data points generally pointing to steady conditions, the RBA left the cash rate unchanged at 2.0% and the market reduced its expectations for near-term rate cuts.

The big surprise for the month came in the form of unexpectedly dovish comments from the US Federal Reserve with the FOMC effectively halving its guidance for the rate hike path from four hikes in CY2016 to two). This commentary came despite an overall firming in US domestic data. Jobs growth was solid with the unemployment rate remaining unchanged at 4.9% but the participation rate increasing 0.2pts to 62.9%. Both the Markit services and manufacturing PMI readings saw improvement and core inflation increased to 2.3% though retail sales were relatively weak (+0.3% excluding auto and gas).

During the month, China's 2016 growth target was lowered to a range of 6.5-7% (vs 7% in 2015) which gave the market confidence that we are unlikely to see a hard landing. However, economic data was mostly weak over the month with official manufacturing PMI falling to 49.0 (from 49.4), the lowest reading since November 2011 while exports for February fell 25.4% yoy (vs an expected -14.5%), the biggest decline since May 2009. Industrial production also grew at its weakest rate since November 2008. With data points continuing to weaken, both Moody's and S&P revised China's rating outlook from "Stable" to "Negative".

Eurozone PMI held up over the period, while core CPI inflation rebounded to +1.0%. With sentiment and confidence indicators still weak, the ECB cut the deposit rate by 10bp to -0.4% and cut its benchmark rate to 0.0% from 0.5% in order to provide further stimulus to the Eurozone. It also announced a €20bn per month expansion of its QE programme (vs an expected €10bn increase) and in a surprise to the market, noted that it would also be buying non-bank investment grade bonds.

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