CBG ASSET MANAGEMENT

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THE AUSTRALIAN FUND MANAGER AWARDS

CBG Australian Equities Fund – April 2016

The CBG Australian Equities Fund returned +0.1% in April, compared with the S&P/ASX200 Accumulation Index return of +3.4%.

For the financial year to date, the Fund returned 2.3%, outperforming the index return of 0.0%, while over 3 years, the fund has returned 7.3% per annum compared to the index return of 5.0% per annum.

April was generally a positive month for global equities markets, with the MSCI World Index rising by 1.5%. Strong gains in commodity prices were a feature, with the iron ore price up 23%, oil up 21% and the gold price up 4%. The month saw ASX index heavy weights Fortescue Metals Group, BHP Billiton, and Rio Tinto all see stock price increases in excess of 20%.

Also noteworthy was the US Federal Reserve maintaining its dovish stance on monetary policy, with expectations for a resumption in rate hikes appearing to be pushed into the back end of 2016.

Across the Australian market, stronger performing sectors included Materials (+14.2%), Energy (+7.7%), Health Care (+3.3%), REITs (+2.8%), while weaker performers were Financials ex REITs (+1.4%), Utilities (-0.4%) and Consumer Discretionary (-1.4%).

Performance (to 30 April 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	**0.1%**	3.4%	**-3.3%**
6 Months net	**-1.6%**	2.6%	**-4.2%**
1 Year net	**-4.6%**	-4.9%	**+0.3%**
3 Years net annualised	**7.3%**	5.0%	**+2.3%**
5 Years net annualised	**6.9%**	6.5%	**+0.4%**
Since inception net annualised **	**6.1%**	4.9%	**+1.2%**
Since inception net total return **	**82.4%**	62.6%	**+19.8%**

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

Fund Commentary

Sealink Travel Group (SLK, 1.5% weight) rose 8.1% for the month. The stock continues to be re-rated by investors given its strong earnings momentum and exposure to domestic travel. The company held an investor day in mid-March which highlighted a number of organic growth drivers for earnings. In addition, recent acquisitions of Transit Systems Marine and Captain Cook Cruises WA have further diversified the group's earnings.

Aconex (ACX, 2.1% weight) increased 6.2% in the month. In early April, ACX announced an enterprise agreement with US based Fluor Corporation, a global engineering and construction firm. The three year agreement will see Fluor implement ACX's software across its business units and new products globally. The announcement is another positive indicator that ACX's software continues to gain traction in the global construction industry.

Millenium Group (MIL, 0.9% weight) fell 22.2% in the month. The main near term issue impacting sentiment for the stock is the soft first half result, with some doubt over the company achieving its FY16 prospectus forecasts. Despite this, the stock now trades on a PE multiple of ~10x and has a solid pipeline for new revenue going into FY17. Pleasingly the stock has since recovered by ~14% in the month of May to date.

Lendlease Group (LLC, 2.7% weight) fell 8.8% in the month. The stock price declined on concerns around settlement of apartment pre-sales as Australian banks tightened lending criteria for offshore borrowers, in some cases ceasing lending for applicants reliant on offshore income. To date, LLC has continued to report defaults on settlement of less than 1% which is below the long term average of 3%.

Top Ten Holdings (as at 30 April 2016)

	ASX Code	Stock Name	Weighting	
			Fund %	ASX 200%
1	CBA	COMMONWEALTH BANK OF AUSTRALIA	10.3%	9.3%
2	WBC	WESTPAC BANKING CORPORATION	7.5%	7.5%
3	TCL	TRANSURBAN GROUP	5.7%	1.8%
4	MQA	MACQUARIE ATLAS ROADS GROUP	5.4%	0.2%
5	ANZ	ANZ BANKING GROUP LIMITED	4.9%	5.1%
6	NAB	NATIONAL AUSTRALIA BANK LIMITED	3.9%	5.4%
7	HGG	HENDERSON GROUP	3.8%	0.2%
8	AIA	AUCKLAND INTERNATIONAL AIRPORT	3.6%	0.0%
9	SYD	SYDNEY AIRPORT	3.4%	1.2%
10	MFG	MAGELLAN FINANCIAL GROUP	3.3%	0.2%

Market commentary

Global equities markets generally rose during April, boosted by massive outperformance from Mining stocks and to a lesser extent Energy stocks, as commodity prices surged. The Bank of Japan's surprise decision not to extend its current monetary policy easing stance surprised markets, which resulted in the Nikkei being sold off (-0.6% for the month) in line with the appreciating Yen.

Unsurprisingly, the resource heavy ASX performed well, with the ASX 200 increasing by 3.4% in the month. Materials increased 14.3%, whilst Energy was up 7.5%. This saw the Australian equity market finish April near 8 month highs.

Oil rose strongly (+21% for the month) to its highest level since November 2015. This was despite the fact that mid-April, the much anticipated meeting of oil producers in Doha ended with no agreement to limit supplies. The main driver of the strength in commodity prices appeared to be supportive Chinese economic data and US dollar weakness.

Iron ore and steel continued to rally sharply despite efforts by Chinese authorities (increasing transaction fees on iron ore and steel rebar futures) to curb speculation.

The Australian dollar rallied for most of the month (hitting US$0.78 for the first time since June 2015), but overall finished lower after a weak Australian CPI figure was reported late in the month.

Headline CPI for 1Q of 2016 grew at negative 0.2% quarter on quarter (consensus +0.2%), the first negative print since 4Q of 2008. More importantly, underlying inflation measures were also well below expectations.

In Australia, employment grew by a stronger than expected 26,000 (month on month), versus consensus expectations of 17,000, and the unemployment rate fell to 5.7% (consensus 5.9%). This was the lowest unemployment rate since September 2013. The contrasting economic data for Australia paints a conflicting picture of the domestic economy, with a key concern of the RBA continuing to be the strength of the Australian dollar.

The fund remains underweight the Materials and Energy sectors, which negatively impacted the fund's relative performance in recent months, despite being a positive contributor to returns over the last few years. Generally speaking our view is that stocks in these sectors have uncertain earnings growth prospects, particularly on a 3-5 year time frame, with an unhealthy reliance on Chinese heavy construction and infrastructure spend. Currently, the fund has a preference for stocks in other sectors, which have more predictable and higher quality earnings streams.

Overall, the ASX continues to trade on valuations in line with historical averages, with the FY17 PE of the market (ex resources, LPT's and Banks) being 16.7x. Monetary policy globally continues to be very accommodative, which should result in an improvement in earnings growth (although to date monetary policy has not had the expected impact). The investment team remains focussed on identifying companies that meet our criteria in terms of business quality, earnings growth and valuation.

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