CBG ASSET MANAGEMENT

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THE AUSTRALIAN FUND MANAGER AWARDS

CBG Australian Equities Fund – July 2016

The CBG Australian Equities Fund returned +7.0% in July, compared with the S&P/ASX200 Accumulation Index return of +6.3%.

In the last twelve months, the fund has delivered 3.8% vs the S&P/ASX200 return of 2.4%.

July was a very strong month for equities globally with Australia outperforming. In the US, the S&P500 index underperformed though still recorded a fresh high, helped by a reasonable 2Q earnings season. Mining stocks outperformed, aided by a rising iron ore and gold price. The Energy sector underperformed, weighed down by a falling oil price.

Monthly returns varied across the globe with the German Dax rising 6.8%, the Nikkei gaining 6.4%, the S&P500 up 3.7%, and the FTSE100 up 3.4% in the month. The Shanghai Composite underperformed, returning +1.7%.

Across the Australian market, the strongest performing sectors were Consumer Discretionary (+8.9%), Consumer Staples (+8.5%) and Materials (+7.8%), while Financials (+5.9%) and Telco’s (+4.2%) lagged the market.

Performance (to 31 July 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	**7.0%**	6.3%	**0.7%**
6 Months net	**5.5%**	13.7%	**-8.2%**
1 Year net	**3.8%**	2.4%	**+1.4%**
3 Years net annualised	**10.0%**	8.0%	**+2.0%**
5 Years net annualised	**9.8%**	9.6%	**+0.2%**
Since inception net annualised **	**6.7%**	5.5%	**+1.2%**
Since inception net total return **	**94.8%**	73.8%	**+21.0%**

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

Fund Commentary

Stocks which produced notable positive returns in the month included Sirtex (SRX, 1.3% weight), which returned 23.1% after reporting full year dose sales growth of 16.4%. The stock had been sold down in June after the company downgraded expectations for 20% dose sales growth, while the result was towards the upper end of the revised 15%-17% guidance range. Growth in the key US market was 19%, with slower growth in Europe of 11% potentially transitory as the company navigates are more complex reimbursement environment there. A key catalyst for SRX in the near term will be the release of the results from the SARAH study into primary liver cancer, expected in late CY2016 or early CY2017.

IOOF (IFL, 2.3% weight) returned 15.5% given leverage to the strong equity market returns in the month. While IFL has generated only modest growth from inflows in recent years, the business has a track record of controlling costs, which provides strong operating leverage when market returns lift fees from funds under administration, advice and management.

Bellamy's Australia (BAL, 0.8% weight) returned 14.6% in the month. Following a sharp fall in the stock price in early 2016 due to uncertainty around Chinese regulatory changes, investors now appear to be more relaxed around this key issue. In addition, Chinese demand for foreign made infant formula remains very strong, with a 25% increase (by value) of formula imported in the 6 months to 30 June 2016 vs pcp.

Eureka Group (EGH, 2.2% weight) fell 8.6% in the month, despite no negative news flow. The stock has been a strong performer having risen by 41% in the last 12 months. During the month, EGH announced the completion of the acquisition of 36 units located at Couran Cove Island Resort in Queensland for $2.1m. With this village, EGH also has plans to acquire an additional 65-90 units, with the village set to become a material profit generator for the group.

Top Ten Holdings (as at 31 July 2016)

	ASX Code	Stock Name	Weighting	
			Fund %	ASX 200%
1	CBA	COMMONWEALTH BANK OF AUSTRALIA	10.4%	9.1%
2	WBC	WESTPAC BANKING CORPORATION	7.6%	7.0%
3	MQA	MACQUARIE ATLAS ROADS GROUP	6.5%	0.2%
4	TCL	TRANSURBAN GROUP	5.5%	1.7%
5	ANZ	ANZ BANKING GROUP	5.4%	5.4%
6	HGG	HENDERSON GROUP	4.2%	0.2%
7	MFG	MAGELLAN FINANCIAL GROUP	4.2%	0.2%
8	AIA	AUCKLAND INTERNATIONAL AIRPORT	4.0%	-
9	NAB	NATIONAL AUSTRALIA BANK	3.8%	4.9%
10	SYD	SYDNEY AIRPORT	3.7%	1.1%

Market commentary

The Australian market started FY17 very strongly, with the turning point coming on 8 July, with the release of a much better than expected US payrolls number. Equities rallied hard following that data point for the rest of the month. In addition, the expectation of further global monetary policy support continue to underpin risk assets in general and equity markets more specifically.

The Australian dollar finished the month +2.0% against the US dollar on marginally firmer than expected 2Q CPI numbers and slightly more dovish commentary from the US Federal Reserve. The Australian Federal election resulted in the incumbent Liberal/National Coalition returning to power, albeit with a vastly reduced majority in the Lower House of Parliament.

Commodity prices generally were higher in the month. The gold price hit its highest level since March 2014, closing at US$1342 per ounce, up 1.6% for the month, while the iron ore price increased 8.5%. Of note, oil recorded its biggest monthly decline for the year (-15%), and is down 19% from its early June high. The main driver of the decline appears to be renewed fears of a supply glut.

Global government bond yields generally fell during the month, hitting new record lows, as markets reassessed the likelihood and timing of future rate hikes from the Fed. The US 10 year Treasury yield hit a record low of 1.37% despite strong US economic data, the Australian government 10 year bond yield hit a record low of 1.86%, German 10 year Bunds yields hit a record low of -0.18%, and UK 10 year Gilt yields hit a record low of 0.7%.

On 7 July, S&P revised Australia's sovereign credit outlook to "negative" from "stable", with the credit rating maintained at AAA, arguing "prospects for improvement in budgetary performance have weakened following the recent election outcome".

Looking into financial year 2016/17, there are a number of macro-economic concerns (Brexit, potential Trump presidency, the US Fed's rate hike path and China's ongoing economic transition) that are likely to cause uncertainty in global equity markets. Despite the low growth environment, we remain confident of identifying companies that can grow earnings through the cycle and this is where our focus will be over the coming months.

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