Quarterly Update

Issued November 2019

Whitefield is pleased to report a further period of Operating Profit growth for the half year ended 30 September 2019.

Earnings

Operating Profit after Tax grew to $9,727,325 for the six months to 30 September 2019, an increase of 3.1% on the outcome for the equivalent half in the prior year. After allowing for increases in share capital and preference share dividends, this translates to Earnings Per Ordinary Share of 9.87 cents, representing growth of 7.4% on the prior year's first half equivalent.

While we continued to see distribution growth across a majority of holdings within the portfolio, cuts in dividend income from a small number of larger holdings including Telstra, AMP and NAB were also evident. Notable increases in dividends were received from ASX, CSL, Macquarie Group, Medibank, QBE and Aristocrat.

Operating costs and tax expenses were consistent with prior periods, while the company continued to receive the flow-on benefit from the 2018 reset of Whitefield's preference shares.

FINANCIAL OUTCOMES

	6 Months to 30 Sep 19	6 Months to 30 Sep 18	% Change
Revenue[1]	11,324,344	10,951,152	3.4%
Profit[1] before Tax	10,122,392	9,828,903	3.0%
Income Tax Expense	(395,067)	(394,705)	0.9%
Profit[1] after Tax	9,727,325	9,434,198	3.1%
Earnings[1,2] Per Share	9.87cps	9.19cps	7.4%

[1] Revenue, Profit and Earnings include investment distributions and dividends but not include movements in the value of investments or capital gains
[2] Earnings Per Share reflects Net Profit After Tax and After Preference Share Dividends per Ordinary Share

Dividends

Whitefield has declared the following dividends for the half year, representing the 30th consecutive year in which the company has maintained or increased its ordinary dividend:

	Cents
Ordinary Shares [WHF]	10.25
Convertible Resettable Pref Shares [WHFPB]	201.25
8% Preference Shares [WHFPA]	4.00
Franking	100%
% Attributed to LIC Disc Gains	10%
Record Date	26 Nov
Payment Date	12 Dec

Net Asset Backing

NET ASSET BACKING

At 30 Sep 2019	
Net Asset Backing [NAB] (Pre-Deferred Tax)	$498.3m
Ordinary Shares on Issue	92,114,289
Convertible Resettable Pref Shares (Face Value)	$32.1m
Net Asset Backing per Share (Pre-Deferred Tax)	$5.41
Net Asset Backing per Share (Post-Deferred Tax)	$4.91
Share Price	$4.99
(Discount)/Premium to NAB (Pre-Tax)	(7.8%)
(Discount)/Premium to NAB (Post-Tax)	1.6%

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Reliable returns through a structured and disciplined investment strategy that can be consistently applied over time.

Portfolio Return

The investment portfolio generated a six month return of 11.7%. One, three, five and ten year annualised returns all now sit in the 9-11% range.

While the half year investment return was particularly strong at an outright level, this return fell slightly below the benchmark index (S&P/ASX200 Industrials Accumulation). The differential between the returns is partly attributable to the low interest rates achievable on cash we accumulate to pay our six monthly dividends (compared to the strong market return) and partly to the differences between Whitefield and the Index's investment holding weightings.

Stronger returning stocks within the portfolio over the half year included CSL, ResMed, Medibank, Aristocrat, Magellan Financial, Stockland, REA, Aurizon, Woolworths and the major banks.

INVESTMENT RETURNS

At 30 September 2019	One Qtr	One Yr	Five Yr pa
Before Tax Returns			
Investment Portfolio	3.25%	11.40%	9.29%
Benchmark [ASX200 Ind XJIAI]	3.93%	12.86%	9.82%
After Tax Returns			
Net Asset Backing (Pre-Def Tax)	3.38%	10.68%	8.54%
Net Asset Backing (Post-Def Tax)	2.95%	9.61%	7.88%
Share Price	2.68%	10.65%	7.61%

Quarter Ended 30 Sep 2019	Portfolio Weight	Weighted Contribution to Performance
TOP 5 CONTRIBUTORS TO PERFORMANCE		
CSL Limited	6.95%	0.64%
National Australia Bank Limited	5.25%	0.55%
Woolworths Group Limited	3.64%	0.43%
Wesfarmers Limited	3.06%	0.40%
Westpac Banking Corporation	6.67%	0.28%
TOP 5 DETRACTORS TO PERFORMANCE		
Telstra Corporation Limited	3.35%	(0.24%)
CIMIC Group Limited	0.49%	(0.18%)
Inghams Group Ltd	0.57%	(0.15%)
Amcor PLC CDI	1.00%	(0.14%)
Brambles Limited	1.05%	(0.13%)

Investment Exposures

During the quarter adjustments to investment exposures included:

- Increasing exposure to stocks in the Asset Play, Consumer and Technology sectors;
- Decreasing exposure to stocks in the Healthcare, Insurance and Diversified Financials sectors.

TOP TWENTY HOLDINGS

As at 30 September 2019	
Commonwealth Bank Of Australia	9.49%
CSL Limited	6.95%
Westpac Banking Corporation	6.67%
ANZ Banking Group Limited	5.63%
National Australia Bank Limited	5.25%
Woolworths Group Limited	3.64%
Telstra Corporation Limited	3.35%
Wesfarmers Limited	3.06%
Macquarie Group Limited	2.74%
Transurban Group	2.35%
Aristocrat Leisure Limited	1.66%
Goodman Group	1.53%
Mirvac Group	1.29%
Aurizon Holdings Limited	1.28%
APA Group	1.27%
AGL Energy Limited	1.25%
Insurance Australia Group Limited	1.22%
Sydney Airport	1.21%
Sonic Healthcare Limited	1.20%
Coles Group Limited	1.17%

SECTOR BREAKDOWN

As at 30 September 2019	
Commercial Banks	27.24%
Healthcare	10.98%
Real estate	9.94%
Financials ex Banks	9.49%
Industrials	9.44%
Consumer Discretionary	8.38%
Consumer Staples	7.80%
Communication Services	5.01%
Information Technology	3.62%
Utilities	3.54%
Materials	3.09%
Cash & Equivalents	1.47%

Market Outlook

Australian business conditions remain mildly positive, with the economy displaying a low but positive level of growth. Government services, healthcare, business services, industrial activity, consumer staples and infrastructure development remain as positive contributors.

Less favourably, housing construction continues to fall relative to prior year peaks of activity, and a range of businesses exposed to discretionary consumer spending have experienced weaker conditions.

Earnings in the financial sector seem to be troughing and this has been reflected by some pick-up in investor interest towards stocks in this segment. Nevertheless, the sector continues to grapple with an ever-more complex regulatory environment. While the regulatory intent is well-meaning, the practical impact appears to be detrimental to many consumers, as a result of a lowering of competition as businesses exit the sector due to both cost and complexity, and a material increase in costs that must be borne by customers if they wish to receive services.

We reiterate our prior comments that the ultra-low interest rate policy being adopted by the RBA is not only failing to stimulate the economy but has significant adverse side-effects. These include very materially lowering income for the large retiree sector and raising house prices to levels that are either unaffordable or require debt funding at such high levels that it creates both excessive risk and consumer caution.

The obvious solution to this situation would be for the Government to increase spending on productive activities, an action which could be conveniently funded at the extremely cheap level of today's interest rates. Over time such a policy should see wages inflate, interest rates and retiree income rise, housing affordability and debt levels improve and consumer caution decline. If the spending was well directed, such a process could also have the extremely important benefit of driving Australia into the development of new sectors of competitive advantage including the development of cost-efficient sustainable energy sources.

A growing weight of economic and academic thought is emerging in support of our thesis at both an Australian and global level, and we consider that this increases the likelihood that many governments will move towards the greater use of fiscal stimulus over the next year.

Global uncertainty has been high, with issues such as Brexit, the US-China trade dispute and the fragile state of global political leadership weighing on the minds of businesses and consumers alike. The combination of this uncertainty with the punitive effect of rising trade barriers have seen global economic activity start to slow.

As we look towards 2020 there is some potential for progress to be made in the resolution of these challenges. In particular, progress in improving trade relations and removing barriers to trade between the US and China would be favourable for markets, economic activity and the direction of interest rates.

We will look to report to shareholders on our outcomes as we move into the second half of Whitefield's financial year.

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