

13 July 2016

## **CBG Capital Limited Net Tangible Assets (NTA) per share report and performance update for June 2016**

Please find below CBG Capital Limited's monthly NTA per share report as at 30 June 2016, together with a performance update.

**Ronni Chalmers**



**Chief Investment Officer**

## Net tangible assets report and performance update

June 2016

Net tangible assets per share			CBG Capital	
	May-16*	Jun-16	ASX Code	CBC
NTA pre-tax	\$0.9981	\$0.9578	Option Code	CBCO
NTA post-tax**	\$0.9854	\$0.9574	Listing date	19 December 2014
* The May NTA is post the 1.6cps fully franked dividend, which was paid during the month			Shares on issue	24.6 million
**Please note that the post-tax figures are theoretical, assuming that all holdings in the portfolio are sold and then tax paid on the gains that would arise on this disposal.			Options on issue	24.2 million
			Exercise price	\$1.00
			Options expiry	30 September 2016
			Benchmark	S&P/ASX 200 Accumulation Index
			Number of stocks held	45
Portfolio performance (after fees)				Contact
	NTA pre-tax %	Benchmark %	Excess %	Ronni Chalmers
1 month	-4.0	-2.5	-1.5	<b>Chief Investment Officer</b>
3 months	-0.4	3.9	-4.3	<a href="mailto:rchalmers@cbgam.com.au">rchalmers@cbgam.com.au</a>
1 year	1.9	0.6	+2.5	Boardroom
Since inception	0.6	3.4	-2.8	<b>Share registry</b>
				1300 737 760

CBG Capital returned -4.0% in June, compared with the S&P/ASX200 Accumulation Index return of -2.5%.

For the 2015/16 financial year the portfolio returned 1.9%, ahead of the index return of 0.6%.

June was a volatile month for global equities as the market oscillated in its view on the outcome of the UK referendum and the FOMC's monetary policy stance. A weaker-than-expected US non-farm payroll print early in the month saw the market rise as it priced out the risk of a Fed rate hike in June and July, while markets sold-off heavily later in the month as the UK voted to leave the EU. By month's end, the FTSE actually finished up, while European bourses finished well in the red. Commodities largely rallied over the month (iron ore +8%) providing support for the AUD which strengthened 3% vs the greenback.

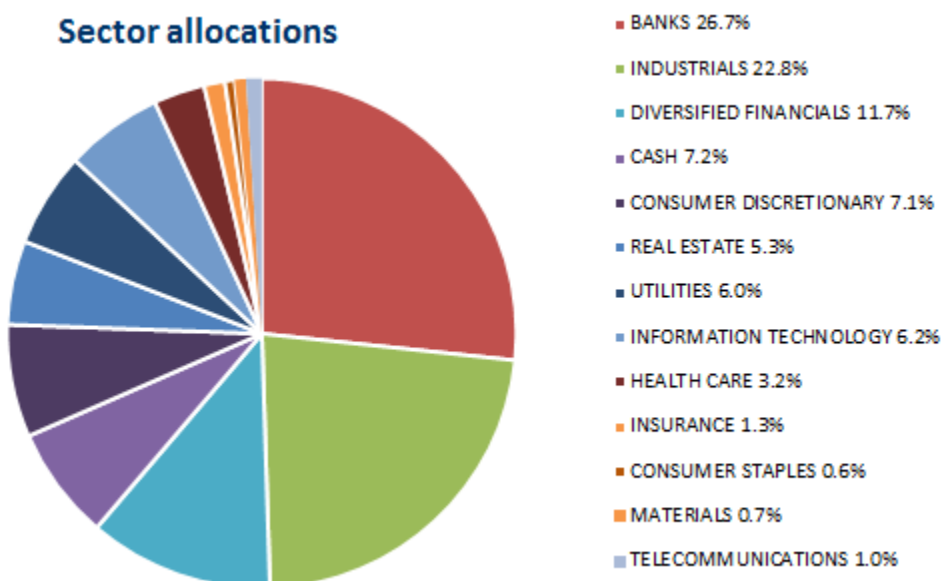
Monthly returns varied across the globe with the FTSE100 rallying 4.4% in the month (reflecting GBP weakness in the period with the less internationally focused FTSE250 declining 5.3%), the Shanghai Composite returned +0.4%, the S&P500 rose 0.1%, the NZ50 fell 2%, the German Dax declined 5.7% and the Nikkei lost 9.6%.

Across the Australian market, the strongest performing sectors were Utilities (+4.8%), A-REITs (+2.1%) and Materials (+0.2%), while Technology (-7.9%), Financials x-REIT (-6.0%) and Staples (-4.1%) lagged the market.

### Top 10 holdings as at 30 June 2016

ASX Code	Name	Weight
CBA	COMMONWEALTH BANK OF AUSTRALIA	10.6%
WBC	WESTPAC BANKING CORPORATION	7.4%
N/A	CASH	7.2%
TCL	TRANSURBAN GROUP	5.8%
MQA	MACQUARIE ATLAS ROADS GROUP	5.7%
ANZ	ANZ BANKING GROUP LIMITED	5.1%
HGG	HENDERSON GROUP	3.9%
NAB	NATIONAL AUSTRALIA BANK LIMITED	3.7%
AIA	AUCKLAND INTERNATIONAL AIRPORT LTD	3.6%
MFG	MAGELLAN FINANCIAL GROUP	3.5%

### Sector allocations



### Portfolio commentary

Stocks that delivered strong performance for the portfolio in June include Class Limited (CL1, 1.1% weight) which rallied 15.4% for the month, after returning 14.4% in May. CL1 is the dominant provider of cloud based SMSF administration software in Australia. While only c25% of total SMSF administration is now occurring on cloud based platforms, this service is growing rapidly at the expense of desktop solutions providing a strong growth platform for the business. CL1 also recently launched "Class Portfolio" which is tailored for accountants working on family trusts. CL1 believes this product has strong cross selling opportunities and better ability to increase pricing than Class Super.

DUET Group (DUE, 3.0% weight) returned 14.2%. This outperformance largely reflected Spark Infrastructure (SKI) unwinding its position on DUE's register (which was largely seen as an overhang for the stock) and the Group marking its first acquisition in the renewable generation (wind) space. DUE has been diversifying its earnings base over recent periods away from pure regulated assets while still maintaining a largely secure and transparent revenue stream, providing further support for its growing distribution over the medium term.

APA Group (APA, 2.9% weight) returned 10.6%. APA is the largest owner of gas transmission pipelines along Australia's east coast. With gas prices spiking over the month, there is increased likelihood that APA can supplement its contracted revenue base with short term capacity sales as gas customers look for the cheapest available gas. We continue to see upside in APA given its strong network of gas transmission assets and ability to sell value-added services to the market.

Stocks that detracted from portfolio performance in the month include Henderson Group (HGG, 3.9% weight), which returned -31.2% following the UK's surprise referendum outcome. HGG is a UK based fund manager, although revenues are linked to globally invested funds under management. The UK's decision to leave the EU impacted confidence for both the UK and European economic outlook, with likely negative impacts on HGG fund flows and market performance. We believe that HGG was oversold on these concerns and added to our position late in the month.

BT Investment Management (BTT, 1.2% weight) was also sold off heavily (-21.4%) following the Brexit vote. Approximately 50% of funds under management of J.O. Hambro (one of BTT's core businesses and c80% of Group NPAT) is in UK equities. With FUM growth slowing and now risks around a slowing UK economy, we have reduced our position over recent months.

Sirtex Medical (SRX, 1.2% weight) declined 18.8% following a downgrade in FY16 revenue growth guidance early in the month (to full year dose sales growth of 15-17% from 19-20%). While growth in FY16 is now expected to trail its last 5-year compound average run rate, with SRX's SIR-Spheres Y-90 resin microspheres product having only penetrated c2% of the addressable market to date, we believe SRX's outlook remains solid.

## Monthly market commentary

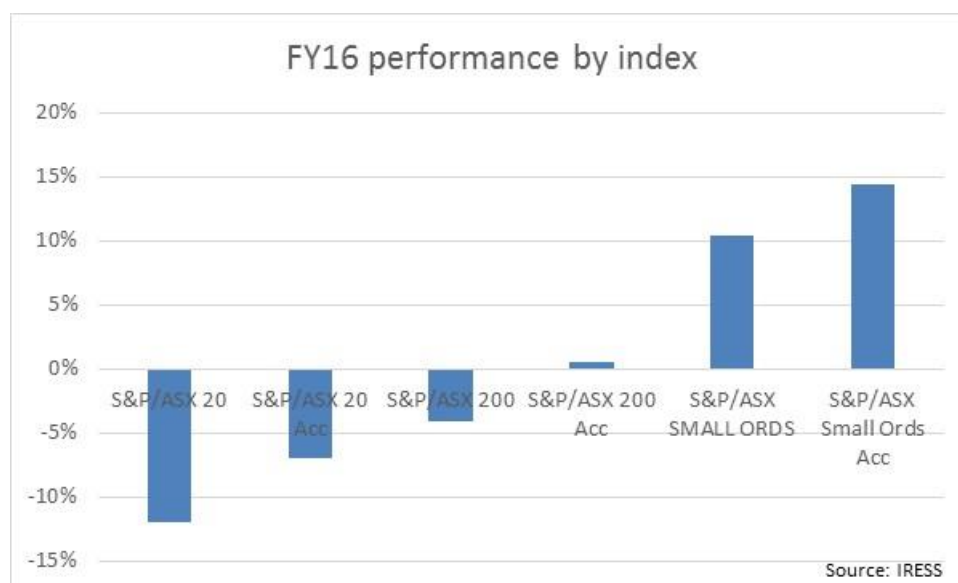
The Australian market finished the 2015/2016 financial year weakly, declining 2.5% for the month as the Brexit vote triggered a selloff in equities. Defensive sectors led the way in June while technology and financials tended to underperform. Aussie 10 year bonds declined 32bp to a record low 1.99%, while the overall curve flattened, reflecting the flight away from risk. Commodity prices were generally higher over the month. Iron ore (+8%) and Gold (+9%) posted strong gains, while oil (Brent) remained unchanged at US\$49.70/bbl.

Australian economic data surprised to the upside in June with a stronger than expected 1Q16 GDP outcome resulting in the RBA leaving the cash rate unchanged. Retail sales increased 0.2% m-o-m, dragged down by food (-0.3%). Excluding food, retail sales increased 0.5%. Employment increased by 17.9k positions (consensus +15.0k) though the unemployment rate and participation rate remained steady at 5.7% and 64.8% respectively. In the NAB Business Survey, conditions held steady at +10 while confidence fell from +5 to +3. While data points are generally pointing to steady conditions, the June quarter CPI print (to be announced 27 July) is widely expected to see inflation remain below the RBA's 2-3% target, leading to the RBA reducing the cash rate by a further 25bp (to 1.50%) in August.

In the USA, the Fed left rates on hold in June and expectations firmed for only one further rate hike in CY16 (from two) despite broadly solid data points being released during the month. Non-farm payrolls disappointed (+38k vs +160k expected) though 1Q GDP was revised up to +1.1% annualised (from +0.8%). The Markit Services PMI was steady at 51.3 in June (forecast 52.0) and when combined with the Markit Manufacturing PMI outcome the Composite PMI rose to 51.2 from 50.9. The consumer confidence index rose to 98.0 in June, the highest level since October 2015.

During the month, China's economic transition took a backseat to events in Europe and the USA. Economic data was mostly benign though consumer confidence increased to 115.9 from 114.2 in May. Manufacturing PMI came in at 50.0 in June, as expected, while non-manufacturing PMI came in at 53.7, up from 53.1 in May. Industrial production rose +6.0% yoy in May which was in line with expectations and flat on the April outcome. Retail sales grew by 10.0%, slightly weaker than the forecast of +10.1% and the April outcome of +10.1%.

In Europe, the UK voted to leave the EU after 43 years of membership. With UK Prime Minister David Cameron subsequently announcing his intention to resign from office, this caused great uncertainty for markets towards the latter part of the month. The BoE and ECB both issued statements expressing their commitment to maintaining monetary and financial stability. Markets took this to mean more stimulus is likely causing them to recover somewhat by the end of the month. With political uncertainty increasing in Europe, the outlook remains clouded.



For the financial year, the ASX 200 price index declined 4.1%, while the Accumulation Index finished up 0.6%. This is the first negative return since 2011/12. 2016 also saw a strong divergence in performance between large and small cap stocks with the ASX20 declining 11.9% (-7.0% accumulation) while the Small Ords advanced 10.4% (+14.4% accumulation). This divergence highlights the benefits of investing with a flexible investment mandate. On a sector-by-sector basis, healthcare and A-REITs performed most strongly (+18.8%), followed by Utilities (+18.5%) while Financials x-REITs (-13.9%) and Materials (-8.1%) lagged the market.

Looking into financial year 2016/17, issues such as Brexit and its economic consequences, a potential Trump presidency, the US Fed's rate hike path and China's ongoing economic transition are all issues that are likely to cause uncertainty in the market and potentially impact market EPS growth. We believe that such global uncertainty is likely to see further stimulus in certain economies and the US Fed push out its rate hike path in the short to medium term. We therefore expect rates to continue to remain lower for longer, and the portfolio remains positioned to benefit from such a thematic.

**Ronni Chalmers**



**Chief Investment Officer**

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