Net tangible assets report and performance update

September 2016

Net tangible assets per share

	Aug-16	Sep-16
NTA pre-tax	$1.0044	$0.9896*
NTA post-tax**	$0.9912	$0.9820*

*Cum 1.5cps dividend to be paid on 24 November.
**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.

CBG Capital

ASX Code	CBC
Listing date	19 December 2014
Shares on issue	24.6 million
Benchmark	S&P/ASX 200 Accumulation Index
Number of stocks held	47

Portfolio performance (after fees)

	NTA pre-tax %	Benchmark %	Excess %
1 month	-1.5	0.5	-2.0
3 months	3.3	5.1	-1.8
1 year	6.2	13.2	-7.0
Since inception p.a.	2.3	5.9	-3.6

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CBG Capital returned -1.5% in September, compared with the S&P/ASX200 Accumulation Index return of 0.5%. For the quarter, the portfolio returned 3.3%, compared to the index return of 5.1%.

The company has declared a 1.5c per share dividend for the half year, to be paid on 24 November.

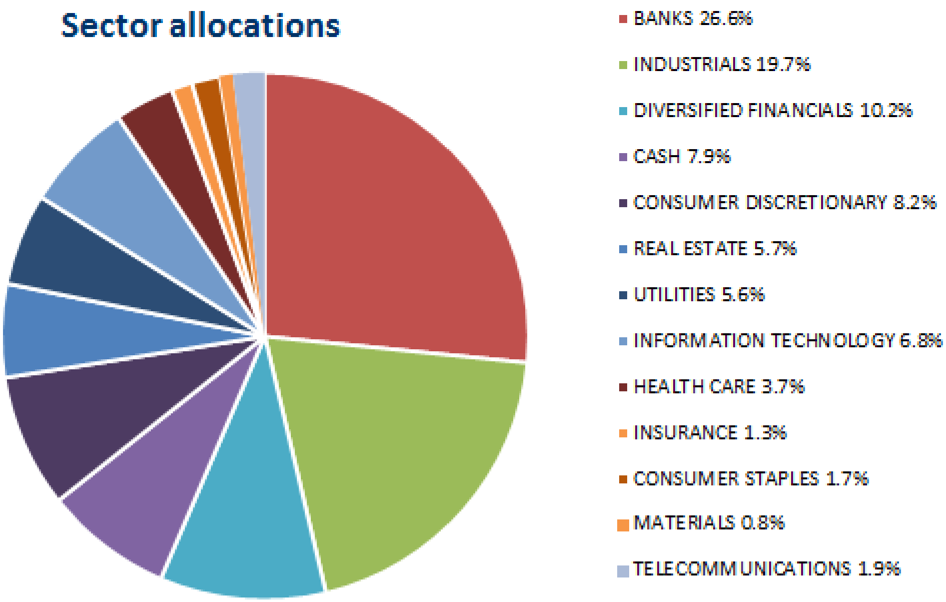
The resources sector drove the market return in the month, gaining 5.8% while the market ex-resources declined by 0.7%. Conversely, the transport infrastructure and utilities sectors pared gains in response to a sell-off in bonds in the first half of the month. The portfolio is relatively underweight the resources sector and overweight transport infrastructure and utilities, so this worked against the fund return in the month.

The Australian equity market outperformed most international markets, gaining +0.5% while the S&P 500 returned -0.1%, the Shanghai Composite fell -2.6% and the Nikkei 225 also declined -2.6%. The German Dax returned -0.8% and the NZX50 was down -0.5%, while the FTSE 100 gained +1.7%, benefiting from a lower GBP exchange rate.

Across the Australian market, the strongest performing sectors were resources +5.8%, consumer staples +1.7% and information technology +0.8%, while property -4.3%, telecommunications -4.0% and utilities -3.3% lagged the market.

Top 10 holdings as at 30 September 2016

ASX Code	Name	Weight
CBA	COMMONWEALTH BANK OF AUSTRALIA	9.9%
N/A	CASH	7.9%
WBC	WESTPAC BANKING CORPORATION	7.2%
ANZ	ANZ BANKING GROUP LIMITED	5.6%
TCL	TRANSURBAN GROUP	5.3%
MQA	MACQUARIE ATLAS ROADS GROUP	4.5%
NAB	NATIONAL AUSTRALIA BANK LIMITED	3.9%
HGG	HENDERSON GROUP	3.8%
AIA	AUCKLAND INTERNATIONAL AIRPORT LTD	3.6%
MFG	MAGELLAN FINANCIAL GROUP	3.3%



Portfolio commentary

Stocks that delivered strong performance for the portfolio in the month included BigAir Group (BGL, 0.4% weight), which returned 31.0% after announcing the proposed acquisition of the company by Superloop (SLC) via a scheme of arrangement. The proposal is recommended by the BGL directors with the market value of the offer representing a 30-37% premium to BGL's August 31 closing price.

Class (CL1, 1.7% weight) returned 13.7% as investors continue to be attracted to the strong growth CL1 is achieving in its cloud based self-managed super fund platform. In August, CL1 reported 52% growth in earnings per share for the FY16 year and in September the company was included in the ASX 300 Index.

Stocks that detracted from fund performance in the month included Macquarie Atlas Roads Group (MQA, 4.5% weight), which returned -8.3% as an increase in bond rates impacted the sector and Macquarie Group, MQA's manager, reduced its position. MQA has been a strong performer in the portfolio, returning 32.9% for the 12 months to September, while the position was reduced during the month on profit taking.

Magellan Financial Group (MFG, 3.3% weight) returned -8.2% in the month, reflecting volatility in equity markets and a 1.9% strengthening of the AUDUSD. MFG continues to record very strong inflows into its funds, with $416m of August inflows reported during the month. Retail inflows were equivalent to an annualised 30% of retail FUM, while institutional flows were a more modest 4% annualised. Retail FUM now accounts for more than 50% of group management fees.

Henderson Group (HGG, 3.8% weight) also returned -8.2% in the month, given similar exposure to equity markets and currency. Pleasingly, the company announced a materially accretive planned merger with Janus Capital (NYSE: JNS) in early October, with the stock returning 13.1% for the month to date. HGG and JNS have complementary global footprints, with HGG being overweight Europe, while JNS is overweight the US. Management's target to remove 9% of the combined cost base is expected to increase the combined group EBITDA by 16%.

Monthly market commentary

The Australia government 10 year bond rate increased by 30bp intra-month to 2.12%, before pulling back to finish the month at 1.91%. This was in response to less dovish commentary from the ECB and firming expectations of a US Federal Reserve rate rise this year. However, on the 21st of September, the Federal Reserve left rates unchanged and reported its "dot plot" showing a lowering of interest rate projections, which caused a partial reversal of the bond rate movements.

Australian Government 10 year Bond Yield

Source: IRESS

CBG expects bond yields to increase over the medium term. Consequently, our holdings in the transport and utilities sectors are weighted to companies with strong medium and long term growth prospects, so that returns are less dependent on interest rate driven valuation movements. Similarly, the fund is underweight the interest rate sensitive property trust sector.

Australian economic data was generally positive in September, with GDP for the second quarter coming in slightly ahead of expectations at 3.3% year on year, the strongest pace in four years. Employment decreased by 4k jobs, but with a 12k increase in full time jobs.

The RBA kept the official cash rate stable at 1.5% during the month. The new RBA Governor, Philip Lowe, emphasised in a speech to the House of Representatives Standing Committee on Economics that the RBA has a *flexible* inflation targeting framework. He commented that this means that "we have not seen our job as always keeping inflation tightly in a narrow range". This suggests that the RBA may not feel compelled to continue to lower interest rates to achieve the target of 2-3% inflation in the short term, subject to the development of their medium term expectations for inflation and growth in employment and incomes.

Commodity prices increased overall in September, with hard coking coal up a massive 54%, oil gaining 7% and copper up 5%. Gold was flat and iron ore bucked the trend, declining by 4% in the month.

US economic data was generally weak in the month, with the ISM Manufacturing index falling to 49.4 from 52.6. Similarly, non-farm payrolls increased by a weaker than expected 151k, compared to consensus of 180k, while this followed two strong months.

Chinese economic data was positive, with the official manufacturing PMI rising to 50.4, ahead of the consensus 49.9 and the highest since October 2014. Industrial production +6.3% year on year, fixed asset investment +8.1% year on year and retail sales +10.6% year on year, were all slightly ahead of expectations.

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