

14 June 2016

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

Please find below CBG Capital Limited's monthly NTA per share report as at 31 May 2016, together with a performance update.

**Ronni Chalmers**



**Chief Investment Officer**

## Net tangible assets report and performance update

May 2016

Net tangible assets per share			CBG Capital	
	Apr-16	May-16*	ASX Code	CBC
NTA pre-tax	\$0.9798	\$0.9981	Option Code	CBCO
NTA post-tax**	\$0.9731	\$0.9854	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	3.6	3.1	+0.5	<b>Chief Investment Officer</b>
6 months	-1.9	6.5	-8.4	<a href="mailto:rchalmers@cbgam.com.au">rchalmers@cbgam.com.au</a>
1 year	-0.9	-2.4	+1.5	Boardroom
Since inception	5.1	7.9	-2.8	<b>Share registry</b>
				1300 737 760

CBG Capital returned 3.6% in May, ahead of the S&P/ASX200 Accumulation Index return of 3.1%.

For the financial year to date, the portfolio has returned 6.2%, ahead the index return of 3.1%.

Australia outperformed most global equities markets in the month, assisted by a 25bp cut in the RBA cash rate to 1.75%. This followed a negative quarterly CPI release of -0.2% in April, which brought year rolling headline inflation down to 1.3%.

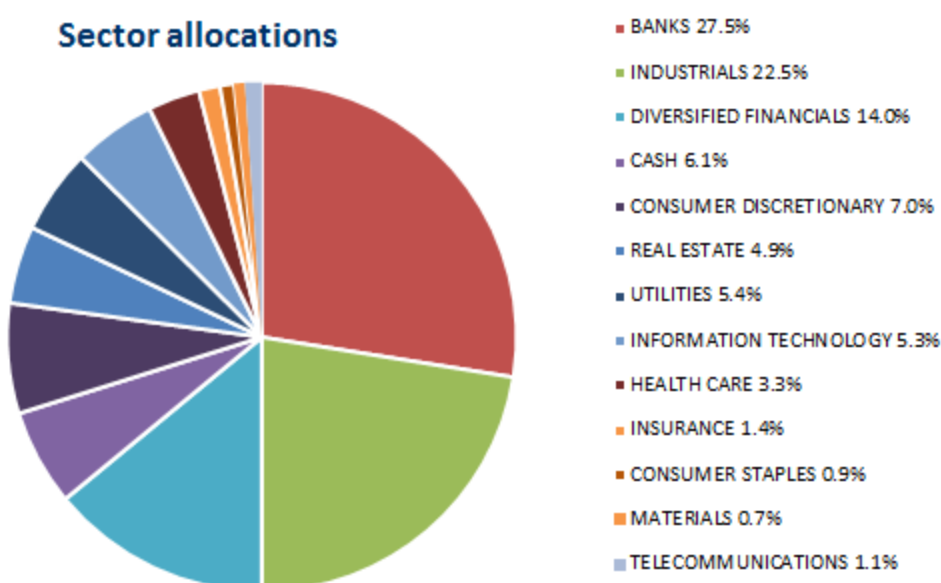
The S&P 500 gained 1.5% in the month, while the Shanghai Composite returned -0.7%, the Nikkei rose 3.4%, the German Dax gained 2.2%, the FTSE returned -0.3% and the NZ50 gained 3.2%.

Across the Australian market, the strongest performing sectors were Diversified Financials (+12.1%), Health Care (+9.5%) and Information Technology (+6.5%), while Resources (-5.3%), Consumer Staples (-0.9%) and Industrials (+2.4%) lagged the market.

### Top 10 holdings as at 31 May 2016

ASX Code	Name	Weight
CBA	COMMONWEALTH BANK OF AUSTRALIA	10.5%
WBC	WESTPAC BANKING CORPORATION	7.4%
N/A	CASH	6.1%
TCL	TRANSURBAN GROUP	5.5%
MQA	MACQUARIE ATLAS ROADS GROUP	5.5%
ANZ	ANZ BANKING GROUP LIMITED	5.1%
HGG	HENDERSON GROUP	4.4%
MFG	MAGELLAN FINANCIAL GROUP	3.8%
NAB	NATIONAL AUSTRALIA BANK LIMITED	3.8%
AIA	AUCKLAND INTERNATIONAL AIRPORT LTD	3.5%

### Sector allocations



### Portfolio commentary

Stocks which produced notable positive returns in the month included CYBG PLC (CYB, 0.7% weight), the demerged Clydesdale and Yorkshire bank, which returned 35.1% following a strong first result post separation from NAB. Headline net profit was impacted by one-off factors, but the company reported a 2% reduction in underlying operating expenses and indicated that full year costs would be 4% below the previous guidance. Cost management is central to the CYBG turnaround strategy as the company aims to reduce its cost to income ratio from 75% to below 60%. Management is set to provide further guidance on the cost outlook at a strategy update in September.

Magellan Financial Group (MFG, 3.8% weight) returned 14.8% in the month, assisted by positive equity market returns and a 4.9% depreciation of the AUDUSD. During the month, MFG reported inflows of \$487m for April. Over the past 12 months, the business has recorded inflows equivalent to 11% of funds under management, including higher margin retail inflows equivalent to 22% of retail funds under management.

Class (CL1, 0.9% weight) returned 14.4% in the month. Class is Australia's leading provider of cloud based self-managed super fund (SMSF) administration software. During the month, the company announced a contract win with Findex, which is CL1's largest contract to date and is expected to see over 8,000 SMSFs loaded onto Class over the next couple of years.

Stocks which detracted from performance in the month included Speedcast (SDA, 1.1% weight), which returned -13.3% following AGM commentary on headwinds in the oil and gas sector and weak earnings results from peers with greater exposure to this sector. SDA reported several contract wins during the month and continues to target double digit organic earnings growth with upside from acquisitions.

IOOF Holdings (IFL, 2.0% weight) returned -7.7% after providing net profit guidance for the 2016 financial year which implied a second half result 7% below consensus. The softer result was attributed to a lower average level of equity markets in the current half year. Net profit for the full year is expected to be broadly in line with the prior year.

## Monthly market commentary

On the 3<sup>rd</sup> of May, the RBA reduced the official cash rate by 25bp to a new record low of 1.75%, noting that "this follows information showing inflationary pressures are lower than expected". The RBA targets an inflation rate of 2-3%, on average, over the cycle. In the May Statement on Monetary Policy, the RBA indicated that its current forecast is for underlying inflation of around 1-2% this calendar year, picking up to 1.5-2.5% by 2018. With inflation running below the target range, this provided a strong argument to reduce the cash rate. It has been historically rare, although not unheard of, for the RBA to move by only 25bp in isolation, with this occurring a total of 3 times in the past 20 years. Consequently, markets are currently anticipating a further interest rate cut post the next CPI release at the end of July, while this probability was reduced post a strong GDP release in early June.

Three of the four major Australian banks reported earnings for the half year to 31 March during the month (Commonwealth Bank reported in February). The sector outperformed the market, returning 4.7%, despite ANZ rebasing its dividend lower (by -7%) as it targets a long term sustainable payout ratio of 60-65%. Westpac increased its dividend by 1cps compared to the first half of last year, while Commonwealth Bank and National Australia Bank held their dividends flat. Commonwealth Bank and Westpac have been the best placed in relation to dividend sustainability, given higher returns on capital, while Commonwealth Bank is also running at a lower payout ratio. National Australia Bank remains at risk for a reduction to its dividend. Net profit growth for the sector was a modest 1.4%, while earnings per share declined by -3.6% given equity raisings over the past 12 months. The market reacted positively given that bad debt charges were no worse than expected. In particular, ANZ's charge came in at the low end of company guidance and WBC guided to the charge being lower in the next half.

The federal budget for the 2016-17 financial year was handed down during the month, which included tax relief for small businesses, namely an increase to the small business tax discount from 1.5% vs 2.5% and an allowance for up to a \$20k asset write-off for new investment. The government also increased the \$80k marginal tax threshold to \$87k to offset bracket creep for wage earners. The budget saw modest slippage in deficit estimates, which was driven by downward revisions to forecast receipts. The 2016-17 forecast budget deficit is \$37.1bn or 2.2% of GDP.

Domestic economic data was generally positive in May, with residential building approvals rising 3.0% on the prior month to a 243k annual rate and capital city dwelling prices gaining 1.7%. The unemployment rate held steady at 5.7% and the NAB survey of business conditions remained relatively strong at +9.2. Conversely, the wage price index increased by only 2.1% over the past twelve months.

**Ronni Chalmers**



**Chief Investment Officer**

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