

JBWere ACS Presentation

June 2015

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and

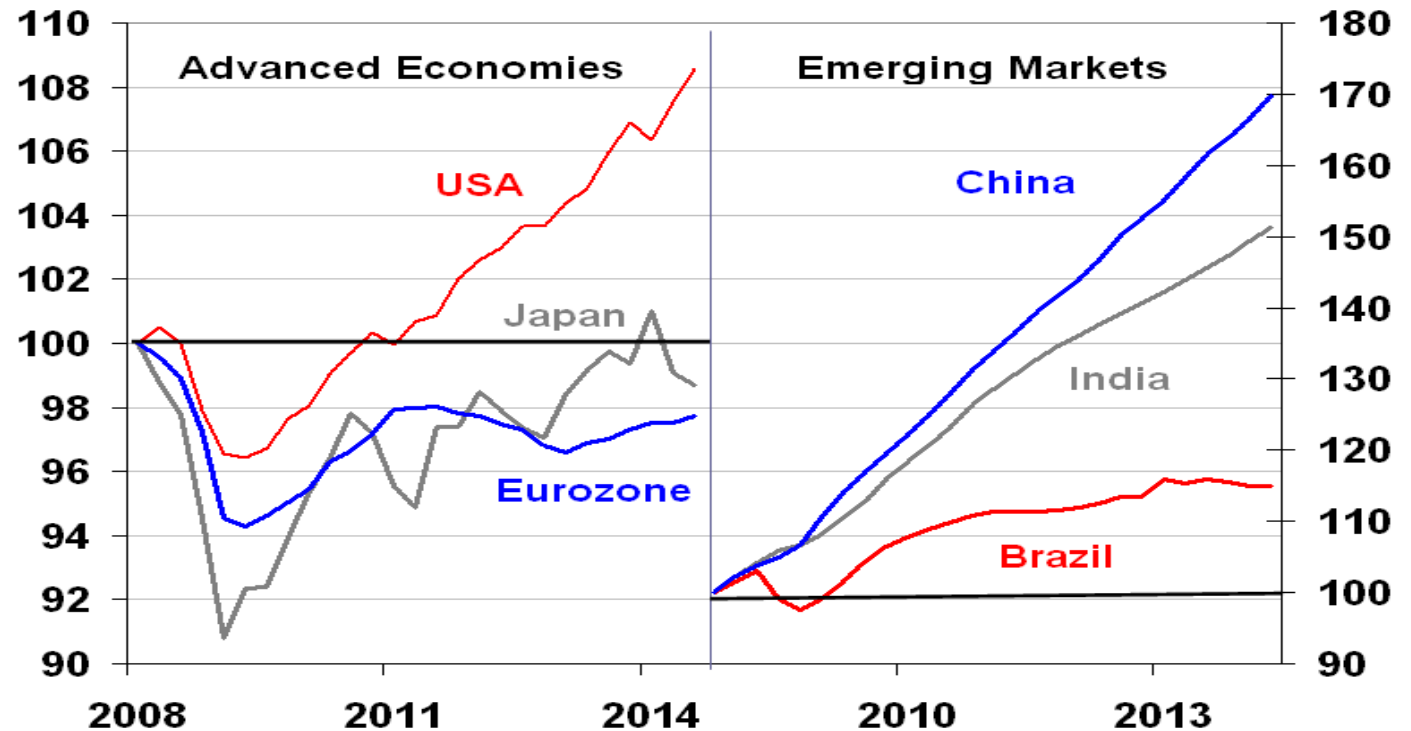
James Heritage
Director

JBWere



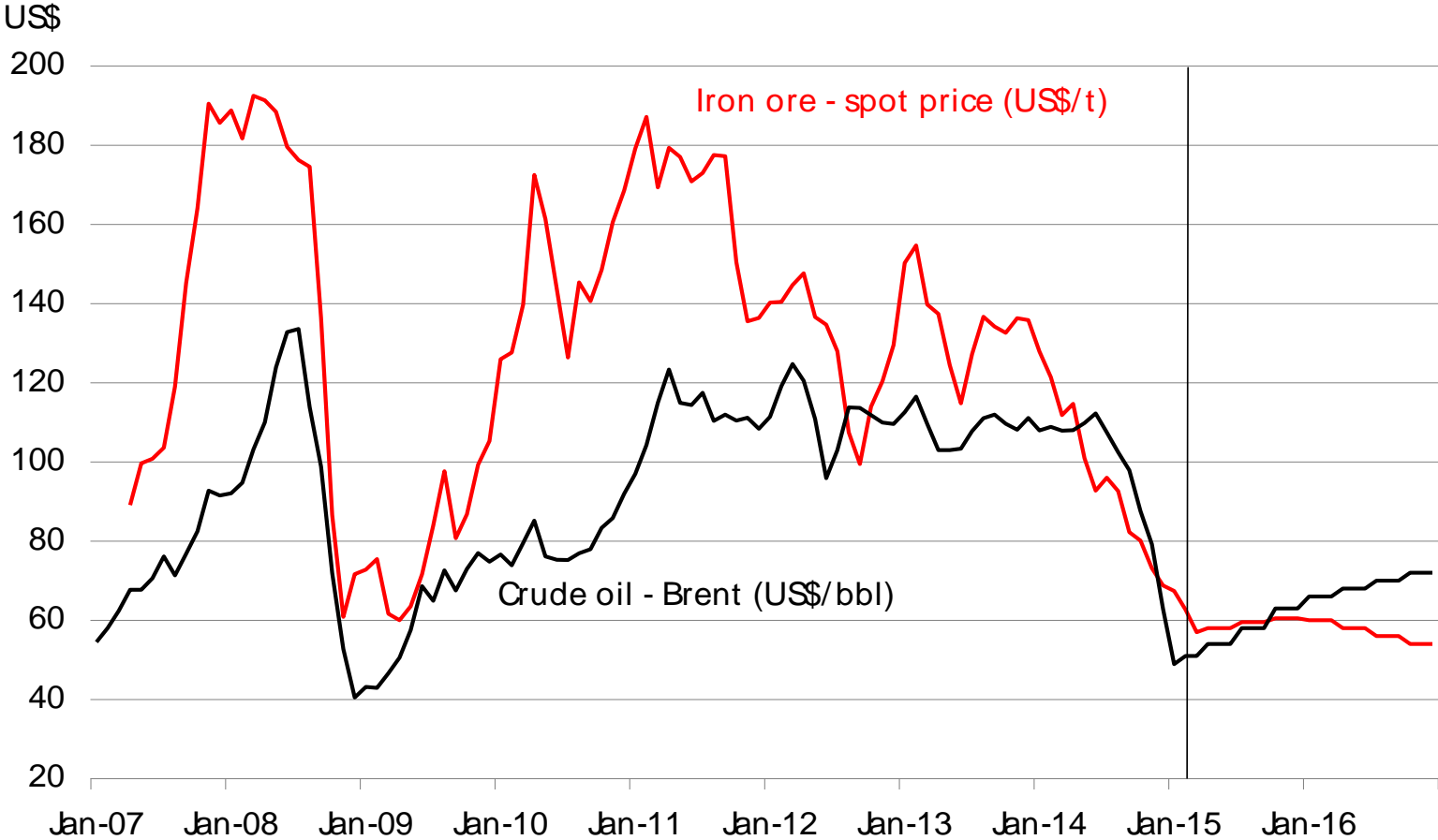
- USA doing better. China moderating. Europe improving.
- Japan misfiring and real concerns about Latin America.
- Lower oil prices generally positive.
- 3% 2014 rising to 3½% in 2015 and 2016.

Level of real GDP in major economies March 2008=100 indices



Commodity prices under pressure

Now dealing with the impact of a large fall in oil prices and other commodities, including now iron ore prices



Source: Bloomberg, Datastream, NAB Economics

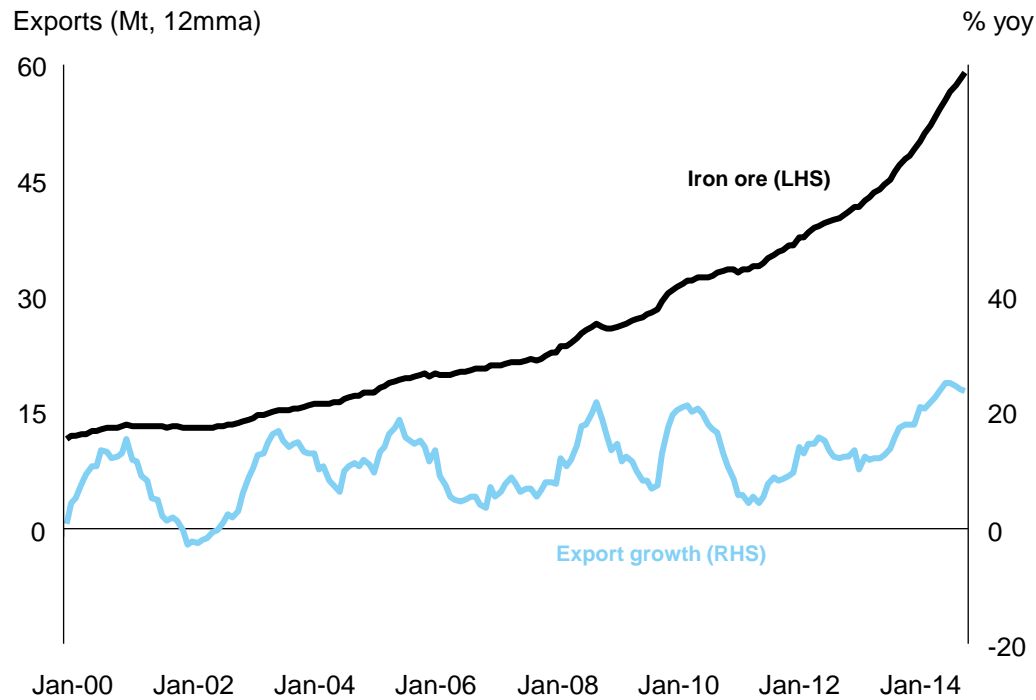
Source: Bloomberg, Datastream, NAB Economics

Commodity prices under pressure (cont'd)

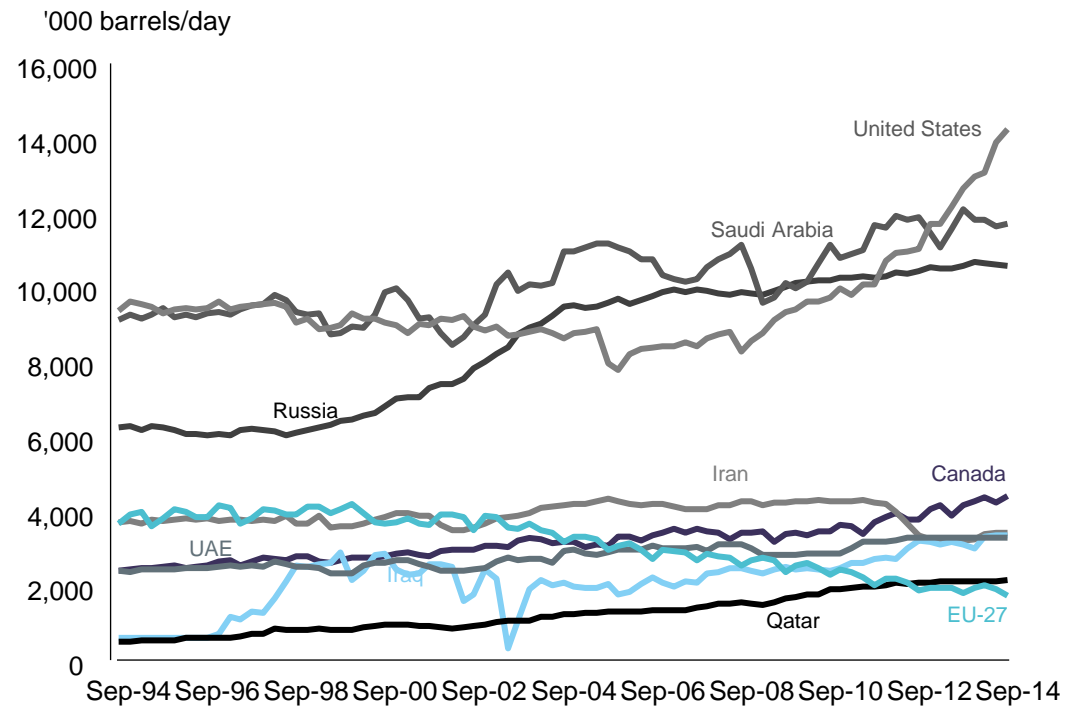
These shocks are principally “supply” shocks:

- Big Australian producers flooding the market in iron ore
- A stand off between the “new” US energy producers and OPEC (Saudi’s)

Australian Iron Ore exports



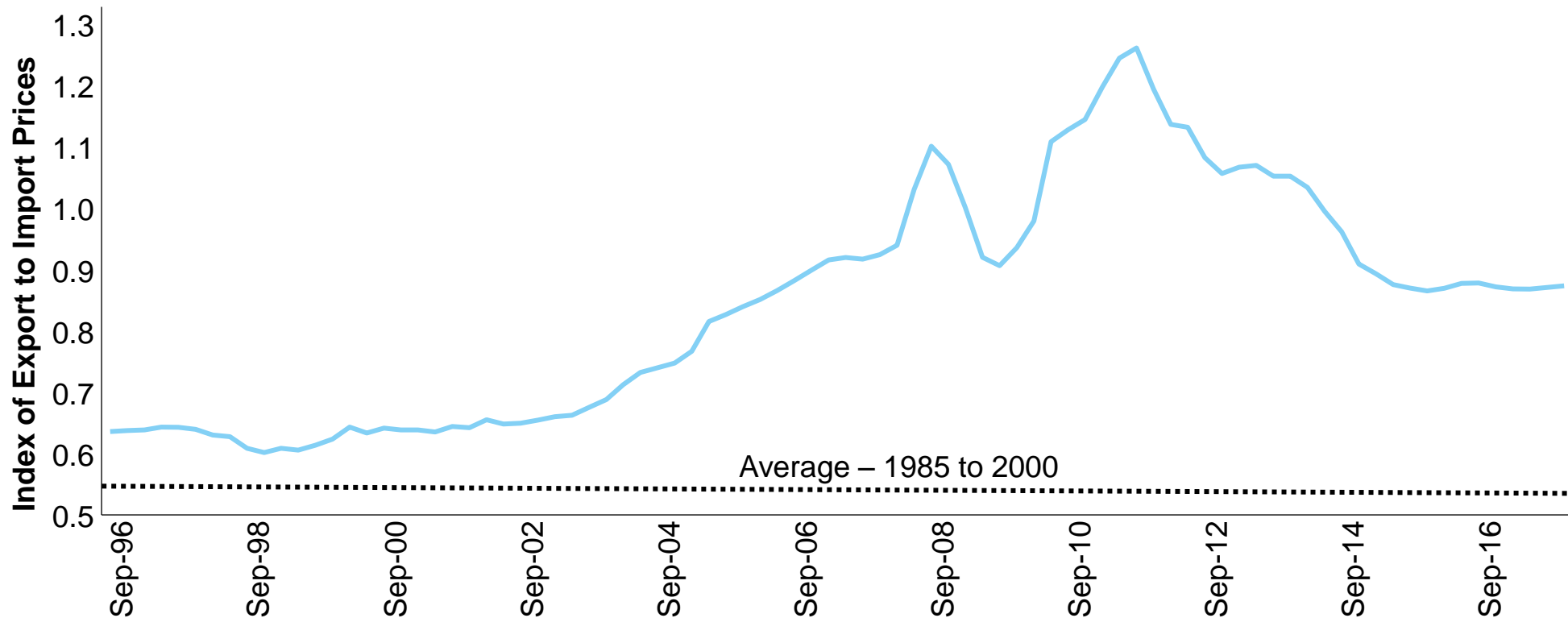
Oil supply per day



Source: Bloomberg, NAB Economics

Australian dollar down significantly against the USD – but still quite elevated on broader measures. Tough to depreciate against partners printing money.

Australia's terms of trade



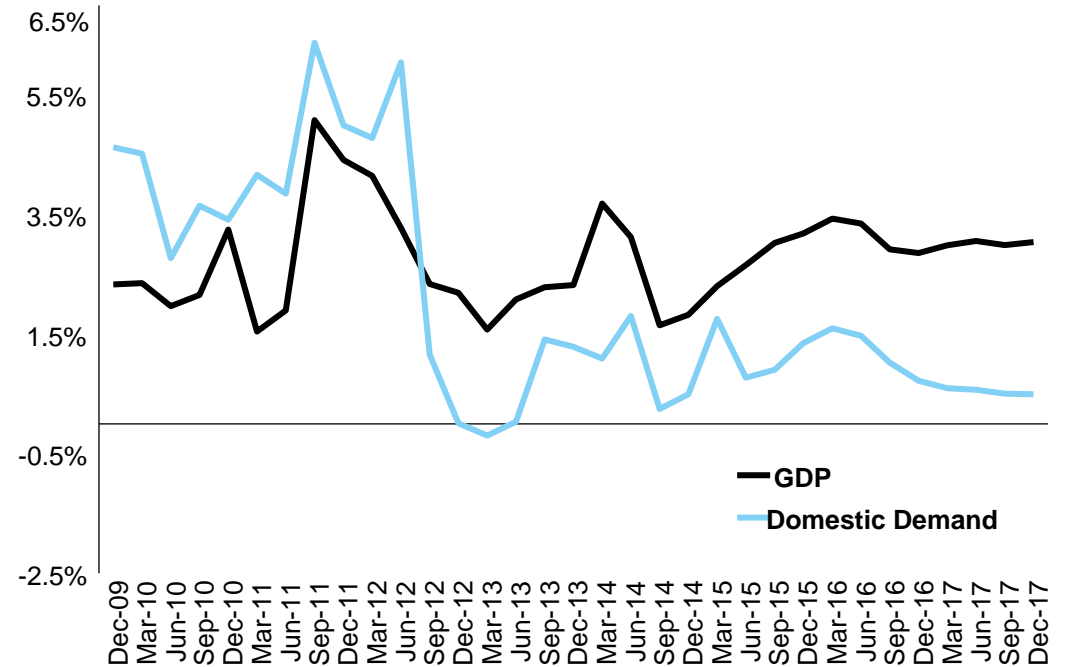
Source: ABS, & NAB Economics

Growth will be relatively strong – driven by mining exports. Rather key theme is managing the impact of transition from labour/capital intensive “investment phase” on domestic demand

- **The extent of the mining slowdown in investment is significant**
- **Can we fill in the gap?**

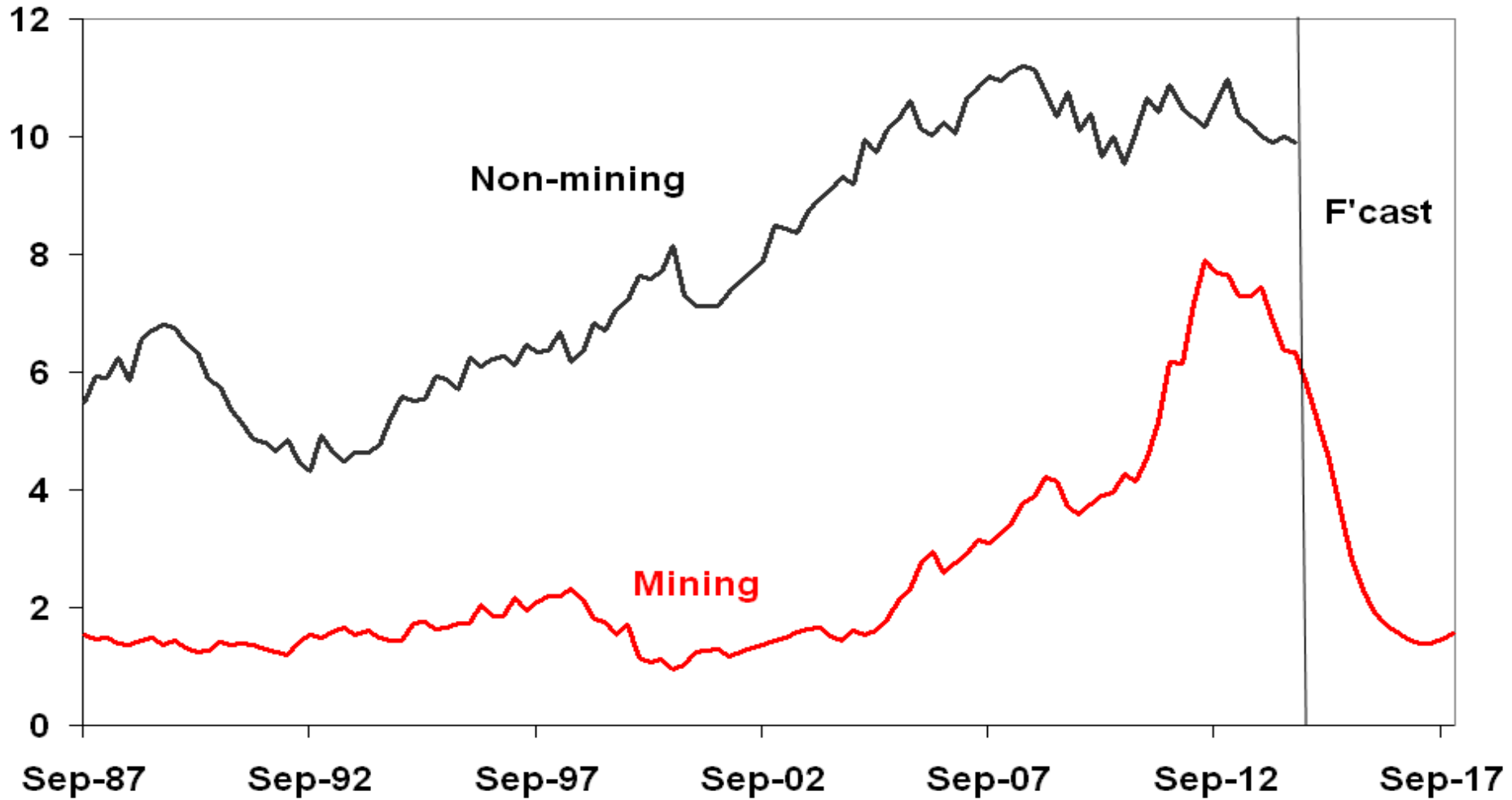
What does that mean for:

- Composition of growth GDP
- Domestic demand
- Unemployment
- Interest Rates

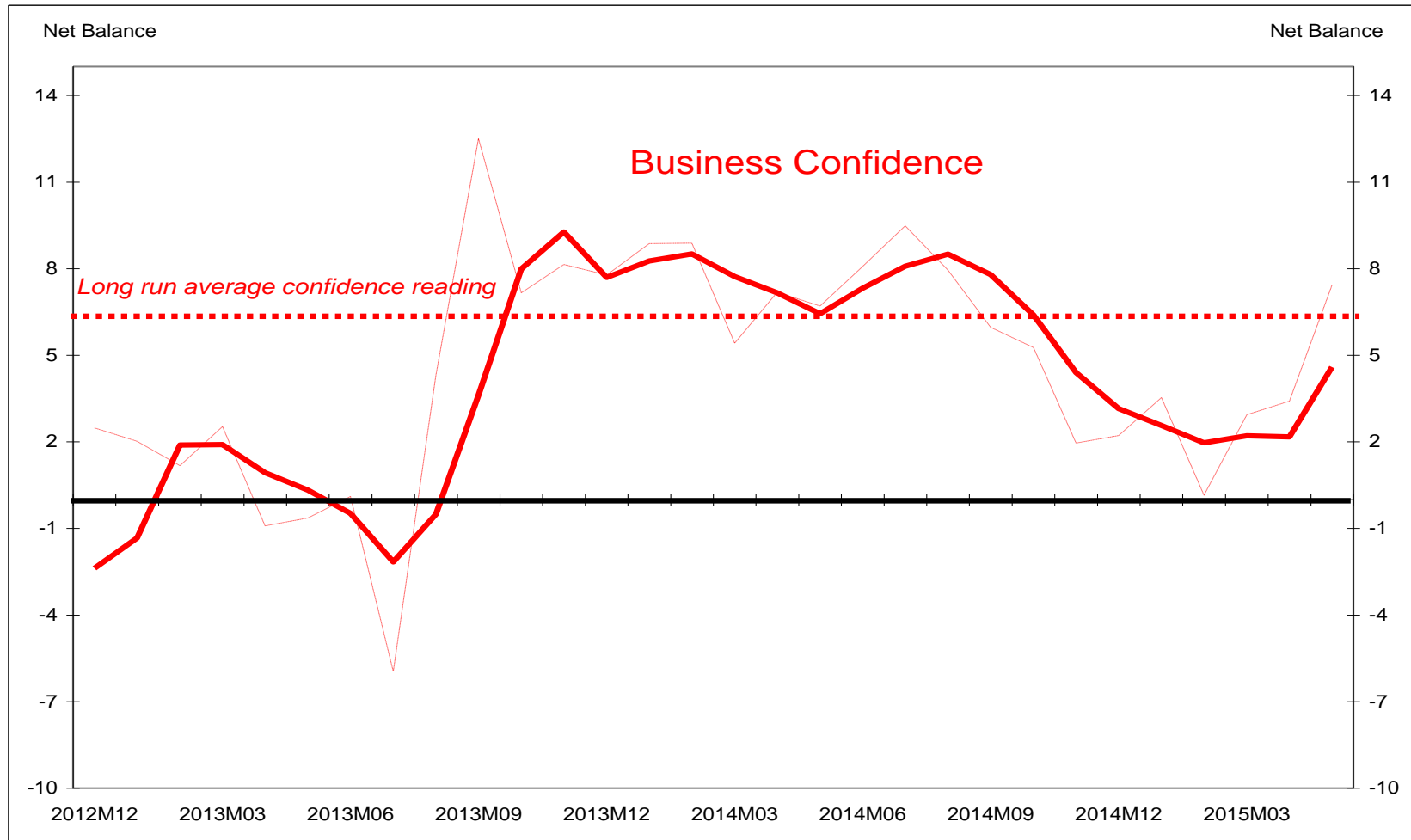


Australian economy (cont'd)

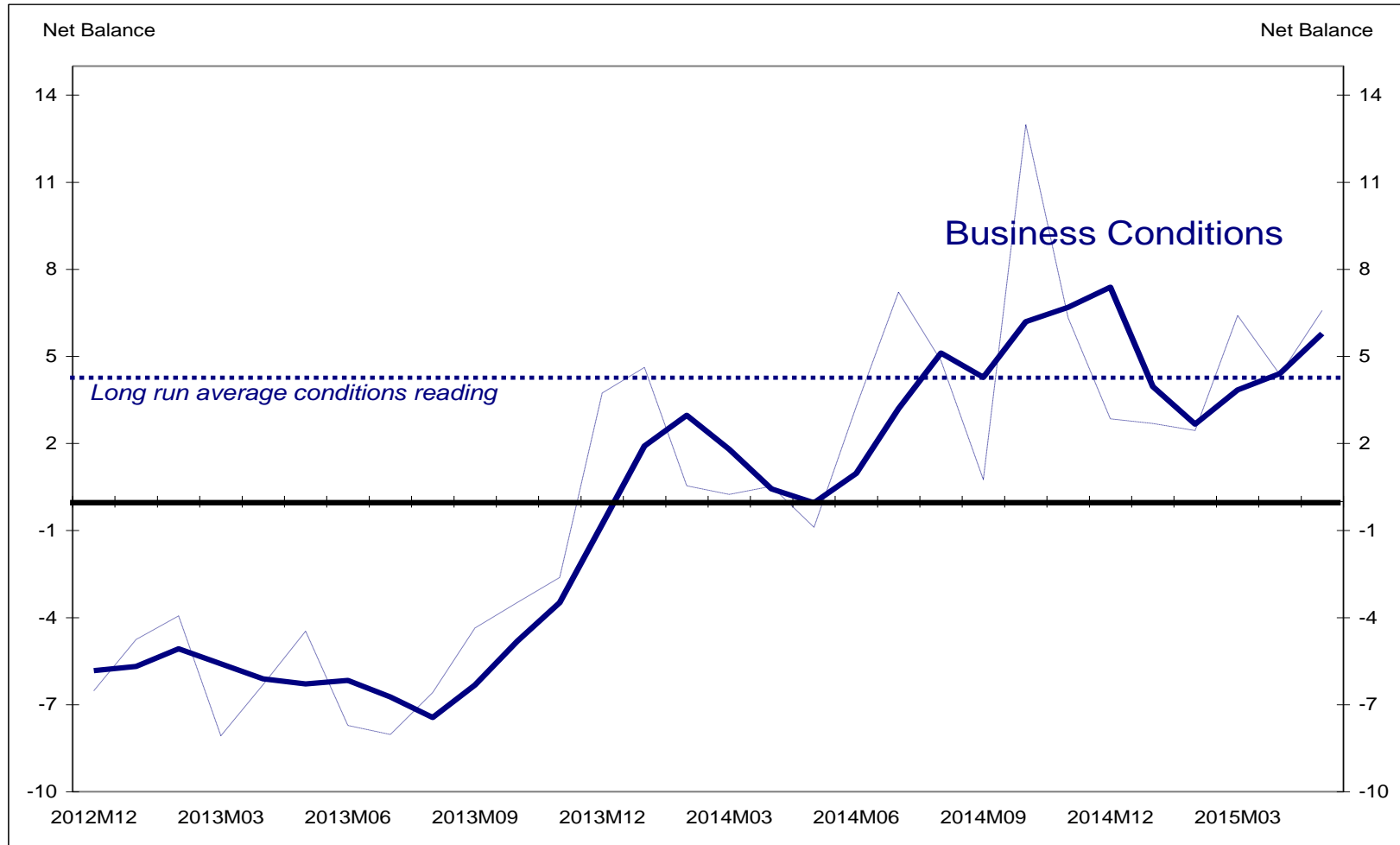
The scale of the mining fall is significant – involving a fall in the investment/GDP ratio of around 4%



Business confidence has fallen back below trend but last two readings improving.

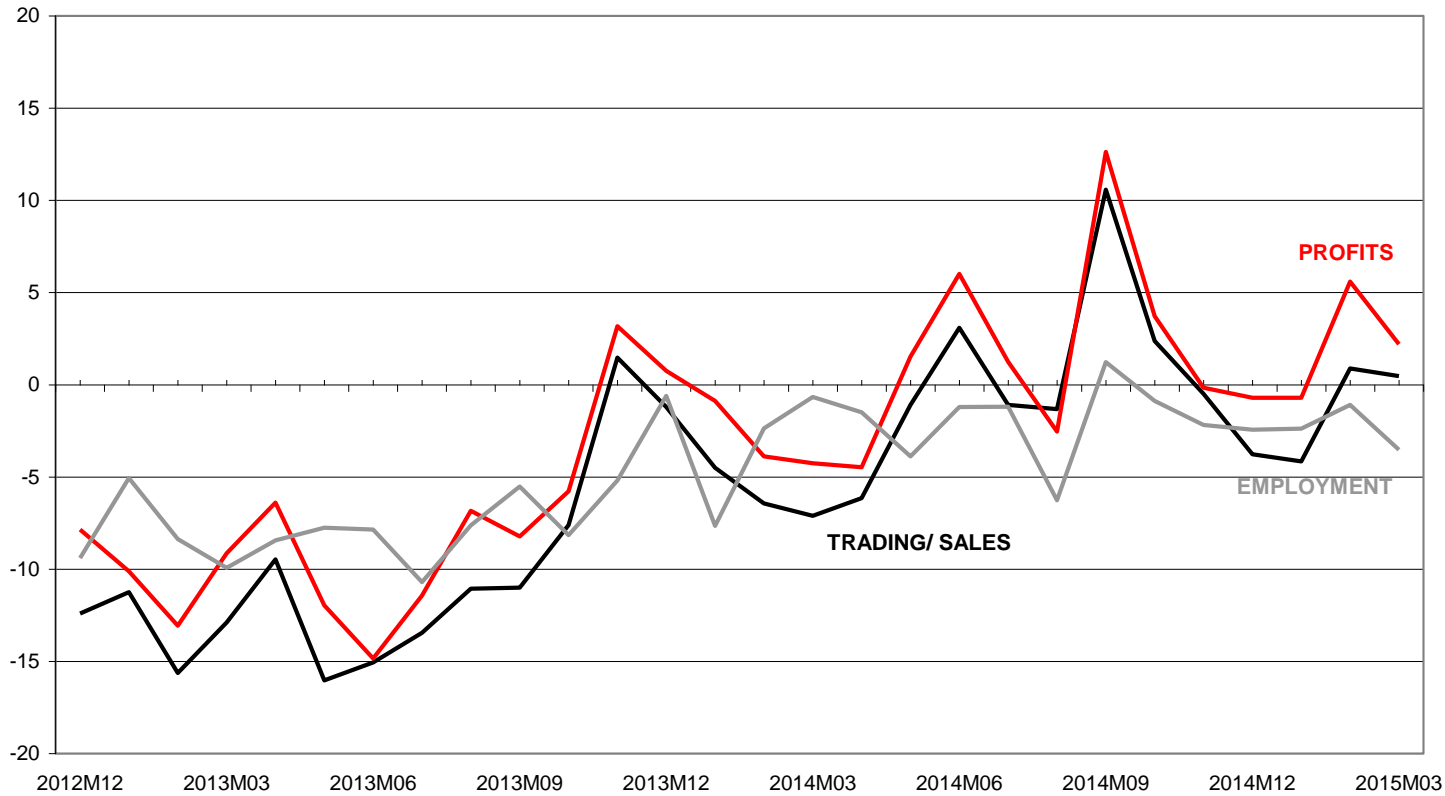


Business conditions showing some positive signs.



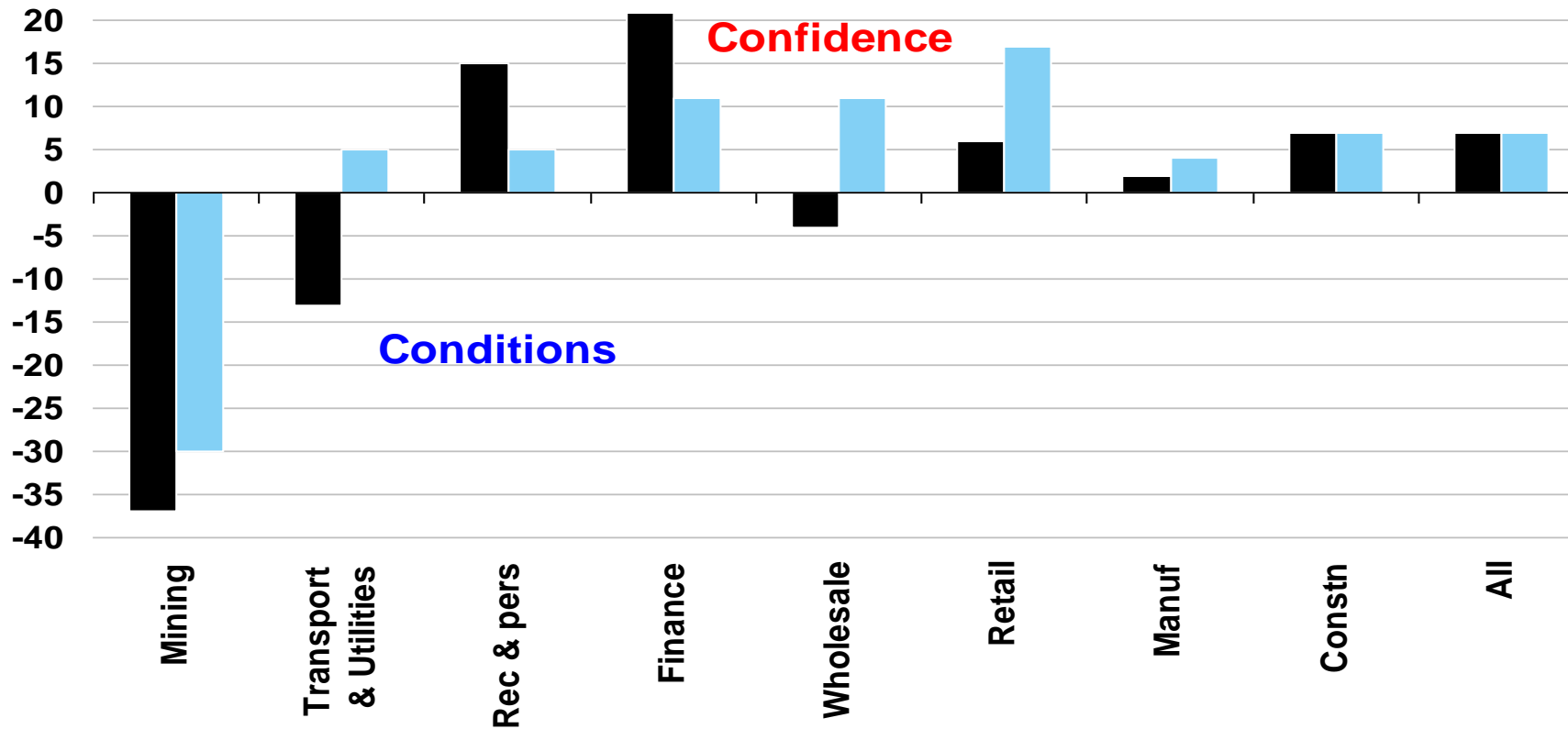
Trading, Profit and Employment patchy – but trend improving.

Trading, Profit and Employment Deviations from Long Run Averages - NAB Monthly Survey



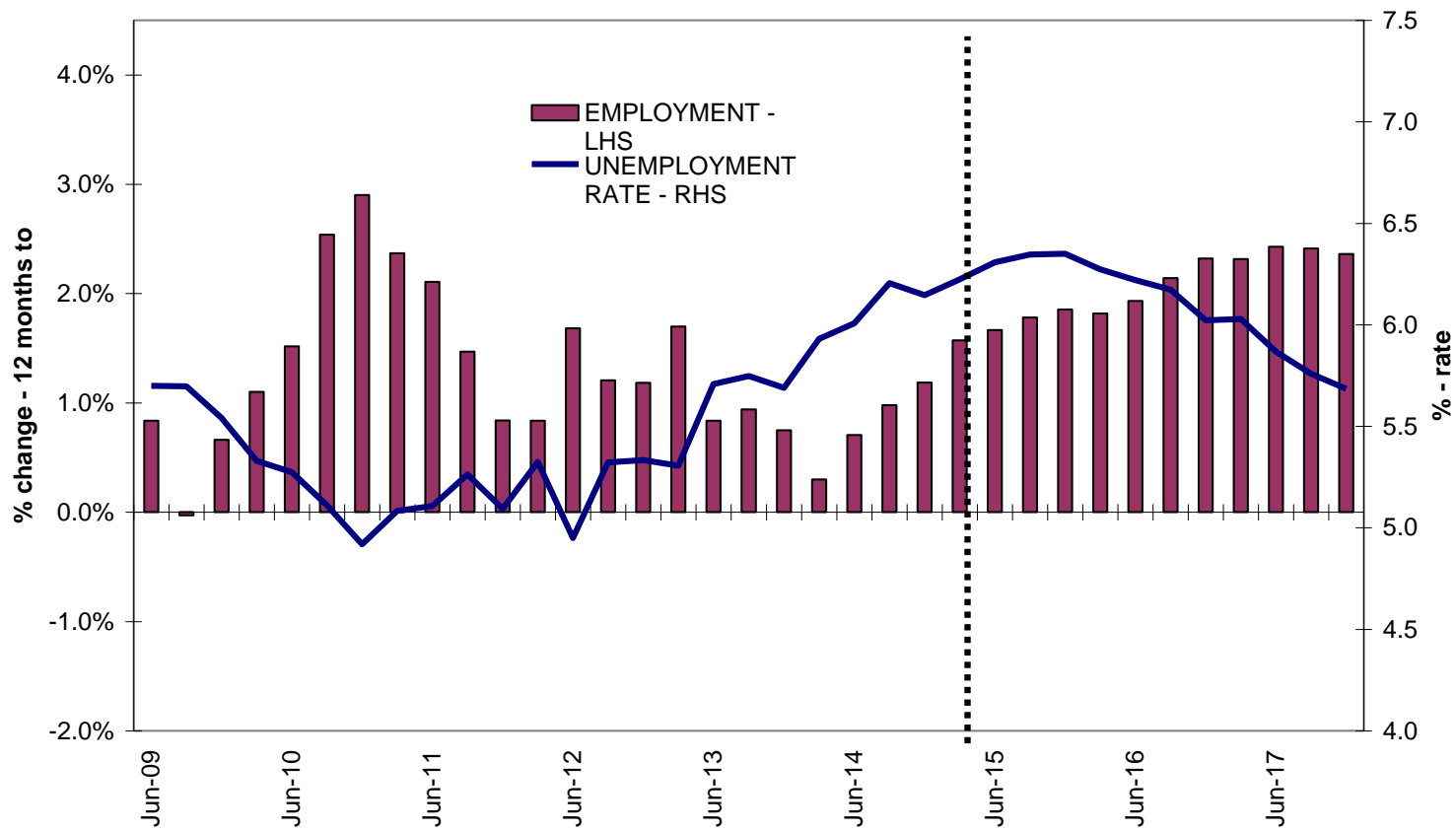
Miners (commodity prices) very scared. Wholesalers (AUD) suffering. Services the stronger sectors. Construction still good (apartments). Retail poor but hopeful.

Business conditions and confidence May 2015; (SA)



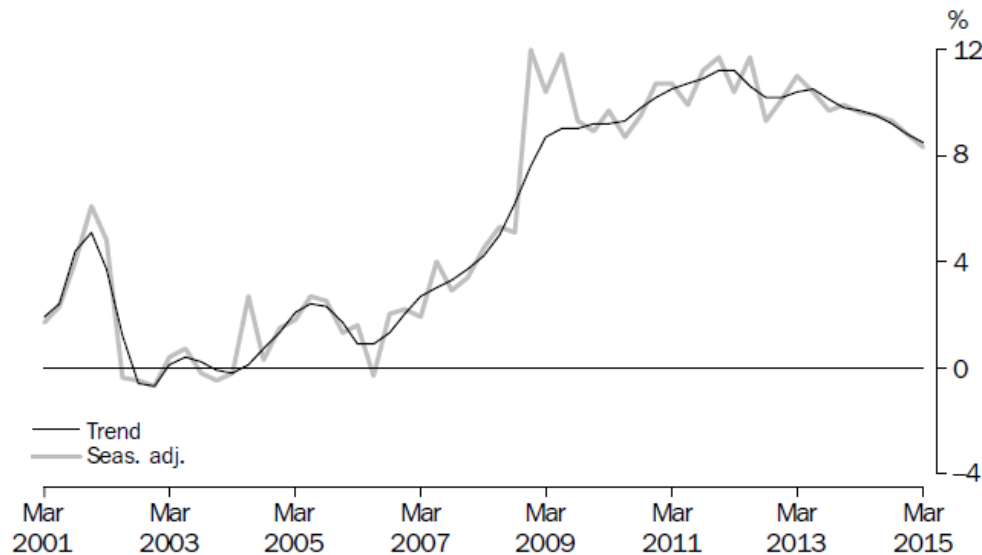
Unemployment has been on a steady trend higher since 2012.

Unemployment and Under-utilisation – Trend

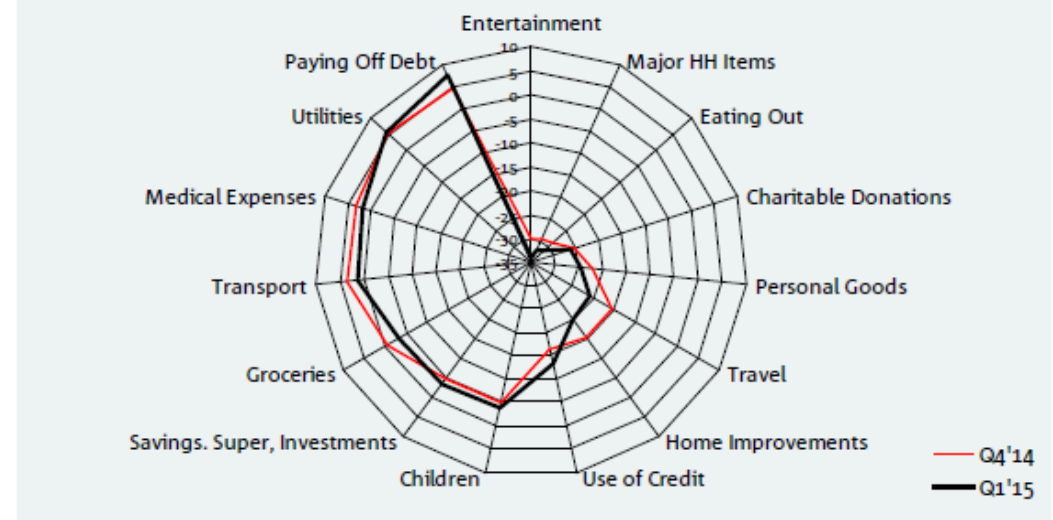


- Consumers still conservative – spending on necessities and paying off debt.
- Savings ratio is trending down – a sign of confidence or an attempt to maintain lifestyle?.

HOUSEHOLD SAVING RATIO, Current prices



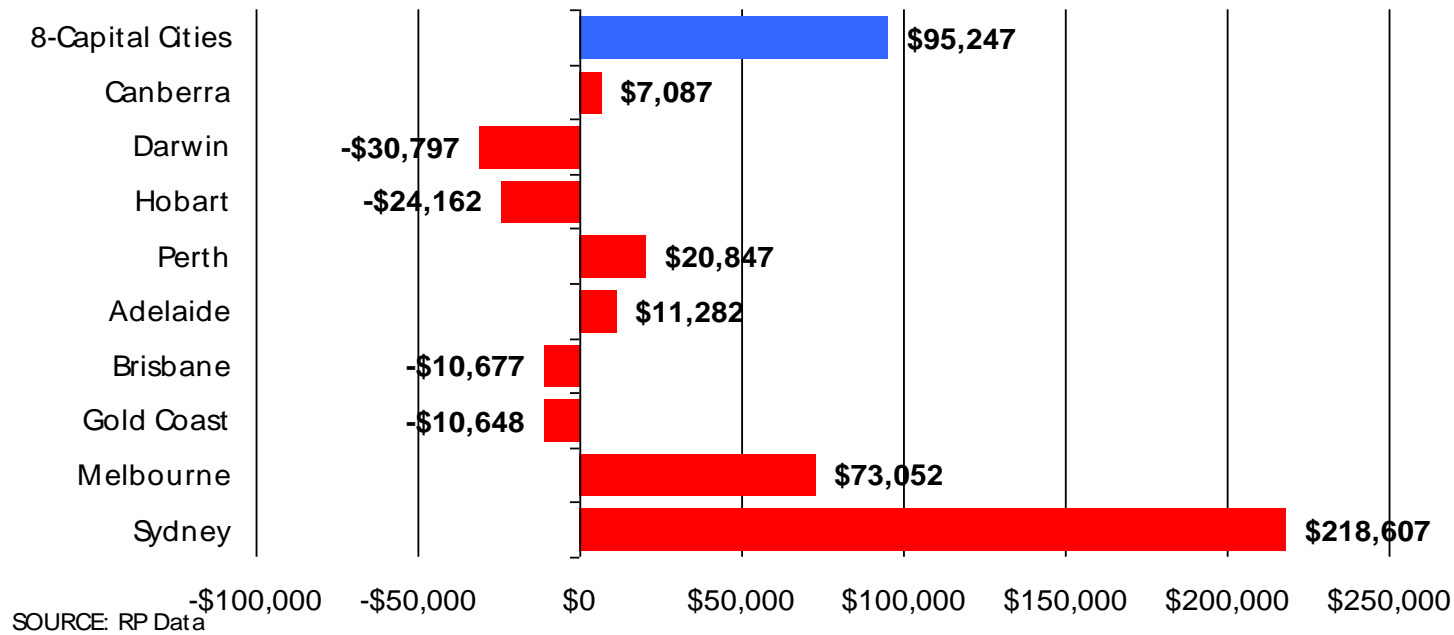
Changes in Spending Behaviour (net balance)



Source: NAB Economics

Cyclically many markets are below previous peak. Sydney the stand out exception.

Change in Dwelling Values from Previous Peak to April 2015



Source: RP Data

Positives

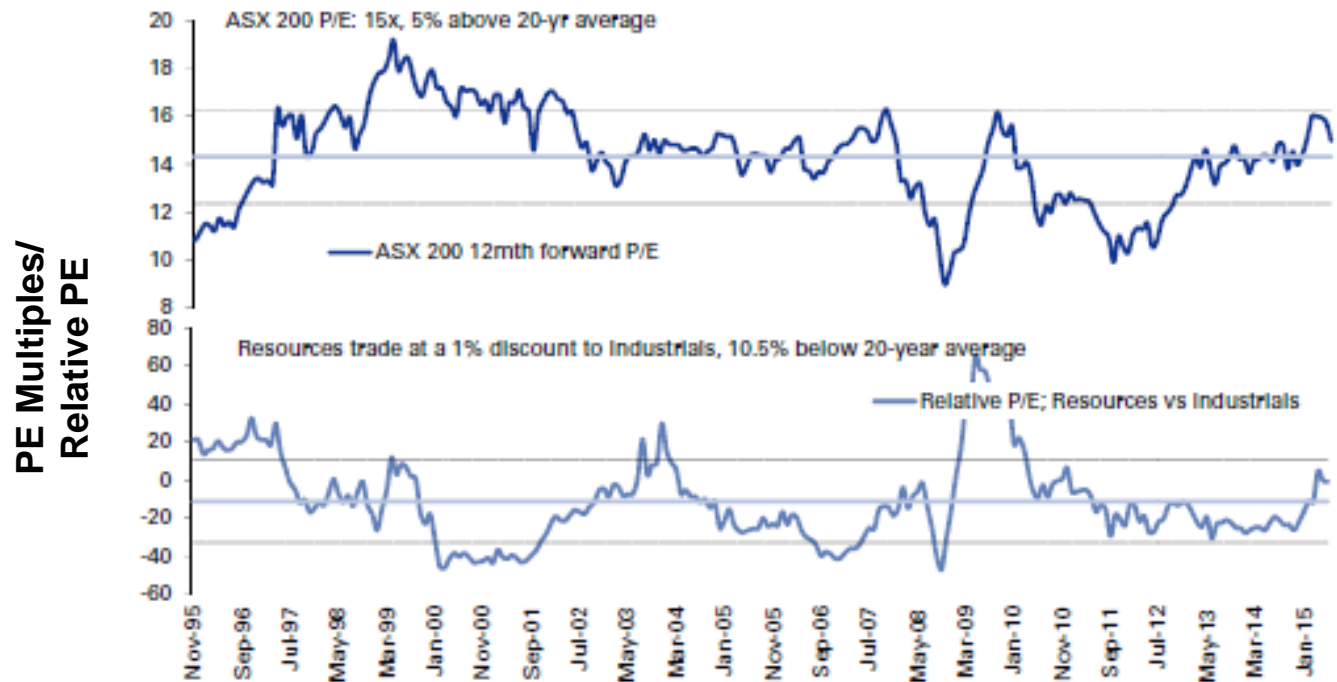
- Very low interest rates.
- Strong growth in residential construction.
- Continuing rapid population growth (slowing a little).
- Infrastructure spending.
- A\$ lower now.
- Significant drop in oil prices (for consumers).
- Mining exports increasing.

Strengthening now evident in the non-mining economy.

Negatives

- Falling commodity prices/terms of trade = weak incomes growth.
- Large mining projects completing.
- Lowest wage growth in two decades.
- Consumer and business confidence fragile.
- Uncertainty around Government policy and leadership.
- Fiscal policy tightening – although new Budget less austere than previous.

After a strong first two months of the year, the Australian market has given back some ground. The median ASX200 now trades at 15.6x forward EPS, just above previous peaks.



Source: Factset, I/B/E/S, Bloomberg.

Source: Factset, I/B/E/S, Bloomberg.

Australian equity market (cont'd)

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	Index Weight	P/E		EPS Growth (%)			Yield 2015	Sales Growth (%)		EBITDA Margin (%)	
		2015	2016	2014	2015	2016		2014	2015	2014	2015
ASX 200	99.9	15.7	15.1	16.6	(2.3)	4.8	4.6	5.4	0.2	23.1	21.5
Industrials	33.6	18.8	17.1	9.9	5.4	10.2	3.8	3.4	2.9	14.7	14.9
Staples	7.2	18.8	18.3	5	(1)	3	4.8	3.8	1.0	8.0	7.9
Telcos	6.0	18.0	16.6	4	8	9	4.8	0.1	2.9	40.9	39.7
Health Care	6.4	25.3	20.9	21	18	21	2.0	15.7	18.9	20.6	20.6
Transport	3.3	19.5	17.2	12	12	14	3.2	5.2	8.1	28.4	30.0
Materials	2.7	18.0	16.3	39	5	10	3.5	1.5	3.2	15.4	15.7
Media	1.4	18.0	16.3	11	2	11	3.5	1.6	4.7	21.2	21.1
Discretionary	1.8	18.4	15.8	12	7	17	4.4	8.7	8.5	10.6	10.9
Services	1.6	14.7	14.3	9	(15)	2	3.9	(2.4)	(8.8)	11.0	10.5
Building Mat.	1.5	20.1	17.3	47	24	16	3.8	2.9	3.5	13.0	14.6
Gaming	1.7	20.2	18.5	15	13	9	4.2	0.7	11.9	22.2	23.3
Financials	49.0	13.8	13.3	16.1	5.3	5.7	5.3				
Banks	30.8	13.0	12.5	10	6	4	5.7				
Non-Bank Fin	10.1	16.2	14.5	35	5	12	4.4				
REITs	8.1	15.6	15.5	13	1	7	4.7				
Resources	17.4	16.5	17.9	29	(30)	(8)	4.2	10	(6)	33	31
Mining	10.8	15.7	18.6	35	(40)	(15)	4.5	14.0	(7.9)	42.3	38.8
Energy	5.3	18.1	19.2	1	(9)	(6)	4.3	1.0	(3.1)	19.3	20.3
Gold	1.0	17.1	10.5	(16)	38	63	0.4	8.5	17.2	36.5	37.8
Steel	0.3	17.6	14.1	93	21	24	2.2	2.1	(2.1)	7.9	5.8

“A better income and return than is presently available from deposits but without excessive risk.”

JBWere is often asked to discuss and model:

- a) Lifting returns on capital presently invested in cash and term deposits.
- b) Recommending processes so capital is effectively invested, managed, administered and monitored.
- c) Clearly define risk factors and to quantify expected payoffs
- d) Design and implement robust, best practice investment governance frameworks.

Asset allocation: determination and choice

- Asset allocation is the key determinant of the risk and return of an investment portfolio.
- It reflects an investor's appetite for income, tolerance of volatility, timeframe, growth aspirations and/or capital preservation requirements.
- Each asset class has different income, growth and volatility characteristics.

Asset Class Income	Cash Yield	Gross Yield
Cash Trusts	1.65%	1.65%
Term Deposits	2.85%	2.85%
JBWere Fixed Income Model Portfolio	5.20%	5.20%
JBWere Equity Income Model Portfolio	4.70%	6.25%
JBWere International Equity Portfolio	1.60%	1.60%
Alternative Assets – yield enhanced	7.00%	7.00%

- These are income flows which are a portion of total expected return.

LONG TERM STRATEGIC ALLOCATION & ACTIVE TILTS

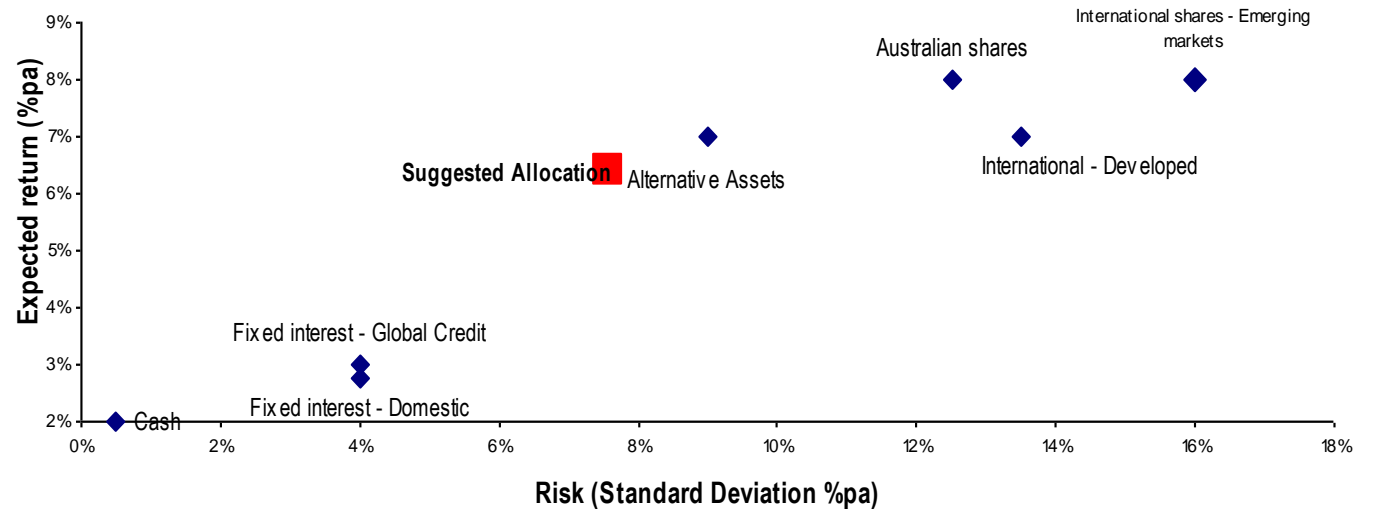
Strategic Asset Allocation	Capital Secure	Income Returns	Real Return	Recommended Active Tilts
Australian Shares	25%	40%	40%	-2%
Global Shares – Developed	10%	7%	15%	+5%
Global Shares – Emerging	5%	3%	5%	+2%
Subtotal	40%	50%	60%	
Fixed Interest – Australia	40%	35%	25%	-2%
Fixed Interest – Global	10%	5%	10%	-5%
Cash	10%	10%	5%	+2%
Subtotal	60%	50%	40%	
Total	100%	100%	100%	
Portfolio Statistics (20-Year Historic Data)				
Total Return (p.a.)	8.4%	8.6%	8.9%	
Portfolio Volatility (p.a.)	5.3%	6.5%	7.5%	
Portfolio Statistics (Forecast Data)				
Portfolio Return (p.a.)	5.6%	6.0%	6.6%	
Portfolio Volatility (p.a.)	5.7%	6.9%	8.0%	

Source: JBWere. 20-year historical portfolio statistics data as at 31 December 2014. Global shares emerging market data from Jan. 2001. Returns and volatility calculated incorporating active tilts.

Major factors in managing the risk/return equation:

- Correlations between asset classes and securities
- Asset classes and allocation – differing volatilities
- Manager style
- Security selection
- Fundamental analysis
- Implementation and timing

Forecast Risk & Return



- The JBWere Model Portfolios are major outputs of JBWere's Investment Strategy Group. These are directly held securities, and not unitised funds:
 - JBWere Equity Income, JBWere Equity Growth , JBWere Listed Fixed Income & JBWere International Equity portfolios.
- How are these constructed and monitored?
Why are they relevant, practical and fee efficient?
How do they work in practice?
- Historical performance of the two Australian Equity Model Portfolios:

	Monthly Returns			Excess Returns	
	JBWere Growth	JBWere Income	Benchmark XJOAI	JBWere Growth	JBWere Income
1 Month	1.3%	0.5%	-0.1%	1.3%	0.6%
3 Month	10.8%	11.5%	10.3%	0.5%	1.2%
6 Month	12.4%	16.8%	13.8%	-1.3%	3.0%
1 Year	13.2%	18.7%	14.1%	-0.9%	4.6%
2 Year (pa)	16.5%	17.7%	13.8%	2.7%	3.9%
3 Year (pa)	16.2%	21.5%	15.8%	0.4%	5.7%
5 Year (pa)	8.2%	13.1%	8.6%	-0.4%	4.5%
Since inception* (pa)	5.6%	10.3%	5.4%	0.2%	4.9%

Source: IRESS, JBWere Research

Performance to end Mar-15

All returns are gross of any fees

*Date of inception was May-08

What might we do with \$20.0mn?

Focus on Income (excludes growth)

Example asset allocation, risk and return expectations Excludes Term Deposits as instructed	Gross Income Estimate (%)	Initial Allocation (%)	Allowable Bands (%)
Australian Shares	6.25%	40%	20 – 60
International Shares - Developed Markets	1.60%	15%	0 – 30
International Shares - Emerging Markets	1.60%	5%	0 – 10
Fixed Interest (excluding term deposits)	5.80%	30%	20 - 50
Term deposits	2.85%	NIL	NIL
Cash	1.95%	5%	2 - 30
Alternative Assets – yield enhanced or long/short	7.00%	5%	0 – 10
GROSS INCOME ESTIMATE INCLUDING FRANKING before fees	5.01%	Total 100%	
GROSS INCOME ESTIMATE per annum	\$1,002,000		

What might we do with \$20.0mn?

Focus on Total Return (income + growth)

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GROSS INCOME ESTIMATE INCLUDING FRANKING before fees	5.01%
12 Month Total Return Estimate – Income plus growth before fees. Based on JBWere asset class forecasts from June 2015. Asset allocation as above, before franking.	JBWere Modelling
Estimated 12 Month Total Return	6.4%
Historic Total Returns data for the same allocation as above, Includes both capital and income returns. To 31 March 2015. Before fees and franking.	Historic Return
3 year total return (pa)	12.2%
5 year total return (pa)	8.4%
10 year total return (pa)	7.5%
Worst 12-month rolling return (last 10 years)	-21.9% (Ending Nov 2008)
Best 12-month rolling return (last 10 years)	+26.4% (Ending April 2006)
Probability of a Negative Return (in any 1 year)	20.0% (1 out of 5 years)
Range of Return (68% probability)	-1.2% to 14.0%



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