



# Direct Equities Recommendation

---

## Core Model Portfolio

Thursday, 3 May 2018

### Portfolio Objective

The Core Model Portfolio aims to meet the S&P/ASX100 Index (on a pre-tax basis) over rolling three year periods by investing in a selection of quality large capitalisation Australian equities. Volatility is expected to be at or below the volatility of the benchmark.

*There were no changes to the portfolio this month.*

# Summary of Portfolio

---

## Report on Core Model Portfolio

### Portfolio Methodology

- The portfolio adopts a quantitative and qualitative approach to portfolio selection. The portfolio was constructed based on the quantitative financial modelling from Morningstar Research with a qualitative overlay of our methodology.
- The portfolio construction takes into account varying economic conditions and the expectations of each individual company's circumstances and forecasts. The methodology focuses on clean balance sheets, strong cash flows, management experience and history, diversification of business operations and strong projected earnings growth. To achieve some of the fundamental portfolio requirements, a number of financial ratios, such as debt to equity (D/E), interest cover (IC), dividend yield, franking credits and earnings per share (EPS) growth, have been incorporated as standard ratios with minimum standards that each company must adhere to.
- Balance sheet and cash flow ratios are employed to reduce the risk of shareholder wealth being diluted due to the default or financial difficulties of companies held in the portfolio. All companies selected must have a debt to equity ratio of less than 50% and a minimum interest cover of 2.5 times. Any company with debt to equity between 50% to 60% must have an interest cover of 5 times or any company with debt to equity between 60% to 70% must have an interest cover of 10 times. Company's with Debt/Equity greater than 70% will not be considered. In addition, we have BXB as an exception due to their expected strong growth in free cash flows and exposure to solid momentum in the company's overseas operations.
- A conservative approach has been applied to minimise the need for companies we invest in to come to market to raise capital and dilute existing shareholder equity.
- Diversification is important to minimise the risk to the investor and as a result a number of diversification techniques have been employed. These include limiting individual sector exposure to no more than 50% or three times the S&P/ASX100 index weight and limiting the individual exposure of any company within the range of 4% to 15% of the portfolio. The portfolio is designed for long term investors with a minimum outlook of 5 years. The portfolio does not take into account the investor's personal tax positions and/or any capital gain/loss positions.

### Portfolio Parameters

- The volatility for the Core Model Portfolio is expected to be close to or below the S&P/ASX100 Index benchmark.
- The Core Model portfolio will only select stocks within the S&P/ASX 100 Index. Where securities do not adhere to these specific requirements, a clear explanation will detail the basis of recommendations for breaching such requirements.
- The Core Model portfolio's objective is to allow each stock a minimum of 12 months to perform, unless certain conditions are not met and/or the underlying fundamentals of the company have changed as a result of unexpected situations such as profit warnings or significant unjustifiable price changes. All stocks must have an individual weighting between 4% to 15%.
- The portfolio aims to achieve a franking level +/- 20% of the S&P/ASX100 Index.
- The portfolio aims to achieve a dividend yield of +/- 1% of the S&P/ASX100 Index.

# Portfolio Weighting & Commentary

## Report on Core Model Portfolio

Code	Company	Industry Group Description	Historical Yield (%)	Historical EPS (CENTS)	Historical P/E Ratio	Portfolio Weight
NAB	National Australia Bank Limited	Banks	6.5%	240	12.7	12.5%
SHL	Sonic Healthcare Limited	Health Care Equipment & Services	3.5%	102	21.5	6.0%
WBC	Westpac Banking Corporation	Banks	5.9%	240	13.4	12.5%
WES	Wesfarmers Limited	Food & Staples Retailing	5.3%	254	16.7	9.0%
TCL	Transurban Group	Transportation	4.6%	12	96.1	7.0%
MQG	Macquarie Group Limited	Diversified Financials	6.0%	645	12.2	7.0%
BXB	Brambles Limited	Commercial & Professional Services	2.6%	53	21.4	6.0%
IAG	Insurance Australia Group Limited	Insurance	5.6%	42	14.1	8.0%
ABC	Adelaide Brighton Limited	Materials	3.6%	30	19.0	7.0%
AMC	Amcor Limited	Materials	3.8%	80	18.8	5.0%
CSL	CSL Limited	Pharmaceuticals, Biotechnology & Life Sciences	1.6%	389	29.5	6.0%
GMG	Goodman Group	Real Estate	3.5%	42	17.7	4.0%
APA	APA Group	Utilities	5.0%	21	41.3	4.0%
BHP	BHP Billiton Limited	Materials	4.7%	171	13.6	6.0%
<b>TOTAL PORTFOLIO WEIGHT</b>						<b>100.00%</b>
<b>14 Stocks</b>						

\*\*\* Historical data refers to the last 12 months of reported financial result.

\*\*\* Data source obtained from Morningstar Research.

## Portfolio Commentary

- There are 14 stocks within the Core Model portfolio. The stocks have been separated into five major economic sectors to reduce the overall risk of the portfolio. 18% has been allocated to the Materials sector. A 13% allocation has been made to the Industrial sector to provide the portfolio with appropriate diversification. 21% has been allocated to the Consumer & Healthcare sectors. 44% of the portfolio allocation is allocated to the Financial sector to provide diversification but also to take advantage of the strong dividend yields and attractive valuations of quality blue-chip companies. An exposure of 4% has been provided towards Utilities after the inclusion of APA into the portfolio.
- The portfolio contains 14 stocks within the S&P/ASX100 index. The Core Model portfolio is forecast to have a weighted average EPS growth greater than 11%, the yield is expected to be around 4.6% and franking is anticipated to be greater than 60%. Seven companies are forecast to have fully franked dividends, which are; ABC, BHP, NAB, WBC, WES & IAG. The following stocks are expected to be partially or with no franking credits; AMC, APA, BXB, CSL, GMG, MQG, SHL & TCL. The portfolio has a lower level of anticipated franking credits due to our preference for providing exposure towards stocks with some overseas operations. This is due to the fact that these company's are benefitting from both a downward movement in the Australian dollar as well as greater earnings momentum globally, relative to their domestic counterparts.
- The following companies are selected to provide growth to the portfolio with forecast earnings growth of greater than 15%; SHL, TCL, CSL & BHP. The following stocks have forecast earnings growth of between 8% to 15%; MQG while NAB, WBC, WES, BXB, AMC, IAG & GMG have forecast earnings growth of less than 8%. The following stocks were selected for diversification purposes; APA, NAB, SHL, GMG & WES. This diversification allows a reduction in risk of the portfolio and allows the portfolio to have exposure to all 5 of the major economic sectors.
- Please note, the current Morningstar recommendation for WES, ABC, CSL & BHP is at '2 Stars'. We feel that these companies still represent the best quality exposures in their respective sectors and currently trade at above Morningstar's fair value given their strong competitive positions, superior cash flows and increasing returns to shareholders.
- Please note, we have not recommended CBA or any related company into the model portfolio due to a potential conflict of interest.

## Stock Commentary

---

- **National Australia Bank Limited (NAB)**

National Australia Bank announced key items impacting 2018 Half Year results stating that restructuring-related costs were of \$755m included in cash earnings but separately identified and these costs are in relation to the acceleration of the Group's strategy, related primarily to costs associated with workforce reductions over the next three years. The Group updated that it expects to increase its provisions for legacy payment protection insurance (PPI) costs by GBP350m and to fully utilize the remaining undrawn Capped Indemnity amount of GBP148m, bringing this balance to zero. The Group further updated that its results will also include a change in Bad and Doubtful Debt terminology to improve consistency with the terminology used in accounting standard AASB 9 Financial Instruments.

- **Sonic Healthcare Limited (SHL)**

No significant news or reports from the company in April

- **Westpac Banking Corporation (WBC)**

No significant news or reports from the company in April

- **Wesfarmers Limited (WES)**

Wesfarmers provided 2018 third quarter retail sales results. Total sales for the quarter were \$3.0bn, up 8.9% on the pcp. Total store sales for the quarter increased 9.1%, while store-on-store growth was 7.7%. Growth was achieved in all trading regions and across all product categories. For the financial year to date, total sales increased 9.6% to \$9.6bn. Total store sales grew 9.8% for the year to date, while store-on-store growth was 8.6%.

- **Transurban Group (TCL)**

Transurban Group provided update on March 2018 quarter. During the period, Average Daily Traffic (ADT) increased by 2.7%, with growth across all Australian markets. Traffic growth for the quarter was impacted by the timing of the Easter holiday period. Its development projects continued to progress throughout the quarter. In addition, the Company reached agreement in March 2018 to acquire the A25 in Montreal for C\$840m. The asset is comprised of a 7.2 kms toll road and bridge and connects to one of the fastest growing areas of Montreal. The acquisition provides access to a second North American market with a growing population. It will assume responsibility for the management and operations of the A25 after financial close, which is targeted for Q4 FY 2018.

- **Macquarie Group Limited (MQG)**

No significant news or reports from the company in April

- **Brambles Limited (BXB)**

Brambles reported sales revenue from continuing operations of US\$4,159.1m for the first nine months of the financial year ending 30 June 2018 (FY 2018), representing an increase on the pcp of 10% at actual FX rates and 5% at constant currency. The difference between actual FX and constant-currency growth rates largely reflects the depreciation of the US dollar relative to other operating currencies, particularly the Euro. Revenues in CHEP Asia-Pacific decreased 5% at constant currency, reflecting the previously announced loss of a large Australian RPC contract and the wind down of the automotive industry in Australia.

- **Insurance Australia Group Limited (IAG)**

Insurance Australia Group advised that the it is focusing on developing 5 key capabilities for and within the organisation including customer experience, data, analytics or artificial intelligence, digital and innovation. The focus on analytics and artificial intelligence is about bringing cognitive capability into the Company's technology and is the foundation of creating those personalised experiences that the Company is talking about for customers. The Company advised that at the half year the Company had reached a \$100m run rate move in the controllable costs and stated that it is on track to simplify the business and achieve at least \$250m reduction in the controllable costs when the Company exit FY19, moving cost base from \$2.5bn down to \$2.25bn.

- **Adelaide Brighton Limited (ABC)**

Adelaide Brighton announced the signing of a contract with BHP Billiton for the continuation of supply of cement and lime to BHP's Olympic Dam mine. The new contract maintains and extends the long-term relationship between BHP Billiton (Olympic Dam Corporation) and Adelaide Brighton Cement on terms generally similar to those applicable between the parties for many years. It is expected this relationship will continue for a number of years.

## Stock Commentary

---

- **Ancor Limited (AMC)**

No significant news or reports from the company in April

- **CSL Limited (CSL)**

No significant news or reports from the company in April

- **Goodman Group (GMG)**

No significant news or reports from the company in April

- **APA Group (APA)**

No significant news or reports from the company in April

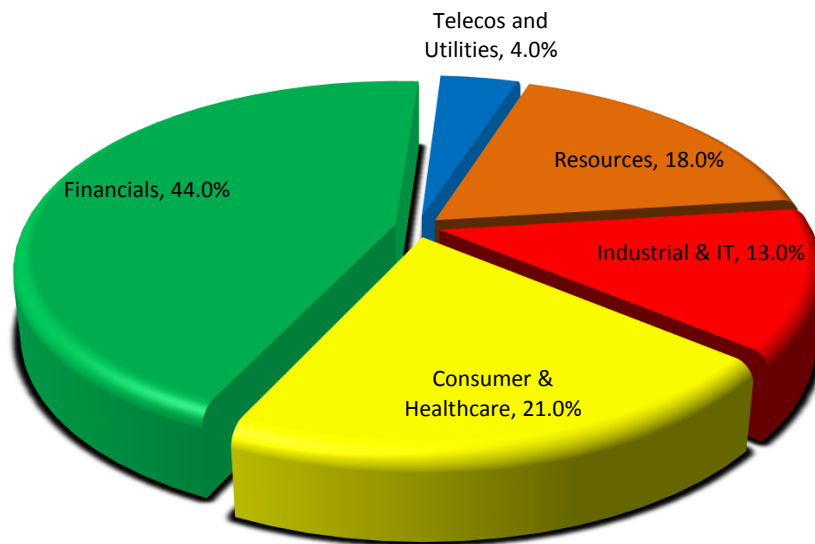
- **BHP Billiton Limited (BHP)**

BHP Billiton provided operational review for nine months ended 31 March 2018. It has four major projects under development in Petroleum, Copper and Potash, with a combined budget of US\$7.5bn over the life of the projects. All projects remain on time and on budget. Total petroleum production for the nine months ended March 2018 decreased by eight per cent to 143 MMboe. Guidance for the FY 2018 remains unchanged at between 180 and 190 MMboe, comprising Conventional volumes between 119 and 123 MMboe and Onshore US volumes between 61 and 67 MMboe. Petroleum exploration expenditure for the nine months ended March 2018 was US\$521m, of which US\$395m was expensed. A US\$715m exploration program is being executed for the FY 2018.

# Sector Analysis

## Report on Core Model Portfolio

Sectors	Portfolio (%)	S&P/ASX 100 (%)	Differences (%)
<b>Major Sectors</b>			
Resources	18.0%	21.5%	-3.5%
Industrial & IT	13.0%	8.2%	4.8%
Consumer & Healthcare	21.0%	17.4%	3.6%
Financials	44.0%	47.3%	-3.3%
Telecos and Utilities	4.0%	5.6%	-1.6%



\*\*\* Data obtained from Morningstar Research.

# Industry Analysis

## Report on Core Model Portfolio

Sectors		Portfolio	S&P/ASX	Differences
Industry		(%)	100 (%)	
<b>Resources</b>				
	Energy	0.0%	4.1%	-4.1%
	Materials	18.0%	17.4%	0.6%
		<b>18.0%</b>	<b>21.5%</b>	<b>-3.5%</b>
<b>Industrial &amp; IT</b>				
	Capital goods	0.0%	0.3%	-0.3%
	Commercial Services & Supplies	6.0%	2.0%	4.0%
	Transportation	7.0%	4.9%	2.1%
	Software & Services	0.0%	1.0%	-1.0%
		<b>13.0%</b>	<b>8.2%</b>	<b>4.8%</b>
<b>Consumer &amp; Healthcare</b>				
	Consumer Durables & Apparel	0.0%	2.6%	-2.6%
	Hotel, Restaurants & Leisure	0.0%	0.0%	0.0%
	Media	0.0%	0.4%	-0.4%
	Retailing	0.0%	0.3%	-0.3%
	Food & Staples Retailing	9.0%	5.8%	3.2%
	Food, Beverages & Tobacco	0.0%	1.2%	-1.2%
	Household & Personal Products	0.0%	0.0%	0.0%
	Health Care Equipment & Services	6.0%	2.8%	3.2%
	Pharmaceuticals & Biotechnology	6.0%	4.3%	1.7%
		<b>21.0%</b>	<b>17.4%</b>	<b>3.6%</b>
<b>Financials</b>				
	Banks	25.0%	30.3%	-5.3%
	Diversified Financials	7.0%	5.4%	1.6%
	Insurance	8.0%	3.8%	4.2%
	Real Estate	4.0%	7.8%	-3.8%
		<b>44.0%</b>	<b>47.3%</b>	<b>-3.3%</b>
<b>Telecos and Utilities</b>				
	Telcommunication Services	0.0%	3.3%	-3.3%
	Utilities	4.0%	2.3%	1.7%
		<b>4.0%</b>	<b>5.6%</b>	<b>-1.6%</b>

\*\*\* Data obtained from Morningstar Research & Iress Market Technology.

# Ratio Analysis

## Report on Core Model Portfolio

CODE	Company	Forecast EPS Growth (%)	Forecast Yield (%)	Forecast Franking (%)	Forecast DEBT/ EQUITY (%)	Forecast Interest Cover (X)	Forecast Return on Equity (%)	Forecast EPS (Cent)	Forecast PE RATIO (X)	Market Cap (\$M)
NAB	National Australia Bank Limited	-3.2	6.8%	100%	0.0%	0.0	0.0%	\$2.32	12.4919	\$80,190,163,249
SHL	Sonic Healthcare Limited	9.7	3.3%	20%	0.0%	0.0	0.0%	\$1.12	21.1025	\$10,032,553,442
WBC	Westpac Banking Corporation	2.5	6.6%	100%	0.0%	0.0	0.0%	\$2.46	11.6546	\$99,448,660,377
WES	Wesfarmers Limited	-4.0	4.9%	100%	0.0%	0.0	0.0%	\$2.44	17.9356	\$49,401,419,344
TCL	Transurban Group	67.0	4.8%	5%	0.0%	0.0	0.0%	\$0.20	59.1535	\$26,207,295,392
MQG	Macquarie Group Limited	12.8	4.7%	45%	-112.8%	0.0	13.8%	\$7.27	14.9527	\$36,664,098,410
BXB	Brambles Limited	0.7	2.9%	30%	0.0%	0.0	0.0%	\$0.53	18.5814	\$15,600,036,420
IAG	Insurance Australia Group Limited	6.8	4.3%	100%	0.0%	0.0	0.0%	\$0.45	17.6892	\$18,845,493,778
ABC	Adelaide Brighton Limited	17.9	3.3%	100%	0.0%	0.0	0.0%	\$0.36	18.014	\$4,196,438,409
AMC	Amcor Limited	-1.1	4.3%	0%	0.0%	0.0	0.0%	\$0.80	17.2532	\$15,947,605,371
CSL	CSL Limited	19.5	1.3%	0%	0.0%	0.0	0.0%	\$4.64	36.6847	\$76,432,637,707
GMG	Goodman Group	8.0	3.1%	0%	0.0%	0.0	0.0%	\$0.45	19.956	\$16,404,958,919
APA	APA Group	-0.1	5.4%	15%	0.0%	0.0	0.0%	\$0.21	39.3126	\$9,840,314,692
BHP	BHP Billiton Limited	36.3	5.5%	100%	0.0%	0.0	0.0%	\$2.34	13.2436	\$100,365,347,031

\*\*\* Note, Financial stocks do not use the Debt to Equity ratio and/or Interest Cover due to the nature of the industry.

\*\*\* Forecast numbers are based on year 1 forecast rather than specific years due to the different reporting dates.

\*\*\* Data obtained from Morningstar Research

# Research Commentary

## Report on

### Core Model Portfolio

Code	Company	Company Description	Morningstar/Aegis Commentary
NAB	<b>National Australia Bank Limited</b>	National Australia Bank Limited (NAB) is a financial services group that provides a comprehensive and integrated range of banking and financial services including wealth management throughout Australia and New Zealand, with branches located in Asia, the United Kingdom (UK) and the United States (US).	National Australia Bank is one of four major banks and is Australia's biggest business bank. The Clydesdale demerger completed in February 2016 with the core and profitable Australian and New Zealand commercial and retail banking franchises now the sole focus. CEO Andrew Thorburn and senior management have started the business optimisation process and we expect consistent, high-quality earnings going forward, erasing previous disappointments and rebuilding investor confidence. Good revenue and volume growth, tight cost control and improved return on equity will feature. The share price has recovered relative to peers from a long period of underperformance. The bank has substantial exposure to the business sector, with 43% of earnings from business banking, and is well placed to take advantage of the recovery in demand for business credit. The author's retirement fund owns shares in all four Australian major banks.
SHL	<b>Sonic Healthcare Limited</b>	Sonic Healthcare Limited (SHL) is an international medical diagnostics company, offering laboratory medicine/pathology and radiology services to the medical community. The company is structured as a decentralized federation of medically-led diagnostic practices, with the head office in Sydney, Australia. SHL provides the services and infrastructure in eight countries: Australia; New Zealand; the UK; Germany; Switzerland; Belgium; Ireland; and the USA.	During the past two decades, Sonic has built a dominant position in the Australian medical diagnostics market; it is now the largest Australian pathology laboratory operator. This scale gives it a significant cost advantage, the primary source of its narrow economic moat. Sonic invested heavily throughout the six years to 2011 to establish critical mass in the U.S. and European pathology markets. The firm is now generating synergies from acquired businesses, the same strategy it implemented so successfully in Australia. We expect steady realisation of synergies in the U.S. and European markets to gradually boost margins for many years and help drive EPS growth of about 10% during the next five years. Several dynamics underpin pathology test volume globally, including ageing populations, the economic benefits of preventative medicine, and ongoing innovation in pathology testing technology.

# Research Commentary

## Report on

### Core Model Portfolio

Code	Company	Company Description	Morningstar/Aegis Commentary
WBC	<b>Westpac Banking Corporation</b>	Westpac Banking Corporation (WBC) is Australia's oldest banking and financial services group, with branches and operations throughout Australia, New Zealand and the near Pacific region as well as offices in key financial centres around the world including London, New York, Hong Kong and Singapore. The Group is organised in the following 5 Key Divisions: Consumer Bank, Commercial and Business Bank, BT Financial Group, Westpac Institutional Bank and Westpac New Zealand. Its serves nearly 13 million customers.	Westpac Banking Corporation is Australia's oldest bank, marking 200 years in 2017. Certain commentators view Westpac's successful home-loan growth strategy as a key weakness, but we argue that it is a core strength. Investor concerns, centred on the large exposure to residential mortgages, are overdone. The high-profile multibrand franchise in Australia and New Zealand is slanted towards retail banking, but retains meaningful exposure to the wealth, corporate, and institutional sectors. We see solid earnings upside potential, with international investors continuing to focus too much attention on negative short-term issues. A strong balance sheet, peer-leading loan quality, and impressive returns on equity underpin a solid earnings outlook. The author's retirement fund owns shares in all four Australian major banks.
WES	<b>Wesfarmers Limited</b>	Wesfarmers Limited (WES) is a diversified business operating supermarkets, department stores, home improvement and office supplies, resources, chemicals, energy and fertilisers, and industrials and safety products. WES is headquartered in Western Australia.	Wesfarmers' diversified portfolio provides exposure to many segments of the Australian economy. In fiscal 2017, more than 90% of group revenue was consumer-related. The contribution to group EBIT from these operations is also above 90%. Other operations provide exposure to resources, coal mining, agriculture, and industrial gases. Wesfarmers is Australia's largest private-sector employer, with more than 200,000 employees. We believe Wesfarmers has a narrow moat, which is sourced from cost advantages derived from its significant retail scale. Return on equity is affected by dilutive equity issues associated with the acquisition of Coles in 2008, along with the company's significant goodwill, but return on invested capital (excluding goodwill) comfortably exceeds the cost of capital.

# Research Commentary

## Report on

### Core Model Portfolio

Code	Company	Company Description	Morningstar/Aegis Commentary
TCL	Transurban Group	Transurban Group (TCL) manages and develops urban toll road networks in Australia and the United States of America. Company engage in the development, operation, maintenance and financing of toll road networks as well as management of the associated customer and client relationships. Company have 13 roads in Australian portfolio and in US company have 2 roads in the state of Virginia, both in Washington DC area.	Transurban Group is a leading toll road owner/operator, with a portfolio of assets on the Eastern seaboard of Australia and in Virginia, U.S. Concession lives are fixed, with toll roads handed back to their respective governments debt-free at the end of the concession. The weighted average concession life of the portfolio is around 30 years. Under the leadership of Scott Charlton, Transurban has aggressively expanded its portfolio through a combination of acquisitions and greenfield projects. Toll roads have high barriers to entry and benefit from rising traffic volumes and tolls, which increase in line with the consumer price index or higher. Transurban is a stapled security, with a considerable portion of its net cash flows distributed to security holders pretax. The objective is to cash-cover and increase distributions; we project a five-year high-single-digit CAGR in distributions
MQG	Macquarie Group Limited	Macquarie Group Limited (MQG) is a global provider of banking, financial, advisory, investment and fund management services, headquartered in Sydney.	Macquarie's global business model has successfully navigated the operational and capital market headwinds affecting other larger investment banks. Despite Macquarie being subscale compared with global peers, the firm has very successfully replaced the significant revenue streams previously sourced from the highly profitable satellite-fund business model. Long-held strengths of adaptability, variable costs, a solid balance sheet, and capable management offset volatile market conditions and place the group in a strong position to leverage the market rebound. Funds management, corporate lending, and asset financing are strong performers, delivering lower-risk income at the same time that Macquarie's market-dependent businesses start to recover. Further growth in global capital markets and increased transactional volumes are needed to increase earnings, particularly in the market-facing investment banking businesses.
BXB	Brambles Limited	Brambles Limited (BXB) is a supply-chain logistics company operating in more than 50 countries, primarily through the CHEP and IFCO brands. BXB specializes in the pooling of unit-load equipment and the provision of associated services. BXB is focusing on the outsourced management of returnable pallets, crates and containers.	Brambles is the largest global provider of pallet and reusable plastic crate, or RPC, pooling services. Global scale and years of experience provide competitive advantages and a wide economic moat. The global infrastructure and advantageous cost position are barriers to entry, but there is some competition at the regional level. Cash flow, operating margins, and return on equity are high, but until recently, the business struggled to achieve sustainable earnings growth over a prolonged period. Management has been able to refocus the business, and while earnings are currently struggling with the effects of subdued U.S. and European economies, this is more than offset by increased penetration of existing markets and expansion to new geographies and services. A recovery in the developed economies would provide a major earnings boost. Growth opportunities exist in the RPC and container businesses.

# Research Commentary

## Report on

### Core Model Portfolio

Code	Company	Company Description	Morningstar/Aegis Commentary
IAG	<b>Insurance Australia Group Limited</b>	Insurance Australia Group Ltd (IAG) is a general insurance group, with operations in Australia, New Zealand, and Asia. The Group provides a range of personal and commercial insurance products, primarily motor vehicle and home insurance. IAG also has interest in general insurance joint ventures in Malaysia, India and China. IAG has two customer facing divisions - Consumer Division and Business division being responsible for sales, service, and brand and marketing execution.	Insurance Australia Group is one of the two largest domestic general insurers operating in Australia and New Zealand. Despite heritage brands and high market shares, its products are commoditised and sustainable competitive advantages are elusive, hence the pressure from competition on revenue and margins. The firm exited its U.K. business several years ago to focus on its core business in Australia and New Zealand and its Asian strategy. The insurance market is mature, with cyclical, price-competitive, premium rates. Large insured events occur without warning, and claims trends are largely beyond the control of management in the short term. Reinsurance protection and capital management mitigate risks to some extent. General insurance is inherently risky, with volatile earnings, but recent quota share deals reduce earnings volatility, release capital and increase more-stable fee based income.
ABC	<b>Adelaide Brighton Limited</b>	Adelaide Brighton Limited (ABC) is an integrated construction material and lime producing group of companies focused on the construction, engineering, infrastructure and resource sectors in Australia. ABC has three main operating divisions being: Cement, Lime, Concrete and Aggregates and Concrete Masonry Products.	Adelaide Brighton has delivered strong growth from exposure to strong infrastructure and residential markets. Economic conditions and consumer confidence ultimately drive private and government construction, creating volatility. Yet, a track record of controlling costs, balancing imports against local manufacturing capacity, vertical integration, selective expansions, and a prudent balance sheet help ease the burden of operating in a cyclical industry. Following the company's purchase of Central Pre-Mix Concrete, we continue to expect additional concrete or quarry acquisitions, complementing the company's vertically integrated model. Cost advantage gives Adelaide Brighton a narrow economic moat, stemming from efficient plants closely located to quarries and energy sources and access to cheap imports of clinker.
AMC	<b>Amcor Limited</b>	Amcor Limited (AMC) is a global packaging company with operations across Australasia, North America, Latin America, Europe and Asia. AMC offers a range of packaging related products and services, including packaging for beverages, food, healthcare, personal and homecare, tobacco, and industrial applications.	Amcor is a leading global packaging company, with an extensive network of packaging plants across flexible and rigid plastic packaging. The AUD 2 billion acquisition of certain Alcan packaging businesses in 2010 was well timed and significantly increased scale and diversification. The demerger in December 2013 of its Australasian paper and packaging and U.S. distribution businesses allows the company to focus on the higher-return flexibles and rigid plastics segments, as well as increasing exposure to higher-growth emerging geographic markets. The end markets supplied, such as healthcare, food, beverages, and tobacco, are defensive in nature, which lessens exposure to changes in global consumer and business activity.

# Research Commentary

## Report on

### Core Model Portfolio

Code	Company	Company Description	Morningstar/Aegis Commentary
CSL	CSL Limited	CSL Limited (CSL) is a biopharmaceutical company that researches, develops, manufactures and markets products to treat and prevent human medical conditions including coagulation disorders, viral and bacterial diseases, bleeding disorders and other diseases. The operational businesses include CSL Behring and bioCSL. CSL has manufacturing operations in the United States, United Kingdom, Germany, Switzerland and Australia.	CSL is one of three major players in the global blood-plasma-derived biotherapies space. We expect consistent product innovation to drive high-single-digit top-line growth in developed markets, augmented by midteen lower-margin sales growth in emerging markets. With moderate operating leverage, this should result in double-digit profit growth during the next few years. CSL is cost-competitive, given its manufacturing scale and a wide plasma-derived product range that reduces unit production cost. Manufacturing know-how drives ongoing, incremental yield improvements. Cost competitiveness and innovation prowess deliver a narrow moat, reflected in returns on invested capital consistently above 20%, well above an under-10% cost of capital. CSL suits growth-oriented investors comfortable with the inherent risks of the biotechnology industry, including intellectual property disputes and regulatory intervention.
GMG	Goodman Group	Goodman Group (GMG) is an integrated property group with operations throughout Australia, New Zealand, Asia, Europe, the United Kingdom, North America and Brazil. GMG comprised of the stapled entities Goodman Limited, Goodman Industrial Trust and Goodman Logistics (HK) Limited. GMG operates four divisions namely Property Investment, Fund Management, Property Services and Property Development.	The substantial yield premium on high-quality industrial property to bonds is a key factor behind strong institutional demand for Goodman-developed product. With an outlook for interest rates to reach exceptionally low levels, we expect sustained institutional demand for industrial property. Goodman has strong growth prospects, but asset value risks are evident. Recent rises in industrial asset values have been facilitated by sharply lower interest rates, particularly given that rent growth rates have stabilised in most regions. The inevitable reversion to long-term average borrowing rates in outer years could weigh heavily on industrial property values, reflecting the dual impact of capitalisation-rate expansion and softer commercial demand for industrial space. This ever-present risk highlights the importance of premium product and financially sound tenants, a key attribute of the Goodman investment vehicles.

# Research Commentary

## Report on

### Core Model Portfolio

Code	Company	Company Description	Morningstar/Aegis Commentary
APA	APA Group	<p>APA Group (APA) comprises of Australian Pipeline Trust and APT Investment Trust, operates natural gas transportation business with interests in energy infrastructure across mainland Australia, including natural gas pipelines, gas storage facilities and a wind farm. APA also holds minority interests in a number of energy infrastructure enterprises including SEA Gas Pipeline, Energy Infrastructure Investments, GDI Allgas Gas Networks and Diamantina and Leichhardt Power Stations.</p>	<p>APA Group is a good-quality infrastructure stock with astute internal management. It owns an unparalleled network of gas transmission and distribution infrastructure assets across Australia. Due to less regulation than most of its peers, it achieves higher returns, particularly from organic expansion projects that increase use of the existing network. Unfortunately, industry reform threatens. Australian household and business utility bills are rising strongly from already high levels, and governments are responding with sweeping measures. For APA, this includes gas market rule changes attacking the asymmetric information advantage helping it secure excess returns. This will improve the negotiating position of customers, and will be backed up by binding arbitration if negotiations fail. Headwinds from rule changes and likely rising interest rates suggest APA's future won't be as rosy as its past.</p>
BHP	BHP Billiton Limited	<p>BHP Billiton Limited (BHP) is a diversified natural resources company producing commodities along with substantial interests in oil and gas. BHP's principal business lines are mineral exploration and production, as well as petroleum exploration, production and refining. BHP's assets, operations and interests are separated into four business units, Petroleum and Potash, Copper, Iron ore, and Coal.</p>	<p>BHP has several of the world's largest mines. Key mined commodities are iron ore, coking coal, and copper. In addition, the company has meaningful oil exposure with large bets on U.S. onshore shale gas and oil, in addition to conventional and liquefied natural gas, or LNG, assets. The iron ore mines in particular are at the low end of the industry cash cost curve; however, overinvestment during the peaks of the China boom, when capital costs were very high relative to historical standards, has diluted the operating cost advantage. After adding back the not-inconsiderable write-downs, BHP's invested capital base nearly quadrupled in the decade-ended 2015, substantially lowering returns such that we expect midcycle returns below the company's cost of capital.</p>

# Research Glossary

---

## Report on Core Model Portfolio

Holdings Report:	Displays the stock holdings in the portfolio. Stocks that are flagged with *** are not included in the analysis. Stocks that are members of the Australian All Ordinaries Accumulation Index are the only stocks included in the analysis. Effective value shows the value of total holdings included in the analysis.
Sector/Industry Report:	Displays each stock in the portfolio with sector and industry membership.
Sector Weights:	Displays the sector weights of the portfolio compared to the sector weights of the Index. Displays the industry weights of the portfolio compared to the industry weights of the Index categorized by sector.
Industry Weights:	Displays the industry weights of the portfolio compared to the industry weights of the Index categorized by sector.
Stock Weights:	Displays the weight of each stock in the portfolio categorised by each industry and sector.
Company Size:	Current price of a stock multiplied by the number of shares on issue for that stock. It is measured in millions of Australian dollars.
Price Earnings Ratio:	Current price of a stock divided by the current full year earnings per share (before abnormal and extraordinary items).
Price Book Value Ratio:	Current price of a stock divided by the current full year net assets per share.
Price Cash Flow Ratio:	Current price of a stock divided by current gross cash flow per share. Gross cash flow is calculated as net profit (before abnormal and extraordinary items) plus depreciation.
Dividend Franking:	Percentage of the stock's dividend that has been subject to Australian corporate taxation before distribution.
Dividend Yield:	Dividend yield is calculated as the stock's annual dividend per share (excluding special cash payments) divided by the current price and measured as a percentage.
Gearing:	Financial debt divided by the sum of financial debt and shareholders funds and measured as a percentage. Banking stocks generally have high gearing ratios.
Interest Cover:	Net operating profit (before abnormal and extraordinary items) divided by interest expense.
Earnings Growth:	Three year average annual percentage change in net operating profit (before abnormal and extraordinary items). If three year data is not available, Earnings Growth is calculated using the available data, such as the two year average percentage change or the one year percentage change.
3 Year Beta:	Regression coefficient of weekly portfolio returns against weekly Index returns based on three years historical weekly data. For example, if the portfolio beta is 0.95, and if the value of the Index moves up 10%, on average historically the portfolio value rose 9.5%. This measure is subject to considerable statistical variability.
1 Year Beta:	Calculated in the same fashion as the 3 year beta except that the data used in the regression are for the last 1 year.
Averages:	The portfolio and Index weighted averages of the Price Earnings Ratios, Price Book Value Ratios and Price Cash Flow Ratios are calculated as the weighted averages of the underlying Earnings Price Ratios, Book Value Price Ratios and Cash Flow Price Ratios and these weighted averages are then inverted.
Data :	Please note that the data produced in the analysis of recommended portfolio are all historical. We have used forecast data to construct the portfolio, these forecast data can be verified in the research report attached to this document.

# Disclaimer

---

There is a risk investors could lose some or all of their money. This information has been prepared without taking account of the objectives, tax position, financial situation or needs of any particular individual. For this reason, any individual should consider the product material available from the product issuer, including the prospectus, product disclosure statement or equivalent disclosure document, and consider the appropriateness of the information having regard to their objectives, tax position, financial situation and needs before making any decisions.

This document has been prepared for the general information of Australian authorised representatives only. This document does not represent advice specific to any particular investor and should not be relied on as the sole or principal basis of a decision to invest in the Notes.

CommSec Investment Advisory makes no warranty as to the accuracy, reliability or completeness of any information contained herein. Investments are subject to a number of risks and the repayment of capital or the investment performance of any financial product covered in this document is not guaranteed. Past performance is no guarantee of future performance and nothing in this document is, or may be relied upon as, a representation as to the future performance of the Notes.

It is your responsibility to ensure:

- You have the required authorisation to advise and deal in these financial products and strategies.
- These products are approved and appear on your licensee's approved product list.
- You meet the 'know your product' and 'know your client' obligations of the Corporations Act 2001.
- Any clients are referred to the offer and disclosure documentation available from the issuer before making any decisions.
- That any additional information or analysis (ie cash flow analysis, fee disclosure etc) is provided to the client in the required form to meet the reasonable basis of advice and SOA content requirements.

Except to the extent that any liability under any law cannot be excluded, no liability for any loss or damage which may be suffered by any person, directly or indirectly, through relying upon any information or statement in this guidance is accepted by Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 (the Bank), any of its subsidiary companies, any of its directors, employees or agents, whether that loss or damage is caused by any fault or negligence on their part or otherwise. Australian Investment Exchange Limited ABN 71 076 515 930 AFSL No 241400 ('AUSIEX') is a wholly owned but non-guaranteed subsidiary of the Bank. Neither The Bank and its subsidiaries nor the Issuer guarantee the investment performance or payments of the Notes.

## **Important Information**

The Portfolio Report is a limited advice information service provided only to financial industry professionals who act as a representative of, or who hold, an Australian Financial Services Licence ('you').

CommSec Investment Advisory relies on information provided by you in constructing the Portfolio Report to assist you in meeting your client's objectives and its accuracy depends on the correctness and extent of your disclosure to CommSec Investment Advisory. You must therefore assess whether it is appropriate, in the light of your analysis and understanding of your clients' relevant personal circumstances (including but not limited to their objectives, financial situation and needs) to act upon this advice. The Portfolio Report is a tool to assist you in the preparation of a financial advice for your client and is not intended for stand-alone use. You are expressly prohibited from providing or passing on any part of the Portfolio Report or the advice contained within it directly to your client or any other retail client.

The Portfolio Report does not in any way validate the allocations of your client's investment portfolio in the various asset classes, particularly the level of investment in equities. Equities are the most volatile asset sector as equity prices vary daily and are influenced by factors that relate either to the company and industry in which the company operates, or general economic conditions.

The income and capital growth projections are intended as a guide only to likely returns over the medium to long term and should not be relied upon as a guarantee of future performance, as past performance is not a reliable indicator of future performance.

The Portfolio Report does not include information on tax. CommSec Investment Advisory does not provide tax advice and you should consider or assess the impact of tax on your client's financial plan or seek the advice of a tax professional.

The information in the Portfolio Report is based on data obtained from sources believed to be reliable but the completeness and accuracy of this information is not guaranteed. The information or opinions expressed in the report are subject to change without notice and CommSec Investment Advisory is under no obligation to update or ensure the currency of the information contained herein. Australian Investment Exchange Limited does not accept any liability, whether direct or indirect, arising from the use of this information.

The Portfolio Report is current as at the date on page one of this document and CommSec Investment Advisory recommends that portfolios are reassessed annually, as a minimum, and adjusted as necessary.