Direct Equities Recommendation

Income Model Portfolio

Thursday, 3 May 2018

Portfolio Objective

The Income Model Portfolio aims to deliver a grossed up dividend yield higher than the S&P/ASX100 Index over rolling three year periods. The portfolio targets reasonable capital growth with high franking levels. Volatility is expected to be lower than the benchmark.

There were no changes to the portfolio this month

Summary of Portfolio

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Income 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. We do not look at any companies with debt to equity ratio greater 70% with the exception of Telstra, Amcor & APA Group. Telstra is an exception because of their strong cash flows, good management and the assumption that the company will benefit from the Government payment for their copper network. The APA Group is an exception as the company is experiencing increasing free cash flows, the company retains a significant interest cover buffer from their debt covenants and the company's payout ratio is still relatively moderate, highlighting the stability of the company's dividend. AMC has been included given the strong cash flows that the company generates and has generated historically as well as the defensive nature of the of its end markets which enable it to manage its current debt loading.
- 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 ASX100 index weight, limiting the individual exposure of any company within the range of 4% to 15% of the portfolio and having exposure to at least 4 sectors and at least 6 industries. 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.
- The portfolio as currently constructed is concentrated on relatively high dividend yielding securities, with a secondary focus on high franking credits and earnings per share growth. The objective is to target a yield approximately 5% with franking credits that exceed 80%.

Portfolio Parameters

- The Income portfolio will only select stocks within the S&P/ASX100. Where securities do not adhere to this specific requirement, a clear explanation will detail the basis of recommendation for breaching such requirements.
- The Income Portfolio is designed to be a long term investment with a maximum turnover of 30% per annum, where appropriate. The underlying objective is to allow each stock a minimum of 12 months to perform, unless certain conditions are breached and/or the underlying fundamentals of the company have changed as a result of unexpected situations.
- The portfolio aims to achieve a franking level greater than the S&P/ASX100 index.
- This portfolio is designed with a minimum investment horizon of 5 years
- Volatility of the portfolio is expected to be lower than the S&P/ASX100 index.

Portfolio Weighting & Commentary

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Code	Company	Industry Group Discription	Historical Yield (%)	Historical EPS (CENTS)	Histoical P/E Ratio	Portfolio Weight
ANZ	Australia & New Zealand Banking Group Ltd	Banks	5.4%	237	12.5	9.0%
ASX	ASX Limited	Diversified Financials	4.1%	223	22.2	5.0%
NAB	National Australia Bank Limited	Banks	6.5%	240	12.7	11.0%
SHL	Sonic Healthcare Limited	Health Care Equipment & Services	3.5%	102	21.5	8.0%
TLS	Telstra Corporation Limited	Telecommunication Services	6.3%	32	15.2	4.0%
WBC	Westpac Banking Corporation	Banks	5.9%	240	13.4	11.0%
WES	Wesfarmers Limited	Food & Staples Retailing	5.3%	254	16.2	8.0%
ABC	Adelaide Brighton Limited	Materials	3.6%	30	19.0	8.0%
APA	APA Group	Utilities	5.0%	21	41.3	6.0%
TCL	Transurban Group	Transportation	4.6%	12	96.1	6.0%
AMC	Amcor Limited	Materials	3.8%	80	18.8	6.0%
GMG	Goodman Group	Real Estate	3.5%	42	17.7	8.0%
CTX	Caltex Australia Limited	Energy	3.8%	238	13.3	6.0%
JBH	JB Hi-Fi Limited	Retailing	4.5%	184	14.3	4.0%
						100.00%
13 Stocks						

*** Historical data refers to the last 12 months of reported financial result. *** Data source obtained from Morningstar Research.

Portfolio Commentary

- To reduce risk, 13 stocks are selected across the following sectors; 3 companies in Resources, 1 company in Industrials, 2 companies in Consumer & 1 company in Healthcare, 5 in Financials and 2 in Telecommunications & Utilities. The Consumer & Healthcare, Financial, Telecommunication & Utilities sectors are historically sectors that provide greater income distribution with less volatility. The Resource and Industrial sectors were selected to provide growth and diversification to the portfolio.
- The portfolio provides diversification via the five major economic sectors of Resources (20%), Industrial & IT (6%), Consumer & Healthcare (20%), Financials (44%) and Telecommunication & Utilities (10%). According to Morningstar's forecast, the portfolio is expected to generate a yield of 4.9%. Please refer to the "Ratio" page for further information on individual company dividend forecast. The portfolio is forecast to provide a franking credit of at least 80%. The following companies have been selected based on income factors; ANZ, ASX, NAB, TLS, WBC & APA. The following companies have been selected for diversification and growth purposes; ABC, AMC, CTX, GMG, JBH, SHL, TCL and WES.
- Please note, any stocks or companies associated with CBA have not been included due to the potential for conflict of interest.
- Please note, the current Morningstar recommendation for ASX, WES & ABC 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.

Stock Commentary

- **Australia and New Zealand Banking Group Limited (ANZ)**

  Australia & New Zealand Banking Group provided half year 2018 results. The discontinued operations assets and liabilities have been reclassified as at 31 March 2018 as held for sale and measured at the lower of their carrying value and fair value less costs to sell. Consequently, a $632m loss has been recognised, comprising a $277m net loss on measuring the assets and liabilities at fair value and future separation and transaction costs to complete both transactions of $355m. The Group has incurred $80m in restructuring charges within Cash Profit in 1H 2018, this compares to charges of $26m and $36m in 2H 2017 and 1H 2017, respectively.

- **ASX Limited (ASX)**
- No significant news or reports from the company in April
- **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

- **Telstra Corporation Limited (TLS)**

  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%.

- **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.

- **APA Group (APA)**

  No significant news or reports from the company in April

- **Transurban (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.

- **Amcor Limited (AMC)**

  No significant news or reports from the company in April

Stock Commentary

- **Goodman Group (GMG)**

  No significant news or reports from the company in April

- **Caltex Australia Limited (CTX)**

  Caltex Australia advised its realised lagged Caltex Refiner Margin (CRM) in respect of CRM sales from production for the month of March 2018. The March 2018 unlagged CRM was US$10.41/bbl. This is above the prior month (February 2018: US$9.95/bbl) but below the prior year 2017 monthly comparative (US$11.26/bbl). The March 2018 unlagged Caltex Singapore Weighted Average Margin was US$11.85/bbl, which is below the prior month (February 2018: US$12.36/bbl) and below the prior year comparative (March 2017: US$12.16/bbl). The Sales from production in March 2018 of 546 ML are above the prior month (February 2018: 475 ML) and above the prior year comparative (March 2017: 534 ML).

- **JB Hi-Fi Limited (JBH)**

  No significant news or reports from the company in April

Sector Analysis

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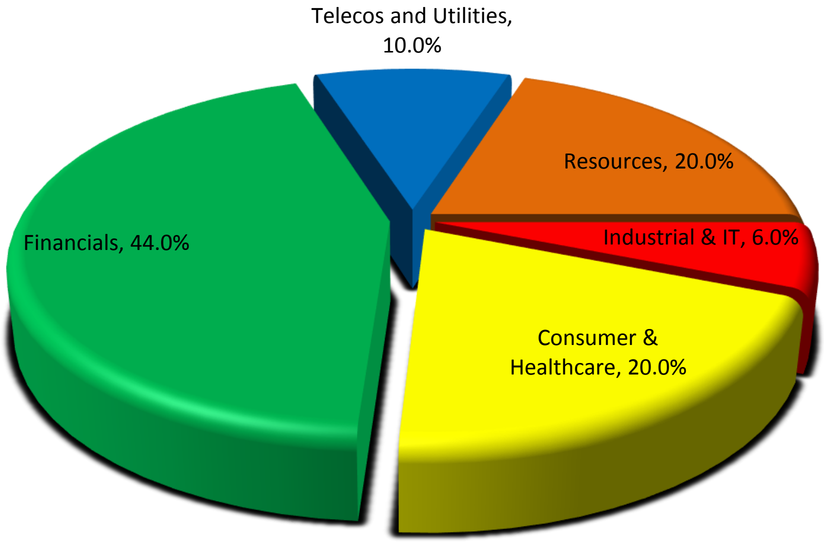
Sectors	Portfolio (%)	S&P/ASX 100 (%)	Differences (%)
Major Sectors			
Resources	**20.0%**	**21.8%**	**-1.8%**
Industrial & IT	**6.0%**	**8.2%**	**-2.2%**
Consumer & Healthcare	**20.0%**	**17.0%**	**3.0%**
Financials	**44.0%**	**47.7%**	**-3.7%**
Telecos and Utilities	**10.0%**	**5.6%**	**4.4%**



*** Data obtained from Morningstar Research.

Industry Analysis

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Sectors	Industry	Portfolio (%)	S&P/ASX 100 (%)	Differences
Resources				
	Energy	6.0%	4.3%	1.7%
	Materials	14.0%	17.4%	-3.4%
		20.0%	**21.8%**	**-1.8%**
Industrial & IT				
	Capital goods	0.0%	0.3%	-0.3%
	Commercial Services & Supplies	0.0%	2.0%	-2.0%
	Transportation	6.0%	4.9%	1.1%
	Software & Services	0.0%	1.0%	-1.0%
		6.0%	**8.2%**	**-2.2%**
Consumer & Healthcare				
	Consumer Durables & Apparel	0.0%	2.2%	-2.2%
	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	8.0%	5.8%	2.2%
	Food, Beverages & Tobacco	0.0%	1.2%	-1.2%
	Household & Personal Products	0.0%	0.0%	0.0%
	Health Care Equipment & Services	8.0%	2.8%	5.2%
	Pharmaceticals & Biotechnology	0.0%	4.3%	-4.3%
		16.0%	**17.0%**	**-1.0%**
Financials				
	Banks	31.0%	30.7%	0.3%
	Diversified Financials	5.0%	5.4%	-0.4%
	Insurance	0.0%	3.8%	-3.8%
	Real Estate	8.0%	7.8%	0.2%
		44.0%	**47.7%**	**-3.7%**
Telecos and Utilities				
	Telcommunication Services	4.0%	3.3%	0.7%
	Utilities	6.0%	2.3%	3.7%
		10.0%	**5.6%**	**4.4%**

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

Ratio Analysis

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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)
ANZ	Australia & New Zealand Banking Group L	0.3	6.0%	100%	0.0%	0.0	0.0%	$2.4	11.3	$79,628,909,126
ASX	ASX Limited	5.4	3.6%	100%	0.0%	0.0	0.0%	$2.4	24.9	$11,586,670,446
NAB	National Australia Bank Limited	-3.2	6.8%	100%	0.0%	0.0	0.0%	$2.3	12.5	$80,190,163,249
SHL	Sonic Healthcare Limited	9.7	3.3%	20%	0.0%	0.0	0.0%	$1.1	21.1	$10,032,553,442
TLS	Telstra Corporation Limited	-9.7	6.9%	100%	0.0%	0.0	0.0%	$0.3	10.8	$38,058,553,136
WBC	Westpac Banking Corporation	2.5	6.6%	100%	0.0%	0.0	0.0%	$2.5	11.7	$99,448,660,377
WES	Wesfarmers Limited	-4.0	4.9%	100%	0.0%	0.0	0.0%	$2.4	17.9	$49,401,419,344
ABC	Adelaide Brighton Limited	17.9	3.3%	100%	0.0%	0.0	0.0%	$0.4	18.0	$4,196,438,409
APA	APA Group	-0.1	5.4%	15%	0.0%	0.0	0.0%	$0.2	39.3	$9,840,314,692
TCL	Transurban Group	67.0	4.8%	5%	0.0%	0.0	0.0%	$0.2	59.2	$26,207,295,392
AMC	Amcor Limited	-1.1	4.3%	0%	0.0%	0.0	0.0%	$0.8	17.3	$15,947,605,371
GMG	Goodman Group	8.0	3.1%	0%	0.0%	0.0	0.0%	$0.5	20.0	$16,404,958,919
CTX	Caltex Australia Limited	7.0	4.1%	100%	0.0%	0.0	0.0%	$2.5	12.2	$8,160,761,140
JBH	JB Hi-Fi Limited	13.0	5.3%	100%	0.0%	0.0	0.0%	$2.1	12.3	$2,937,567,822

***** 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

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Code	Company	Company Description	Morningstar/Aegis Commentary
ANZ	Australia & New Zealand Banking Group Ltd	Australia and New Zealand Banking Group Limited (ANZ) provides a range of banking and financial products and services to retail, small business, corporate and institutional clients. ANZ operates in Australia, New Zealand, Asia Pacific region, the United Kingdom and the United States. ANZ main business divisions consist of Retail, Corporate and Commercial Banking, Global Wealth and International and Institutional Banking Division.	The current ANZ Banking Group was established in 1951, but the brand and origins stretch back to 1835. The push into Asia and the well-regarded Australia and New Zealand franchise is slanted toward corporate and business banking, with increasing exposure to retail banking and wealth. ANZ Bank has failed to deliver higher returns than major bank peers as a result of the lower return Asian businesses. Designed to leverage fast-growing trade and investment flow, both within Asia, and among Asia, Australia, and New Zealand, the Asian growth strategy failed to deliver higher growth. The focus in now squarely on Australia and New Zealand, where household and business credit growth provides modest upside. We are attracted to the outlook for growth and earnings upside, but we acknowledge increasing risks and lower shareholder returns.The author's superannuation fund owns shares in all four Australian major banks.
ASX	ASX Limited	ASX Limited (ASX) operates Australia's primary national securities exchanges. This include the provision of securities exchange services, derivatives exchange services, central counterparty clearing services, and registry, settlement, and delivery-versus-payment clearing financial products and associated ancillary services. It also provides market data services and investor education courses.	We expect ASX to deliver a mid-single-digit EPS CAGR over the next five years, with its wide economic moat protecting strong margins and enabling returns on invested capital to exceed the weighted average cost of capital. The capital-light business model, along with a lack of desire to undertake acquisitions, should enable strong cash conversion, a 90% dividend payout ratio, and a debt-free balance sheet. The yield nature of the stock means we expect the share price to be largely driven by bond market movements and central bank interest rates. We don't expect competition to materially undermine earnings, despite the evolving regulatory and competitive landscape. We expect long-term growth in market value to underpin EPS growth. The relatively reliable nature of earnings influences our medium fair value uncertainty rating.

*** Investment View data obtained from Morningstar/Aegis Research.

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Code	Company	Company Description	Morningstar/Aegis Commentary
NAB	**National Australia Bank Limited**	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	**Sonic Healthcare Limited**	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.

*** Investment View data obtained from Morningstar/Aegis Research.

Research Commentary

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Code	Company	Company Description	Morningstar/Aegis Commentary
TLS	**Telstra Corporation Limited**	Telstra Corporation Limited (TLS) is a provider of telecommunications and information products and services through its Australian and offshore operations. TLS has a range of businesses namely fixed broadband, mobile, data and IP, network application & services (NAS), digital media and international.	Telstra is the dominant player in the Australian telecom industry, with strong brand recognition. It is a clear market share leader in domestic fixed voice, broadband and mobile services. Telstra's mobile business benefits from a network quality advantage that underpins a 49% subscriber market share position. Government investment in the national broadband network, or NBN, will change the structure of the fixed broadband market. How management plugs the expected AUD 3 billion EBITDA hole to be inflicted by the NBN is the key long term issue facing investors. Gearing is conservative and the group has a good track record of extracting productivity benefits and replacing lost earnings (for example, fixed-voice, Sensis). However, TPG Telecom's planned entry into the mobile market is likely to raise competition to another level and constrain Telstra's ability to plug the NBN earnings hole.
WBC	**Westpac Banking Corporation**	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.

*** Investment View data obtained from Morningstar/Aegis Research.

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Code	Company	Company Description	Morningstar/Aegis Commentary
WES	**Wesfarmers Limited**	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.
ABC	**Adelaide Brighton Limited**	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.
APA	**APA Group**	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.	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 assymetric 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.

*** Investment View data obtained from Morningstar/Aegis Research.

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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 roadsin 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
AMC	**Amcor Limited**	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.

*** Investment View data obtained from Morningstar/Aegis Research.

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Code	Company	Company Description	Morningstar/Aegis Commentary
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.
CTX	**Caltex Australia Limited**	Caltex Australia Limited (CTX) is a transport fuel supplier, with end-to-end operations in refining, importing and marketing premium fuels and lubricants. It operates a refinery at Lytton in Brisbane. The company also operates with a myriad of subsidiaries; Caltex Australia Custodians, Caltex Australia Petroleum, Caltex Fuel Services, Petroleum Services, Hunter Pipe Line Company, B&S Distributors and Jet Fuels Petroleum Distributors.	Caltex has a strong competitive position in retail and distribution, with a premier 35% Australian market share of all transport fuels sold. However, the expansion of low-cost Asian refineries and dependence on premium-priced imported light sweet crude feedstock eroded refiner margins. Caltex reduced its exposure to uncompetitive refineries by closing one of its two plants in 2014. The company now rests on its more competitive supply chain and long-term supply agreements struck with Chevron. Group returns on invested capital have improved materially. The marketing segment is reliably profitable and fast-growing, and will enjoy increased cash flow for investment previously wasted on refining. However, the change is not sufficient to earn a moat. Caltex's business rests largely on its fuel supply chain, and in this space it wrestles with capable competition in BP, Shell, and Mobil.

*** Investment View data obtained from Morningstar/Aegis Research.

Research Commentary

Report on

Income Model Portfolio

Code	Company	Company Description	Morningstar/Aegis Commentary
JBH	**JB Hi-Fi Limited**	JB Hi-Fi Limited (JBH) is a specialty discount retailer of branded home entertainment products. The Group's products particularly focus on consumer electronics, software (including music, games and movies), whitegoods and appliances. The company primarily operates from standalone destination sites and shopping centre locations and its online stores in Australia and New Zealand.	JB Hi-Fi operates more than 300 electrical and white-goods stores across Australia and New Zealand under The Good Guys and JB Hi-Fi brands. Despite the absence of an economic moat, the business has proven to be very resilient, trading strongly throughout the financial crisis as the younger target demographic continued to spend on entertainment. The industry is constantly developing new gadgets and products, which drive organic growth. Investment risk is high because uncertainty surrounds the pace of structural change to the retail industry as consumers increasingly purchase products online.

*** Investment View data obtained from Morningstar/Aegis Research.

Research Glossary

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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.

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• 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.

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