



Direct Equities Recommendation

Core Model Portfolio

Wednesday, 5 December 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 are changes for 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	6.8%	221	13.1	12.5%
SHL	Sonic Healthcare Limited	Health Care Equipment & Services	3.5%	112	20.4	6.0%
WBC	Westpac Banking Corporation	Banks	6.3%	236	12.7	12.5%
WES	Wesfarmers Limited	Food & Staples Retailing	5.3%	254	16.7	9.0%
TCL	Transurban Group	Transportation	4.8%	23	51.5	7.0%
MQG	Macquarie Group Limited	Diversified Financials	5.6%	744	12.7	7.0%
BXB	Brambles Limited	Commercial & Professional Services	3.0%	53	18.1	6.0%
IAG	Insurance Australia Group Limited	Insurance	4.7%	44	16.5	8.0%
ABC	Adelaide Brighton Limited	Materials	3.6%	26	22.2	7.0%
AMC	Amcor Limited	Materials	3.7%	78	19.2	5.0%
CSL	CSL Limited	Pharmaceuticals, Biotechnology & Life Sciences	1.5%	494	30.3	6.0%
GMG	Goodman Group	Real Estate	3.3%	46	18.7	4.0%
BHP	BHP Billiton Limited	Materials	5.3%	217	13.3	6.0%
DLX	DuluxGroup Limited	Materials	3.7%	38	20.2	4.0%
TOTAL PORTFOLIO WEIGHT						100.00%
14 Stocks						

*** 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. 22% 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.
- 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 9.4%, the yield is expected to be around 5.3% 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, DLX & IAG. The following stocks are expected to be partially or with no franking credits; AMC, 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.
- Please note, the current Morningstar recommendation for WES, ABC & 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 provided 2018 full year results summary. Net Interest Margin was flat at 1.85% but excluding Markets and Treasury increased 3 basis points (bps), reflecting the impact of prior period repricing and lower funding costs, partly offset by the bank levy and home lending competition. Expenses rose 17.8% but excluding restructuring-related costs and customer-related remediation increased 6.4%, mainly due to acceleration of investment spend announced in FY 2017. Revenue up 0.5% but excluding customer-related remediation rose 1.8% mainly reflecting growth in housing and business lending and stable margins, partly offset by lower Markets & Treasury income.

Stock Commentary

- **Sonic Healthcare Limited (SHL)**

No significant news or reports from the company in November

- **Westpac Banking Corporation (WBC)**

Westpac Banking provided FY 2018 Presentation and Investor Discussion Pack. The Company reported that the Balance sheet in good shape across all dimensions. The reported net profit after tax for the period FY 2018 was \$8,095m. The Australian banking customers reached 11m. The Income is down 3% over the half; mostly from margin decline and customer remediation. The Customer numbers are up 2%.

- **Wesfarmers Limited (WES)**

Wesfarmers announced that the scheme of arrangement for the demerger of Coles Group (Coles) from Company was implemented. The number of Coles FPO shares on issue is 1,333.93m. Coles shares will commence trading on the ASX on a normal settlement basis on 29 November 2018. Holding statements will be dispatched to Coles shareholders on 30 November 2018.

- **Transurban Group (TCL)**

No significant news or reports from the company in November

- **Macquarie Group Limited (MQG)**

Macquarie Group announced a NPAT attributable to ordinary shareholders of \$A1,310m for the half-year ended 30 September 2018 (1H 2019), up 5% on the half-year ended 30 September 2017 (1H 2018) and in line with the half-year ended 31 March 2018 (2H 2018). Net operating income is \$A5,830m for 1H 2019 was up 8% on 1H 2018, while total operating expenses of \$A4,125m were up 12% on 1H 2018. The income tax expense for 1H 2019 was \$A374m, a 17% decrease from \$A448m in 1H 2018.

- **Brambles Limited (BXB)**

No significant news or reports from the company in November

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

No significant news or reports from the company in November

- **Adelaide Brighton Limited (ABC)**

No significant news or reports from the company in November

- **Amcor Limited (AMC)**

No significant news or reports from the company in November

- **CSL Limited (CSL)**

No significant news or reports from the company in November

- **Goodman Group (GMG)**

Goodman Group provided Q1 FY19 operational update. The Company reported that total assets under management is \$39.6bn. The Company is benefiting from positive structural and macro trends, due to the quality and location of its portfolio. It reported 98% occupancy across the Group and Partnerships. The Company noted that \$3.6bn of development work is in progress.

- **BHP Billiton Limited (BHP)**

BHP Billiton announced that it plans to return US\$10.4bn to its shareholders through the combination of an off-market buy-back and a special dividend. The program will commence immediately with Coampny targeting an off-market buy-back of A\$7.3 bn of its shares (Off-Market BuyBack) under which it can buy back shares at up to a 14% discount. It intends to pay the balance of the net proceeds from the sale of its Onshore US assets (expected to be US\$5.2bn) to all shareholders in the form of a special dividend (Special Dividend) to be determined following completion of the Off-Market Buy-Back, and to be payable in January 2019.

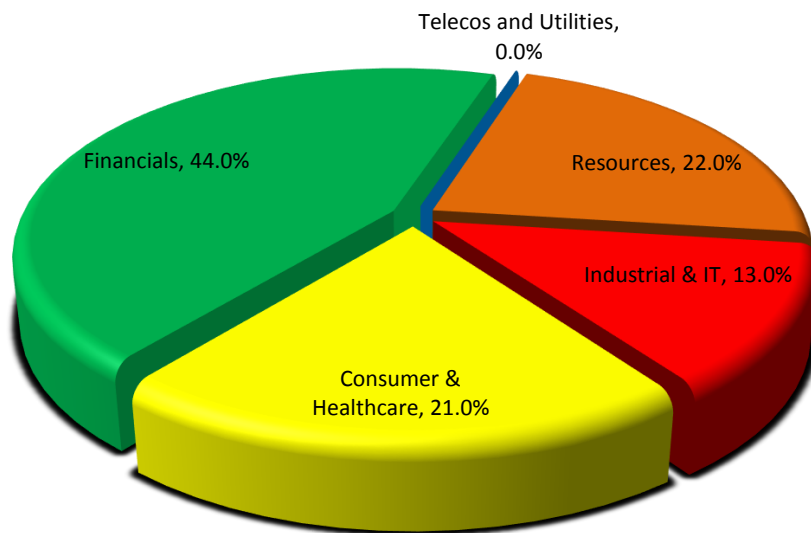
- **DuluxGroup Limited (DLX)**

DuluxGroup reported net profit after tax (NPAT) of \$150.7m for the year ended 30 September 2018, an increase of 5.4% over 2017. Sales revenue increased by 3.3% to \$1.84bn. Excluding the divested China coatings business, sales revenue grew 4.5%. Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 5.0% to \$257.7m. Earnings before interest and tax (EBIT) increased by 4.2% to \$223.2m. The Board has declared a final dividend of 14.0 cps, fully franked, taking the full year dividend to 28.0c, which represents a 5.7% increase on the prior year, and a 72% payout ratio on NPAT.

Sector Analysis

Report on Core Model Portfolio

Sectors	Portfolio (%)	S&P/ASX 200 (%)	Differences (%)
Major Sectors			
Resources	22.0%	24.4%	-2.4%
Industrial & IT	13.0%	9.5%	3.5%
Consumer & Healthcare	21.0%	21.1%	-0.1%
Financials	44.0%	40.6%	3.4%
Telecos and Utilities	0.0%	4.4%	-4.4%



*** Data obtained from Morningstar Research.

Industry Analysis

Report on Core Model Portfolio

Sectors		Portfolio	S&P/ASX 200	Differences
Industry		(%)	(%)	
Resources				
	Energy	0.0%	5.4%	-5.4%
	Materials	22.0%	18.9%	3.1%
		22.0%	24.4%	-2.4%
Industrial & IT				
	Capital goods	0.0%	0.8%	-0.8%
	Commercial Services & Supplies	6.0%	2.2%	3.8%
	Transportation	7.0%	4.3%	2.7%
	Software & Services	0.0%	2.1%	-2.1%
		13.0%	9.5%	3.5%
Consumer & Healthcare				
	Consumer Durables & Apparel	0.0%	0.1%	-0.1%
	Hotel, Restaurants & Leisure	0.0%	3.2%	-3.2%
	Media	0.0%	0.5%	-0.5%
	Retailing	0.0%	0.8%	-0.8%
	Food & Staples Retailing	9.0%	5.7%	3.3%
	Food, Beverages & Tobacco	0.0%	1.9%	-1.9%
	Household & Personal Products	0.0%	0.2%	-0.2%
	Health Care Equipment & Services	6.0%	3.1%	2.9%
	Pharmaceuticals & Biotechnology	6.0%	5.4%	0.6%
		21.0%	21.1%	-0.1%
Financials				
	Banks	25.0%	23.6%	1.5%
	Diversified Financials	7.0%	5.1%	1.9%
	Insurance	8.0%	3.9%	4.2%
	Real Estate	4.0%	8.1%	-4.1%
		44.0%	40.6%	3.4%
Telecos and Utilities				
	Telcommunication Services	0.0%	2.4%	-2.4%
	Utilities	0.0%	2.0%	-2.0%
		0.0%	4.4%	-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)
NAB	National Australia Bank Limited	4.2	8.1%	100%	0.0%	0.0	0.0%	\$2.30	10.5798	\$66,660,572,649
SHL	Sonic Healthcare Limited	5.2	3.7%	30%	0.0%	0.0	0.0%	\$1.18	19.0307	\$9,571,623,383
WBC	Westpac Banking Corporation	2.0	7.3%	100%	0.0%	0.0	0.0%	\$2.41	10.7427	\$88,926,886,848
WES	Wesfarmers Limited	7.7	6.1%	100%	0.0%	0.0	0.0%	\$1.89	16.348	\$35,092,355,490
TCL	Transurban Group	1.8	5.1%	3%	0.0%	0.0	0.0%	\$0.23	49.9134	\$30,803,744,287
MQG	Macquarie Group Limited	18.7	5.3%	45%	0.0%	0.0	0.0%	\$8.82	13.1876	\$39,603,531,566
BXB	Brambles Limited	13.4	3.0%	30%	0.0%	0.0	0.0%	\$0.60	17.0395	\$16,317,340,989
IAG	Insurance Australia Group Limited	8.6	5.7%	92%	0.0%	0.0	0.0%	\$0.47	14.9694	\$16,408,430,739
ABC	Adelaide Brighton Limited	13.9	4.3%	100%	0.0%	0.0	0.0%	\$0.29	17.3957	\$3,337,632,409
AMC	Amcor Limited	19.7	4.9%	0%	0.0%	0.0	0.0%	\$0.93	14.4201	\$15,542,255,924
CSL	CSL Limited	19.8	1.5%	0%	0.0%	0.0	0.0%	\$5.92	30.6889	\$82,338,721,055
GMG	Goodman Group	7.5	2.9%	0%	0.0%	0.0	0.0%	\$0.49	21.0419	\$18,682,984,549
BHP	BHP Billiton Limited	20.3	5.3%	100%	0.0%	0.0	0.0%	\$2.60	12.1388	\$101,553,672,740
DLX	DuluxGroup Limited	3.1	4.3%	100%	0.0%	0.0	0.0%	\$0.39	17.4587	\$2,631,331,704

*** 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	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 anticipate consistent, high-quality earnings, 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 45% 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.

Research Commentary

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Code	Company	Company Description	Morningstar/Aegis Commentary
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.
WES	Wesfarmers Limited	Wesfarmers Limited (WES) is a diversified business operating in supermarkets, department stores, home improvement and office supplies, resources, chemicals, energy & fertilisers and industrials & safety products. WES is headquartered in Western Australia.	Wesfarmers' diversified portfolio provides exposure to many segments of the Australian economy. The vast majority of earnings are consumer-related, more specifically to hardware retailing in the Bunnings chain. Other industrial operations provide exposure to agriculture and industrial gases. Wesfarmers is one of Australia's largest private-sector employer, with more than 100,000 employees. Wesfarmers has a wide moat, which is sourced from cost advantages derived from its significant retail scale. Post the demerger of Coles in 2018, returns on equity are no longer affected by goodwill associated with the 2008 acquisition of Coles and returns on invested capital comfortably exceed the group's weighted cost of capital.
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 in Australia and North America. 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 mid-single-digit CAGR in distributions.

Research Commentary

Report on

Core Model Portfolio

Code	Company	Company Description	Morningstar/Aegis Commentary
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. Although it is subscale compared with global peers, the firm has 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. Stronger global capital markets and increased transactional volumes are needed to boost earnings in market-facing businesses. The author's retirement fund owns shares in Macquarie Group.
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.
IAG	Insurance Australia Group Limited	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. 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. The Asian growth strategy has been cut.

Research Commentary

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Code	Company	Company Description	Morningstar/Aegis Commentary
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.	The Australian cement industry is transitioning toward lower domestic clinker manufacture in favour of greater Asian imports which reduce both cost and local industry carbon emissions. Adelaide Brighton is furthest along this journey with an approximate 60% of clinker requirements being sourced offshore. While increased imports act to reduce raw materials costs, operating leverage is expected to be more muted as this transition continues. While we expect the company to pass through higher energy costs to customers, driving operating margins to 16.5% at midcycle--near historical averages--we see further margin accretion therefore constrained. With margin upside limited beyond this level, Adelaide Brighton shares look expensive at current levels.
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's offer for Bemis will further cement its position as a global plastics giant. With 70% of Bemis' USD 4 billion in annual sales generated in North America, the deal will beef up Amcor's underweight position in the North American flexibles market. With synergy realisation estimated at USD 126 million, the deal adds AUD 1.14 per share of value for Amcor shareholders.
CSL	CSL Limited	CSL Limited (CSL) is a global biotechnology company that develops and delivers innovative medicines that save lives, protect public health and help people with life-threatening medical conditions live full lives. The operational businesses include CSL Behring and Seqirus. The Group operates predominantly in Australia, the USA, Germany, the United Kingdom and Switzerland.	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 operates with a cost advantage, given its manufacturing scale and a wide plasma-derived product range which maximises the value of its collection and processing assets. Manufacturing know-how drives incremental yield improvements. Cost advantage and intangible assets underpin a narrow moat, reflected in returns on invested capital consistently above 20%, well above a sub-10% cost of capital. CSL is growth-oriented with the primary risks around the effectiveness of R&D spending, new product launches, and competing treatments.

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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.
BHP	BHP Billiton Limited	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 Petroleum and Potash, Copper, Iron ore, Coal and Nickel.	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, conventional petroleum, 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 expected future returns. 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 adjusted midcycle returns below the company's cost of capital. Excluding impairments, we forecast midcycle returns to approximately match BHP's cost of capital.

Research Commentary

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Code	Company	Company Description	Morningstar/Aegis Commentary
DLX	DuluxGroup Limited	DuluxGroup Limited (DLX) is engaged in manufacturing, marketing, selling and distribution of branded paint, coatings, adhesives, garden care and other building products to the residential home improvement, commercial and infrastructure markets across Australia, New Zealand, Papua New Guinea, China and South East Asia. DLX operates mainly in Paints and Coatings ANZ, Consumer and Construction Products, Garage Doors & Openers, Cabinet Hardware and Architectural Hardware and other businesses segments.	DuluxGroup is a consumer-oriented and brand-focused business, commanding healthy margins that more than adequately cover the modest capital expenditure requirements. We believe this makes the company an attractive investment that generates high free cash flow. While revenue from renovations is relatively stable, some parts of DuluxGroup are subject to cyclical shifts in consumer confidence and household expenditure. The acquisition of Alesco increased leverage to new housing activity. Input costs can be volatile, but DuluxGroup can generally pass those costs through, particularly in paints.

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.

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- 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.

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