



## **Direct Equities Recommendation**

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# **Income Model Portfolio**

**Wednesday, 5 December 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 are no changes to the portfolio this month***

# Summary of Portfolio

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## Report on

### 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. 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. 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

## Report on Income Model Portfolio

Code	Company	Industry Group Discription	Historical Yield (%)	Historical EPS (CENTS)	Histoical P/E Ratio	Portfolio Weight
ANZ	Australia & New Zealand Banking Group Ltd	Banks	5.6%	223	12.7	5.0%
ASX	ASX Limited	Diversified Financials	3.9%	240	23.4	5.0%
NAB	National Australia Bank Limited	Banks	6.8%	221	13.1	11.0%
SHL	Sonic Healthcare Limited	Health Care Equipment & Services	3.5%	112	20.4	8.0%
TLS	Telstra Corporation Limited	Telecommunication Services	6.3%	30	11.6	4.0%
WBC	Westpac Banking Corporation	Banks	6.3%	236	12.7	11.0%
WES	Wesfarmers Limited	Food & Staples Retailing	5.3%	254	16.2	8.0%
ABC	Adelaide Brighton Limited	Materials	3.6%	26	22.2	8.0%
TCL	Transurban Group	Transportation	4.8%	23	51.5	6.0%
AMC	Amcor Limited	Materials	3.7%	78	19.2	6.0%
GMG	Goodman Group	Real Estate	3.3%	46	18.7	6.0%
CTX	Caltex Australia Limited	Energy	3.8%	237	13.3	8.0%
JBH	JB Hi-Fi Limited	Retailing	5.3%	201	12.3	4.0%
DLX	DuluxGroup Limited	Materials	3.7%	38	20.2	6.0%
TAH	Tabcorp Holdings Limited	Consumer Services	4.6%	17	27.5	4.0%
						<b>100.00%</b>
<b>15 Stocks</b>						

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

\*\*\* Data

## Portfolio Commentary

- To reduce risk, 15 stocks are selected across the following sectors; 4 companies in Resources, 1 company in Industrials, 2 companies in Consumer & 1 company in Healthcare, 5 in Financials and 1 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 (26%), Industrial & IT (6%), Consumer & Healthcare (24%), Financials (40%) and Telecommunication & Utilities (4%). According to Morningstar's forecast, the portfolio is expected to generate a yield of 5.3%. 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, TAH, TLS & WBC. The following companies have been selected for diversification and growth purposes; ABC, AMC, CTX, DLX, 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 either '1 or 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

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

No significant news or reports from the company in November

- **ASX Limited (ASX)**

No significant news or reports from the company in November

- **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.

- **Sonic Healthcare Limited (SHL)**

No significant news or reports from the company in November

- **Telstra Corporation Limited (TLS)**

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.

- **Adelaide Brighton Limited (ABC)**

No significant news or reports from the company in November

- **Transurban (TCL)**

No significant news or reports from the company in November

- **Ancor Limited (AMC)**

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.

- **Caltex Australia Limited (CTX)**

No significant news or reports from the company in November

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

No significant news or reports from the company in November

## Stock Commentary

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- **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.

- **Tabcorp Holdings Limited (TAH)**

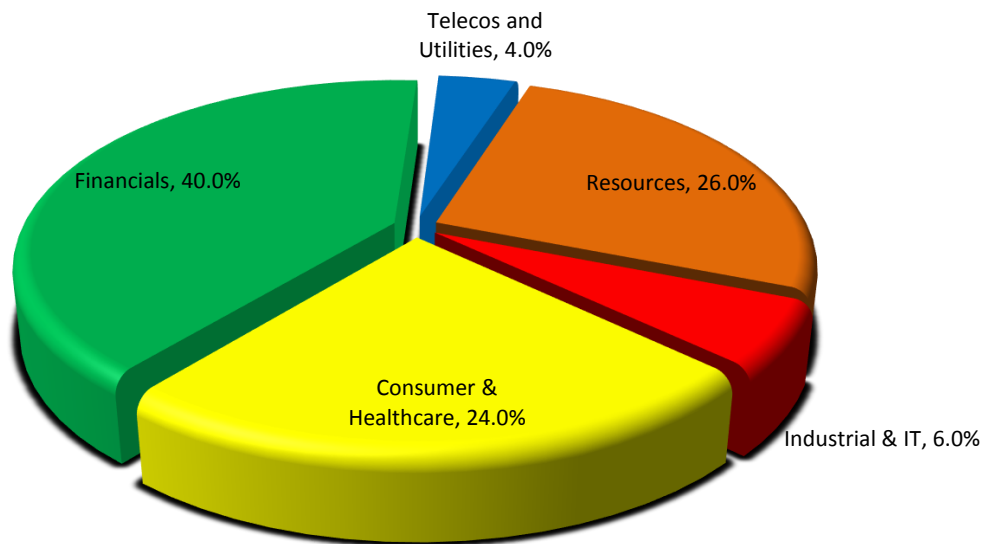
No significant news or reports from the company in November

# Sector Analysis

## Report on

### Income Model Portfolio

Sectors	Portfolio (%)	S&P/ASX 100 (%)	Differences (%)
<b>Major Sectors</b>			
Resources	26.0%	21.8%	4.2%
Industrial & IT	6.0%	8.2%	-2.2%
Consumer & Healthcare	24.0%	17.0%	7.0%
Financials	40.0%	47.7%	-7.7%
Telecos and Utilities	4.0%	5.6%	-1.6%



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

# Industry Analysis

## Report on

### Income Model Portfolio

Sectors		Portfolio	S&P/ASX	Differences
	Industry	(%)	100 (%)	
<b>Resources</b>				
	Energy	6.0%	4.3%	1.7%
	Materials	20.0%	17.4%	2.6%
		<b>26.0%</b>	<b>21.8%</b>	<b>4.2%</b>
<b>Industrial &amp; IT</b>				
	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%
		<b>6.0%</b>	<b>8.2%</b>	<b>-2.2%</b>
<b>Consumer &amp; Healthcare</b>				
	Consumer Durables & Apparel	0.0%	2.2%	-2.2%
	Hotel, Restaurants & Leisure	4.0%	0.0%	4.0%
	Media	0.0%	0.4%	-0.4%
	Retailing	4.0%	0.3%	3.7%
	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%
	Pharmaceuticals & Biotechnology	0.0%	4.3%	-4.3%
		<b>24.0%</b>	<b>17.0%</b>	<b>7.0%</b>
<b>Financials</b>				
	Banks	27.0%	30.7%	-3.7%
	Diversified Financials	5.0%	5.4%	-0.4%
	Insurance	0.0%	3.8%	-3.8%
	Real Estate	8.0%	7.8%	0.2%
		<b>40.0%</b>	<b>47.7%</b>	<b>-7.7%</b>
<b>Telecos and Utilities</b>				
	Telcommunication Services	4.0%	3.3%	0.7%
	Utilities	0.0%	2.3%	-2.3%
		<b>4.0%</b>	<b>5.6%</b>	<b>-1.6%</b>

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

# Ratio Analysis

## Report on Income 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)
ANZ	Australia & New Zealand Banking Group L	6.8	6.1%	100%	0.0%	0.0	0.0%	\$2.4	11.0	\$75,595,817,390
ASX	ASX Limited	5.6	3.7%	100%	0.0%	0.0	0.0%	\$2.5	24.1	\$11,818,984,640
NAB	National Australia Bank Limited	4.2	8.1%	100%	0.0%	0.0	0.0%	\$2.3	10.6	\$66,660,572,649
SHL	Sonic Healthcare Limited	5.2	3.7%	30%	0.0%	0.0	0.0%	\$1.2	19.0	\$9,571,623,383
TLS	Telstra Corporation Limited	-27.9	5.0%	100%	0.0%	0.0	0.0%	\$0.2	13.9	\$35,798,826,544
WBC	Westpac Banking Corporation	2.0	7.3%	100%	0.0%	0.0	0.0%	\$2.4	10.7	\$88,926,886,848
WES	Wesfarmers Limited	7.7	6.1%	100%	0.0%	0.0	0.0%	\$1.9	16.3	\$35,092,355,490
ABC	Adelaide Brighton Limited	13.9	4.3%	100%	0.0%	0.0	0.0%	\$0.3	17.4	\$3,337,632,409
TCL	Transurban Group	1.8	5.1%	3%	0.0%	0.0	0.0%	\$0.2	49.9	\$30,803,744,287
AMC	Amcor Limited	19.7	4.9%	0%	0.0%	0.0	0.0%	\$0.9	14.4	\$15,542,255,924
GMG	Goodman Group	7.5	2.9%	0%	0.0%	0.0	0.0%	\$0.5	21.0	\$18,682,984,549
CTX	Caltex Australia Limited	-4.8	4.1%	100%	0.0%	0.0	0.0%	\$2.3	12.2	\$7,169,681,167
JBH	JB Hi-Fi Limited	8.8	6.3%	100%	0.0%	0.0	0.0%	\$2.2	10.4	\$2,626,233,884
DLX	DuluxGroup Limited	3.1	4.3%	100%	0.0%	0.0	0.0%	\$0.4	17.5	\$2,631,331,704
TAH	Tabcorp Holdings Limited	35.4	5.1%	100%	0.0%	0.0	0.0%	\$0.2	19.4	\$8,767,960,611

\*\*\*\* 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

### Income Model Portfolio

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 is 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 includes 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.

# Research Commentary

## Report on

### Income 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

## Report on

### Income Model Portfolio

Code	Company	Company Description	Morningstar/Aegis Commentary
TLS	<b>Telstra Corporation Limited</b>	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. It is the market share leader in fixed voice, broadband and mobile services. Telstra's mobile division benefits from a network quality advantage that underpins a 48% 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, with significant bearing on sustainability of current dividends. Balance sheet is solid and the group has a good track record of extracting productivity benefits and replacing lost earnings. However, TPG Telecom's planned entry into the mobile market will raise competition to another level, further underscoring the importance of cost-cuts and pursuing new growth opportunities.
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.

# Research Commentary

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Code	Company	Company Description	Morningstar/Aegis Commentary
WES	<b>Wesfarmers Limited</b>	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.
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.	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.
TCL	<b>Transurban Group</b>	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.

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Code	Company	Company Description	Morningstar/Aegis Commentary
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.
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 more on its more competitive supply chain and long-term supply agreements with in-house refining meeting one third of needs. 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 sunk into 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.

# Research Commentary

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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.
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 Commentary

## Report on

### Income Model Portfolio

Code	Company	Company Description	Morningstar/Aegis Commentary
TAH	<b>Tabcorp Holdings Limited</b>	Tabcorp Holdings Limited (TAH) offers a range of gambling and entertainment products. TAH's business units include Wagering, Gaming, Keno and media activities across Australia. Customer brands includes TAB, Keno, Luxbet, Tabcorp Gaming Solutions, Trackside animated racing game, Sky Racing and Sky Sports Radio.	Wagering dominates Tabcorp's earnings mix and furnishes the company with a narrow moat on the strength of its licences as the sole pari-mutuel operator and exclusive provider for retail in most Australian states. Unfortunately, the nature of wagering lends itself perfectly to the borderless online digital environment, which spawns new operators in other states and allows punters to bypass Tabcorp's extensive retail brick-and-mortar channels. Management is admirably transitioning the company into the digital world, with significant investments in online infrastructure and product, while leveraging its incumbent status and physical reach. Further, the addition of Tatts' near-monopoly lotteries business should help smooth the earnings volatility, and facilitate stronger cash flow generation. This should provide the company with additional financial firepower to reinvest and strengthen its digital wagering offering.

# Research Glossary

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## Report on Income 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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