Investment Market Update

Issue 58– Autumn 2016

Message from the Manager

For several years now markets have been essentially flat. Every now and then there is a spike, but then they drift back to previous levels. Such an environment is challenging, not only for us as investment managers and advisors, but also for clients who rely on portfolio income to live on or to build wealth for the future.

We employ a range of tools to address this challenging and volatile environment. Understanding links between investments to avoid too much duplication helps with improving diversity. Using bonds and bond-like instruments reduces volatility for a given income and recently we set up an arrangement with FIIG Securities Limited, a bond broker through which we hope to access a broader range of bonds suitable for client portfolios. Research and experience shows that regular portfolio income not only smooths overall portfolio values, but in weak markets, reduces the need to sell assets in order to fund living expenses. Our fund CDIF, invests in assets that are difficult to own as individuals including property, solar and retirement villages. We use term deposits, and look to manage cash balances to meet client spending needs and risk profile. Overall there are many levers we can pull, and we are always looking for more opportunities.

This quarterly newsletter looks at the problem that is terrorism. This might seem an unusual topic for a financial newsletter, but the concerns, threats and actions of even a handful of terrorists impose massive financial, political and social costs on Western Economies.

David French
Managing Director

Terrorism & Markets

The world has always been changing, and somewhere or another there has been war. One of my earliest experiences was to set up a small shop outside of my house to try and raise money for Vietnamese refugees. I'm not sure what triggered this mix of entrepreneurialism and charity, but I must have been 10 or 11 and it was probably television scenes of the Vietnam War many of which are now iconic.

Older now, I see that small-scale wars are situation normal. What's different about the current terrorist war is that Islamists are deliberately bringing the challenge to the West. It seems to me that many liberal western countries find responding a tough ask.

Two things have intrigued me about the current situation. Firstly, why does the Middle East seem to be in a continual state of flux? And secondly, why is the West so reserved about defending ourselves, when in the past we have been so willing to get involved?

Many people say that oil is the West's big interest in the Middle East, and of course it is important. But focussing on oil ignores the fact that the Middle East has been in a state of flux for more than 5,000 years – since before the Jewish tribes came down to the flatlands (now known as Palestine).

And following that there have been regular Western visitors (the Romans, the French, the British, etc.), all eventually repelled or expelled. What was left? Ancient tribes with increased technology, but with no-one with sufficient military might or political reach to exert control. The prophet Mohammed (God praise him) attempted to address this through the introduction of the Islamic religion, but over time the tribes captured aspects of the religion and turned them to their own political purposes. So now tribal leaders have guns, ammo and a storyline they can ascribe to no lesser authority than the Prophet (long may his memory live). So positioned, they ensure their country-folk remain uneducated, and cast the West as the enemy of the people.

Understanding this makes much more sense than defaulting to the position that all Muslims are evil. People point out that the Koran contains bloodthirsty passages, but so does the Old Testament. The truth is though that these terrorists are indeed Muslims, and are in many cases embedded in or supported by others in claiming Islamic culture. What terrorist Muslims have done however, is appropriate aspects of a religious philosophy for political (their own) ends. They aren't the first to do that – think of the IRA or even Hitler, but they are the first to serve it up to the west in such a fragmented, almost crowd-sourced manner.

If that's the case, why is the West so reticent to defend itself against actions that are so obviously "wrongs against humanity" and damaging to our society? There are a whole bunch of reasons. I think that one is related to the decline of respect for Christianity. From what I can see, Christ's main contribution was to look at all the upheaval that had gone before, and to say "this isn't working, what if we all just decide to co-operate (love one another)", and "you can do what you like, but know you are being watched and will be called to account for those actions".

Now you don't have to be a blind follower of the Faith, to see the sense in that philosophy, and it was further built upon in The Enlightenment, when essentially the scientific method began to be employed against a wide range of human problems. Together these philosophies formed the foundation of the West as we know it today. It's led to open economies and trade (which can't happen if we don't love, or at least respect, one another) and our legal and political system which has traditionally been founded on the notion that individuals make and take responsibility for, their decisions.

Funny though, it's human nature that people like freedom, but buck responsibility. It's convenient to denigrate Christianity on account of the problems in the Catholic Church (for example), and it's also convenient to elevate other philosophies in the name of anti-discrimination. Behind both is a kooky far-left liberal view that we all should be able to do what we like. These same kooky-far-left liberals imagine slights in every spoken and written word. In the US, and in some universities in Australia, students have sought to shut down conversation on some of the most important topics initiated during The Enlightenment. Indeed, even in society in general, political correctness has become a disease, or a tool (depending on where you stand) used to stifle debate so that muddle-headed and self-serving ideas get much more oxygen than they should. Add to that the internet's ubiquitous presence, which has become an outstanding gift to the conveyance of woolly-headed thinking.

Consider that in the light of political parties that can't offend a rusted on support base, and so concentrate on minority politics – simply, don't offend your traditional supporters, and try to gain a few votes from minority groups. And consider the rise of fee-paying universities, the corresponding dumbing-down of education, including the unbridled belief in science and technology as saviours (because at school and undergraduate levels, answers are black and white) and the loss of prestige, rigor and focus in the Enlightenment based social sciences and liberal arts.

In a nutshell we have barbarians at the door, while at the same time we deliberately undermine the very aspects of the West that have made it so successful.

Finally, I don't see any tablet screens, tray back Toyotas or guns manufactured in the Middle East. The West does buy their oil, but now the US is self-sufficient. I guess they do have dates and carpets (oh and Saffron, which I bought a thimbleful of the other day for $12). Other than that, what's worth fighting for?

Well that was all a bit serious, but our world view, in part, frames how we manage money. It's very important to look at what's going on around you, and in our world, its fine to share what you see. If you are interested in this topic I can recommend:

- Radical: My Journey Out of Islamist Extremism, Maajid Nawaz, 2013
- Perspectives on Terrorism, Terrorism Research Initiative, 2007
- The History of Israel, Martin Noth, 1960

Here's a few amusing thoughts, mildly related to the above note.

Scientists recently discovered "gravitational waves", which apparently were predicted by Einstein.

News reports said that gets us closer to discovering the birth of the universe, which is of course very exciting. But in a practical sense, where does it get us in comparison to saying that God created the universe, or that a giant snake carved up the land. You can ask where the apple tree in the Garden of Eden came from, or the massive coloured python, or the universe - you still end in the same place – with a never-ending trail of unanswered questions!

In a taxi in Melbourne I put the question of "where we came from" to a Muslim taxi driver. Not sure if he didn't understand me, or just didn't know, but I did realise that when he said "Allah willing" to his mate on the phone, it was much like someone saying "God Bless" or "God, I hope so". So when I got out of the cab I said, "I'm home, thank God". To which he said, "you should say 'thank Allah'". We both had a big laugh.

The tragic bombings in Belgium reminded me of a visit I had there when I was an analyst. In the parking bay the sign for "visitors" was Berserks. Rockhampton has a Berserker Street, and the nearby mountains are the Berserkers, so it twigged my interest. Turns out that the Berserks were a special type of visitor – very wild, tough and trance-like Norse Vikings. Obviously not all visitors are welcome ones.

David French
Managing Director

Measuring Performance

Measuring performance in client portfolios is something that comes up from time to time. There are many ways to measure portfolio performance, but we have adopted a regime that we think is academically defensible and useful to clients. There are a number of elements to our approach:

First, we calculate overall performance using the Internal Rate of Return method. This effectively works backward to calculate the return you have received, considering your portfolio balance is where it is now, taking into account all the contributions and withdrawals over time. It is a return calculated net of fees, and it treats contributions as additional investments, not directly adding to performance. We calculate this on a "one-year" and a "since inception" basis resulting in a percentage return that is easily understood and difficult to manipulate.

Contrast this with performance as reported by superannuation funds and managed funds. These are typically reported on one, three and five years. The trouble with this is that, as we go through time, the period is always moving. So a five-year return measured from the top of the market to "now" will show a loss, but a five-year return measured from the bottom of the market will show a handsome gain. This provides lots of opportunity to manipulate reported returns, and it provides incentive to extend or contract the reporting period according to what makes the fund manager look best. Another, example of treating the truth carelessly relates to many industry funds, which don't generally report performance figures on a rolling basis. Instead they report annually, leaving the investor with the impression that last year's returns are current returns, when in fact they can be up to a year out of date.

Second, we look at income yield for your portfolio. That's the amount of dividends, franking credits and other income received by your portfolio, divided by the value of your portfolio. We do this because an alternative is always to simply run a bank account. We also think you want to know that income is available to pay any commitments you have (a superannuation pension for example), and you want to know whether the amount being generated is more than you'd get at the bank (for example). We include franking credits in yield calculations to give a pre-tax return, because franking credits are either received back in cash, or they reduce tax otherwise payable. This treatment makes dividend income directly comparable to other income based returns.

Most managed and superannuation funds don't provide this type of calculation. That's because many of them regularly trade assets, and that results in capital gains (or losses). Taxation rules applying to trusts means that all income has to be distributed as at 30 June, otherwise the trust risks adverse tax consequences. So the income received from managed funds is typically a mix of income and capital gain – one is because of the intrinsic earnings being generated from the asset and one is from trading decisions – you cannot compare this combination with bank interest.

Third, we are vitally interested in the cash being generated by your portfolio. Many fund managers ignore this, and many portfolio accounts (Wrap accounts) ignore it too. Generating cash income helps protect portfolio values in a downturn, and helps mitigate the risk that clients will have to sell down assets to fund pension payments or other commitments, when share prices are low. The long term performance effect of dividends/income is well known, but because people are forever adding and subtracting from their portfolios, it is difficult to measure. The way we do it is to create a theoretical construct known as "Starting Cash". It simply represents the amount of cash you would have had in your portfolio if you have started out with the assets (not cash) you have now. What it does is adjust for the fact that the money you spent on your portfolio (excluding cash) can in many instances, be greater than the amount you gave us to manage in the first place. Say you gave us $500,000 to invest, and now cost base of the invested assets was $550,000.

How can we possibly have invested $550,000 if you only contributed $500,000 to start with? The answer lies in the dividend or other income that has been invested in new assets and not left in cash. The way we deal with it is to reset the "Starting Cash" balance by subtracting the value of income received (amongst other adjustments), and in this example, the value of the "starting cash would be negative $50,000. The difference between the starting cash figure and the current level of cash shows how much performance is contributed by an increase in cash holdings, taking into account money you may have contributed or drawn out.

Currently all of our performance measures are compared to the average rate of term deposits as reported by the Reserve bank, and the performance of the All Ordinaries Index (calculated as if you had invested all contributions and dividends into the All Ordinaries) and any amount you are actually drawing down.

Financial Planning

Changes to Centrelink and Aged Care Rules

1. Change to the Centrelink Assessment of defined benefit pensions - From January 1, 2016

Starting from January 1, 2016, the income test deductible amount for defined benefit income streams was capped at a maximum of 10% of gross payments.

This means that people with a deductible amount greater than 10% who receive an income support payment from Centrelink may see a reduction in their benefits as more of their pension income will count under the Centrelink income test.

A defined benefit income stream (not to be confused with an account based pension) is generally defined as a lifetime non-commutable pension that comes from an employer's corporate benefit superannuation fund or a public sector government employee superannuation scheme.

2. Removal of the rental income exemption (for the former home) for aged care residents - From January 1, 2016

For residents entering residential care on or after January 1, 2016 the rental income on a former main residence will be assessed as income when calculating the means tested daily care fee (MCTF) regardless of how entry costs are funded. Residents that entered residential care prior to January 1, 2016 may have had this rental income exempt from the MCTF calculation (depending on how they funded their entry costs).

The removal of the rental exemption does not impact residents that entered residential care prior to January 1, 2016.

3. Age pension asset test limit changes - From January 1, 2017

As discussed in our previous newsletter, the government has legislated changes to the assets test which come into effect on January 1, 2017. The changes are summarised below:

- The level of assets that results in the maximum age pension entitlement (the "lower threshold") will increase.
- The rate at which entitlements decrease (as assets increase) will double from $1.50 for every $1,000 above the lower threshold to $3.00 for every $1,000 above the lower threshold.
- The maximum level of allowable assets (the "upper threshold") will decrease.

As a result of these changes, some people (with lower assessable assets) will receive a higher entitlement, some will receive a reduced entitlement, and others will lose their entitlement altogether. The table below shows the new minimum and maximum thresholds applicable from January 1, 2017:

Current Situation	Lower Threshold	Upper Threshold
Single, Homeowner	**$250,000** *(current: $205,500)*	**$547,000** *(current: $788,250)*
Couple, Homeowner	**$375,000** *(current: $291,500)*	**$823,000** *(current: $1,170,000)*

It is important to note that if you become ineligible for the age pension you may still be eligible for the Commonwealth Seniors Health Care Card which provides a number of concessions and benefits.

There are also strategies you can implement in order to reduce your assessable assets, such as:

- Gifting assets (within allowable limits).
- Renovating the family home.
- Superannuation fund contributions on behalf of a spouse who is below the Age Pension age.

If you have any questions regarding any of the above changes please contact your financial adviser.

Insurance

Affordable Income Protection

Income Protection is an essential part of a comprehensive wealth protection plan, but it is not always considered by some due to the cost of the cover, and the inability to fund the premiums from the household budget.

Given that your future income is your biggest asset, it is vital to ensure that appropriate cover is in place to secure your earnings in the event of temporary or permanent disability.

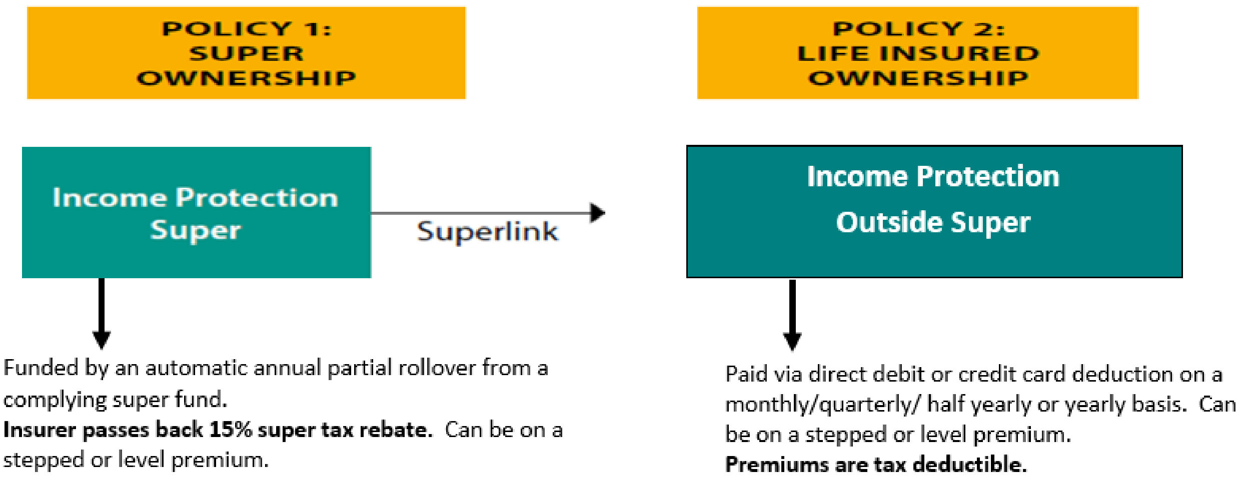
Many of the insurers have developed products for Income Protection which can reduce the 'out of pocket' premium through 'superlinking,' whereby superannuation monies can fund the majority of the premium.

These policies offer a cashflow solution to the affordability issue, and provide a flexible way of structuring the cover by splitting the ownership and cost of the cover within and outside superannuation.

A policy is established within the superannuation environment, via the insurer's insurance only superannuation fund, which is owned by the fund trustee and paid via an annual rollover from a complying super fund.

A second policy is set up under the 'superlink' facility owned by the insured. The cover outside super allows the insured to access comprehensive Income Protection benefits which are not restricted by superannuation legislation.

How does it work?



Example

Male, 35 non-smoker in an office based role with an annual income of $50,000 would be eligible for a monthly benefit of $3,125. Looking at a Comprehensive Agreed Value policy with the increasing claim option, a 30 day waiting period, and a benefit period to age 65, the annual stepped premium options would be as follows:

$785 p.a. premium via a comprehensive policy outside of superannuation. The premium would need to be paid personally via cheque, direct debit or credit card.

$555 p.a. (after 15% super rebate) premium for the superannuation policy. This premium would be paid via an annual rollover from a complying superannuation fund, + $131 p.a. premium via the superlink policy which would need to be paid personally via cheque, direct debit or credit card.

The superlink facility provides access to comprehensive income protection and substantially reduces the personal cost of cover.

Making sure that you have security over your future income, and that your working children also have cover in place will protect your assets and standard of living in the event of sickness or injury which lead to loss of income.

To discuss your Income Protection or other personal risk protection needs, or to refer family and friends, please contact Scott Plunkett or Amy Gill at The Pentad Group on free call 1800 804 431.

Client Focus

The Island at the edge of the world

Some years ago a Scottish friend told me about the remote archipelago of the coast of Scotland called St Kilda. He loaned me a book about this fascinating place and from then I was hooked on the history and beauty of the place.

Boreay Island

I had researched ways of getting there and found that it was a very difficult journey to visit the Islands. After arriving, because of the weather there, the chances are less than 50% of landing from the bay off the main island of Hirta at the village. It is the only place in the island group that a ship can anchor and despatch a tender boat to land people on the jetty there. At low tide, an inflatable raft (Zodiac) is necessary for landing and re boarding.

In 2014 I discovered that the National Trust of Scotland (NTS) had a 7 day cruise of the Hebrides Islands including a visit to St Kilda. The ship anchored off Hirta overnight giving two days to maximise the chances of landing.

We booked on that cruise and flew to Glasgow to meet the ship in May 2015. St Kilda, is a group of five islands 100km off the Hebrides coast, formed by volcanic action 50 million years ago and it was populated for longer than any person today knows. People lived on Hirta thousands of years before being evacuated in 1930 at their own request when the population, which is estimated to have never been above 200, was then down to 36. The other four islands of Dun, Levenish, Soay, and Boreay have probably never been populated and are difficult to land on and are rarely visited.

St Kildans lived in complete isolation with occasional visits from the Scots, Vikings and sailing ships anchoring to replenish supplies or shelter from storms. No documented information was available about the area until the late 1600's as the people did not record their life and history. They lived off their own crops, local mutton, seabirds and fish. The men, known as Cragsmen, used to abseil the cliffs to gather the abundant seabirds for their meat, eggs and feathers, which in later years provided the population with income from the mainland.

Village Bay from Mount Conchair

There are still present today, remnants of the Bronze Age, and old chapels from early Christian days. Stone houses, fences and "cleits" which were used to store food are still reasonably well preserved. These were all built with local rock and no mortar used. The only recent building, built in 1957, is an Army station with the only road on the island running from there to a radio mast at the top of Mount Conchair. There is no airstrip. St Kilda is very isolated.

After our lovely cruise around the Hebrides, we at last sailed into the harbour at Hirta. The weather was calm and fine and we landed by tender boats at high tide on the jetty near the village at around 10am and had the rest of the day to wander and explore the island. There is a museum with information and maps to use to find the relics of thousands of years ago. These are plentiful but not much evidence of them, as the rocks on the island have been continuously reused for building. But we did see the remains of Bronze Age relics as well as the several sites the village had over the years. It's just being there that is so satisfying!

A climb to the top of the mountain, Conchair, provides a beautiful view of the village on one side and the immensely high cliff face down to the ocean on the other. Some of the most recent homes built in the 1850's, that were evacuated in 1930 are still almost in their original state with earth floors and fireplaces left as they were with the names of the owners placed by the fireside with some kitchen implements and furniture as they were on the day they left. The church from the 19th century is still in good condition and services are held there for visitors. The ancient cemetery is interesting with graves of the returned remains of 1930 evacuees dated in the 2000's.

The scenery on the island is really unique with the immense number of remains blending into the beautiful green pasture. There are no trees on any of the islands. There is native indigenous sheep there from the island of Soay. These lovely animals roam free on Hirta feeding on the plentiful turf and grass. They provided meat and wool for the people to make into tweed to sell in later years to visitors.

The return trip to the ship was on a Zodiac as it was low tide and "a bit rough" but we reboarded safely and had another opportunity to land again on the next morning before sailing around the islands and returning to Glasgow.

Doug & Elaine Hayne
Pentad clients - Melbourne

The Village

But that's not all!! After arriving in Glasgow the next morning, the ship was scheduled to start on a cruise to Iceland that night and guess what, a visit to St Kilda was on the itinerary for the first stop. We had booked this trip in the same cabin and had a third landing on Hirta, within a week. A very rare and fortunate experience. The next 3 weeks around Iceland was another story.

PS: St Kilda Melbourne was named after a ship called "Lady of St Kilda" originally owned by Lord Acland of Scotland and later sold to J.B.Were the founder of the company so named. He sailed to Melbourne in the 1840's and anchored for a year or so at what is now known as St Kilda Beach.

Doug & Elaine Hayne
Pentad Clients - Melbourne

Investment Briefs

Slater Gordon Lawyers

SGH

When investing, success often stems from the companies that are not invested in more so than those that are. As investment managers we focus on minimising the downside in portfolios and one of the most effective ways of doing this is by investing in solid and growing business with sound fundamentals. The market tends to have a short term bias. Maybe this is because many management teams are rewarded for short term success. This may be driven by earnings increases at the sake of quality of earnings. One way that boards of companies facilitate this is through 'bought' growth otherwise known as acquisitions.

One company familiar to many readers is listed law firm Slater and Gordon (SGH). SGH was the first law firm to be listed on a stock exchange. Its first three years were relatively uneventful. Then from early 2012 to early 2015, its share price rocketed, going from $1.50 to a peak of $8.07 in April last year. Profit rose accordingly going from $25m in 2012 to $83.5m in 2015. However, the foundations of the business were weak. The group was driven by a strategy of acquiring legal practices and bolting these onto the Slater and Gordon 'mainframe' in the hope of eking out synergies and increasing the earnings base of the combined company. In a services industry such as litigation this has its own challenges but it was the largest acquisition of all that may be terminal for the group.

Quindell is a British claims company with a not dissimilar strategy to SGH. Infamous for its acquisitive nature, the group purchased 30 small companies over three years from 2011 to 2014. This is when SGH stepped in and made an acquisition itself. Of Quindell. Not long after, it was realised that not all that glitters is gold and Quindell was forced to rebase its 2014 accounts from an original £175m profit to a £137m loss. It was clear that SGH had grown too quickly and had failed miserably in its due diligence. SGH now trades at $0.28.

When we look at companies to invest in, we look at the quality of the earnings first and foremost. Depending on the industry we set a return on capital hurdle and pay less heed to earnings per share growth. Acquisitions are a tell-tale signal that a company is struggling to grow organically and hence it needs to 'buy' growth. As a result, we are very reluctant to purchase companies that make material acquisitions as the chances are the strategy is a toxic cocktail that in some cases can be lethal.

Brambles

BXB

In times of supressed global economic growth, it is encouraging to see companies investing for the future. One such company is pallet pooling and logistics company Brambles (BXB). Established in 1875, BXB's origin stems from the ownership of the Commonwealth Handling Equipment Pool (CHEP) a collection of pallets and other transportation assets left in Australia by the US Army after World War II. BXB was listed in 1954 and today is the largest supplier of transportation pallets globally. BXB has been able to corner most of the markets it operates in today controlling 55% of the US pooling market, 25% of the European market and 70% of the Australian market. Across the same markets, BXB's largest competitor accounts for 7%, 10% and 25% respectively. It is clear BXB has extended a dominance.

In pallet pooling, scale is key. By being able to build a large network BXB has in turn reduced the costs to the business (such as freight), increased its pallet retrieval rates and increased the reliability for its users. The evidence is borne out in the quality of BXB's earnings. At an NPAT level, BXB has consistently made a return on capital exceeding 11%. This far exceeds its cost of capital and is one of the metrics we look at closely when making investment decisions. In fact, BXB has throughout its history been able to see off competitors such as plastic pallet pooler IGPS a company that initially stole business through its unsustainable plastic pallet model. IGPS recently declared bankruptcy.

In recent times, BXB management have made significant investments into future growth. A lot of these opportunities are within the US but CEO Tom Gorman has also pushed the company into developing markets also. Economies such as Central/Eastern Europe, Latin America and Asia are moving towards shared pallet pooling from the less efficient 'whitewood' model, one where companies purchase their own pallets and manage the pallet transferral process. Not only does this soak up capital but it is generally inefficient in comparison. By comparison, pallet pooling has distinct advantages.

At the announcement of its 1st half NPAT, management announced the fruits of the recent investment programme is paying off. The highlight was the US pallet segment. Historically, BXB has had a great track record of winning new business. The 1H 16 result was no exception with the business recording exceptional growth of 3% US new business wins. Management guided to sales growth over 2016 of between 8%-10% (up from 6%-8%) and it seems the group is on target to meet the goal of achieving total long term return on funds employed of 20%. We certainly like the long term prospects of BXB and will continue to investigate the company as an addition to our internal Approved Products List.

CSL

CSL

In complete contrast to Slater & Gordon referred to earlier, not many of our listed companies exhibit better quality of earnings than CSL Ltd. (CSL). The company is arguably the best quality company listed in Australia. The company's track record in deploying capital and building its research and development arm is exemplary however, the outlook is just as exciting. The company continues to develop market leading products in plasma whilst it has recently expanded its influenza segment with the acquisition of Novartis' vaccines business.

CSL announced earlier this month that it has had US Food and Drug Administration (FDA) approval for IDELVION, a long acting (up to two weeks – double the effectiveness of the next best product) coagulation product for the treatment of haemophilia B. This market alone is worth $US1.3bn and CSL has a considerable advantage over its peers the best of which offer half the acting time. In other words patients using CSL's product need to treat themselves once every two weeks on average compared with weekly and is testament to CSL's outstanding research and development capabilities. We envisage IDELVION post its launch early this year as providing one of the key planks of earnings growth for the company going forward.

Known predominately for its biotherapy products derived from plasma CSL now has a larger vaccines and pharmaceuticals division through its $US275m acquisition last year of Novartis' influenza business. Although not expected to be profitable until 2018, Novartis' influenza business merged with bioCSL to form Seqirus the second largest influenza vaccine business globally, an industry worth $4bn. Now CSL has significantly more scale in this sector and importantly has access to quadrivalent vaccines, protecting against four strains of influenza rather than trivalent flu vaccines which offer protection against three strains. Now CSL has greater capacity to produce quadrivalent vaccines through larger and more efficient processing facilities. Influenza will be a challenge for CSL however, we are confident given its track record in developing the acquired Behring business and phenomenal success in its plasma division.

There is no doubting the past success of CSL. The group has recorded massive returns on capital over the last decade (at the 2015 result from an NPAT level the number was 31% - this is hugely value creative) as the group has been able to leverage its outstanding research and development success combined with its industry low costs per litre of blood. However, we especially like the CSL story for the next stage in its life. Given the growth profile of the company, we view its shares as relatively inexpensive and we continue to purchase the company for client portfolios.

Testimonials

Please complete our survey

We would like to ask you to take a couple minutes and assist us with some information:

- A quick 10 question survey for feedback on current information and to help assist us on where to take our presence on-line.

  On-line Engagement Questionnaire

- Email us back with a testimonial letter with your experience.

Example –

My name is Tom and I am a registered nurse working in remote posts across 4 states of Australia, currently in NT. I guess you can understand the logistics of this, [with] keeping track of financial arrangements and getting bills paid. Capricorn Investment partners were suggested to me by some dear friends so I gave them a call. Sue Dunne has done an excellent job of sorting our financial situation out both with self-managed superannuation and day to day money management including bill paying services. We no longer have to worry about the bills being received and being paid. In my opinion Sue Dunne and the team do an excellent job and I would recommend them to anyone that wants to be free of bills and actually want to control your own financial independence. I have put the fat cats (banks) on a diet thanks to Sue and the crew at Capricorn Investment Partners.

Registered nurse, April 2012

Staffing update

Welcomes and Farewells

We have a number of new staff to welcome to our team since our last newsletter in both our Rockhampton and Melbourne offices and a few to farewell.

A very warm welcome to our newest staff members…

Kailan Augustine – Bookkeeper Rockhampton

Kailan is new to our team of bookkeepers in the Rockhampton office, Kailan's previous bookkeeping experience comes from three years with Evans and Hearn Accountants and three years Acton Land and Cattle Company.

Kailan was educated at Rockhampton Girls Grammar School and is currently finalising her Cert IV in bookkeeping.

Kelly Drobek – Marketing and Social Media Officer

Kelly comes with a wealth of knowledge having worked for local government in a town planning capacity for Brisbane City Council and Mackay Regional Council, Kelly also runs her own health and wellness business.

Kelly was educated in the US, moving to Australia nine years ago. Kelly has an undergraduate and Masters in town planning and is a certified health coach and fitness trainer.

Kelly has a passion for marketing and social media and will be coordinating and improving our presence in the community and online.

Kelly is based in the Rockhampton office.

Welcome back from maternity leave to Bronwyn and Jodie who are now looking after our reception area.

Client Services Update

Client reviews

CIPL and Pentad staff will be contacting you throughout the year to schedule portfolio reviews, should you wish to come in outside of these time for any reason, please don't hesitate to contact us on…

Rockhampton – 1800 679 000
Melbourne – 1800 804 431

Portal access

Did you know you can access all of your portfolio information online via our client portal at www.capinvest.com.au

Some internal changes to our system now allow you to access the portal as soon as your bank account is created and you will be able to see your portfolio being built step by step. For clients moving portfolios from Asgard, please be aware that the process for transferring managed funds can be lengthy and any questions relating to this can be directed to your adviser.

Seminar

The Rockhampton seminar is scheduled for 5th May 2016. Invitations are enclosed with this mail out. We look forward to seeing you there. Please note the new venue is Empire Rockhampton with the conference room being closest to East Street. Feel free to park in the CIPL carpark.

Rose Sladden
Client Services Manager

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Julie Rush	Compliance Manager
Rose Sladden	Client Services Manager
Adrian Cahill	Consultant / Analyst
Katrina Tearle	CHESS Administrator
Natasha Kuhl	Portfolio Administrator / CHESS
Cheryl Walton	Paraplanner / Analyst
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Joshua Scipione	Financial Adviser
Scott Plunkett	National Risk Protection Adviser
Amy Gill	Risk Adviser
Lachlan McKenzie-McHarg	Adviser Equities Dealing and Research
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Tamika Albon	Senior Client Services Officer
Sharon Pollock	Client Services Officer
Ian Maloney	Manager - Share Trading
Paul Young	Manager - Client Services & Paraplanning
Ken Khoo	Paraplanner
Stephen Coniglione	Investment Research Officer
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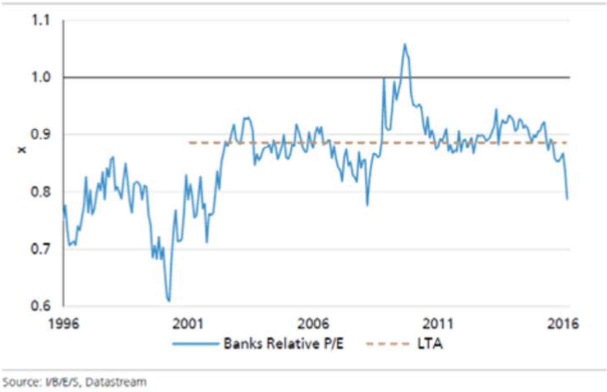
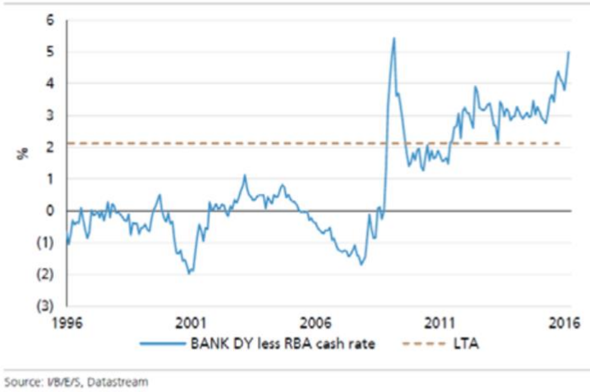
Rebecca Gough	Administration Assistant (casual)
Jaimi Summerton	Receptionist/Administration Officer (casual)

CHART PACK *Information at a glance*

Banks crash back to earth – Our major banks are starting to look good value once again after a very tough 2015





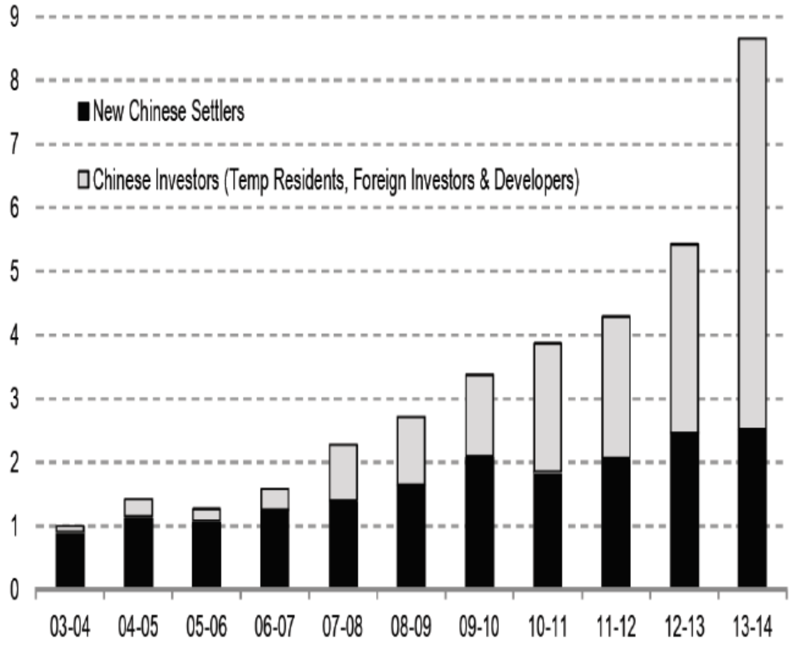
Source: *I/B/E/S, Datastream*

Getting Squeezed – Capitalisation rates (% return on property investments) have significantly compressed in the property sector especially in the Office sector, suggesting this sector is becoming overvalued.

Source: *JPMorgen*

CHART PACK *Information at a glance*

Build it and they will come – Foreign Chinese Investors have helped fuel the recent surge in Australian property prices



Source Credit Suisse

Source: *Credit Suisse*

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