

## SPS Managed Portfolios – Aust Equities Growth Portfolio

For further information on Baillieu Holst's Discretionary SPS Managed Portfolios, contact your adviser or email your details to Strategic Planning Services: [SPS@baillieuholst.com.au](mailto:SPS@baillieuholst.com.au)

\*The author of this document is a former ATP Touring Professional tennis player

### MONTHLY UPDATE

#### As at 31 December 2016

The continued optimism in a Trump growth led market sees equity markets climb higher and end the calendar year on its highest ranking. Investors seem to be pricing in a more inflationary outlook supported by the US Fed's interest rate rise decision, although the rotation out of high yielding names into cyclical exposures continues and presents another challenge for the year ahead.

All sectors posted wins this month as Santa spread his cheer. Despite bond yields rising, M&A activity propelled the Utilities sector to the top of the rankings, while the Financials continued its strong performance. In what was a year full of surprises, markets will enter 2017 positioned for optimism towards growth with many US election promises to play out.

#### Portfolio revisions: Changes to the squad

No changes were made this month.

#### Results of the Australian Equities Growth SPS Managed Portfolio

For the month of December, the Australian Equities Growth Portfolio posted a total return (excluding fees) of +3.28 percent compared with a +4.34 percent for the ASX 300 Accumulation Index.

Our Growth Portfolio posted a total return (ex fees) of +3.28 percent for December compared with the ASX 300 Accumulation Index's +4.34 percent

#### FIG.1: INVESTMENT PERFORMANCE

To 31-Dec-16	1 Mth	3 Mths	6 Mths	1 Year	3 Years	Since Incep.
<b>Australian Equities Growth SPS Managed Portfolio</b>	3.28%*	2.90%*	7.51%*	5.74%*	4.92%*	8.55%*
<b>ASX 300 Acc. Index</b>	4.34%	4.93%	10.43%	11.79%	6.57%	7.07%

NB: Perf. figures reflect when invested through SPS to avoid time delay.

Inception date = 02-Oct-09, \*ex fees

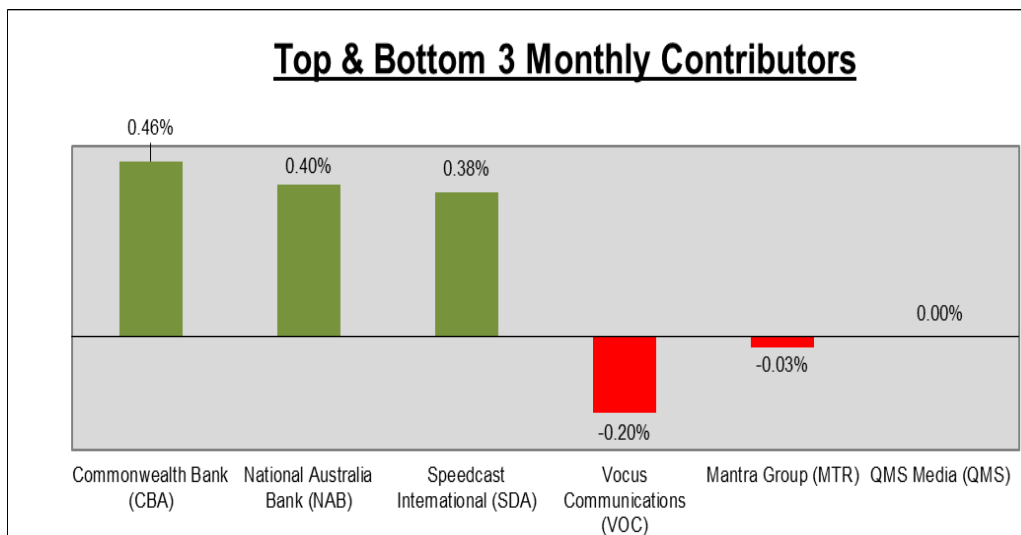
The growth portfolio performed strongly this month despite lagging the broader market weighed down by our overweight Telecommunications exposure. The market continued on with its support of Trump's growth plans, while the US Fed finally raised interest rates.

Our overweight Banks and Materials positions again featured in our best winners with Commonwealth Bank (CBA) and National Australia Bank (NAB), while Speedcast International (SDA) recovered after some recent weakness. Performance was negatively impacted primarily by Vocus Communications (VOC) and our cash balance.

**Post-match press conference: Commentary on SPS Growth stocks**

Companies hitting winners (see Fig.2) resulting in share prices moving up the rankings were our Bank positions in Commonwealth Bank (CBA +4.8%) which tops the list again and National Australia Bank (NAB +6.0%), while Speedcast International (SDA +12.5%) was awarded two contracts through the month, one with one of the world’s largest oil field services companies to expand its VSAT services in UAE, while the other was with Afghanistan’s leading telecommunications provider in Roshan; elsewhere, Woolworths (WOW +5.3%) entered into binding agreements to facilitate the sale of its 527 Woolworths-owned fuel convenience sites and 16 committed development sites to BP for \$1.785 billion. The sale proceeds will be used to strengthen the WOW balance sheet and reinvest in its core businesses. WOW and BP will enter into a long-term Strategic Partnership preserving and expanding WOW’s 4 cents per litre fuel redemption offer; Wesfarmers (WES +0.9%) announced that long-serving Bunnings Chief Executive Officer John Gillam is stepping down as Managing Director of Bunnings, but will continue to support the Bunnings business in an advisory role; South32 (S32 +1.5%) now expects to produce 7.9mt of coking coal in FY17 at its Illawarra operations, which would represent a 5.6% fall on a year earlier. Operating costs are also expected to climb to US\$86 a ton from an earlier forecast of US\$75; BHP Billiton (BHP +2.7%) has approved the US\$9bn development of the Mad Dog 2 consisting of up to 14 production wells and a new floating production platform with the capacity to produce 140kbopd. BHP is also buying 60% of the Trion discovery in the Gulf of Mexico for a cash payment of US\$62.4m and a minimum work program of US\$320m. Trion is estimated to have a resource of about 485m barrels of oil equivalent; CSL (CSL +2.5%) commenced human trials of three new therapies in Australia, expanding its research and development pipeline; Aconex (ACX +10.9%) announced a three-year agreement with Fletcher Building (FBU) in which FBU will standardise on ACX solutions across all construction business divisions. Separately, Hong Kong International Airport selected the ACX platform for the design and construction of the 10-year Three Runway System project, while ACX also announced a three-year agreement with global infrastructure firm AECOM. Topping off a busy month for ACX, Paul Koppelman was appointed Chief Financial Officer; and finally, Villa World (VLW +2.2%) reaffirmed previous guidance of FY17 Net Profit After Tax growth of at least 5% and a fully franked dividend for the full year of at least 18 cents.

**FIG.2: GROWTH PORTFOLIO’S BEST & WORST CONTRIBUTORS**



Companies making unforced errors (see Fig.2) resulting in share prices falling down the rankings were Vocus Communications (VOC -7.2%) which appointed Mark Wratten as Chief Financial Officer, the former CFO of ASX listed company Recall Holdings. VOC also executed a binding agreement with Alcatel Submarine Networks for the construction of a 4,600km submarine cable system linking Australia to Singapore and Indonesia; our other two bottom performers were Mantra Group (MTR -1.0%) and QMS Media (QMS 0%) in which Baillieu Holst was lead manager to QMS’s \$22.4 mil private placement after entering the sports-venue advertising market with three acquisitions. This comprised of an 80% stake in Out and About Marketing and Media (OAMM), a 50% stake in LIVE Docklands which holds the rights to various digital advertising assets around Etihad Stadium and lastly, a 20% stake in Sportsmate Australia which is a mobile app developer across a number of sporting codes in Australia. Excluding these deals, QMS reiterated its EBITDA guidance for FY17 of \$35 mil.

### Scoreboard from the “outside courts”

The best performing sectors in December (see Fig.3) were Utilities (+7.4 percent), Energy (+6.1 percent) and Financials (ex Property) (+5.5 percent). The Utilities sector was buoyed by the DUET confirmation of a takeover from Cheung Kong Infrastructure at \$3.00 per stapled security. The worst performing sectors were Telecommunications (+0.4 percent), Health Care (+0.9 percent) and Industrials (+1.4 percent) although every sector returned a positive result.

**FIG.3: MARKET SCOREBOARD – DECEMBER 2016 PERFORMANCE**

	Monthly Change	SPS Growth Portfolio Position
ASX 200 Index	4.1%	
Utilities	7.4%	underweight
Energy	6.1%	underweight
Financials (ex Property)	5.5%	overweight
Information Technology	5.2%	Market weight
Property	5.2%	underweight
Materials	3.9%	overweight
Consumer Discretionary	3.9%	overweight
Consumer Staples	1.8%	underweight
Industrials	1.4%	underweight
Health Care	0.9%	underweight
Telecommunications	0.4%	overweight
RBA cash rate	-	1.50%
Australian dollar	-\$0.017	\$0.720
Gold (spot \$/oz)	-\$18.50	\$1,151.60/oz
Oil (WTI spot)	\$4.96	\$53.89

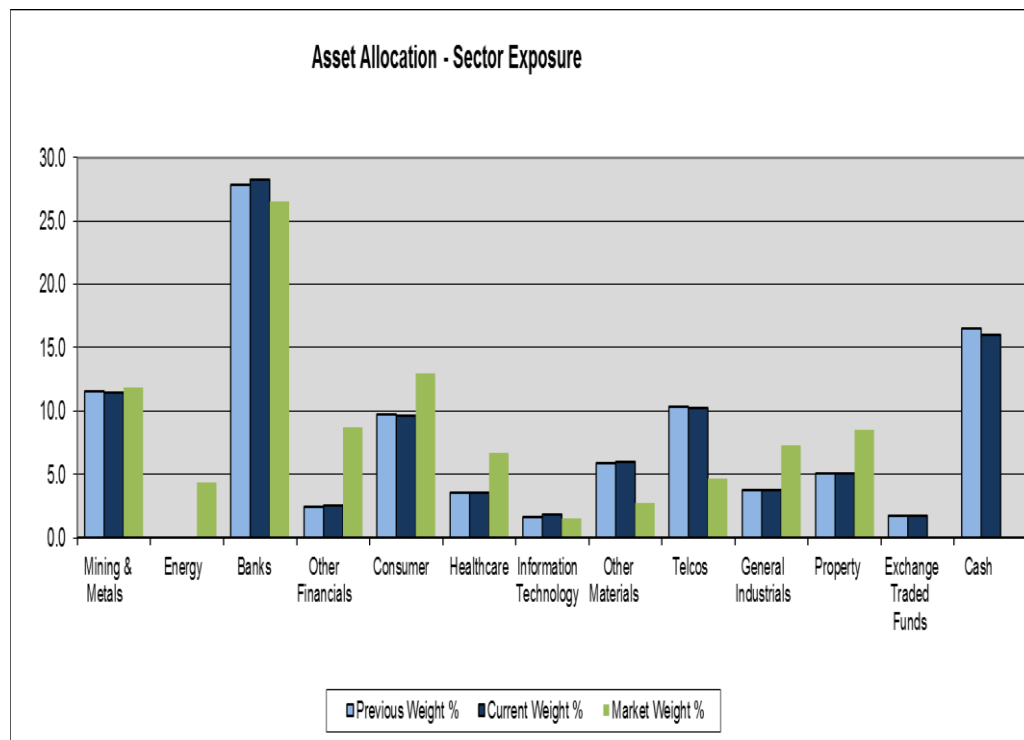
The growth portfolio under-performed this month despite producing a solid return as we remain slightly cautious with the strong market moves in recent times. Our overweight positioning in the financial sector continues to be correct, while some exposures bounced back after some decent selling pressure of late. Some of our exposures here include ACX, GMG, SDA and WOW.

Cautiousness continued in the Telecommunications and Healthcare sectors (see Fig. 3) as both sectors underperformed the index while investors await potential catalysts around reporting season. Falling into these sectors is our overweight exposure in TLS and VOC while our cash balance obviously didn't participate in the strong market moves.

### Portfolio revisions: Changes to the squad

No changes were made this month.

FIG.4: SECTOR EXPOSURE FOR THE GROWTH PORTFOLIO



**Sector positions**

**Mining & Metals:** Maintained slight underweight position

**Banks:** Maintained overweight position

**Other Financials:** Maintained underweight position

**Consumer:** Maintained underweight position

**Healthcare:** Maintained underweight position

**Information Technology:** Maintained market weight position

**Other Materials:** Maintained overweight position

**Telecommunications:** Maintained overweight position

**General Industrials:** Maintained underweight position

**Property:** Maintained underweight position

**Exchange Traded Funds:** Maintained overweight position

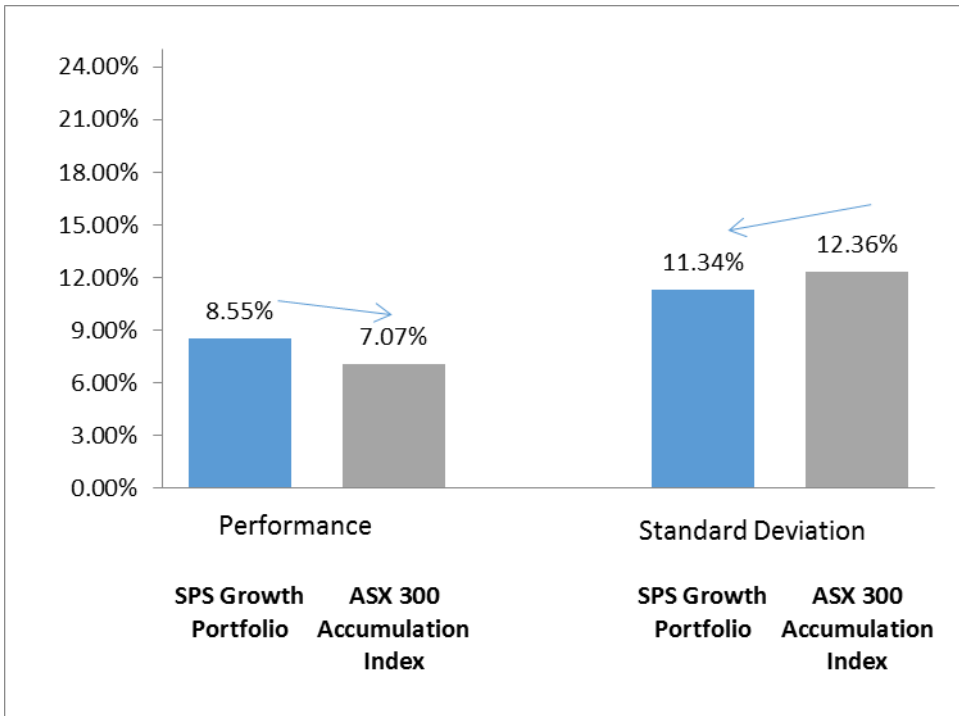
**Cash:** Cash levels remained steady throughout the month

**FIG.5: CURRENT AUSTRALIAN EQUITIES GROWTH SPS MANAGED PORTFOLIO**

	Analyst Rating	Portfolio Weight	Market Weight	Relative
<b>Mining &amp; Metals</b>		<b>11.5%</b>	<b>11.9%</b>	<b>-0.4%</b>
BHP Billiton	Hold	4.9	4.8	+0.1
Sims Metal Management	Sell	2.5	0.2	+2.4
South32	Hold	4.1	0.9	+3.1
<b>Energy</b>		<b>0.0%</b>	<b>4.4%</b>	<b>-4.4%</b>
<b>Gold</b>		<b>0.0%</b>	<b>1.7%</b>	<b>-1.7%</b>
<b>Banks</b>		<b>28.3%</b>	<b>26.5%</b>	<b>1.8%</b>
ANZ Banking Group	Hold	5.0	5.4	-0.4
Commonwealth Bank	Buy	9.8	8.5	+1.4
National Australia Bank	Buy	6.9	4.9	+2.0
Westpac Bank	Hold	6.6	6.5	+0.1
<b>Other Financials</b>		<b>2.5%</b>	<b>8.7%</b>	<b>-6.2%</b>
Diversified United Investment	n/a	2.5	0.0	+2.5
<b>Consumer</b>		<b>9.6%</b>	<b>13.0%</b>	<b>-3.4%</b>
Aristocrat Leisure	Buy	3.2	0.6	+2.6
Mantra Group	Buy	2.5	0.1	+2.5
QMS Media	Restricted	1.0	0.0	+1.0
Wesfarmers	Hold	1.1	2.9	-1.7
Woolworths	Hold	1.7	1.9	-0.1
<b>Health Care</b>		<b>3.6%</b>	<b>6.7%</b>	<b>-3.1%</b>
CSL Limited	Hold	3.6	2.7	+0.9
<b>Information Technology</b>		<b>1.8%</b>	<b>1.5%</b>	<b>0.3%</b>
Aconex Limited	Buy	1.8	0.1	+1.7
<b>Other Materials</b>		<b>6.0%</b>	<b>2.7%</b>	<b>3.3%</b>
Amcor Limited	Hold	3.1	1.0	+2.1
Pact Group	Hold	2.8	0.1	+2.7
<b>Telcos</b>		<b>10.2%</b>	<b>4.7%</b>	<b>5.5%</b>
Speedcast International	Buy	3.3	0.0	+3.2
Telstra Corporation	Hold	4.4	3.6	+0.8
Vocus Communications	Buy	2.5	0.1	+2.4
<b>General Industrials</b>		<b>3.8%</b>	<b>7.3%</b>	<b>-3.5%</b>
Monadelphous Group	Sell	0.8	0.1	+0.7
Qube Holdings	Hold	3.0	0.2	+2.8
<b>Property</b>		<b>5.1%</b>	<b>8.5%</b>	<b>-3.4%</b>
Goodman Group	Buy	2.0	0.8	+1.3
Villa World	Buy	3.1	0.0	+3.1
<b>Exchange Traded Funds</b>		<b>1.7%</b>	<b>0.0%</b>	<b>1.7%</b>
iShares Global Healthcare	n/a	1.7	0.0	+1.7
<b>Cash</b>		<b>16.0%</b>	<b>0.0%</b>	<b>16.0%</b>
		<b>100%</b>		

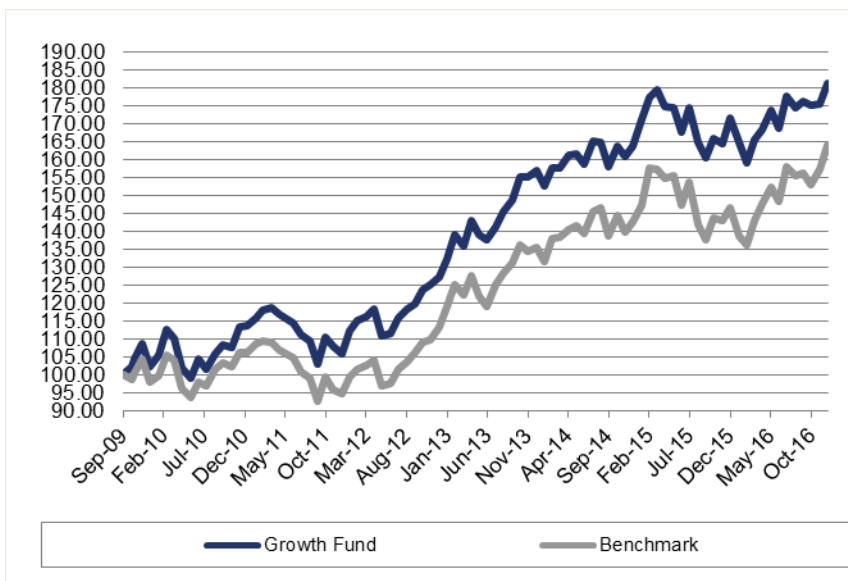
Updated: 31 Dec 2016

**FIG.6: BETTER RETURN WITH LESS RISK**



Please note - standard deviation of returns is a measure of volatility or risk. The larger the standard deviation, the larger the variations you can expect to see in returns.

**FIG.7: VALUE AT \$100 INVESTED AT FUND'S INCEPTION**



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