

SPS Managed Portfolios – Aust Equities Income Portfolio

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 Income SPS Managed Portfolio

For the month of December, the Australian Equities Income Portfolio posted a total return (excluding fees) of +3.42 percent compared with a +4.48 percent for the ASX 200 All Industrials Accumulation Index.

FIG.1: INVESTMENT PERFORMANCE

| To 31-Dec-16 | 1 Mth | 3 Mths | 6 Mths | 1 Year | 3 Years | Since Incep. |
|---|--------|--------|--------|--------|---------|--------------|
| Australian Equities Income SPS Managed Portfolio | 3.42%* | 1.77%* | 5.37%* | 5.53%* | 8.39%* | 13.03%* |
| ASX 200 All Industrials Accumulation Index | 4.48% | 4.54% | 8.48% | 7.48% | 8.97% | 12.85% |

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

Inception date = 01-Jul-10, *ex fees

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

Our overweight Banks exposure featured in our best winners with Commonwealth Bank (CBA), while both Stockland (SGP) and Orora (ORA) recovered after some recent weakness. Performance was negatively impacted by Platinum Asset Management (PTM) and our cash balance.

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

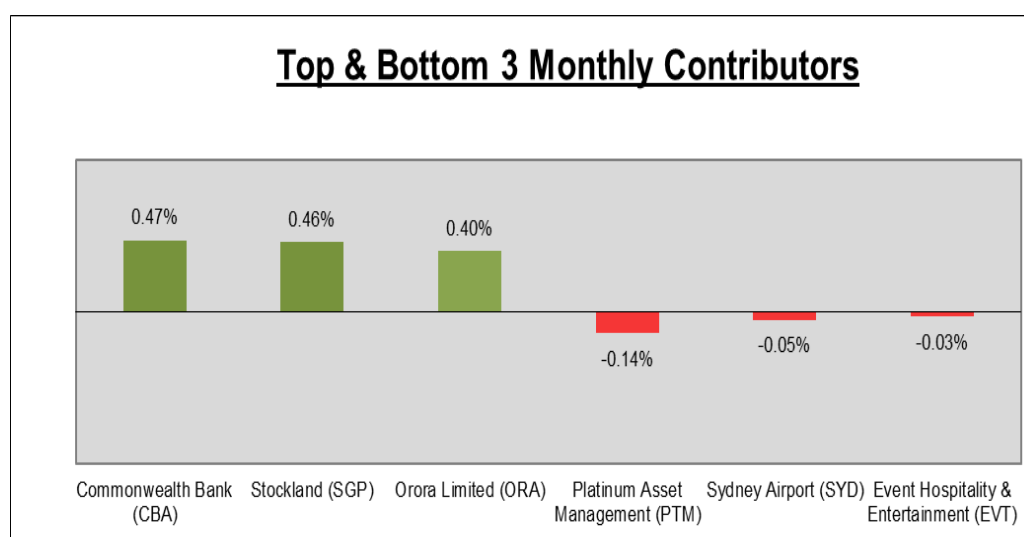
*The author of this document is a former ATP Touring Professional tennis player

Our Income Portfolio posted a total return (ex fees) of +3.42 percent for December compared with the ASX 200 All Industrials Accumulation Index's +4.48 percent

Post-match press conference: Commentary on SPS Income stocks

Companies hitting winners (see Fig.2) resulting in share prices moving up the rankings were Commonwealth Bank (CBA +4.8%), which tops our winners list again, Stockland (SGP +8.7%) which held an Investor Day targeting FY17 FFO per security growth of 5-7%, with a profit skew to 2H17; and Orora (ORA +7.9%) signed a definitive agreement to acquire The Register Print Group for US\$44mil representing a multiple of 5.8 times last 12 months EBITDA. The North American acquisition should see synergies in excess of US\$1.5 mil in the first 2-3 years; elsewhere, 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; 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; Telstra (TLS +1.0%) announced that experienced international technology executive Robyn Denholm would join as Chief Operations Officer in early 2017; Aurizon Holdings (AZJ +1.4%) announced that Pam Bains will be appointed as the Executive Vice President and Chief Financial Officer following the impending departure of Keith Neate; and Transurban (TCL +0.3%) announced refinancing deals for its Cross City Tunnel and the Logan Enhancement projects.

FIG.2: INCOME PORTFOLIO'S BEST & WORST CONTRIBUTORS



Companies making unforced errors (see Fig.2) resulting in share prices falling down the rankings were Platinum Asset Management (PTM -3.7%), Sydney Airport (SYD -2.1%) which achieved a 12 month international traffic growth rate of 9.1% and domestic passenger growth rate of 4.1%. The Commonwealth Government also issued SYD with a Notice of Intention (NOI) setting out the material terms for SYD to develop and operate the Western Sydney Airport, with an indicative four month period to consider and respond. Rounding off our bottom three and our only other negative performer was Event Hospitality and Entertainment (EVT -0.9%).

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 Income 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% | underweight |
| Property | 5.2% | overweight |
| Materials | 3.9% | overweight |
| Consumer Discretionary | 3.9% | underweight |
| Consumer Staples | 1.8% | underweight |
| Industrials | 1.4% | overweight |
| 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 |

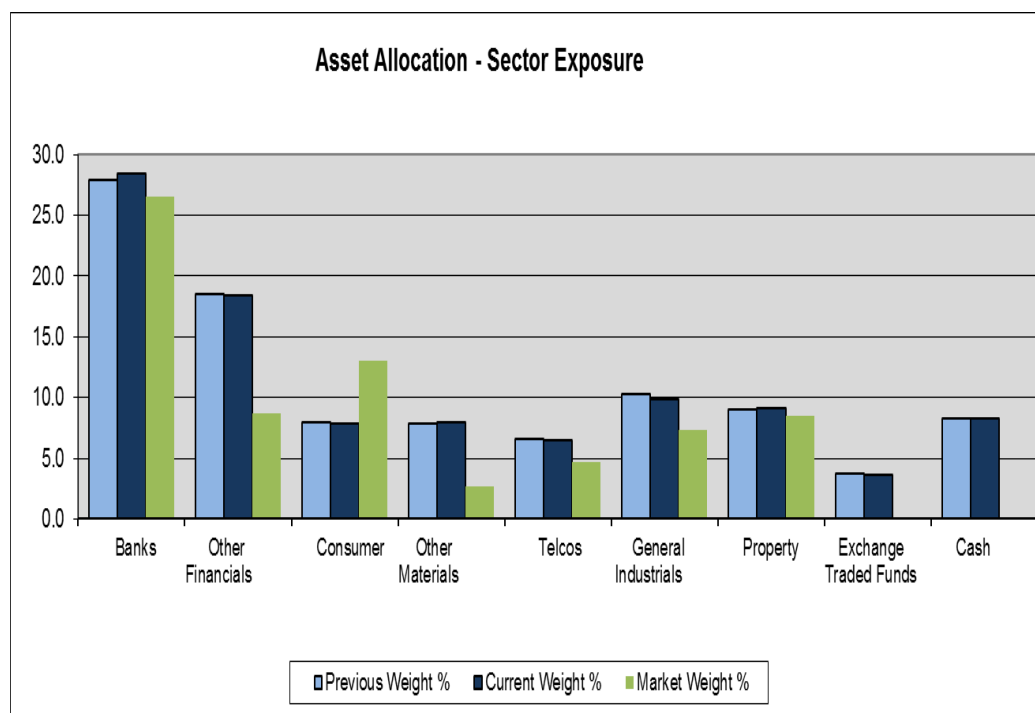
The income portfolio under-performed this month despite producing a strong return as we remain slightly cautious with the strong market moves in recent times. Our overweight positioning in the financial sector continues to be correct, while some exposures bounced back after some decent selling pressure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

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 Telstra, 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 INCOME PORTFOLIO



Sector positions

Banks: Maintained overweight position

Other Financials: Maintained overweight position

Consumer: Maintained underweight position

Other Materials: Maintained overweight position

Telecommunications: Maintained overweight position

General Industrials: Maintained overweight position

Property: Maintained overweight position

Exchange Traded Funds: Maintained overweight position

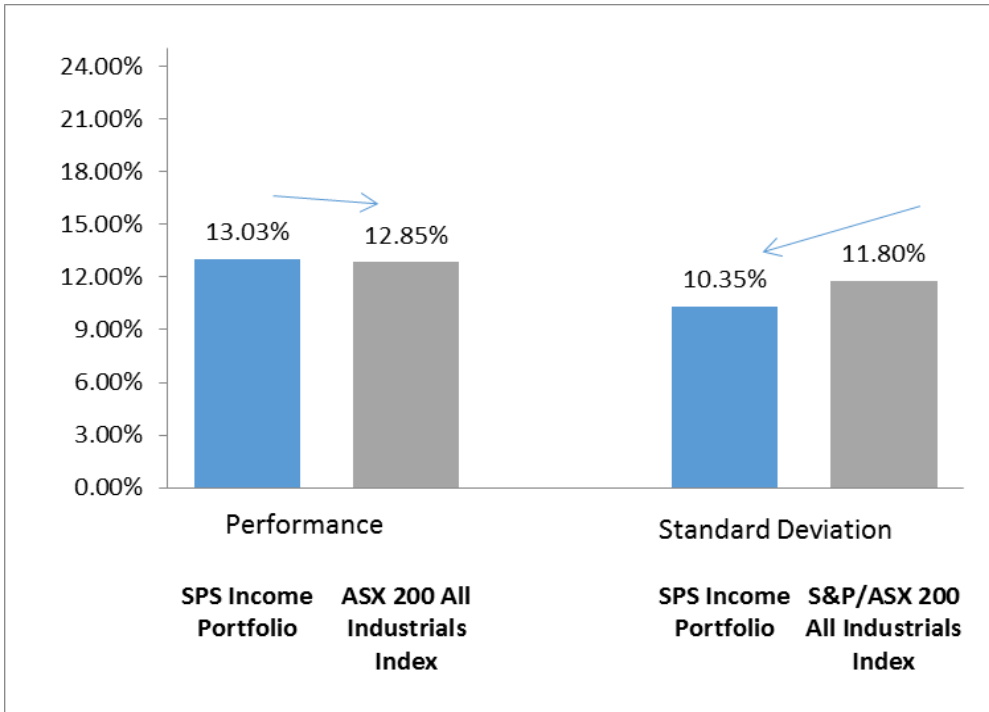
Cash: Cash levels remained steady throughout the month

FIG.5: CURRENT AUSTRALIAN EQUITIES INCOME SPS MANAGED PORTFOLIO

| | Analyst Rating | Portfolio Weight | Market Weight | Relative |
|-------------------------------------|-------------------|---------------------|------------------|--------------|
| Banks | | 28.4% | 26.5% | 1.9% |
| ANZ Banking Group | Hold | 5.0 | 5.4 | -0.3 |
| Commonwealth Bank | Buy | 10.0 | 8.5 | +1.5 |
| National Australia Bank | Buy | 6.7 | 4.9 | +1.7 |
| Westpac Bank | Hold | 6.7 | 6.5 | +0.2 |
| Energy | | 0.0% | 4.4% | -4.4% |
| Other Financials | | 18.4% | 8.7% | 9.7% |
| Argo Investment | N/A | 5.0 | 0.0 | +5.0 |
| Diversified United Investment | N/A | 3.4 | 0.0 | +3.4 |
| Milton Corporation | N/A | 2.4 | 0.0 | +2.4 |
| Platinum Asset Management | Hold | 3.5 | 0.2 | +3.3 |
| Suncorp Group | Buy | 4.2 | 1.0 | +3.1 |
| Consumer | | 7.9% | 13.0% | -5.1% |
| Automotive Holdings | Hold | 3.2 | 0.1 | +3.1 |
| Event Hospitality and Entertainment | Buy | 2.7 | 0.0 | +2.7 |
| Wesfarmers | Hold | 2.0 | 2.9 | -0.9 |
| Health Care | | 0.0% | 6.7% | -6.7% |
| Utilities | | 0.0% | 2.5% | -2.5% |
| Other Materials | | 8.0% | 2.7% | 5.3% |
| Orora Limited | Hold | 5.2 | 0.2 | +5.0 |
| Pact Group Holdings | Hold | 2.8 | 0.1 | +2.7 |
| Telcos | | 6.5% | 4.7% | 1.8% |
| Telstra Corporation | Hold | 6.5 | 3.6 | +2.8 |
| General Industrials | | 9.9% | 7.4% | 2.5% |
| Aurizon Holdings | Hold | 3.9 | 0.6 | +3.3 |
| Transurban Group | Buy | 3.6 | 1.3 | +2.3 |
| Sydney Airport | Hold | 2.4 | 0.8 | +1.6 |
| Property | | 9.1% | 8.4% | 0.7% |
| Villa World | Buy | 3.6 | 0.0 | +3.6 |
| Stockland | Buy | 5.4 | 0.7 | +4.8 |
| Exchange Traded Funds | | 3.6% | 0.0% | 3.6% |
| iShares Composite Bond ETF | n/a | 3.6 | 0.0 | +3.6 |
| Cash | | 8.3% | 0.0% | 8.3% |
| | | 100% | | |

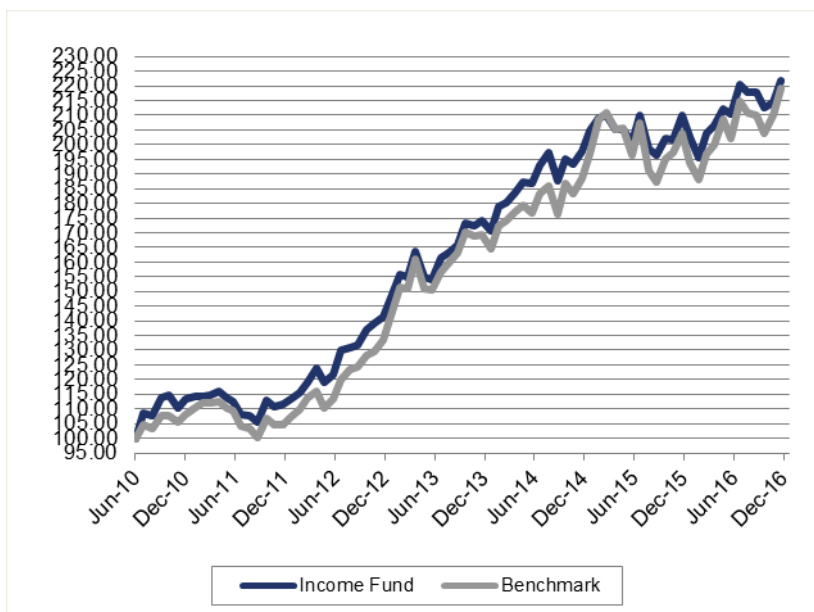
Updated: 31 December 2016

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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