The Research Monitor

September Quarter 2016

ShawandPartners

Content

Shaw and Partners

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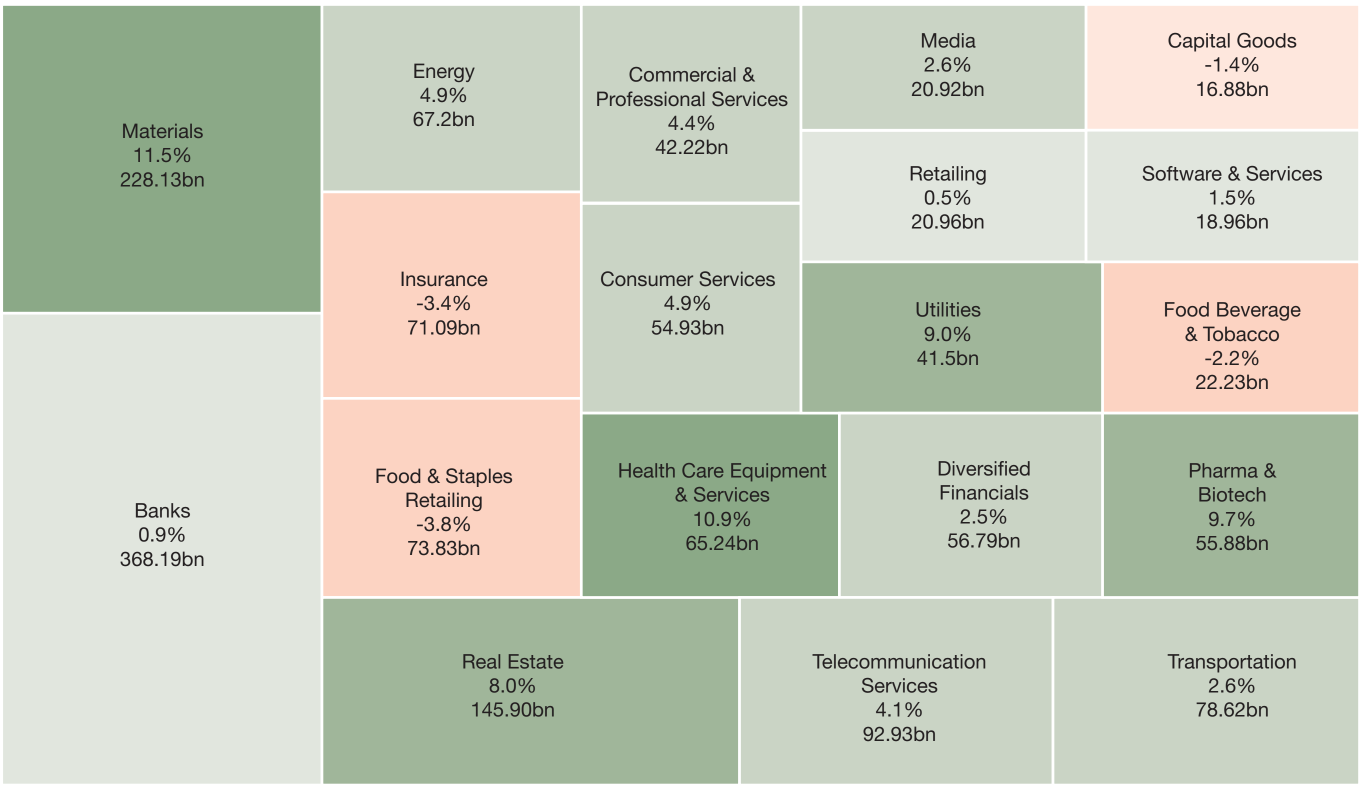
June Quarter 2016 Performance

The Australian Share Market, as measured by the S&P/ASX300 Index, rose by 3.0% on a price basis and 4.0% on an accumulation basis during the June Quarter.

Markets continued to recover in the early part of the quarter with both April and May posting solid gains of 3.34% and 3.14% respectively. June was marred by the unexpected outcome of the United Kingdom's referendum vote on leaving the European Union. Prior to the "Brexit" vote, the market had been down 1.7%, before falling to be down 5% for the month before a strong rally in the last day of trading of the quarter saw the index ending up down 2.4% for the month of June.

Materials and Healthcare sectors were the best performers over the quarter, both rising more than 10%. Ramsay Health Care (RHC) lead the way with a 18.5% return for the quarter amongst the healthcare names, whilst Resources bellwether BHP Billiton (BHP) rose 12.2% for the quarter. Returns from the Banking sector were subdued, with ANZ Banking Group (ANZ) the best of the majors up 4.4%, followed by Commonwealth Bank (CBA) up only 1.4%, National Australia Bank (NAB) down 0.8% and Westpac Banking Corporation (WBC) down 1.6% for the quarter. Some former market leaders such as Blackmores (BKL) down 25.3%, Flight Centre Travel Group (FLT) down 25.8% and Qantas Airways (QAN) down 29.0%, came back to earth following changes to the profit outlooks of the businesses. Brexit exposed stocks such as BT Investment Management (BTT) down 16.6% and Henderson Global (HGG) down 20.8% were sold off heavily at the end of the month.

A bright spot was once again the Gold Sector, with global uncertainty and low interest rates making the case for gold investing compelling. The price of gold rose 7.3% for the quarter and is now up 25.0% year to date. Newcrest Mining (NCM), the largest listed gold stock, rose 37.0% for the June quarter. Most gold stocks in the index rose between 30% and 50% for the quarter, with the stand-out being Resolute Mining (RSG), up 136% from \$0.545 to \$1.285 at the end of June.



Heat map legend: Size of box: market cap of sector. Colour of box: Quarterly performance (green positive, red negative).

Source: Shaw and Partners

Meet the Research Team

Shaw and Partners provides coverage on more than 100 ASX listed companies which are predominantly within the S&P/ASX200 benchmark index. Our 10 research analysts cover companies across Financial Services, Real Estate, Industrials, Health and Biotech and Natural Resources sectors.

Martin Crabb, Head of Research

Research Management, Equity Strategy

Martin joined Shaw in April 2011 as Head of Research. Martin is responsible for overall management of the research team as well as equity strategy and coverage of Diversified Financial Services companies. Prior to joining Shaw, Martin was an Executive Director with Macquarie Group where he worked for over 20 years in roles spanning institutional stockbroking, wealth management, research and portfolio management. Martin holds a Bachelor of Arts in Economics and Mathematics from the University of Melbourne, with postgraduate studies in Applied Finance. Martin is a Responsible Executive (ASIC).

Coverage: BLA, CNI, EQT, HFA, HHL, IFL, KAM, MFG, OFX, PAC, PPT, WBA, XIP.

Danny Younis, Senior Analyst

Technology / Developers & Contractors / Retailers

Danny joined Shaw and Partners in April 2010 and covers the Industrials sector with specific focus on Technology, Contractors / Mining Services, and Retailers. Danny has had over 15 years' experience in financial markets and stockbroking and commenced his career with CCZ Statton Equities and worked previously with Aegis Equities, Westpac, Commonwealth Bank and StoneBridge Group as Head of Research. Danny graduated with a Bachelor of Science from the University of Sydney with majors in Biology (Genetics) and the History & Philosophy of Science. Danny has also completed FINSIA's Graduate Diploma of Applied Finance and Investment (GDipAppFin).

Coverage: ALQ, CAR, CGL, CIM, DOW, MND, NCK, ORI, OVH, PPL, REA, SEK, UGL, WES, WOR, WOW, ZML.

Darren Vincent, Senior Analyst

Commercial Services, Life Sciences, Travel & Leisure

Darren joined Shaw and Partners in September 2012 as a Small Company specialist. Darren has worked in equity markets for over 20 years, having previously worked at Credit Suisse and also with BNP Paribas and ANZ Stockbroking. During that time Darren has covered a wide variety of small industrial companies and has been recognised by his clients for his work, winning the 2010 East Coles Small Company Analyst of the Year and placing second in the 2011 Wall Street Journal Asia's Best Analysts Awards (Industrial Goods & Services). Darren holds a Bachelor of Economics from the Australian National University.

Coverage: AHX, BNO, BRG, EHE, EVT, FLT, GUD, GXL, MDC, NAN, NVL, OSP, REG, RMD, SAI, WEB.

David Fraser, Senior Analyst

Transport, Infrastructure and Utilities

David joined Shaw and Partners in May 2014 as Senior Analyst covering the Transport, Infrastructure and Utility sectors. David has over 20 years' experience in the financial services industry. David previously worked in equity research and advisory at Nomura Australia and UBS Australia. Prior to his career in finance David worked as a chemical process design engineer in the oil and gas industry in New Zealand, Australia, Norway and the United Kingdom. David holds a Bachelor of Chemical Engineering and a Bachelor of Science from Canterbury University and a Diploma in Accounting and Finance from Victoria University.

Coverage: AGL, AIO, AMC, AZJ, BXB, IFN, MQA, ORG, QAN, SYD, TCL.

David Spotswood, Senior Analyst

Financial Services, Telecommunications

David joined Shaw in February 2012 as Senior Analyst covering the Banks, Diversified Financials, Insurance, Media and Telecommunications companies. David has over 20 years' experience in the financial services industry. David previously worked as Research Officer and Economist with the Commonwealth Treasury & Department of Finance, Research Associate with John A. Nolan & Associates, Senior Investment Manager (Australian Equities) with HSBC Asset Management, Investment Manager (Australian equities) Credit Suisse Asset Management, Australian Equities Manager with Warakirri Asset Management and Institutional Research Adviser with Select Equities. David holds a Bachelor of Economics from Flinders University and Master of Commerce with 1st Class Honours from the University of Melbourne.

Coverage: AMP, ANZ, ASX, AYS, BEN, BOQ, CBA, CGF, CYB, IAG, MPL, MQG, MYS, NAB, QBE, SDF, SUN, TLS, TPM, VOC, WBC.

Peter O'Connor, Senior Analyst

Metals and Mining

Peter joined Shaw and Partners in January 2015 as Senior Analyst. Peter is an experienced equities analyst specialising in Metals and Mining sectors. Peter was most recently Managing Director, Head of Asian Metals & Mining Team, Co-head of Global team - Equities Research at Merrill Lynch/Bank of America. Prior to this Peter held positions as Head of Australian Metals and Mining at Deutsche Bank, Head of Global Metals and Mining at Credit Suisse and Equities Research, Metals and Mining at Macquarie Bank. Prior to his time as an equities research analyst, Peter held operational roles with Rio Tinto for five years and BHP Billiton for five years. Peter has a Bachelor of Engineering (Mining) from the University of New South Wales (First Class Honours and the University Medal).

Coverage: AWC, BHP, FMG, ILU, NCM, OZL, RIO, S32, SFR, WHC.

Peter Zuk, Senior Analyst

Real Estate

Peter joined Shaw and Partners in October 2015 as Senior Analyst. Peter has over 17 years of real estate industry experience that includes roles within financial markets, direct industry and advisory. Previously, Peter worked as an equities analyst at Goldman Sachs where he covered the Real Estate sector. Prior to this, he held roles at Goodman Group and KPMG where he focused on REITs, developers and contractors. Peter has a Masters of Commerce Degree from the University of New South Wales and is also a Chartered Accountant.

Coverage: ABP, BWP, CMA, DXS, FET, GMG, GPT, GTY, LLC, MGR, SCG, SGP, VCX.

Large Cap Model Portfolio

We update our Australian Large Cap Model Portfolio after a period of underperformance brought about by the unexpected referendum outcome in the UK. We expect markets to remain nervous, but with a bias to the upside based on our view that Central Banks will remain/become more accommodative and support world growth.

It is likely that the “Brexit” vote has destroyed any chance for a stronger world growth outlook, normalising US monetary policy and continued Chinese currency adjustment. We must now embrace (again) a lower for longer interest rate regime, slower for longer world growth and continued defensive investor positioning.

If we think of China (15% of global GDP) and the United States (25%) as powering world growth, commodity exporting nations (45%) as detracting from world growth, this leaves the EuroZone (16%) as the swing factor. The pace at which the UK can unbundle itself from the EU and re-establish itself – and the concurrent impact on growth – as well as any contagion fears will set the tone for global markets in the weeks and months ahead.

Markets hate uncertainty. We expect conditions to stay volatile, but do not think this is time to go super-defensive. Returns available on low risk assets continue to offer ludicrously low returns so we maintain a bent toward stocks that either give us a decent dividend yield (TLS, Banks, MQG, PPT, SUN, ILU), have some growth in front of them via demographic, technological or “self-help” programmes (BHP, RIO, CGF, MPL, CYB, VOC, CAR), or have an overly pessimistic economic scenario baked into their share price (ORG, QAN, LLC, FLT).

Small Capitalisation stocks – as measured by the S&P/ASX Small Ordinaries have trounced large caps in the past twelve months. The relative “Big v Small” return of negative 13% over the past year suggests some reversal of performance in favour of large companies, if history is any guide.

We make small changes to the model portfolio this month – rotating within sectors to take advantage of our analysts’ calls whilst maintain the overall stance of the portfolio. We favour Iluka Resources (ILU) over South32 (S32) on a risk return basis and Rio Tinto PLC (RIO) over Fortescue Metals (FMG) in the iron ore space. We cut back CYB following our Brexit-related downgrade of that stock and add to Westpac (WBC) where we recently upgraded to a BUY. The Bank sector stands out as the most attractive on a risk/return basis.

Additions		Reductions	
ILU	2.74	CYB	(1.00)
RIO	3.24	FMG	(3.24)
WBC	1.00	S32	(2.74)
	6.98		**(6.98)**

Large Cap Model Portfolio @ 30 June 2016		
WBC	Westpac Banking Corporation	9.8%
CBA	Commonwealth Bank of Australia	7.5%
NAB	National Australia Bank	7.4%
ANZ	ANZ Banking Group	6.8%
TLS	Telstra Corporation	6.5%
BHP	BHP Billiton	6.1%
MQG	Macquarie Group	5.5%
LLC	Lendlease Group	4.8%
ORG	Origin Energy	4.7%
QAN	Qantas Airways	4.2%
MGR	Mirvac Group	3.5%
CGF	Challenger	3.4%
VOC	Vocus Communications	3.3%
RIO	Rio Tinto	3.2%
CAR	Carsales.com	3.2%
CYB	Clydesdale Bank	3.1%
SUN	Suncorp Group	3.0%
PPT	Perpetual	2.8%
ILU	Iluka Resources	2.7%
FLT	Flight Centre Travel Group	2.4%
GMG	Goodman Group	2.3%
MPL	Medibank Private	2.2%
AMP	AMP	1.6%
	Total	**100.0%**

Large Cap Model Portfolio now available on Shaw Managed Accounts (see page 18)

Recommendation

We move from overweight to neutral Australian Equities in a balanced portfolio structure. We dial down the cyclicality of the portfolio slightly in favour of long term growth. Both Challenger (CGF) via an ageing population and Vocus Communications (VOC) via the explosion in data usage, provide our portfolio with improved long term growth.

To obtain the latest Shaw Model Portfolio report, please contact your Shaw adviser.

Portfolio Attribution

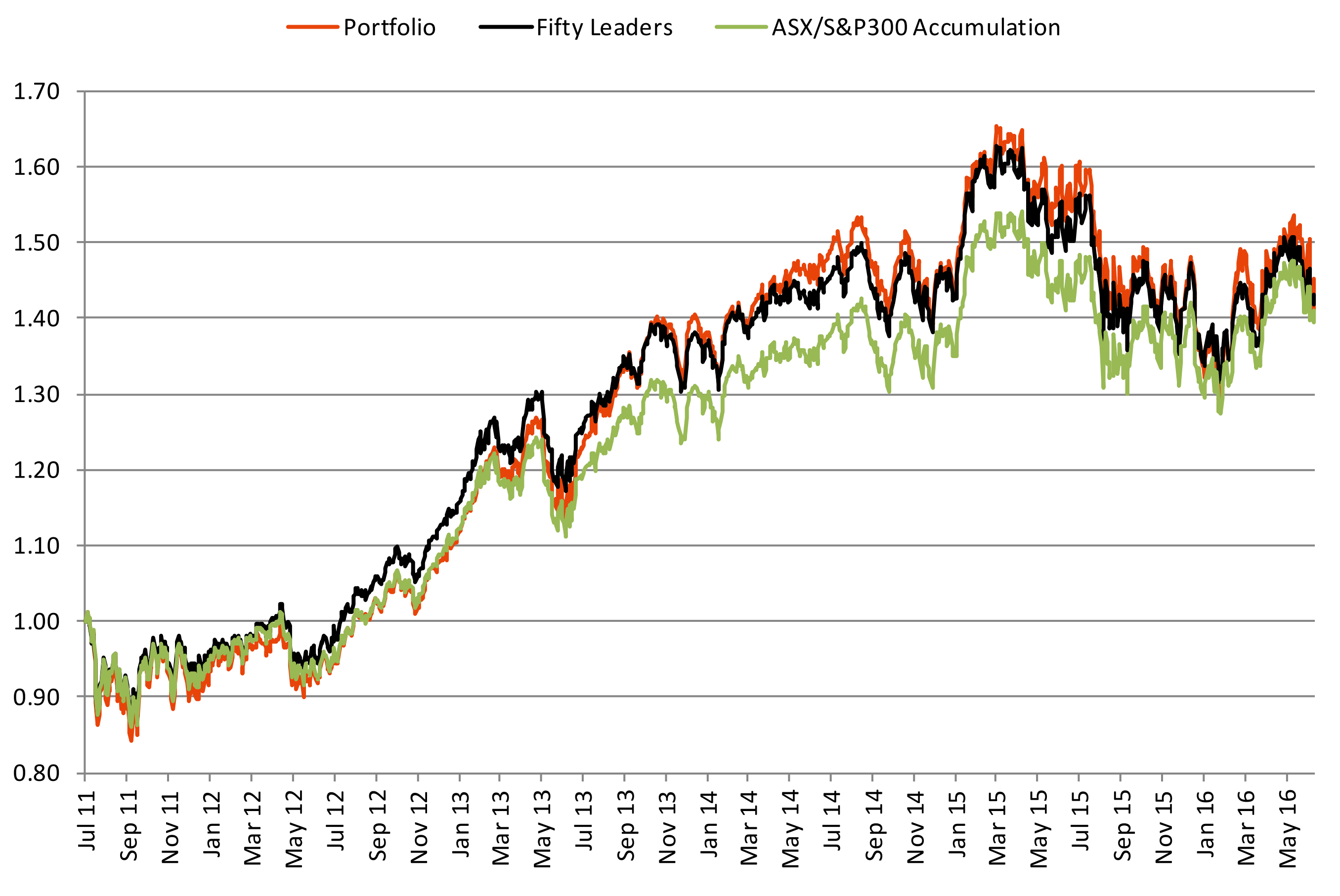
After being the largest single contributor to portfolio performance in May (+90bps), CYB was the largest single negative contributor to performance in June (-129bps).

Stocks we cover and own that added value to the portfolio totalled 1.05% of outperformance, with FMG, MGR and ORG the best. Stocks we cover and own that subtracted value totalled -2.56% with CYB, QAN and VOC the worst performers, collectively making up two thirds of the underperformance.

Stocks we cover that we did not own that added value totalled 0.49%, with QBE, AMC and WOW leading the group. Those that we cover, did own that detracted value not totalled -1.18% with NCM, SCG and SGP the largest detractors.

Stocks we don not cover (and thus do not own) subtracted 0.25%.

Portfolio Performance (Accumulation Basis)



Source: Shaw and Partners

Hybrid Income Model Portfolio

The Income Strategies team consists of specialised strategists dedicated to interpreting the debt and preference share markets. With a focus on structuring and managing listed and hybrid portfolios and blending with equities, the team aims to maximise income, whilst simultaneously minimising the risk of drawdown/permanent loss of capital, providing clients with thoughtful analysis and investment opportunities.

Cameron Duncan
Co-Head, Income Strategies

Cameron has 29 years experience across financial markets, including over 16 years at Macquarie Group in listed debt and hybrid advisory, syndication, proprietary trading and portfolio risk management. Cameron has a Bachelor of Economics degree from the University of Sydney and has completed the Diploma of Financial Planning & RG146.

Steve Anagnos
Co-Head, Income Strategies

Steve has 25 years experience across financial markets and investment management in a range of Senior roles at Citigroup, Bank of America Merrill Lynch, CBA and Strategic Capital Management. Steve's focus has been in designing and implementing portfolio strategies using listed debt, hybrids and equity derivatives. Steve has a Bachelor of Economics degree and Master of Applied Finance degree from Macquarie University.

Investment Strategy

The Shaw ASX Hybrid Income Portfolio aims to provide investors with exposure to a highly transparent portfolio of ASX listed debt and preference securities that offer diversification benefits to both Australian Equities and cash/term deposit investor's allocations.

There is a growing universe of listed assets spanning Senior Debt, Subordinated Debt, Convertible Preference Shares, Convertible Notes and Income Securities (debt and equity). While these "Hybrid" securities each have their own characteristics, research and subsequent implementation and monitoring allows for strategies to extract risk adjusted return from this sector that aims to enhance a core portfolio of Australian Equities and cash.

Investment Objectives

The objective of the Shaw Hybrid Income Portfolio is to provide a sustainable level of income whilst seeking to preserve capital. The target total portfolio return (gross) of the portfolio is 3% above the RBA cash rate. This return will be generated from a combination of cash (interest payments and dividends), franking credits and capital growth (realised and unrealised) from an active portfolio strategy.

Risk tolerance: The portfolio aims to limit the risk of capital loss through security diversification and active portfolio management. It is suitable for investors that have a 3 year + investment horizon that can tolerate secondary market pricing and liquidity risks through the life of the securities, up to the respective first call/maturity date of each security.

Hybrid Income Model Portfolio now available on Shaw Managed Accounts (see page 18)

Portfolio Holdings @ 30 June 2016 – Top 10		
ASX Code	**Issuer**	**Security Type**
ANZPA	ANZ Bank	Preference Share
WBCPF	Westpac	Preference Share
ANZPC	ANZ Bank	Preference Share
WBCPC	Westpac	Preference Share
NABPA	Nat Aust Bank	Preference Share
IANG	IAG RES	Preference Share
BENPD	Bendigo Bank	Preference Share
ORGHA	Origin	Sub Note
CBAPC	CBA PERLS VI	Preference Share
GMPPA	Goodman Group	Sub Note

Portfolio Characteristics

Expected Yield to Call/Maturity (including franking):	6.06%
Expected Gross Running Yield (including franking)	5.75%
Expected Cash Running Yield (not including franking)	4.39%
Expected Years to Maturity	2.8
Number of Securities	15
Floating Rate exposure	100%
Fixed Rate Exposure	0.0%

Markets Returns

Return	1 Month	3 Month	Inception*
ASX200 Accumulation	-2.45%	3.95%	-1.19%
RBA Cash	0.15%	0.50%	2.00%

Portfolio Performance

Return	1 Month	3 Month	Inception*
Total Income return (Gross)	0.73%	1.20%	5.13%
Total Capital return	-0.10%	1.25%	0.08%
Total Portfolio Return (Gross)	0.63%	2.47%	5.22%

** Inception date is 2 September 2015*

Portfolio Highlights

- During the month of June, the portfolio generated a Total Income return (Gross) of +0.73% and a Total Portfolio return (Gross) of +0.63%.
- The Total Income return (Gross) of the portfolio and the Total portfolio return have both exceeded their respective objectives based on the month, the quarter and since inception (2 September 2015). The Total Income return (Gross) for the quarter is +1.20% (+6.36%p.a), whilst the equivalent return since inception is +5.20%. The Total Portfolio return (Gross) for the quarter was +2.47% and since inception +5.22% (10 months).
- The main contributors to performance during the month were GMPPA (+2.63%), IANG (+1.69%), and CBAPC (+1.55%).
- The main detractors to performance during the month were BENPD (-0.05%) and MQGPB (-0.02%).
- A total of 8 securities traded ex distribution during the month, generating income for the portfolio.
- The average expected yield to call of the portfolio is 6.06%, Gross running yield expected of 5.75% % and the average expected time to first call is 2.8 years.
- During the month NABPB was introduced to the portfolio given its relative value advantage.
- The main driver of performance during month was the response to the May cut in the cash rate by 25bps to 1.75% and the associated increased demand for yield and therefore into bank hybrids as investors sought returns with less volatility than equities.

Our Preferred Stocks

Apiam Animal Health (AHX)

Apiam Animal Health (AHX) engages in providing genetics, veterinary services, wholesale and retail of related products, together with technical services related to food-chain security. It engages in the following segments Veterinary Consulting, Products and Ancillary & Support Services.

Iluka Resources (ILU)

Iluka Resources (ILU) is a global mineral sands resource company. It is involved in the exploration, project development, operations and marketing of mineral sands products. The main mineral sands products of rutile, synthetic rutile, ilmenite and zircon have a wide range of consumer, lifestyle and industrial applications.

Lendlease Group (LLC)

Lendlease Group (LLC) is a property and infrastructure development company. It engages in designing, developing, constructing, funding, owning, co-investing or managing property and infrastructure assets. The company operates its business through four segments: Development, Construction, Investment Management, and Infrastructure Development.

Macquarie Atlas Roads (MQA)

Macquarie Atlas Roads (MQA), a traded fund, invests in infrastructure assets located in across the globe primarily in the UK, the US and France. The fund operates and manages a portfolio of toll road assets, bridges and tunnels.

OzForex (OFX)

OzForex Group (OFX) provides international payment and foreign exchange services. The company enables clients to make international payments from one bank account to another bank account. It also provides international payment solutions to partner companies which assist them to offer international payment services to their end-users.

Origin Energy (ORG)

Origin Energy (ORG) is an integrated energy company, which is engaged in gas exploration and production, power generation and energy retailing. The company also has renewable energy investments, including wind, geothermal, solar and hydro. It operates through the following business segments: Energy Markets, Exploration and Production, Liquefied natural gas, Contact Energy and Corporate.

OZ Minerals (OZL)

OZ Minerals (OZL) engages in the mining of copper, gold, and silver; and exploration and development of mining projects. It owns and operates a copper-gold mine in South Australia and explores for further copper and gold deposits.

Regis Healthcare (REG)

Regis Healthcare (REG) provides residential aged care services. It offers Home and community care.

Suncorp Group (SUN)

Suncorp Group (SUN) engages in the business of provision of general insurance, banking, life insurance, superannuation products and related services to the retail, corporate and commercial sectors in Australia and New Zealand. The company operates through the following segments: Personal Insurance, Commercial Insurance, General Insurance, Banking, Life and Corporate.

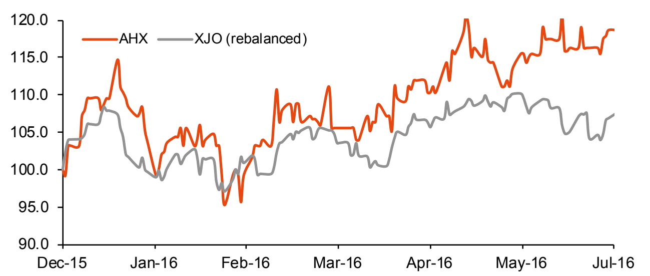
Vocus Communications (VOC)

Vocus Communications (VOC) is a leading telecommunications provider of Internet, Fibre, Data Centres and Unified Communications across Australia and New Zealand. It provides high performance, high availability, and highly scalable communications solutions, which allow enterprises and service providers to quickly and easily deploy services for their own use and for their own customer base.

Apiam Animal Health (AHX)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 5 July 2016)	$1.51
Target Price	$1.60
Analyst	Darren Vincent

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	4.5%	6.7%	4.6%

* Relative Performance is compared to the S&P/ASX 200 Index

Low Risk Agricultural Exposure

- AHX offers a unique high growth exposure to Australian agriculture, without the typical weather and agricultural pricing risks. It is Australia's largest vertically integrated, production animal veterinary business, primarily servicing medium to large corporate protein producers. It services 35% of the Australian Pig industry, 25% of the Australian Dairy industry and 50% of the cattle in Australian feedlots.
- A high quality earnings profile. The Chris Richards Group (CRG), which was the core of AHX, has a proven model, with a track record of account managers leveraging veterinary relationships to generate product sales. This has produced a high barrier to entry, resilient, non-cyclical, locked in earnings profile with good cash conversion. Confirmation from AHX with its 1H16 results that the integration of its acquisitions has been bedded down and that early trading is in line with expectations is an important early signal that the company is moving towards delivering on its substantial potential.
- Proven growth potential across multiple agricultural sectors. AHX's pro-forma statements reflect a three year sales CAGR of 7.2% with operational leverage driving a three year EBITDA CAGR of 14.1%. Once integrated, management expect these businesses to do even better taking share in the pig, dairy and beef feedlot markets, replicating CRG's successful strategy in the Victorian Dairy industry and Australian Beef industry by having acquired nine veterinary businesses with 26 clinics prior to IPO.

Forecasts			
YE 30 Jun (AUD)	2015 (A)	2016 (E)	2017 (E)
Earnings cps	10.9	7.3	8.3
Dividends cps	0.0	0.0	3.3
PE x	0	20.7	18.2
Yield %	0.0	2.2	2.4
Franking %	0	0	100

Iluka Resources (ILU)

Recommendation	BUY
Risk	HIGH
Share Price (as at 5 July 2016)	$6.96
Target Price	$6.60
Analyst	Peter O'Connor

Share Price Chart

Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	13.5%	1.3%	-2.5%

* Relative Performance is compared to the S&P/ASX 200 Index

Leveraged to Emerging Global Growth & Industry Rationalisation

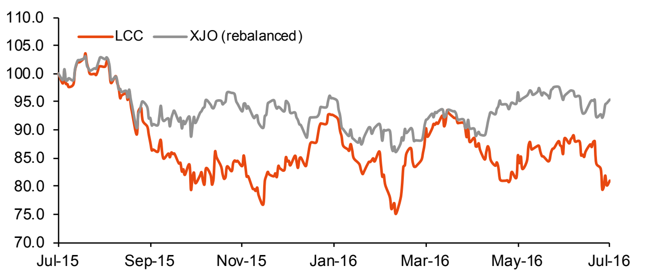
- ILU is a globally significant operator in the mineral sands feedstock industry, #1 in zircon production (~26% market share) and #2 in titanium dioxide (TiO_2) feedstock (10% overall share but ~27% of very high grade product). ILU's principal operating assets are located in Australia, supplemented by a very lucrative iron ore royalty stream.
- ILU has lagged its local and global peers YTD 2016, although it has rallied from the 6 year low set in late 2015. Importantly, valuation metrics highlights that ILU is still trading at a discount (~25%) on a P/NPV and P/Book basis. Laggard stocks/sectors have demonstrated a recent propensity to rally with any revenue catalysts.
- Harvesting cashflow – ILU is currently in cashflow harvest mode underpinned by inventory sales and minimal near term capex. ILU has a modest net cash balance (~$50m) and available/undrawn credit facilities of ~A$1bn affording a range of growth opportunities, internal and M&A, and capital management – dividend policy is "at least 40% of free cash flow" highlighted by dividend yield stepping up to ~8%.
- Leveraged to emerging global growth – ILU is leverage to emerging global growth, including China, and especially property related – recent trends encouraging. Demand for the TiO_2 segment is now the most positive since 2012. Zircon has also posted better near term demand with April catching up on a slack March (AGM 18 May). Importantly, the medium term is underpinned by the need for commodity price – in particular zircon – to incentivize new supply required before 2019.

Forecasts			
YE Dec (AUD)	2015 (A)	2016 (E)	2017 (E)
Earnings cps	12.8	31.6	31.4
Dividends cps	25.0	27.0	47.0
PE x	47.9	22.0	22.2
Yield %	4.1	3.9	6.8
Franking %	100	100	100

Lendlease Group (LLC)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 5 July 2016)	$12.35
Target Price	$16.06
Analyst	Peter Zuk

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-8.7%	-15.2%	-15.2%

* Relative Performance is compared to the S&P/ASX 200 Index

Attractive Earnings Outlook Should Reward Those With a 12 Month+ Investment Horizon

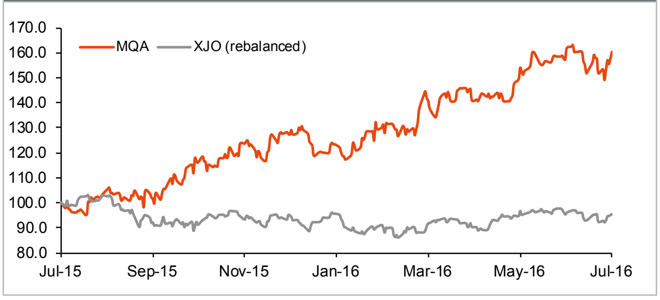
- LLC has consistently delivered 12% ROE over the past 5 years and we expect this trend to continue over our forecast period. We are attracted to LLC's strong balance sheet (gearing of c.12%), its FY16-FY18 earnings growth outlook and its strong cash flow generation outlook over this same period. It is important to note that recurring income from annuity-style investments represents 30-40% of LLC's EBITDA in any given year. This includes base management fees from c.$22b of funds under management.
- In our opinion, negative sentiment around the Australian apartment market (including settlement risk from overseas buyers) is overblown. LLC's apartment pre-sales in AUS are strong, and pricing growth across many of its residential developments provides little incentive for buyers to "walk away" from their purchases.
- There is negative sentiment surrounding LLC's exposure to the UK market following the Brexit vote. However, we highlight that the UK/EUR represents only 10% of LLC's assets and 10-13% of its forecast earnings – and any downside risk to its balance sheet or EPS from a slowdown in the UK has been more than adequately priced in by the market.

Forecasts			
YE 30 Jun (AUD)	2015 (A)	2016 (E)	2017 (E)
Earnings cps	106.8	120.0	128.6
Dividends cps	54.0	59.6	64.3
PE x	14.1	10.3	9.6
Yield %	3.6	4.8	5.2
Franking %	0	0	0

Macquarie Atlas Roads (MQA)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 5 July 2016)	$5.45
Target Price	$6.00
Analyst	David Fraser

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	2.7%	10.0%	69.6%

* Relative Performance is compared to the S&P/ASX 200 Index

Interest Rates – Lower For Longer?

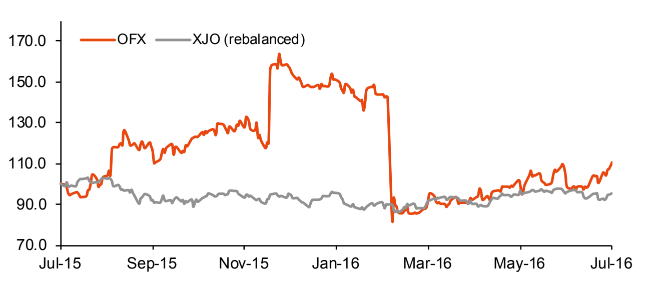
- If this is the case, APRR/Eiffarie with over €4,000m of debt paying cash interest at circa 5% rolling over the next three years to lower interest rates (3 month Euribor trading at -29 basis points) will lift operational cash flow. Combined with the expiration of a €3,300m swap paying 4.6% in mid-2018 at the Eiffarie Group level gives us comfort that our distribution forecasts are achievable and may be conservative. We are forecasting a CAGR in distributions of over 15% from FY16.
- As discussed previously we believe it is highly likely that MQA will sell its 50% stake in Dulles Greenway if it is offered 30 times (or more) EBITDA for its stake in the back end of 2016. Clearly, lower interest rates will inflate valuations and the strength of the USD will lift repatriated proceeds to MQA.
- Our FY16 sum of the parts valuation at current spot bond rates and FX rates is $6.08 lifting to $6.20 in FY17. The forecast price in 12 months assuming MQA trades on its current 12 month forward yield of 3.9% is $5.85.
- We continue to believe MQA provides more upside than TCL and SYD given the attractive forecast pre-tax internal rate of return. We note this is dependent on the Australian dollar remaining at current levels against the € and US$. Clearly if the A$ appreciates strongly against these currencies, repatriated distributions would come under pressure. We do not see this as a risk in the near term.

Forecasts			
YE 31 Dec (AUD)	2015 (A)	2016 (E)	2017 (E)
Earnings cps	16.5	(4.2)	15.1
Dividends cps	16.0	18.0	21.0
PE x	24.6	nm	36.2
Yield %	3.9	3.3	3.9
Franking %	0	0	0

OzForex (OFX)

Recommendation	BUY
Risk	HIGH
Share Price (as at 5 July 2016)	$2.41
Target Price	$2.80
Analyst	Martin Crabb

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	13.1%	10.6%	15.4%

* Relative Performance is compared to the S&P/ASX 200 Index

Digital Disruption

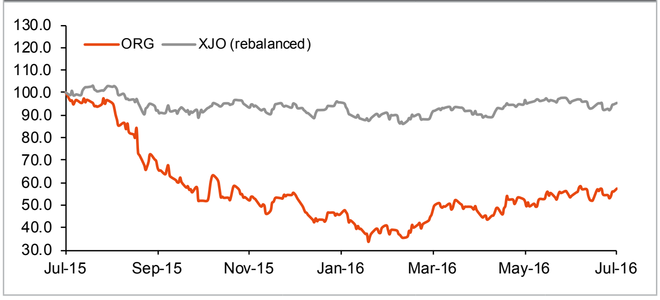
- OFX adopted the OFX brand in Australian in December 2015 and has recently launched this brand in the US. The OFX brand is trending well in Australian search and recently outstripped rival transferwise. The recent sell off is a great buying opportunity.
- OFX has stepped up its presence on the online merchant solution business by launching OFX for Online Sellers which facilitates payments in home currency at more competitive exchange rates from international sales on platforms such as eBay and Amazon. Whilst unlikely to turn the P&L dial in the short term, this move is an example of developments that for part of the "Accelerate" strategy aiming to double sales by 2019.
- We expect near term earnings to be influenced by the increase in spending initiatives around the move to adopt a global brand, improving technology and rolling out new products and services. As such we see the EBITDA margins of the business remaining at ~27% this year and next before returning to the historical levels of mid 30%. Thus investors should see strong revenue growth (doubling FY16-FY19) as well as a pick up in
- We do not rule out M&A activity with OFX as either predator (ungeared balance sheet, net cash of ~$40m) or prey (Western Union may return) and see these as "free options" that are not being valued by the market margins.

Forecasts			
YE 31 Mar (AUD)	**2015 (A)**	**2016 (E)**	**2017 (E)**
Earnings cps	10.1	10.0	10.7
Dividends cps	7.1	6.7	8.0
PE x	23.8	24.2	22.5
Yield %	2.9	2.8	3.3
Franking %	100	100	100

Origin Energy (ORG)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 5 July 2016)	$5.85
Target Price	$7.00
Analyst	David Fraser

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	5.9%	20.7%	-45.6%

* Relative Performance is compared to the S&P/ASX 200 Index

APLNG Train 2 Up And Running By Year End

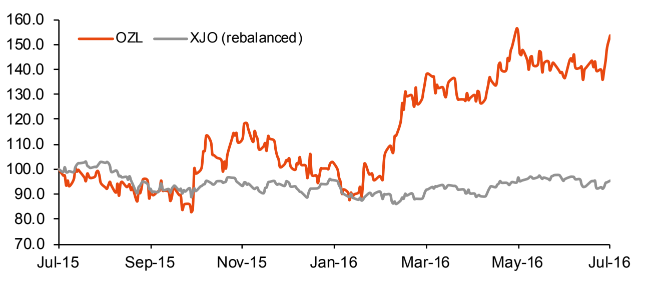
- Given current market uncertainty and ORG's current target to reduce net debt to below $9b by FY17, we believe the ORG Board is likely to cut the final dividend. We are maintaining our FY17 dividend at $0.20 on the basis of our oil price forecast, but note if global market conditions decline, the oil price remains at current levels (Brent spot today ~US$48/bbl), and ORG are unable to sell another $400m of assets we would likely review our forecast.
- At a recent (4 May) investor briefing ORG stated its guidance for EBITDA (pre APLNG) of $1,450m-$1,550m (Shaw at $1,511m) in FY16 and $1,900m-$2,100m in FY17 "remained appropriate". NB: The $427m of asset sales to date (Mortlake pipeline and terminal [$355m] and Cullerin Range wind farm [$72m], will result in the guidance in FY17 lowering by ~$32m given the "sale and leaseback" nature of the asset sales. The Shaw FY17 forecast is at the bottom end of the range ($1,881m) and thus we see risk to the upside in our forecasts.
- We believe proportional consolidation of APLNG provides a more accurate view of the ORG financials. Based on our forecasts we forecast proportionally consolidated net debt/ EBITDA for ORG will fall from 8.6 times in FY16 to 4.5 times in FY17 and 3.4 times in FY18. Our corresponding proportionally consolidated EV/EBITDA forecasts fall from 14.2 times in FY16 to 6.1 times in FY18. Likewise, our proportionally consolidated P/E falls from 22 times in FY16 to 9.7 times in FY18.

Forecasts			
YE 30 Jun (AUD)	**2015 (A)**	**2016 (E)**	**2017 (E)**
Earnings cps	54.5	27.0	37.1
Dividends cps	50.0	20.0	20.0
PE x	22.0	21.6	15.8
Yield %	4.2	3.4	3.4
Franking %	0	0	0

OZ Minerals (OZL)

Recommendation	BUY
Risk	HIGH
Share Price (as at 5 July 2016)	$5.99
Target Price	$7.00
Analyst	Peter O'Connor

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	12.0%	12.3%	56.6%

* Relative Performance is compared to the S&P/ASX 200 Index

Cashed Up, Derisked, Deliverable Growth Options = x% Upside

- Recent site visit confirms 20% upside – Our recent tour of OZL's assets – producing and future development – confirmed our expectation that the company has significant valuation upside as the Carrapateena project is developed. We have lifted out valuation to ~A$8.50 and Target price to $7.00/sh giving a total shareholder return of ~17%. No change to near term earnings until new project starts in 2019.
- "New" management, strategy, direction – Management change is often a catalyst to realise value and in the case of OZL the share price performance of the past year has been impressive – the leading global copper stock. A vote of confidence & approval for the new CEO, the new strategy - engineered by the CEO - & the CEO's new executive team.
- Asset longevity options + cash – The myopic obsession regarding OZL's operational life has likely run its course. (i) Prominent Hill (PH) – likely to run thru the end of next decade, albeit at lower rate, (ii) Carrapateena - shaping as the next growth phase, , (iii) Government support, exploration prospectivity = potentially two more projects.
- Copper, commodity du jour/annee – Copper is very much the commodity of choice amongst companies, investors, & forecasters. In a sense this view feels "crowded", but background supply & demand data, is very supportive, especially supply response, or lack thereof. Copper supply, like oil, has a sharp decline profile, especially post 2018/19. Expect "incentive pricing" (>> marginal cost pricing) between now and 2018/20.

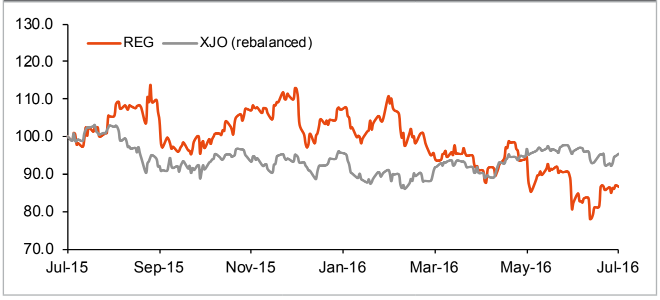
Forecasts

YE 31 Dec (AUD)	2015 (A)	2016 (E)	2017 (E)
Earnings cps	46.0	0.9	14.2
Dividends cps	20.0	11.0	0.0
PE x	8.8	nm	42.1
Yield %	4.9	1.8	0.0
Franking %	0	0	0

Regis Healthcare (REG)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 5 July 2016)	$4.71
Target Price	$5.33
Analyst	Darren Vincent

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	5.5%	-9.3%	-9.1%

* Relative Performance is compared to the S&P/ASX 200 Index

Low Risk Aged Care Exposure

- Operations second to none underpin REG's growth potential. The operational performance of a residential aged care (RAC) operator underpins its growth aspirations and REG, along with its two listed peers Estia (EHE:ASX) and Japara (JCH:ASX), has better operational metrics than the rest of the industry. REG's operational metrics (occupancy, RAD values, RAD penetration costs and funding per resident), have been fine tuned to support its growth plans which entail developing 3-4 new facilities (300-400 beds) each year.
- A proven development capacity. REG is a proven developer with operations that can absorb and fill all of the places it develops. It is achieving development IRRs of 20%+, which combined with growing net cash inflow from refundable accommodation deposits (RAD) and underlying demand for aged care places that will not be satisfied for 15 years, is creating a spiralling capacity to fund ongoing bed growth, but only ~4 years of growth is factored into REGs' share price.
- Risks confronting REG and the sector are being over emphasised in valuations. The undervaluation reflects: 1) disbelief in REG's long term development potential, 2) real but overstated risks associated with likely changes to government policy. Recent changes to Government policy impacted share prices significantly and renewed investor focus on this as the key risk confronting the sector. We believe the evidence suggests that the risks confronting the three listed RACs are overstated, and 3) an underestimation of Net RAD inflow. Getting RAD inflow forecasts correct is crucial to valuing the growth opportunity the sector provides.

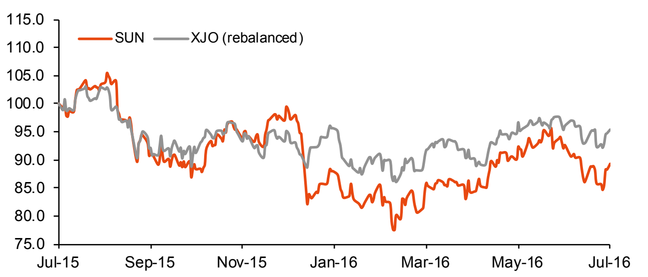
Forecasts

YE 30 Jun (AUD)	2015 (A)	2016 (E)	2017 (E)
Earnings cps	17.7	19.0	21.1
Dividends cps	17.6	19.0	21.1
PE x	29.2	24.8	22.3
Yield %	3.4	4.0	4.5
Franking %	64.2	100	100

Suncorp Group (SUN)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 5 July 2016)	$12.14
Target Price	$13.46
Analyst	David Spotswood

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-4.3%	-3.2%	-7.4%

* Relative Performance is compared to the S&P/ASX 200 Index

Investor Day: Comfortable With At Least 10% ROE In The Future

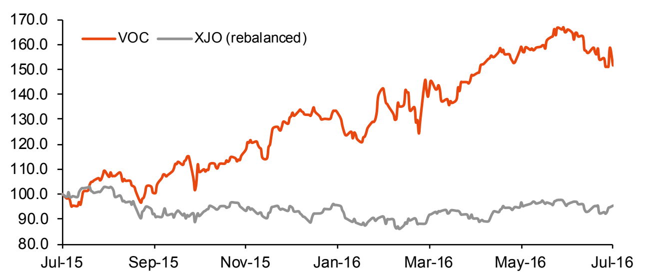
- Reconfirmed FY16 guidance; low single digit GWP growth, stable claims environment, and strong capital position. $55m pre-tax restructure in FY16, $80m pa benefit going forward.
- SUN are now saying natural hazard claims are below budget after being above in 1H16, and costs will be flat in FY17 and FY18. Lower bond yields will boost the profitability of the life insurance business. If we run this through our numbers it leads to above upgrades.
- Long term continuing to target 10% ROE and 12% insurance margin.
- Claims under control and making progress in short term operational challenges – SUN rebased earnings in 1H16, citing higher claims in personal lines. Now saying claims coming under control. CEO stated getting claims under control is his number one priority.
- BUY. SUN should deliver low to medium single digit EPS growth, PE and Yield look reasonable. Maintain BUY – key drivers are costs, claims management and any optionality from premium rates.

Forecasts			
YE 30 Jun (AUD)	2015 (A)	2016 (E)	2017 (E)
Earnings cps	91.5	89.5	97.7
Dividends cps	88.0	76.6	81.3
PE x	14.7	13.6	12.4
Yield %	6.6	6.3	6.7
Franking %	100	100	100

Vocus Communications (VOC)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 5 July 2016)	$8.42
Target Price	$10.45
Analyst	David Spotswood

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-9.3%	-5.0%	-6.9%

* Relative Performance is compared to the S&P/ASX 200 Index

Core Business Travelling Work. Good Strategic Acquisition

- FY16 trading update: revenue $820-835m (light, but have shed non-performing assets which we see as positive), underlying EBITDA $213-218m (fine). Doing well in NBN, +27k adds for half. Core VOC business going gangbusters +20% growth, Q416 recurring revenue up ~70% on Q116. Churn still a problem in MTU business.
- NextGen acquisition strategically positive, key backhaul infrastructure asset with robust ~32% (and increasing) EBITDA margins. Provides VOC with >17,000km of backhaul fibre it doesn't currently have, higher quality than TPG/Optus backhaul, 20-30% more point of interconnect. $30m cost synergies over three years. Real upside will come if VOC can achieve revenue synergies. Our numbers show the deal to be EPS neutral at this point.
- Expanded footprint = Key upside, opportunity for revenue synergies. VOC+NextGen will be connected to >5,000 buildings nationally. Major challenge for NextGen was lack of on-net buildings meaning product was not competitive. VOC+NextGen now have significant opportunity to sell more into government/large corporates with full regional and metropolitan coverage. VOC hasn't previously had success with government segment.
- BUY. We expect VOC to perform well with $84m cost savings to come; upside from NBN growth for next 5 years, reduced churn in broadband, core VOC growth of 20%, a rapidly de-gearing balance sheet.

Forecasts			
YE 30 Jun (AUD)	2015 (A)	2016 (E)	2017 (E)
Earnings cps	18.6	26.9	40.4
Dividends cps	8.3	18.0	20.2
PE x	31.1	31.3	20.8
Yield %	1.4	2.1	2.4
Franking %	100	100	100

Recommendation Definitions

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Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market.

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Thank you for your support


ShawandPartners
22 June 2016
DATE
PAY TO THE ORDER OF beyondblue & JDRF
$ 109,398.35
One hundred and nine thousand, three hundred and ninety eight
DOLLARS
INAUGURAL INSTITUTIONAL FOUNDATION DAY
ShawandPartners FOUNDATION
AUTHORIZED SIGNATURE
ShawandPartners FOUNDATION
555777788 123 44488822211

On Wednesday 22 June 2016, we launched our inaugural Foundation Institutional Trading Day.

A total of $109,398.35 brokerage was generated from institutional trades on the day. Every last dollar of which was donated in a 50/50 split to two beneficiary charities: beyondblue and Juvenile Diabetes Research Foundation (JDRF)

Proudly supporting beyondblue

JDRF IMPROVING LIVES. CURING TYPE 1 DIABETES.

Thank you to the generous institutions who assisted on the day.

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Shaw Managed Accounts Advantages	Professionally managed	Reduced administrative burden
Lower trading costs	Portfolio transparency	Less tax administration
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Safe custody of investments	Flexible advice fee structure	Margin Lending capability

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	Shaw Managed Accounts	Managed Funds	Direct Equities
Professional portfolio management	✓	✓	✗
Immediate application and redemption of funds	✓	✓	✓
Daily liquidity	✓	✓	✓
Wholesale execution	✓	✓	✗
Low minimum investment	✓	✓	✗
Corporate actions administered	✓	✓	✗
Tax reporting	✓	✓	✗
Access via PDS	✓	✓	✗
Fee transparency	✓	✓	✓
Ability to view underlying securities	✓	✗	✓
Minimise CGT when switching	✓	✗	n/a
In specie transfers	✓	✗	✓
Avoid embedded CGT	✓	✗	✓
Automatic tax optimisation	✓	✗	✗
Netting of transactions	✓	✗	✗
Blended individual portfolio	✓	✗	✗
Select minimum trade size	✓	✗	✓
Exclude specific securities from portfolio	✓	✗	✓
Download tax parcels to accountant	✓	✗	✗

Speak to your adviser for more information about Shaw Managed Accounts

ShawandPartners

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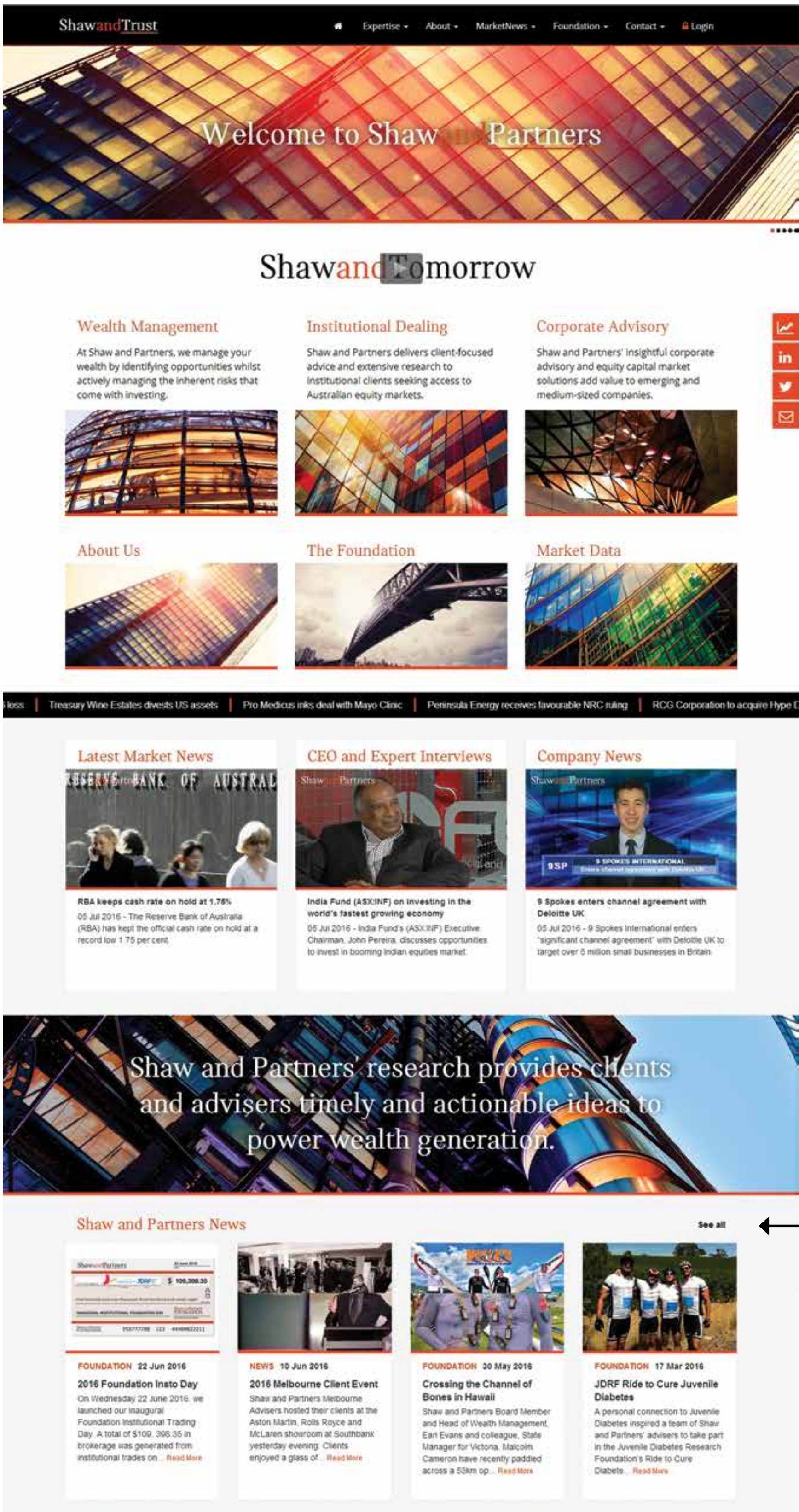

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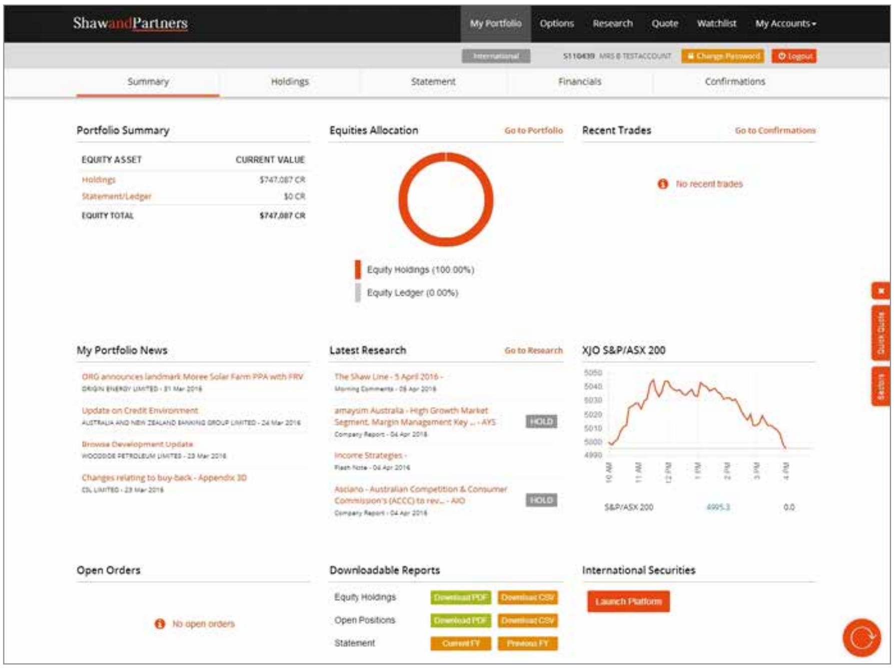

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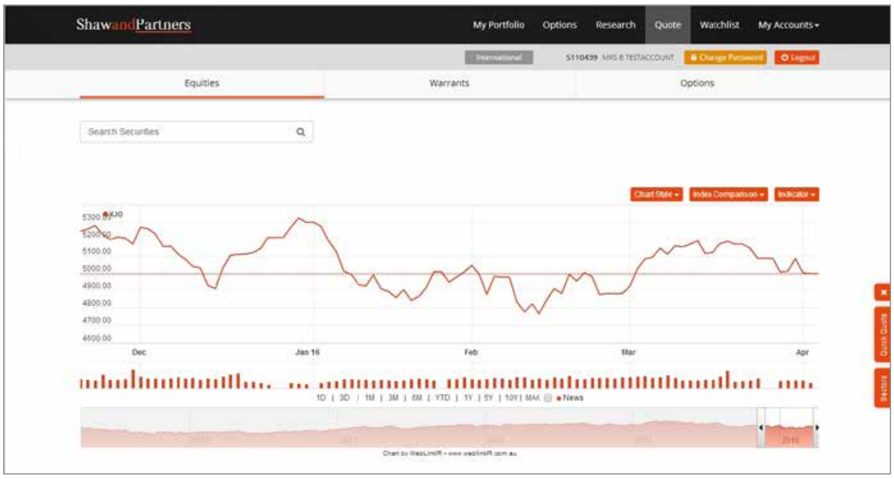

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Portfolio Performance Report

Providing a summary of your portfolio's performance over the quarter, this report includes income, expenses, realised/unrealised capital gains and losses and portfolio value at quarter start and end. A net performance figure is also provided so that your portfolio can be measured against a variety of benchmarks.

Portfolio Valuation

This report shows individual portfolio holdings and displays total costs, market value, portfolio weighting and estimated income and yield.

Realised/Unrealised Capital Gains Tax (CGT) Reports

With a detailed analysis of realised and unrealised capital gains and losses, this report allows for any CGT exposure to be appropriately managed. Prior year capital losses and discounting, where applicable, are factored into the CGT calculations.

Transaction Report

This report displays the transactions (buys and sells) and corporate actions (e.g. rights issues) that have occurred over the quarter, with a breakdown of brokerage and GST.

Income Report – Accounting

Detailing income received such as dividends (including franking credits), interest and result distributions, this report works together with the transaction report to assist greatly in the preparation of income tax returns and business activity statements (BAS).

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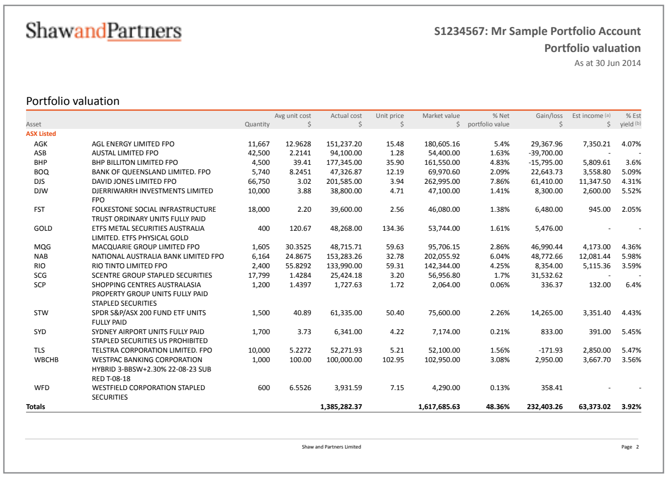
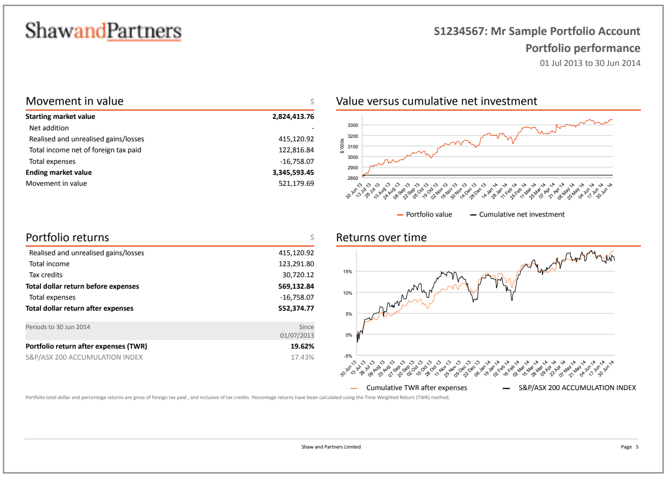
Portfolio Service

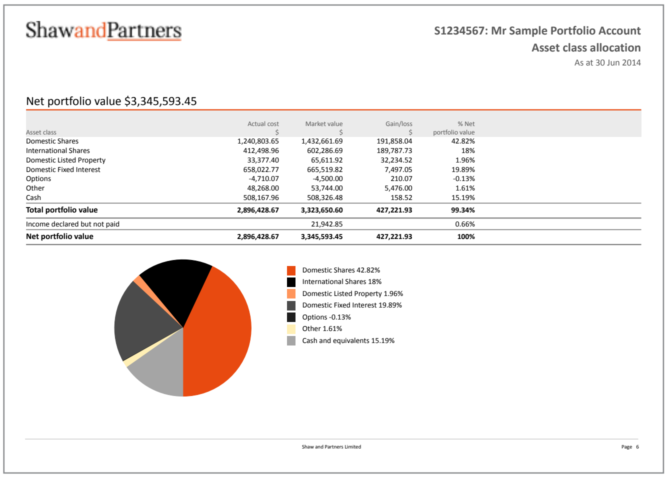
The Portfolio Service covers asset classes including shares, options, managed funds, bonds, bank bills and cash.



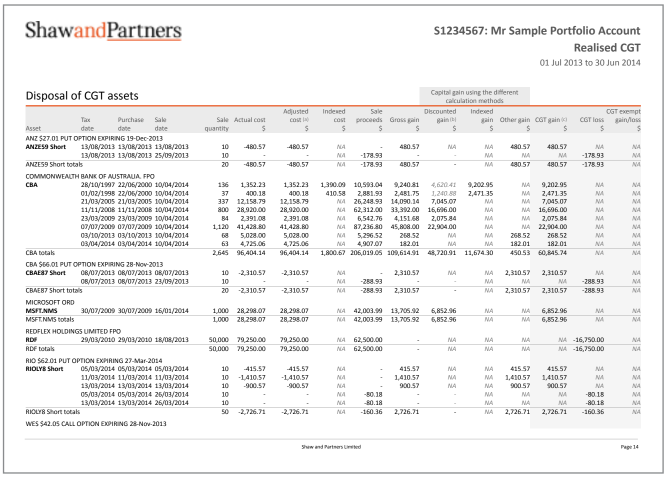
Estimated annual income through dividends, interests and distributions.



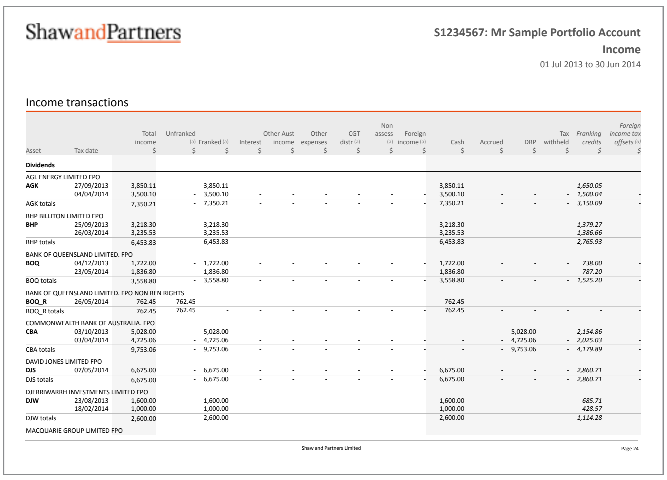
Portfolio performance at the end of the quarter.



Net portfolio valuation with detailed asset class allocation.



Capital gain after consideration of capital losses and discounting where applicable.



Franked dividends earned throughout the year.

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