The Research Monitor

December Quarter 2016

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Content

Shaw and Partners

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Backed by fresh thinking, robust research and some of the nation's best investment and wealth experts, our business is well positioned to meet the needs of our clients. Shaw and Partners offers access to an extensive team of private client advisers, institutional sales and trading specialists, market leading research analysts and strategic corporate advisers. By working closely with our clients, we have forged long-term relationships. Whether you are a private investor, high net worth individual, charity, institution or corporate client, our focus is simple: listen to you then act according to your objectives.

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September Quarter 2016 Performance

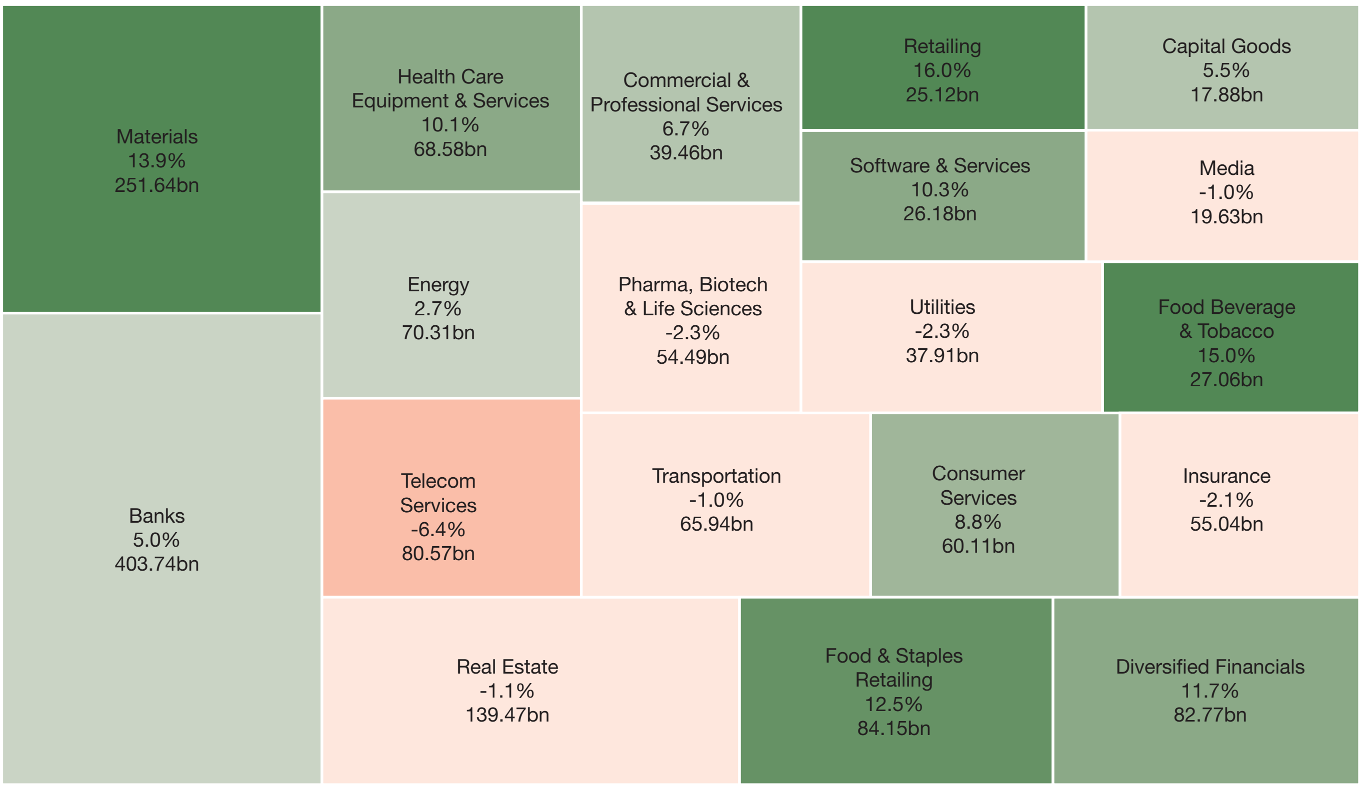
The Australian Share Market, as measured by the S&P/ASX300 Index, rose by 4.0% on a price basis and 5.2% on an accumulation basis during the September Quarter.

After a very strong July, where optimism about "reporting season" saw the S&P/ASX300 accumulation index rise by 6.36%, markets have remained choppy and directionless, posting a small loss in August and a small gain in September.

There was some sector rotation during the September quarter which saw most "bond sensitive" sectors perform poorly, and most "cyclical" sectors perform well. The banking sector performed in line with the index, with many stocks trading "ex-dividend" at the start of the quarter and posting modest gains throughout. Index bellwether CBA was weaker, however, falling 1.4%. Retailing, led by Harvey Norman (HVN) was the best performing sector as most companies reported better than expected profit results in a sign that consumer confidence is slowly returning. HVN was up over 16% leading the retailing index 16% higher. Materials were also strong (again) in line with their historical pattern of recovery. BHP up 22.3% for the quarter led the index 13.9% higher.

Other sectors to do well include Food and Staples Retailing and Food Beverage and Tobacco (lead higher by Treasury Wine Estates up 20.1%). The more defensive sectors did poorly. Telecommunications Services was down 6.4% in accumulation terms thanks to Telstra (TLS) falling 5.5%. Media, Pharmaceuticals, Insurance, Utilities and Real Estate sectors all posted losses for the month – highlighting the switch from interest rate sensitive sectors to those exposed to a pickup in inflation (retailing) and growth (materials).

The Energy sector lagged the overall recovery in the Materials sector, due to the price of oil being flat over the quarter but only after falling steeply in July, where it was down 14.3%. The largest energy stock, Woodside Petroleum (WPL) was actually up 9.7%, but the sector as a whole rose only 2.7% in accumulation terms. Gold stocks were also slightly weaker, despite the price of gold holding up during the quarter.



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. A team of seven research analysts cover companies across Banks, Insurance, Telecoms, Diversified Financials, Infrastructure, Transport, Utilities, Technology & Online, Contractors, Retailers, Life Sciences, Travel, Metals & Mining and Real Estate 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, HGG, 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, ISD, MND, NCK, ORI, OVH, PPL, REA, SEK, SSG, 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, AMC, APA, AZJ, BXB, IFN, MQA, ORG, QAN, QUB, 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, NHF, 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 following another period of outperformance, which despite some difficulties in the Telecommunications sector, saw a majority of our stock calls add value. We continue to see markets as fully valued, the macro picture muddled, and maintain a focus on stock selection.

Equity returns have been patchy over the past month, with many stocks trading ex-dividend and price returns being minor. We continue to consider the Australian equity market as fairly priced and, in the absence of a pick-up in earnings growth, it is difficult to see much upside in prices across the board. We maintain a positive stance toward commodity markets and see the pattern of upwards earnings momentum in the resources sector continuing.

In a fully valued market, it is more important to play good defence than good offense. As such, we scenario tested the largest risks to our portfolio and considered higher energy prices as the biggest risk with the potential for a pick-up in inflationary expectations and a sell-off in long term bond rates as the associated second largest risk. As such, trimming interest rate sensitive financials and adding inflation and higher interest rate beneficiary stocks seem logical.

We have had a significant overweight to Financial Services stocks over the past few years but feel that it is prudent to take some profits in some of the better performers – notably Challenger Group (CGF) and Macquarie Group (MQG). Whilst we still maintain a healthy weighting to both stocks, strong recent performance has taken the gloss off both names. We exit AMP (AMP) completely and trim back our large overweight position to Suncorp (SUN). We continue to hold a position in “Brexit rebound” names Clydesdale Bank (CYB) and Henderson (HGG).

The cash freed up from the reduction in our Financial Services holdings has been redeployed into Amcor Limited (AMC), BHP Billiton (BHP) and APA Pipeline Trust (APA). We see serious risks to being underweight energy on a scenario which sees even partially restored production collaboration amongst OPEC member countries plus Russia. We see BHP as a good proxy for Energy and world growth in general.

Based on our expected Total Shareholder Returns, we anticipate that the model portfolio will provide a return in the order of 13.9% - above a consensus estimate of an 8% index return. The tracking error of our model portfolio has been 2.7%, suggesting an information ratio of 2.2x.

Additions		Reductions	
AMC	1.00	AMP	(1.58)
APA	2.00	CGF	(1.00)
BHP	2.00	MQG	(1.00)
		SUN	(1.42)
	5.00		**(5.00)**

Large Cap Model Portfolio @ 30 September 2016		
WBC	Westpac Banking Corporation	9.3%
BHP	BHP Billiton	9.1%
NAB	National Australia Bank	7.6%
CBA	Commonwealth Bank	7.1%
LLC	Lendlease Group	5.2%
MQG	Macquarie Group	5.1%
RIO	Rio Tinto	4.5%
TLS	Telstra Corporation	4.4%
ORG	Origin Energy	4.2%
CYB	Clydesdale Bank	4.2%
ANZ	ANZ Banking Group	4.2%
MGR	Mirvac Group	3.6%
VOC	Vocus Communications	3.5%
SUN	Suncorp Group	3.2%
AZJ	Aurizon Holdings	3.2%
CGF	Challenger	2.9%
AMC	Amcor	2.9%
FLT	Flight Centre Travel Group	2.7%
QAN	Qantas Airways	2.5%
ILU	Iluka Resources	2.5%
GMG	Goodman Group	2.2%
PPT	Perpetual	2.1%
APA	APA Group	2.0%
HGG	Henderson Group	1.9%
	Total	**100.0%**

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

Recommendation

The world remains a risky place. October is the riskiest month. Over the coming months we will have to deal with a US Presidential Election, continued uncertainty about the path of Brexit, a key OPEC meeting, another key US interest rate decision, the possibility of a further rate cut in Australia, Australian bank reporting season and dividend payments as well as a number of Annual General Meetings. We maintain a neutral stance to Australian Equities in a balanced portfolio construct.

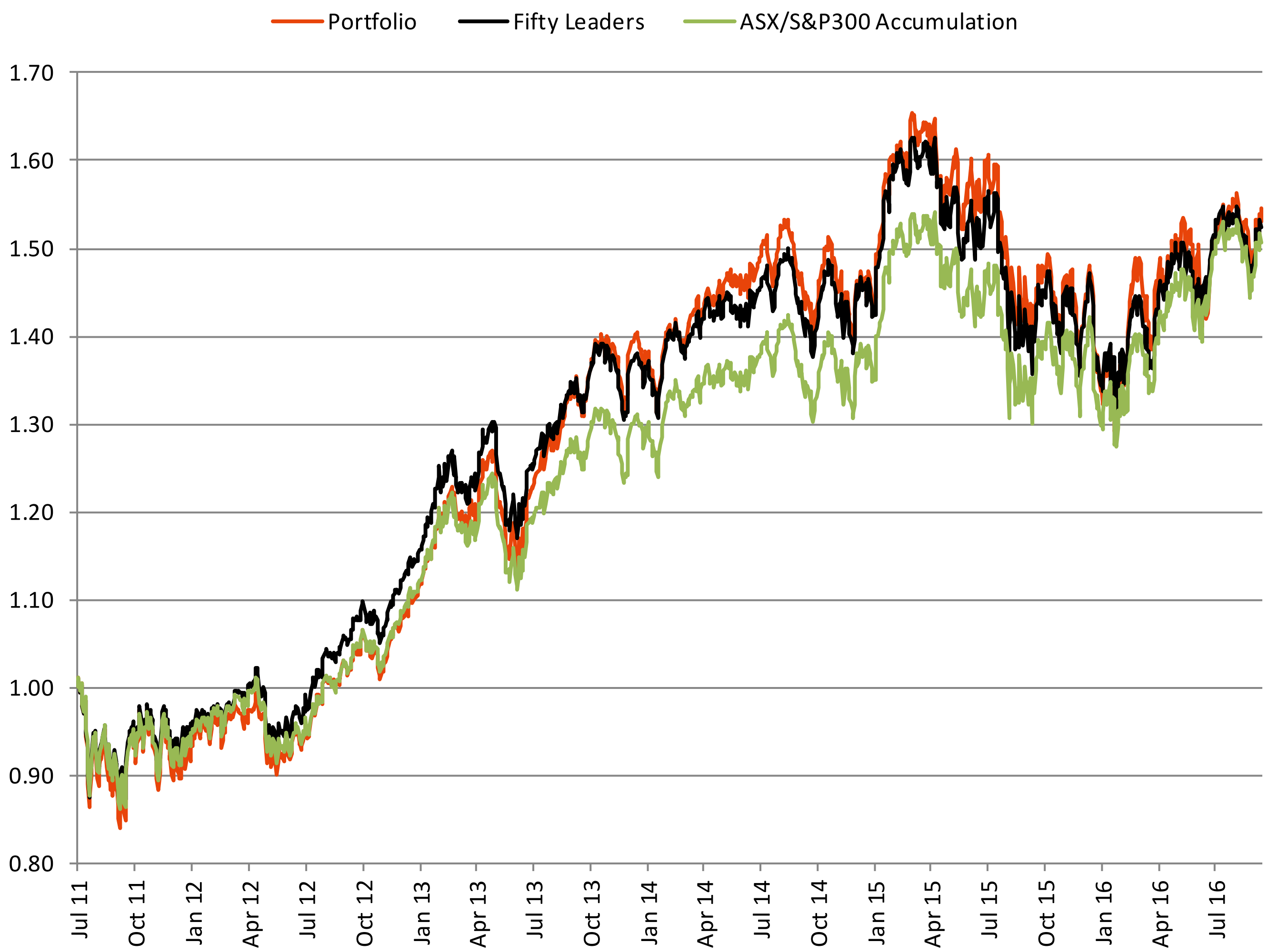
To obtain the latest Large Cap Model Portfolio report, please contact your Shaw and Partners adviser.

Portfolio Attribution

Challenger Financial (CGF) was the best contributor to the portfolio returns last month, adding 44 basis points of outperformance. Other stocks we held that added value were Origin Energy (ORG), Rio Tinto (RIO) and Aurizon (AZJ) which all added more than 15 bps.

There was one stock that really hurt us in September and that was Vocus Communications (VOC). A combination of a poor result and guidance from industry peer TPG Telecom (TPM) along with the resignation of a number of key executives from the business and a sell-down of founder shares sent the price down 18% for the month.

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 30 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 September 2016 – Top 5		
ASX Code	**Issuer**	**Security Type**
WBCPF	Westpac	Capital Note III
ANZPG	ANZ	Capital Note IV
WBCPG	Westpac	Capital Note IV
MQGPB	Macquarie Group	Capital Note 2
NABPC	Nat Aust Bank	Capital Note

Portfolio Characteristics

Expected Yield to Call/Maturity (including franking):	5.6%
Expected Gross Running Yield (including franking)	5.4%
Expected Cash Running Yield (not including franking)	4.1%
Expected Years to Maturity	4.9
Number of Securities	15
Floating Rate exposure	100%
Fixed Rate Exposure	0.0%

Markets Returns

Return	1 Month	3 Month	1 Year
ASX200 Accumulation	0.5%	5.1%	13.2%
RBA Cash Rate	0.1%	0.4%	1.9%

Portfolio Performance

Return	1 Month	3 Month	1 Year
Income Return (Gross)	1.4%	1.6%	5.9%
Capital Return	-1.3%	0.9%	1.7%
Total Portfolio Return (Gross)	0.1%	2.5%	7.6%
Portfolio Return Objective	0.4%	1.2%	5.0%
Excess Return v Objective	-0.3%	1.4%	2.6%

Portfolio Highlights

- During the month of September, the portfolio generated a Total Return (Gross) of +0.1%. 12 securities traded ex dividend during the month, resulting in a gross income return of 1.4% for the month and 1.6% for the quarter.
- The Total portfolio return has exceeded its return objectives based on the 3 month, and 12 month periods. The portfolio return for the month was 0.1%, lower than its return objective. The Total Income Return (Gross) was 1.4% for the month and for the quarter was +2.5%, whilst the equivalent return since inception (Sep 2015) is +6.9%.
- The main contributors to performance during the month were WBCPF (+1.9%), WBCPG (+1.1%), and NABPC (+0.6%).
- The main detractors to performance during the month were NABHA (-5.7%), GMPPA (-2.4%) and CBAPD (-0.9%).
- A total of 12 securities traded ex distribution during the month. We note September is a significant month for distributions given the composition of the portfolio.
- The average expected yield to call of the portfolio is 5.6%, Gross running yield expected of 5.4% and the average expected time to first call is 4.9 years.
- During the month we exited holdings in BENPD, GMPPA and NABPA. We introduced CBAPE, WBCPG and NABHA. We rolled our ANZPA holding into the new ANZPG issue.
- The main driver of performance during over the quarter was the response to the May and August cuts in the cash rate by 50 bps to 1.50% and the associated increased demand for yield and therefore into bank hybrids as investors sought returns with less volatility that 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 and Support Services.

Alumina (AWC)

Alumina (AWC) is a mineral resource company, which explores and mines for nickel, alumina, copper, gold and uranium. It engages in investing in bauxite mining, alumina refining and selected aluminum smelting operations through its subsidiary, Alcoa World Alumina and Chemicals.

BHP Billiton (BHP)

BHP Billiton (BHP) is a diversified natural resources company. BHP is among the world's largest producers of commodities along with substantial interests in oil and gas. BHP's principal business lines are mineral exploration and production, as well as petroleum exploration, production and refining. BHP's assets, operations and interests are separated into four business units, Petroleum and Potash, Copper, Iron ore and Coal.

Challenger (CGF)

Challenger (CGF) operates as an investment management firm, which engages in the provision of financial services. It focuses on providing financial security in retirement. CGF operates through the following segments: Life, Funds Management and Corporate & Other.

Henderson Group (HGG)

Henderson Group Plc (HGG) is a global asset management company, which is focused on delivering investment performance and service to the clients. It manages investment products for institutional and retail investors, in European equities, global equities, global fixed income, multi-asset and alternatives including private equity and property.

iSentia Group (ISD)

iSentia Group (ISD) engages in the development of software and systems. It operates through the Software-as-a-Service (SaaS) and Value Added Services (VAS) segments. The SaaS segment includes flagship Media Portal that provides customers access to information as well as tools to analyse and report on media intelligence. The VAS segment provides social media insights and monitoring, customized quantitative and qualitative analysis, and in depth analysis required by customers.

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: Property, Construction, Investment Management, and Infrastructure Development.

OFX Group (OFX)

OFX 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 following business segments: Energy Markets, Exploration and Production, Liquefied natural gas, Contact Energy and Corporate.

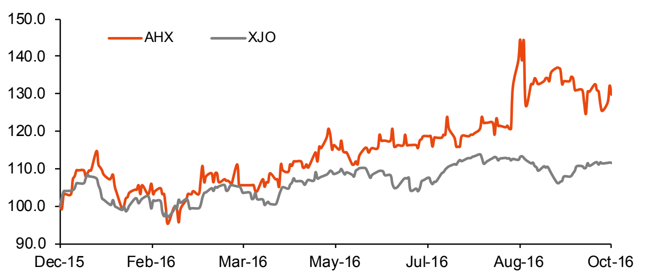
Suncorp Group (SUN)

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.

Apiam Animal Health (AHX)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 13 October 2016)	$1.62
Target Price	$2.00
Analyst	Darren Vincent

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	(10.3%)	7.4%	(5.2%)

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

Initiatives to Drive Three Years of Growth

- AHX has numerous growth drivers that will come through at different stages over the next three years including: (i) improved purchasing terms, (ii) greater share of wallet from initial acquisitions and the Quirindi Veterinary Group (QVG), (iii) a pipeline of additional acquisitions, (iv) the development of a more extensive private label offering and new imported product opportunities, (iv) new account managers that have started to deliver corporate accounts, (v) a vertical move from feedlots into backgrounding beef producers, and (vi) long term growth in the underlying markets for Australian protein.
- FY17 Revenue will benefit by varying degrees from each of these factors, as will AHX's gross profit. However partially offsetting the growth in gross profit will be some one off costs associated with expensing technology required to further integrate recent acquisitions and prepare for future expansion ($1m). There will also be a small step up in operational costs (~$2.5m). FY18 and FY19 will see greater earnings growth realisation with improved efficiencies from systems and the benchmarking of clinics, complimented by additional acquisitions.
- We have confidence in management continuing to deliver on the growth opportunities outlined above and believe the quality of AHXs' earnings profile is outstanding (high barriers to entry, largely weather and disease resilient, non-cyclical and locked in earnings with good cash conversion) providing a unique exposure to Australian protein production.

Forecasts

YE 30 June (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	3.9	7.4	9.2
Dividends cps	0.0	2.5	3.7
PE x	38.4	22.1	17.7
Yield %	0.0	1.5	2.3
Franking %	0	100	100

Alumina (AWC)

Recommendation	BUY
Risk	HIGH
Share Price (as at 13 October 2016)	$1.45
Target Price	$1.60
Analyst	Peter O'Connor

Share Price Chart

Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	3.1%	0.5%	12.7%

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

Free Cashflow Deployment Underway

- AWC is in free cash flow (FCF) deployment mode. All recent major growth initiatives have been delivered, major capex is past and margin growth/ramp up is occurring. Moreover AWC has only modest debt. FCF should be liberated in the near term which is typically passed through to shareholders as dividends (fully franked).
- Restructuring complete – The portfolio restructure embarked upon several years ago is now substantially complete, delivering a leaner, more profitable, higher return asset base.
- Industry positioning well into first quartile – Restructuring has delivered a step change in AWC's cost structure -absolute and vs industry peers. Since 2010 costs have moved to the 17th percentile vs 30% previously (global cost curve) - costs are down ~20-25% (~$50/t).
- Bauxite options deliver growth, margin, ROIC – Growth in third party sales (China specifically) will favour companies such as AWC with significant high quality resource bases, commercial and expandable options, and geographical market proximity. This segment is expected to deliver ~7% pa CAGR through 2025, and we expect existing players like AWC to grab a greater share of growth. Margins attainable to incumbent players exceed existing sector returns.
- Commodity tailwinds should persist with price trajectory/ upside reflecting market conditions, in both alumina and aluminium, which see supply less than demand = deficit markets. Inventory in each case is/has been drawn down and prices are responding – aluminium and alumina are now 11% and 26% higher respectively YTD.

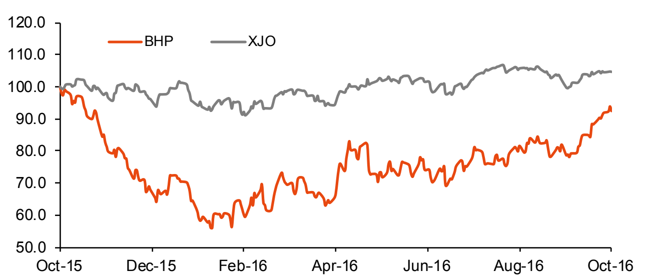
Forecasts

YE 31 Dec (USD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	3.1	2.6	6.4
Dividends cps (AUD)	8.1	9.2	8.2
PE x	26.9	42.6	17.2
Yield %	7.3	6.2	5.7
Franking %	100	100	100

BHP Billiton (BHP)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 13 October 2016)	$23.17
Target Price	$26.50
Analyst	Peter O'Connor

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	10.8%	11.0%	(11.8%)

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

A Lot Can Happen in 9 Months

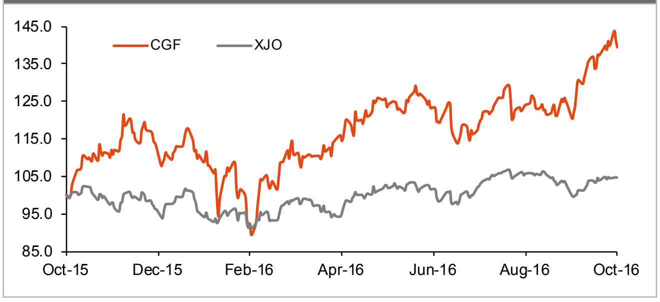
- A lot can happen in 9 months – BHP has been a key beneficiary of the "once in a decade" trade which has propelled the mining segment higher after plumbing multi year lows in January 2016. BHP, the bell weather Australian miner has posted YTD gains of ~60-65%. We see further upside, not least as the underlying earnings trend takes over from the "risk normalisation" trade in place since January 2016.
- Upgrade trend not over yet – Given its diversified earnings base BHP has shared in the upside spoils of the commodity deck ranging from iron ore (stubbornly higher), metallurgical coal, and more recently the energy complex (oil/gas). The earnings trend has been in upgrade mode for the past several months. We expect this trend to continue into the New Year and note that the share price performance is well correlated to the forward looking EPS trend.
- US Onshore oil and gas poised to deliver – Perhaps BHP's greatest laggard asset, for 4-5 years, is the US onshore oil and gas unit. The unit is now in a positive cashflow position, via both top down factors – oil and gas price rallies off multi year lows – and a leaner, lower cost asset base. An acceptable turnaround from this unit could deliver in the order of ~$1.5bn earnings or ~50% of current FY17 forecasts.
- Tactically the key BUY – Anecdotal feedback garnered form recent marketing to Australian investors suggests that the underweight stance of investors to BHP/mining sector is closing but by NO means full neutralised yet. We see further domestic buying interest supporting the BHP share price in the near term.

Forecasts			
YE 30 Jun (USD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	21.5	74.7	87.4
Dividends cps (AUD)	43.9	49.2	57.7
PE x	64.5	23.5	20.1
Yield %	2.3	2.1	2.5
Franking %	100	100	100

Challenger (CGF)

Recommendation	BUY
Risk	HIGH
Share Price (as at 13 October 2016)	$10.28
Target Price	$10.83
Analyst	David Spotswood

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	8.7%	14.1%	33.8%

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

Bottom Line is More People Are Buying Annuities

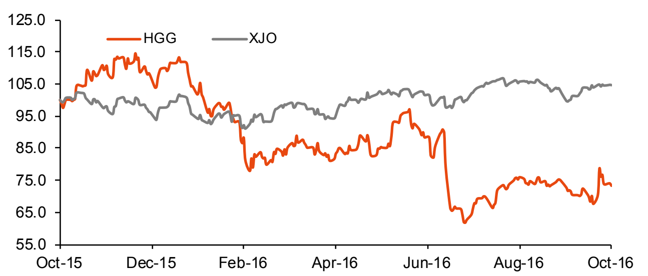
- With an increasing distribution footprint, and regulatory tailwinds CGF is building toward very strong annuity sales growth. In a low growth world ageing population and retirement are both growth industries, and CGF is well positioned to leverage these thematics. We forecast mid single to double digit EPS growth over the next three years.
- Q4 Annuity Sales Huge and this is just the start: Q4 annuity sales were up 55% on previous comparable period to $1,135m, as CGF benefits from being leverage to ageing demographics and its increasing distribution footprint. We assume 20% annuity sales growth for FY17-FY19. This could prove conservative, given the last two quarters of 34% and 55% growth respectively.
- Expanded distribution footprint – CGF is now on the Colonial, Link and VicSuper platforms, and will go onto the SUN platform soon. In 4Q16 ~6% of CGF's annuity sales were from platforms, in FY15 it was 0%. This is hugely positive.
- Regulatory Tailwinds = Increased Demand for Annuities – Government to introduce legislation that superfunds offer Comprehensive Income Products for Retirement (CIPRs) to members in December 2016. If superfunds have to offer CIPRs and have to partner with life companies, CGF is the biggest life company in Australia. In July 2017, new rules around deferred lifetime annuities are expected to be introduced increasing the number of products CGF can sell. Colonial is currently recommending a 25% allocation to annuities.

Forecasts			
YE 30 Jun (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	60.9	64.9	72.2
Dividends cps	32.5	34.5	37.5
PE x	14.2	15.8	14.2
Yield %	3.8	3.4	3.6
Franking %	100	100	100

Henderson Group (HGG)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 13 October 2016)	$4.11
Target Price	$4.60
Analyst	Martin Crabb

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	(3.6%)	5.7%	(31.5%)

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

Merger with Janus is a Game-Changer

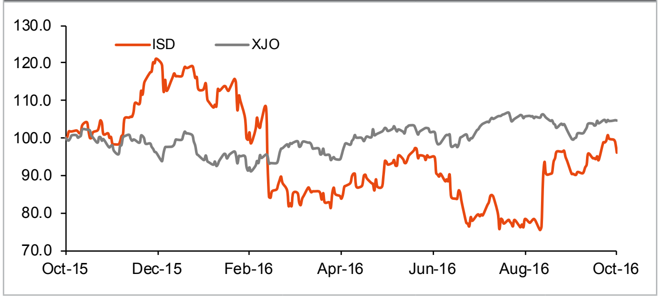
- HGG and Janus Capital Management (JNS-US) are intending to merge their businesses to create a truly global funds management business. The combined entity will have US$322b of funds under management, with the two businesses complimenting each other nicely in terms of investment capability and geographical reach.
- The deal is expected to be completed in the final quarter of FY17 with management of the combined entity (co-CEO arrangement) anticipating US$110m annual run rate net cost synergies. We see this figure as relatively conservative (approx. 16% of EBITDA run-rate) based on similar transactions, and see potential for further upside.
- The company is also targeting an additional 2-3% of net new money following the integration. We believe that there is a high level of uncertainty surrounding this given that HGG has experienced an industry-high 4-5% net fund flow growth leading up to Brexit while JNS has been in net outflow for the past five years.
- The deal has had mixed response from the investment community, the bulls seeing the transaction creating much-needed scale in an industry with falling margins, while the bears see the business combination as a defensive play against low-cost competitors such as ETF providers.

Forecasts			
YE 31 Dec (GBP)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	18.0	15.2	16.7
Dividends cps (AUD)	20.9	18.1	17.2
PE x	17.3	16.8	15.3
Yield %	3.3	3.8	4.2
Franking %	0	0	0

iSentia Group (ISD)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 13 October 2016)	$3.87
Target Price	$4.60
Analyst	Danny Younis

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	0.1%	18.6%	(10.3%)

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

Scalable Media Ecosystem, for a Large Addressable Market

- ISD provides media intelligence via a Software-as-a-Service (SAAS) to its clients. It also provides Value-Added-Services (VAS) through insights, media distribution and also has a content marketing capability.
- ISD offers an attractive earnings profile that will deliver organic growth by 1) expanding the client base in Asia, 2) increasing penetration rates for extra services increasing average revenues per client, and 3) leveraging its large client base alongside its data and insights capability to quickly grow its content marketing business (King Content).
- Contrasting our top-down and bottom-up views with our industry analysis, illustrates significant upside for King Content over the next four years. Applying our zero-growth assumption in revenue share, we believe ISD can generate ~$70m in revenue from content marketing by FY21.
- Similarly, for Insights and Social monitoring (VAS), ISD are underachieving in revenue relative to its market share in Media Intelligence. ISD has had success in cross-selling VAS products to existing clients and we expect this trend to continue, as well as signing new clients in the Asian market through VAS offerings.
- Shaw's media industry rationale is weighted to companies that have capability in data & insights and in turn delivering marketing campaigns for clients, as opposed to businesses reliant on selling advertising inventory for marketing content. The former provides more value add to clients and is positioned to take greater share of advertising budgets.

Forecasts			
YE 30 Jun (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	16.3	18.6	21.7
Dividends cps	7.5	9.1	10.6
PE x	21.2	20.8	17.8
Yield %	2.2	2.4	2.7
Franking %	100	100	100

Lendlease Group (LLC)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 13 October 2016)	$14.34
Target Price	$16.24
Analyst	Peter Zuk

Share Price Chart

Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	(0.4%)	(0.2%)	(2.2%)

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

Strong Balance Sheet, Cashflows and Growth Outlook

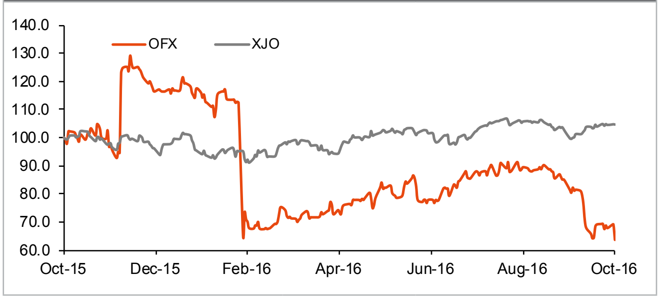
- We remain attracted to LLC's earnings growth outlook, noting that its Development workbook stands at $48.8b and its Construction backlog is $20.7b. Importantly, LLC derives 30-40% of EBITDA from "recurring" income sources that include (1) investment income, (2) management fees over its ~$23.6b of funds under management and (3) retirement living.
- We note LLC has $5.9b of residential pre-sales, that include $3.9b of Apartments in Australia. While much focus is on LLC's Apartment exposure, we are not concerned about settlement/ cancellation risk owing to the location and quality of its projects.
- The balance sheet is in good shape with gearing of 6.5% as at 30 Jun 2016, and healthy interest coverage of 8.0X. Following extensive investment in working capital in recent years, LLC generated impressive operating cash flows of $853m in FY16, and we expect continued attractive positive operating cash flows over FY17-FY19 as it "harvests" its development inventory. We have no concerns over LLC's ability to fund any capital commitments over our forecast period.
- While we believe investors are comfortable with LLC's earnings outlook for (particularly) FY17 & FY19, some raise concerns over perceived reinvestment risk in FY19+. From our perspective, (1) LLC's expansive and diverse development book should keep them busy for at least the next 5 years or so, and (2) should reinvestment opportunities not materialise, then LLC could pursue capital management initiatives if need be.

Forecasts			
YE 30 Jun (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	120.1	127.7	138.2
Dividends cps	60.0	63.8	69.1
PE x	10.5	11.3	10.4
Yield %	4.8	4.4	4.8
Franking %	0	0	0

OFX Group (OFX)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 13 October 2016)	$1.65
Target Price	$2.80
Analyst	Martin Crabb

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	(30.4%)	(33.1%)	(44.8%)

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

Digital Disruption

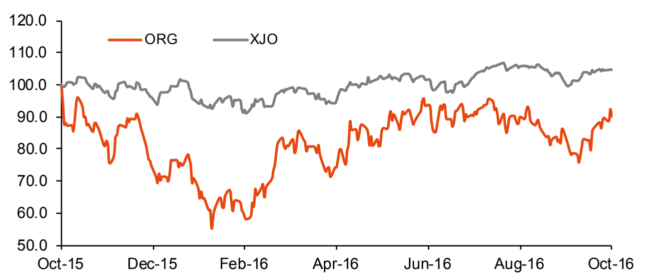
- OFX's share price came under pressure during the quarter as reduced currency volatility resulted in less transaction activity, while the company is also reassessing its marketing strategy following mixed results during its implementation this year – website traffic has increased but it hasn't led to the anticipated customer and transaction growth. That said, we remain attracted the long-term growth potential and "disruptive" nature of this business. We believe that the recent sell-off is a great buying opportunity.
- 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).
- We do not rule 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.
- OFX have a March financial year end and report their interim results on November 15.

Forecasts			
YE 31 Mar (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	10.1	10.0	10.7
Dividends cps	7.1	6.7	8.0
PE x	23.8	16.6	15.4
Yield %	2.9	4.1	4.8
Franking %	100	100	100

Origin Energy (ORG)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 13 October 2016)	$5.60
Target Price	$7.40
Analyst	David Fraser

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	5.1%	(4.0%)	(10.8%)

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

Oil Price to the Rescue. APLNG on track

- APLNG has exported its first LNG cargo from Train 2 and completed the 120-day operational test period for its first production train. This represents a major milestone in satisfying project financing completion agreements for Train 1, which is expected to occur by the end of calendar year 2016.
- Frank Calabria is to assume the CEO/MD role from Grant King immediately after the AGM on 19 October. We do not assume there will be any change to the current strategy of cost cutting, asset sales, debt repayment and improving returns.
- FY17 guidance implies debt reduction of up to $1.0b. Our forecasts have net debt at the ORG level reducing by $0.7b to $8.5b in FY17 (adjusted net debt of $9.1b at FY16).
- In our view the FY17 dividend will be cut from 10cps to 0cps. Given current market uncertainty re the oil price, ORG's current target to reduce net debt to below $9b by FY17 (not incorporating ORG's current proportion of the APLNG project finance (US$3.2b) and ultimately get net debt/EBITDA down to the 3 times level, we believe the ORG Board is unlikely to declare a dividend in FY17. We are assuming dividends return in FY18 when we forecast ORG to start paying cash tax again and both trains are running at APLNG.
- Given oil price uncertainty and if the Aussie dollar oil price looks like it's going to stay at or below current levels (~A$62/bbl) heading into CY2017, we expect the board and management will look to start putting in place a layer of oil price hedging for FY18 to protect against potential downside earnings risk.

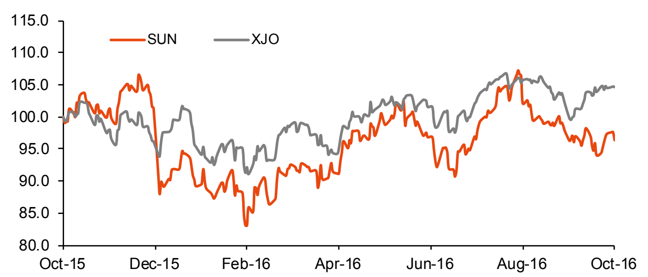
Forecasts

YE 30 Jun (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	22.4	25.1	56.9
Dividends cps	10.0	0.0	19.9
PE x	25.6	22.3	9.8
Yield %	1.7	0.0	3.6
Franking %	0	0	100

Suncorp Group (SUN)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 13 October 2016)	$12.38
Target Price	$13.10
Analyst	David Spotswood

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	(5.5%)	(3.4%)	(8.2%)

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

General Insurance Going Well

- SUN is managing costs well, with management guiding to flat costs in FY17 and FY18 across the group. In General Insurance SUN will continue to have positive reserve releases while inflation remains low and the company has increased its natural hazard cover in FY17. The Bank continues to perform well and is targeting a cost to income ratio below 50% in FY17 and advanced accreditation is on track for the end of CY2016.
- General Insurance - Now seeing 4-5% rate increases in home and motor, claims inflation is less that these levels. Commercial large end down and small to medium business flat which is the area SUN is mostly in. SUN is on track to deliver 12.0% margins that it is targeting.
- Bank – Has de-risked and the loan book, minimal exposure to Queensland apartment market and bad debts are low.
- Guidance – ROE 10%, General Insurance Margins 12.0%, Bank Cost to Income <50%, dividend payout 60%-80%.

Forecasts

YE 30 Jun (AUD)	2016 (A)	2017 (E)	2018 (E)
Earnings cps	83.6	99.3	100.8
Dividends cps	68.0	76.5	78.2
PE x	14.6	12.5	12.3
Yield %	5.6	6.2	6.3
Franking %	100	100	100

Recommendation Definitions

RATING CLASSIFICATION

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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Where a company is designated as 'High' risk, this means that the analyst has determined that the risk profile for this company is significantly higher than for the market as a whole, and so may not suit all investors. Clients should make an assessment as to whether this stock and its potential price volatility is compatible with their financial objectives. Clients should discuss this stock with their Shaw adviser before making any investment decision.

ShawandPartners
FOUNDATION

Inaugural Newsletter

"Our mission is to instil and perpetuate real change in the fabric of Australian society."

Simon Martin, Chairman of the Shaw and Partners Foundation

Simon Martin, Foundation Chairman

Our commitment to date

- Over $250,000 has been donated to different charities in the 12 months since the Foundation's inception.
- Over 85% of Advisers contribute to the Shaw and Partners Foundation.

Download a copy of the inaugural Foundation newsletter here

Message from the Chairman

Welcome to the first Shaw and Partners Foundation Newsletter.

It has been nearly 12 months since we formed the Foundation Committee. In that time we have established responsibilities for each individual that sits on the Committee and made some significant donations to a number of charities across our key focus areas: mental health, education and social inclusion.

The highlight of the Foundation's activities to date was the inaugural Foundation Institutional Trading Day, where we raised $109,398.35 for beyondblue and JDRF. Feedback from our Fund Manager's clients around this initiative was very positive. We have subsequently put the wheels in motion for next year's Institutional Trading Day; with a hope that we can raise even more funds for not-for-profits.

The Foundation has been a supporter of a number of matching grants where Shaw and Partners personnel have participated in raising funds for charities. Some of the events included City 2 Surf (Sydney), Connor's Run (Melbourne), Channel of Bones Surf Ski Paddle (Molokai, Hawaii), Australia's Biggest Morning Tea (Sydney) and Jeans for Genes Day (National). We also raised funds in excess of $25,000 for Schools Plus, JDRF and beyondblue at our annual Sydney and Melbourne client events.

We are very proud of the Foundation's impact in the philanthropic space over a short 12 month period. My huge thanks goes to our Advisers and staff who continue to contribute to the Foundation on a monthly basis. Equally, it must be noted that the success of the Foundation has been possible due to the ongoing support of Shaw and Partners, who generously contribute by matching all staff/advisers' contributions dollar for dollar to the Shaw and Partners Foundation.

Your ongoing support is testament to the impactful work that the Foundation has undertaken to date. As we look to expand our grants functionality over the next 12 months, I ask you to please continue to dig deep. With your help we are working towards instilling change in the fabric of Australian society.

Shaw Managed Accounts

Our Large Cap and Hybrid Income Model Portfolios are now available on the Shaw Managed Accounts platform.

Shaw Managed Accounts are a sophisticated investment and reporting platform incorporating advanced features to assist in the management of your overall investment strategy and portfolio.

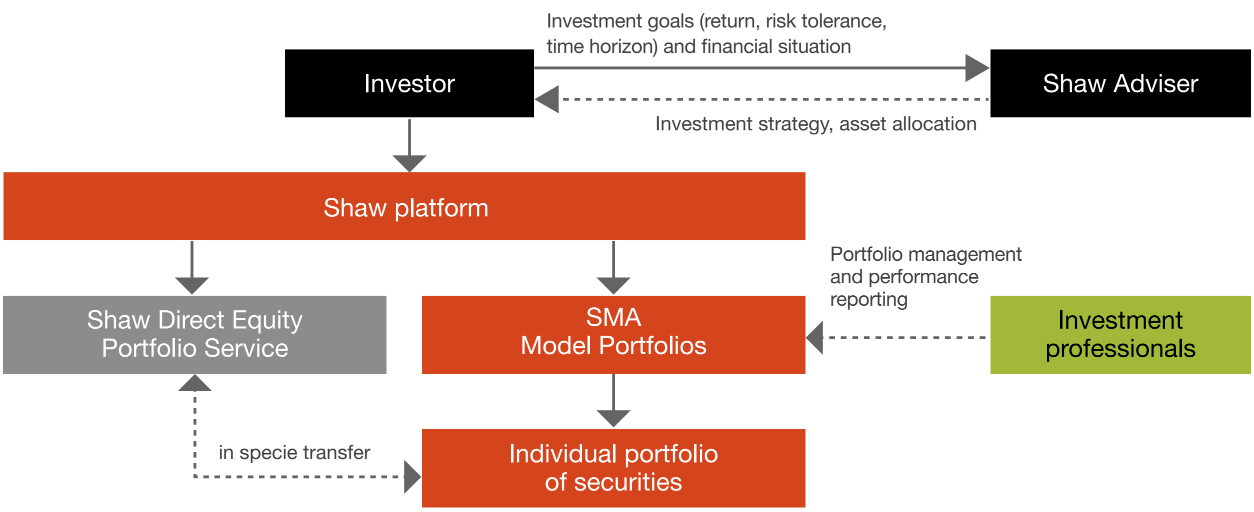
Shaw Managed Accounts are established and offered within the registered managed investment scheme known as the Separately Managed Accounts. Each investor has a separate "account" to which their investments are allocated.

Your account can be constructed by using a range of available investment strategies (referred to as Model Portfolios) that you can select from the investment menu together, with your Shaw and Partners adviser.

Once you decide which Model Portfolios are best suited to your investment needs and objectives, Shaw and Partners will purchase securities to be included in your account so that it reflects the Model Portfolio, or a combination of Model Portfolios.

The Model Portfolios are managed in a disciplined and consistent manner; overseen by a dedicated team of investment professionals with many years of experience in securities markets.

With Shaw Managed Accounts, not only are you the beneficial owner of the portfolio (and shares), you will also enjoy the ownership benefits (such as dividends and franking credits) and have the ability to see the exact make up and market value of the portfolio at any time, via our online service.



SMA now available

Shaw Managed Accounts have a considerable number of advantages over investing in Managed Funds.

Features	Shaw Managed Accounts	Managed Funds
Professional portfolio management	✓	✓
Blended individual portfolio	✓	—
Ability to view underlying securities	✓	—
Wholesale execution	✓	✓
Fee transparency	✓	✓
Daily liquidity	✓	✓
Immediate application and redemption of funds	✓	✓
Low minimum investment	✓	✓
Select minimum trade size	✓	—
Netting of transactions	✓	—
In specie transfers	✓	—
Exclude specific securities from portfolio	✓	—
Tax reporting	✓	✓
Ability to download tax parcels	✓	—
Administration of corporate actions	✓	✓
Automatic tax optimisation	✓	—
Minimise Capital Gain Tax (CGT) when switching	✓	—
Avoid embedded CGT	✓	—
Access via Product Disclosure Statement (PDS)	✓	✓

Speak to your adviser for more information about Shaw Managed Accounts

Simplify your share portfolio administration and management.

Keeping track of your investments and related income and tax position is arduous. Our Portfolio Service can manage all of this for you and assist you in making more informed investment decisions. The Portfolio Service takes care of all your paperwork and provides you with simple to read quarterly reports, including performance and tax reports.

Effective administration of your investments, especially shares, is time consuming. Correspondence relating to your portfolio can be overwhelming. Accurate, easy-to-read records of all your transactions, including corporate actions such as right issues, are a must.

With Shaw's Portfolio Service this paperwork can be offloaded without you losing control of your investments. The Portfolio Service lets you keep your shares in your own name, maintain your traditional relationship with your advisers and allows you to choose where and how you invest your money. The Portfolio Service provides clients with a comprehensive range of vital quarterly reports:

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.

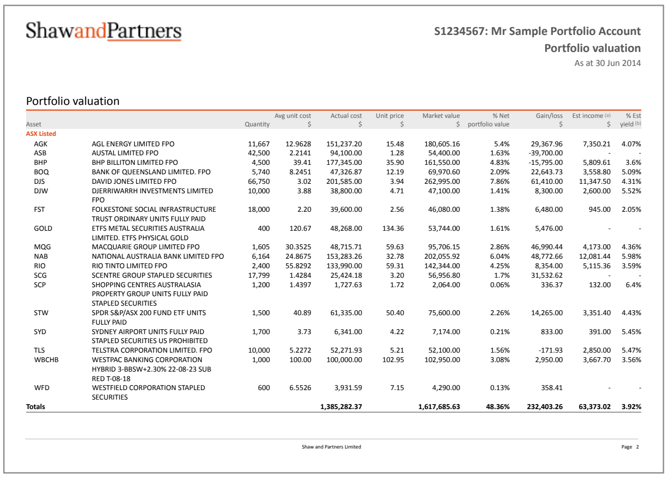
Income Report – Accounting

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).

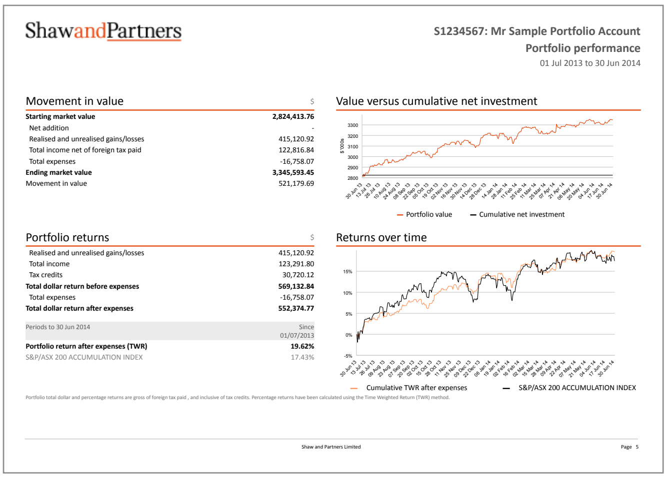
For more information about our Portfolio Service please speak to your adviser.

Portfolio Service

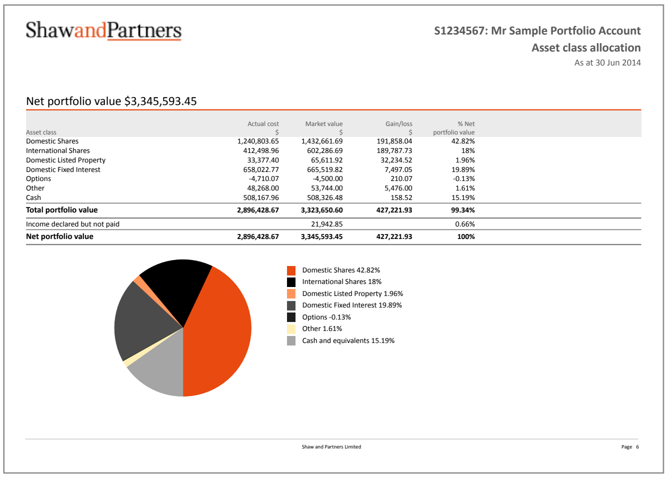
The Portfolio Service covers asset classes including shares, options, managed funds, bonds, bank bills and cash.



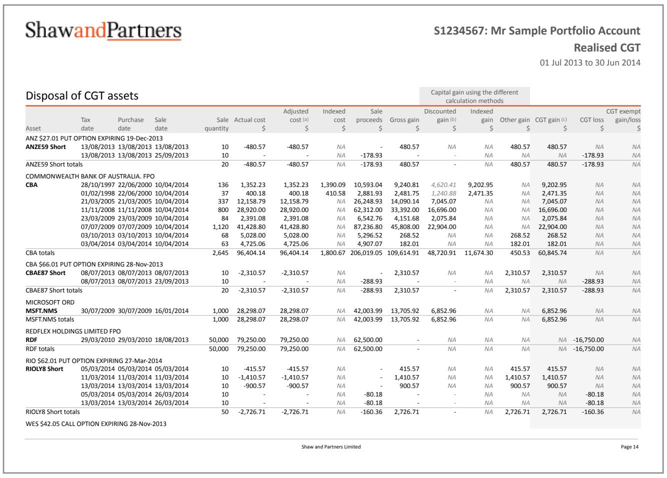
Estimated annual income through dividends, interests and distributions.



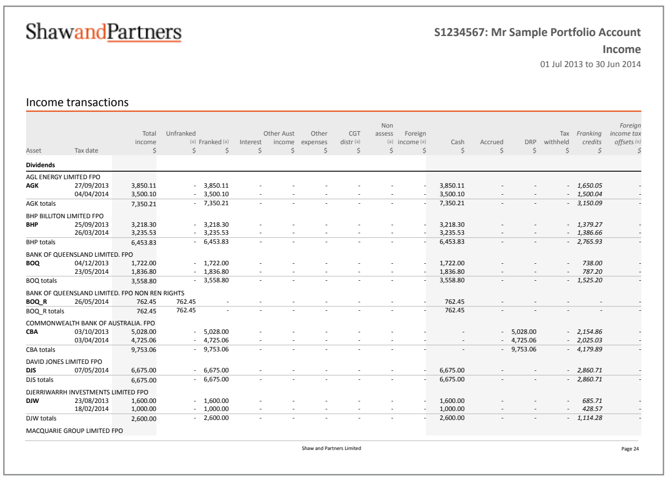
Portfolio performance at the end of the quarter.



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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2. Complete a CMA application form
3. Complete a CHESS Sponsorship Agreement
4. Complete a Client Agreement

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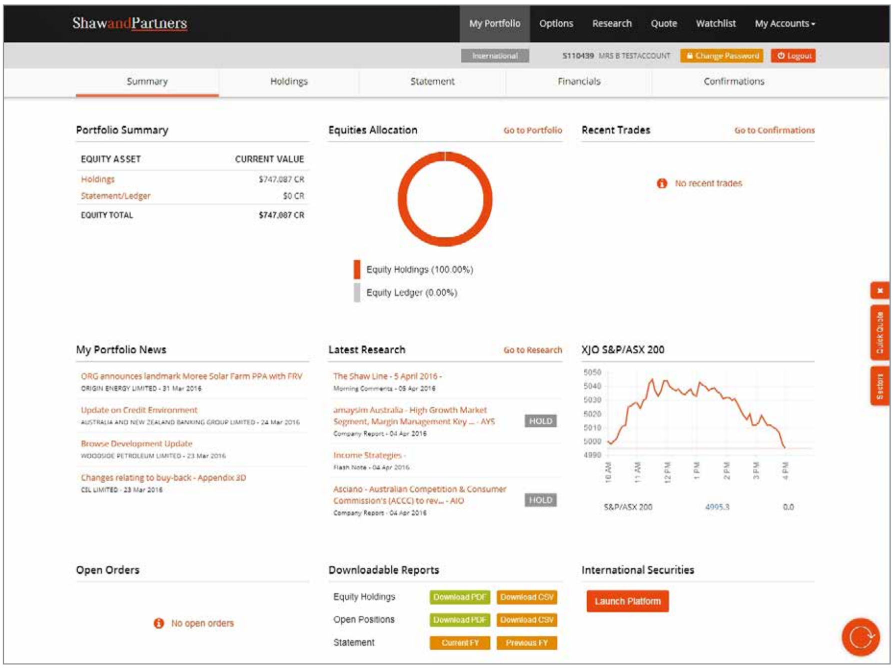
ShawandPartners

Register for Online Access

Online Portfolio Login

As a Shaw and Partners client, you are provided with free, secure online access to view your portfolio anytime, anywhere.



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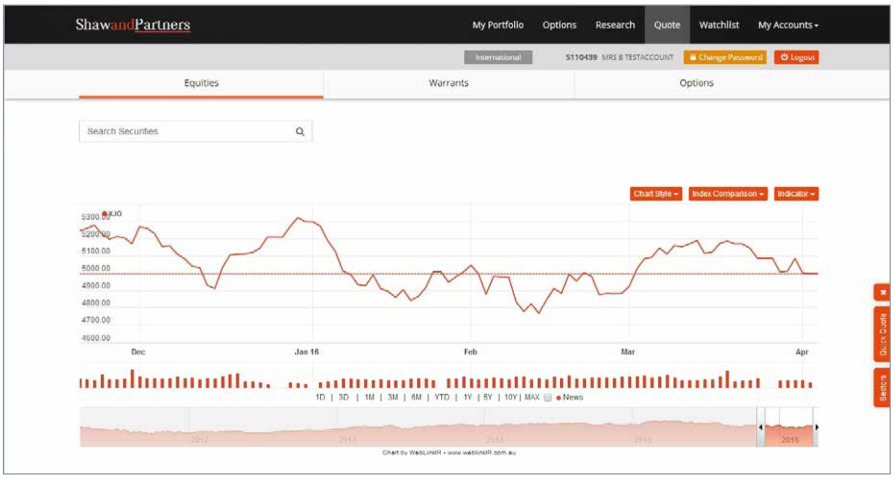
- Access to Shaw's research library
- Details of your CHESS holdings and derivatives positions
- Cash balances in your cash management account
- Access to confirmations and statements records of each trade you have made through Shaw
- 20 minute delayed ASX prices, quotes, announcements, company profiles and historical prices, and
- 'Watch lists' along with a charting package to compare ASX listed stocks.



To register for online access please speak to your adviser, alternatively visit
http://www.shawandpartners.com.au/#/online-registration

ShawandPartners

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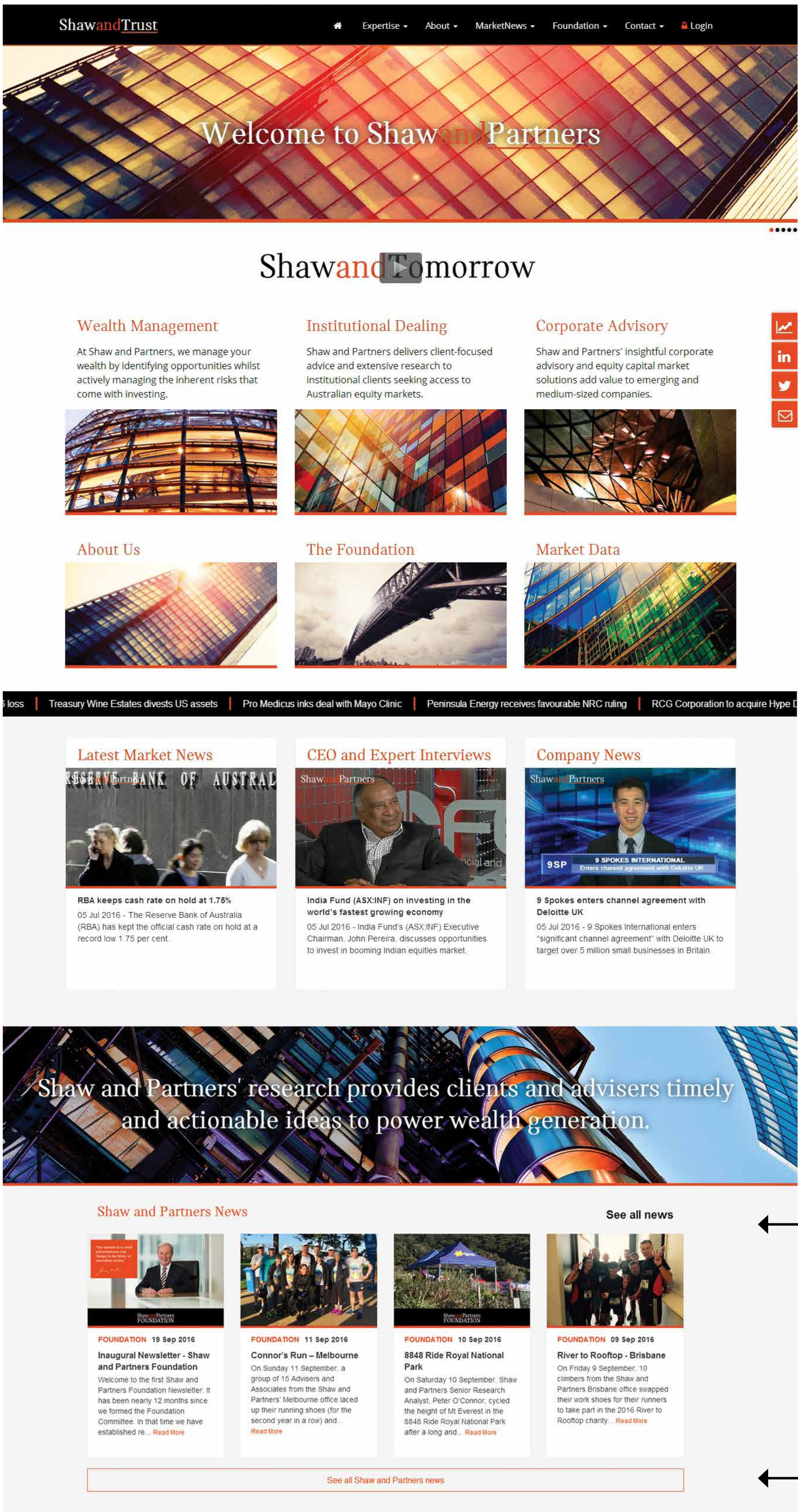
We have recently redeveloped our company website to include regular financial news updates, a market data app and a section dedicated to company news.

To view the changes, visit www.shawandpartners.com.au



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