The Research Monitor

June Quarter 2016

ShawandPartners

Content

Shaw and Partners

Shaw and Partners is one of Australia's preeminent investment and wealth management firms.

With a national presence and $10 billion of assets under advice, Shaw and Partners offers the intimacy of a boutique investment firm with the resources and scale of a major financial group. We are privately owned and client focused, having helped our clients manage and grow their financial assets for more than 25 years. Our emphasis on integrity and stringent compliance standards has enabled us to achieve very high levels of client satisfaction, while unlocking opportunities of significant value.

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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March Quarter 2016 Performance

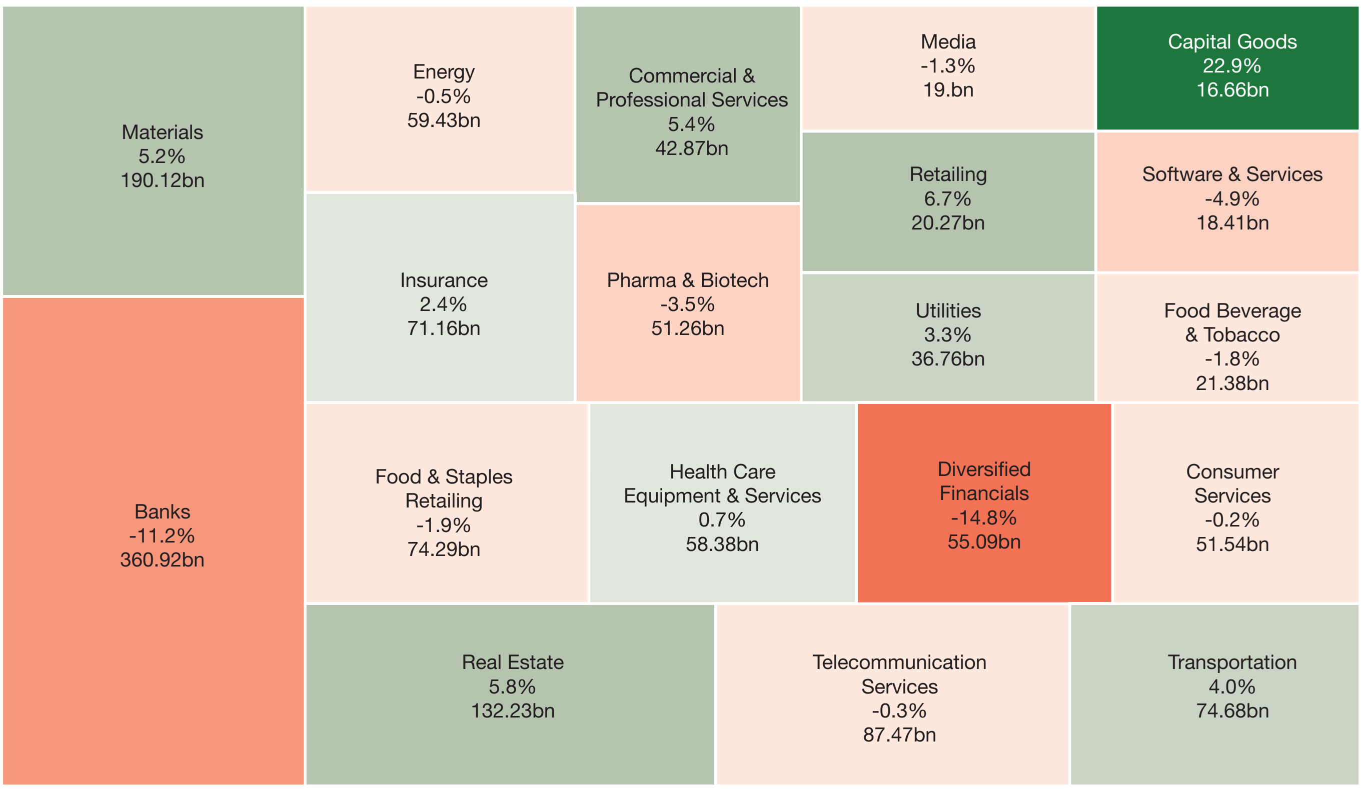
The Australian Share Market, as measured by the S&P/ASX300 Index, fell by 3.9% on a price basis and 2.6% on an accumulation basis during the March quarter.

January was the weakest month, with the accumulation index down 5.45%, as concerns over the pace of growth in China, and the impact of weak oil prices on the creditworthiness of energy companies took their toll on world markets. February was not as bad, with some recovery in prices following a weak start to the month. Share prices ended up 1.7% lower in February, despite being down almost 5% for the month at one stage.

A rebound in Chinese markets and a recovery in commodity prices saw some sharp rebounds in resources stocks from a low point of down 15.4% to the 20th of January, to a high point of being up 10.8% on the 7th of March. Resource stocks ended the quarter up 4.4%.

The best performing sector was Capital Goods thanks to the strong performance of thinly traded Cimic Group (CIM). At the other end of the spectrum were Financial Services stocks with both the Banking Index and the Diversified Financials Index off over 10% for the quarter. The Diversified Financials Index is highly correlated to the market due to the prevalence of funds managers in the index. At its low point, the index was down 25% for the quarter, before recovering slightly to be down 15%.

The banking sector also took a hit during the quarter, being down 16% at one stage, recovering to be only down 5% before selling off again to be down 11.2% for the quarter.



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

Meet the Research Team

Shaw and Partners provides coverage on 90 ASX listed companies which are predominantly within the S&P/ASX200 benchmark index. Our 11 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).

Danny Younis, Senior Analyst

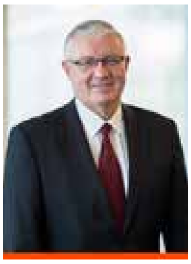
Technology / Developers & Contractors / Retailers

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).

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.



David Fraser, Senior Analyst
Transport, Infrastructure and Utilities

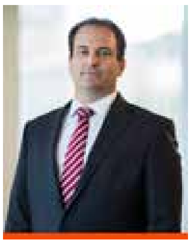
David joined Shaw and Partners in May 2014 as Senior Analyst covering the Transport, Infrastructure and Utility sectors. David has over 20 years' experience in the financial services industry. David previously worked in equity research and advisory at Nomura Australia and UBS Australia. Prior to his 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.

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.

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).



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.

Large Cap Model Portfolio

We update our Australian Large Cap Model Portfolio. After a period of strong performance, we cut back on portfolio cyclicality and look to add long term growth. We pull back to a neutral stance on Australian Equities in a balanced portfolio structure.

The Global Stock/Bond ratio seems to be at a turning point, and projections about growth become gloomier by the day. We remain optimistic that a combination of government stimulus, accommodative monetary policy and improving labour markets will lead to an improved earnings outlook in the second half of 2016, but see some short term volatility as investors digest an uncertain earnings outlook.

A significant divergence remains between market participants and the Governors of the Federal Reserve regarding the pace of normalisation of US monetary policy. Weak economic data of recent weeks is likely to be replaced by better data, particularly from China where government stimulus is taking hold. Expectations regarding earnings growth are at a low level, so it won't take much to surprise to the upside.

Our portfolio rose by 3.8% in the past month, outperforming the index by 2.0% thanks largely to superior stock selection. From a sector viewpoint, we remain underweight the structurally challenged Australian Supermarket industry and overweight the oligopolistic General Insurance and Banking sectors. We see returns from these latter industries remaining attractive despite well documented regulatory headwinds.

We take some money from our winners – notably Medibank Private (MPL) which has outshone our expectations, South32 (S32) which has bounced hard post the China sell-off, and Bank of Queensland (BOQ) which has also bounced hard. In their place we add two stocks which have been longer term favourites and have performed exceptionally well, but we see further upside, particularly if investors can take a longer term view – notably Challenger (CGF) and Vocus Communications (VOC). Both are added at 2.5% of the portfolio.

Additions		Reductions	
CGF	2.50	BOQ	(1.50)
VOC	2.50	MPL	(1.50)
		S32	(2.00)
Total	**5.00**		**(5.00)**

Large Cap Model Portfolio @ March 2016		
WBC	Westpac Banking	8.20%
NAB	National Australia Bank	7.50%
CBA	Commonwealth Bank	7.20%
BHP	BHP Billiton	6.60%
TLS	Telstra Corporation	6.50%
ANZ	Aust & NZ Banking Group	6.10%
LLC	LendLease Group	5.30%
SUN	Suncorp Group	5.20%
QAN	Qantas Airways	5.00%
MQG	Macquarie Group	4.90%
AMP	AMP	4.10%
ORG	Origin Energy	3.80%
AZJ	Aurizon Holdings	3.70%
FLT	Flight Centre Travel Group	3.30%
SGP	Stockland	3.10%
CAR	Carsales.com	3.10%
PPT	Perpetual	2.90%
MPL	Medibank Private	2.70%
CGF	Challenger	2.50%
VOC	Vocus Communications	2.50%
GMG	Goodman Group	2.10%
S32	South32	1.80%
BOQ	Bank of Queensland	1.80%
	Total	**100.0%**

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 Analysis

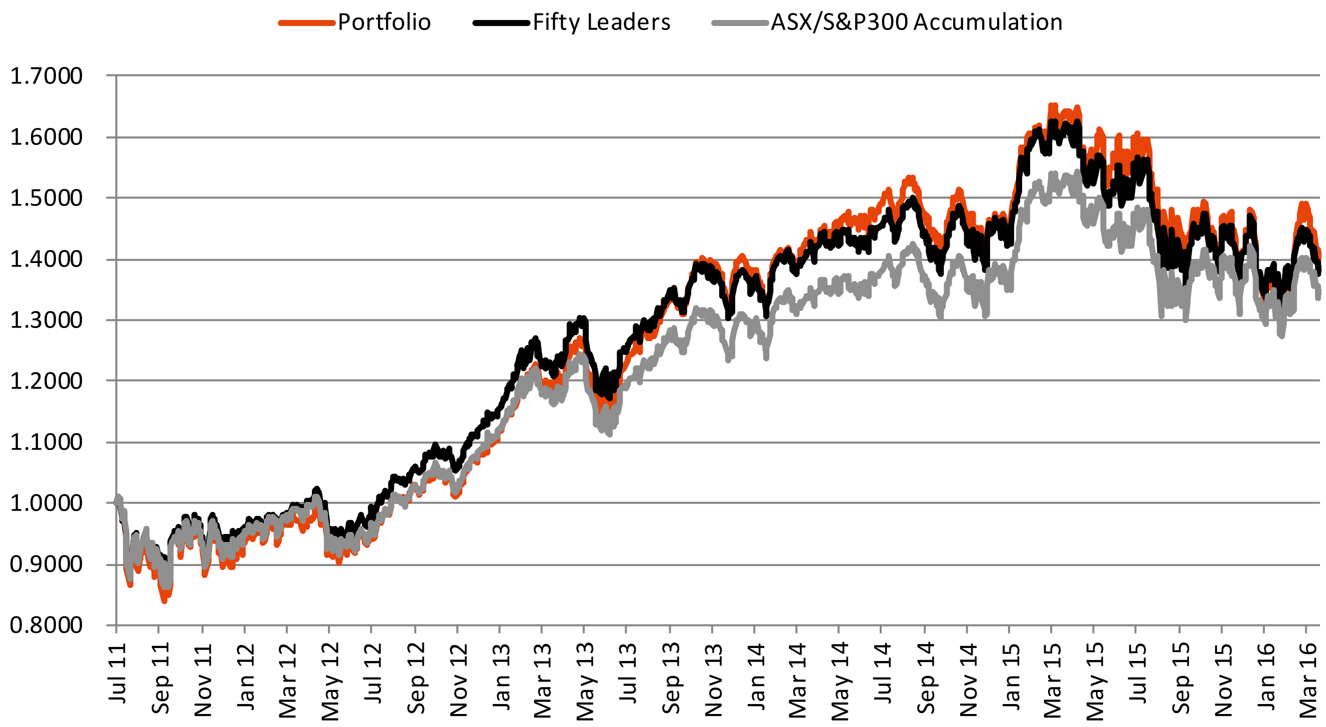
The first quarter of 2016 has seen share prices retreat 6.5%, with January down 5.5%, February down 2.5% and then March up 4%, with April so far starting weaker again. From the bottom of prices on February 12th, shares had fallen 10% since the start of the year, but then recovered almost 9% by the 18th of March to be almost square again.

Much of the early weakness in markets centred around concerns about Chinese growth in particular and also about the pace of decline in Chinese currency reserves. It was argued that the Chinese government had spent one trillion US dollars defending the yuan, this was unsustainable and the Chinese currency would be heavily devalued, sending a significant bout of deflation around the world.

Outlook

Earnings expectations remain relatively subdued – partially because of lower commodity and energy prices than were prevailing a year ago, and partially because of subdued consumer spending and investment activity. Looking at the EPS growth that is implied from analysts' consensus expectations illustrates this point.

Portfolio Performance (Accumulation Basis)



Income Model Portfolio

The Income Strategies team consists of specialised strategists dedicated to interpreting the fixed income businesses. With a focus on structuring and managing listed fixed interest and hybrid portfolios, 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.

Income Model Portfolios

The Shaw ASX Income Model Portfolios aim 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 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 Moderate Income Model Portfolio is to provide a predictable level of income whilst seeking to preserve capital.

The target total portfolio return (gross) of the portfolio is 3% - 4% above the RBA cash rate on a 3 year rolling basis. 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.

Income Model Portfolio @ March 2016			
ASX Code	**Issuer**	**Security Type**	**Allocation**
ANZPA	ANZ Bank	Preference Share	12.5%
WBCPF	Westpac	Preference Share	12.0%
ANZPC	ANZ Bank	Preference Share	9.9%
WBCPC	Westpac	Preference Share	7.7%
NABPA	Nat Aust Bank	Preference Share	7.4%
IANG	IAG RES	Preference Share	7.0%
BENPD	Bendigo Bank	Preference Share	6.8%
ORGHA	Origin	Sub Note	6.8%
CBAPC	CBA PERLS VI	Preference Share	6.2%
GMPPA	Goodman Group	Sub Note	4.9%
CTXHA	Caltex	Sub Note	4.8%
MQGPB	Macquarie Group	Preference Share	4.8%
CBAPD	CBA - PERLS VII	Preference Share	4.7%
NABHA	Nat Aust Bank	Perpetual	4.4%

Portfolio Characteristics

Expected Yield to Call/Maturity (including franking):	6.5%
Expected Gross Running Yield (including franking)	6.0%
Expected Cash Running Yield (not including franking)	4.6%
Expected Years to Maturity	3.7
Number of Securities	14
Floating Rate exposure	100%
Fixed Rate Exposure	0.0%

Portfolio Highlights

- During the month of March, the portfolio generated a Total Income return (Gross) of +1.11% and a Total Portfolio return (Gross) of +1.21%. This was a result of ten of the fourteen securities trading ex-distribution during the month.
- The Total Income return (Gross) of the portfolio is in line with its objective based on the quarter and since inception (2 September 2015). The Total Income return (Gross) for the quarter is +1.61% (+6.44%p.a), whilst the equivalent return since inception is +3.95% (+6.77%). The Total Portfolio return (Gross) for the quarter was +0.53% and since inception +2.67%.
- The main contributors to performance during the month were ORGHA (+2.85%), WBCPF (2.17%), NABPA (2.17%) and WBCPC (1.79%).
- The only detractor to portfolio performance during the month resulted from ANZPC (-0.32%).
- The income generated during the month came from WBCPC, WBCPF, IANG, ORGHA, NABPA, MQGPB, CTXHA, GMPPA, CBAPD and PCAPA.
- The average expected yield to call of the portfolio is 6.5%, Gross running yield expected of 6.0% and the average expected time to first call is 3.7 years.
- During the month PCAPA was redeemed (5.2% of the portfolio) and the portfolio rebalanced with the proceeds of this holding and cash generated being invested into CBAPC (6.2% of the portfolio).

Portfolio Performance

Return	1 Month	3 Month	Inception*
Total Income return (Gross)	1.11%	1.61%	3.95%
Total Capital return	0.10%	-0.57%	-0.73%
Total Portfolio Return (Gross)	1.21%	0.53%	2.67

** Inception date is 2 September 2015*

Markets Returns

Return	1 Month	3 Month	Inception*
ASX200 Accumulation	4.73%	-2.75%	-9.59%
RBA Cash	0.2%	0.5%	2.0%

Our Preferred Stocks

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.

Clydesdale Bank (CYB)

Clydesdale Bank (CYB) was established in 1838 in Glasgow. The bank has a history of innovation and support for Scottish industry and communities. With over 120 retail branches and a network of business and private banking centres, Clydesdale is one of Scotland's largest banks.

Flight Centre Travel Group (FLT)

Flight Centre Travel Group (FLT) is engaged in travel agency business. The Company provides a complete travel service for leisure and business travellers in Australia, New Zealand, the United States, Canada, the United Kingdom, Africa, Middle East, Asia, New Zealand, and Europe. FLT consists of more than 30 brands with four categories of brands which are Leisure, Corporate, Wholesale and other. The flagship brand is Flight Centre leisure brand.

HFA Holdings (HFA)

HFA Holdings (HFA) is an Australian holding company. HFA comprises US-based fund manager, Lighthouse Investment Partners LLC. HFA provides investment management products and services to investors globally, with offices in Sydney, Brisbane, New York, Chicago, Florida, London and Hong Kong.

Lendlease Group (LLC)

Lendlease Group (LLC) is an international property and infrastructure group with operations in Australia, Asia, the Americas, Europe and the Middle East. LLC's core lines of business are development, construction, investment management, services and ownership of property and infrastructure assets.

Origin Energy (ORG)

Origin Energy (ORG) is an integrated energy company focused on gas and oil exploration and production, power generation and energy retailing in Australia. Its key operating segments include oil & gas exploration and production, LNG operation, energy retailing and power generations.

Perpetual (PPT)

Perpetual (PPT) is an independent and diversified financial services group providing specialised investment management, wealth advice and corporate fiduciary services to individuals, families, financial advisers and institutions. PPT comprises of three core businesses: Perpetual Investment, Perpetual Private and Corporate Trusts.

Rio Tinto (RIO)

Rio Tinto (RIO) is an international mining company that focuses on finding, mining and processing the Earth's mineral resources. Its businesses include open pit and underground mines, mills, refineries and smelters as well as research and service facilities. The company comprises of five principal product groups: Aluminium, Copper, Diamonds & Minerals, Energy and Iron Ore. It also comprises two support groups: Technology & Innovation and Exploration.

South32 (S32)

South32 (S32) is a diversified metals and mining company with a portfolio of quality assets producing alumina, aluminium, coal, manganese, nickel, silver, lead and zinc.

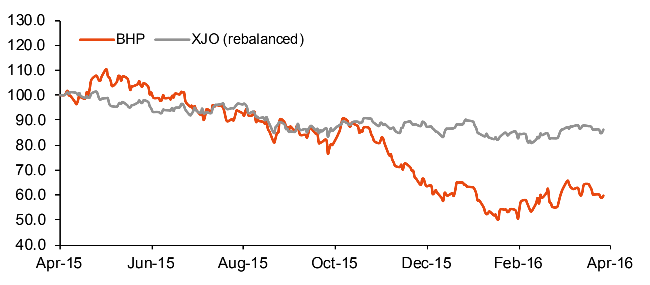
Vocus Communications (VOC)

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.

BHP Billiton (BHP)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 5 April 2016)	$16.03
Target Price	$27.00
Analyst	Peter O'Connor

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-8.1%	1.3%	-26.2%

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

Diversified mining with an extra beta

- BHP has outperformed the broader market since mid-January on the back of a commodity price recovery. During the last quarter BHP also changed its dividend policy to an earnings based payout, aligning with investor expectations and benefitting financial gearing. Meanwhile, an agreement was concluded with the Brazilian government with regard to the Samarco environmental incident, defining the quantum of future liabilities and thereby removing uncertainty.
- Iron ore business to dominate in the short term: Improved operational efficiencies and mine optimisation has enabled the iron ore division to continue to lower operating cost. On the back of favourable currency movements and other expected operation cost savings we expect iron ore division to return ~50% EBITDA margin in FY16, also buoyed by recent iron ore price stability.
- Mark to market earnings looks more favourable: With the improved commodity market outlook, mark-to-market (M2M) earnings for BHP sit broadly in line with the Shaw estimates for the next twelve month, a significantly better outcome that the past 12 months or so. BHP M2M earnings started to improve from late December and we expect an earnings upgrade trend to recommence with commodity prices stabilising and/or moving higher, especially oil, copper and iron ore.
- Trading at a ~50-60% discount to P/NPV and long term P/B: BHP trades at a consensus PB of ~1.21X NTM, against the long run average of 3.04X. This is also in line with the discount to NPV (~50%). We expect BHP's share price to converge to NPV over time.

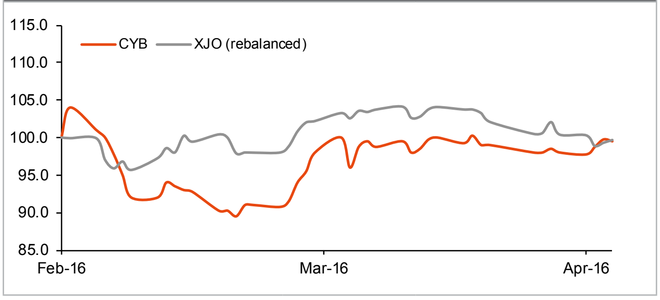
Forecasts

YE June (USD)	2015 (A)	2016 (E)	2017 (E)
Earnings cps	120.7	15.7	69.4
Dividends cps (AUD)	148.0	44.2	46.2
PE x	17.2	78.6	17.8
Yield %	6.0	2.6	2.8
Franking %	100	100	100

Clydesdale Bank (CYB)

Recommendation	BUY
Risk	HIGH
Share Price (as at 5 April 2016)	$3.95
Target Price	$4.56
Analyst	David Spotswood

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	3.0%	0.9%	16.2%

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

Strong 3-5 year turnaround story

- CYB is a very strong 3-5 year turnaround story after being run inefficiently under NAB ownership. In 2016 we forecast the stock to have a 76% Cost to Income ratio versus a sector average of 60%, which is shocking. In our numbers we assume flat costs to 2020, which pushes the Cost to Income ratio down to 62.5% in that year. We have also assumed 5% loan growth, flat margins and 30bps bad debt charge. This gives underlying profit CAGR of 13% pa to 2020.
- The big swing factor is costs. CYB's profitability is highly leveraged to flat or falling costs. We expect the new CEO, David Duffy to announce a major cost out program in October 2016 at the full year result. The CEO took Allied Irish Bank Cost to Income ratio down from 100%, to 55% lowered costs from £1.65bn to £1.30bn (down 21%), cut staff from 15k to 11k (down 27%).
- The other big swing factor, which we don't put in our numbers, is that there is 10bn GBP in deposits that get zero interest rate. A 1% increase in rates in the UK is equal to 100m GBP pre-tax or 75m GBP after tax which would add around 50% to profits. So some huge optionality here. We have got no ability to forecast interest rates!
- Valuation: If Duffy can get the Cost to Income down to 62.5% in 2020 (we actually believe they will target much lower than this) the stock will make 34 pence. If we put that on 10x that means the stock is worth £3.43 or 64% above current share price. If we discount our Price Target back four years at 12% pa, and assume a 4% dividend, this will give a 17% return pa.

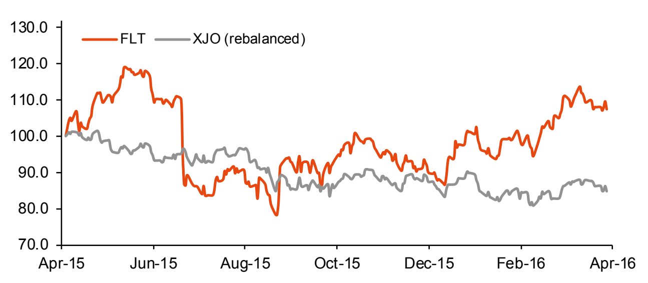
Forecasts

YE Sep (GBP)	2015 (A)	2016 (E)	2017 (E)
Earnings (GBP)	-26.6	10.6	16.1
Dividends cps (GBP)			5.6
PE x	nm	20.1	13.2
Yield %			2.6
Franking %	0	0	0

Flight Centre Travel Group (FLT)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 5 April 2016)	$42.53
Target Price	$48.00
Analyst	Darren Vincent

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-1.9%	7.3%	18.0%

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

Fundamentals are strong and the multiple is attractive

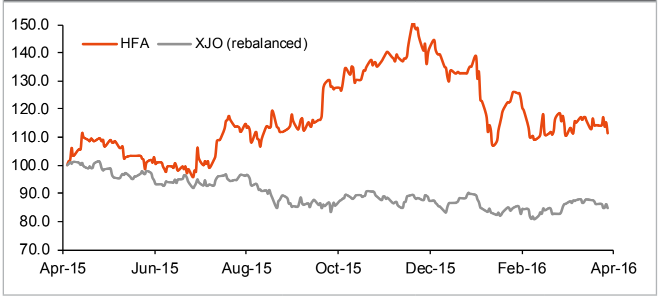
- Key Australian Sales will continue to benefit from strength in departures. ABS departure data for February shows trend departure growth for the last twelve months is 4.6%. This positive industry commentary re 2H16 forward bookings, the ongoing availability of cheap fares, and the key AUD decline behind us, bodes well for ongoing sales strength.
- Operational leverage is also evident. Over 1H16, increased operating costs (as expected) again masked and prevented the leverage that is evident in the FLT business being realised. Rent, wages, marketing and other expenses were all up significantly. We believe this has masked the true performance of the business and recognition of the leverage that is enabling this increase.
- Below market multiple. With ongoing sales growth and the way FLT management has honed the operation and its product offering the risks for investors at current multiples are lower than they have been for a long time. We believe regardless of when the leverage in the business is realised, the investment and the room FLT management increasingly has to manage its own profitability deserves a higher multiple than it is currently trading on. FLT is trading on a prospective cash adjusted PE of 11.4x (13.4x excluding cash adj); well below the market (the ASX200 Industrials index is on a median FY17 P/E of 15.5x). Consequently, we believe FLT stands out as compelling relative value.

Forecasts			
YE June	2015 (A)	2016 (E)	2017 (E)
Earnings cps	254.7	280.8	303.8
Dividends cps	152.0	168.4	181.3
PE x	13.4	14.6	13.5
Yield %	4.5	4.1	4.4
Franking %	100	100	100

HFA Holdings (HFA)

Recommendation	BUY
Risk	HIGH
Share Price (as at 5 April 2016)	$2.35
Target Price	$3.30
Analyst	Martin Crabb

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-3.2%	-13.3%	20.4%

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

Boring is Good

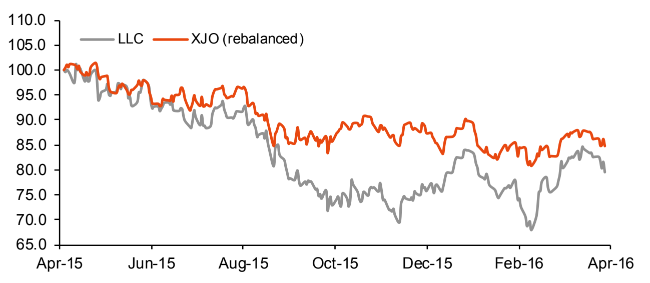
- HFA Holdings recent share price weakness can be attributed to the unexpected strength in the Australian dollar. Post divestment of Certitude, HFA is now purely a US dollar earner and so currency translation can have an impact on profits and the share price.
- We continue to be attracted to HFA from a thematic perspective. With 40% of all global sovereign bonds trading at a negative yield and 70% of all global sovereign bonds trading on a yield below 1%, alternative assets such as those managed by HFA Holdings are becoming more and more attractive to pension funds around the world who are struggling to match long term liabilities with low risk assets.
- HFA will become a capital return story in 2016. Post 7 March, all bank debt will have been repaid. There is no tax to pay for at least five years, and no plans to increase investments beyond some catch-up co-investment. This leaves a significant free cash flow that is capable of being returned to shareholders. We estimate free cash flow of $35.3m in 2017 – 20 cents per share.
- Whilst recent investment performance has been negative and we expect some pullback in Funds Under Management (FUM), HFA remains well placed to grow FUM over the medium to longer term as markets improve and the long term track record of the manager is taken into account.

Forecasts			
YE June (USD)	2015 (A)	2016 (E)	2017 (E)
Earnings cps	17.0	19.7	25.0
Dividends cps (AUD)	12.5	18.3	29.9
PE x	9.3	8.5	6.7
Yield %	6.6	7.9	13.4
Franking %	0	0	0

Lendlease Group (LLC)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 5 April 2016)	$13.44
Target Price	$16.00
Analyst	Danny Younis

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	0.3%	-0.9%	-5.6%

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

Australian Fears of Residential Apartment Meltdown Overdone

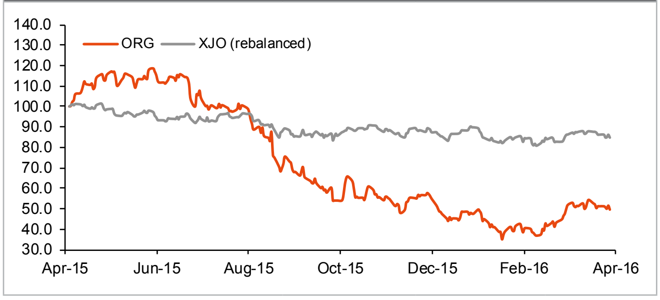
- 1H16 was a good result from LLC, with increased earnings, strong Development pipeline and vastly improved cash flow.
- There is no historic relationship between default rates (typically c3% over the past 8 years) and buyer domicile. Current default rates in the last 6 months are less than 1% of scheduled settlements defaulted, which should go some way to allaying (misguided and overdone) fears of a residential apartment meltdown in Australia. Chinese buyers represent <20%, on average, of all pre-sales exposure.
- LLC's $47b global development pipeline, including a significant number of urban regeneration projects, continues to drive growth and earnings visibility for the company and this gives us comfort. Projects are heavily skewed to gateway cities (high density, high demand, premier locations, multi-hybrid developments with retail/commercial/residential) to mitigate risks.
- LLC continues to invest a substantial amount of capital into its development pipeline, with ~4,000 apartments now in delivery across Australia and UK and three major commercial towers under construction at Barangaroo South in Sydney (overall 67% leased), progressively completing between FY 2015-2018 and are a material contributor to the $5.4b of residential pre sold revenue.
- The stock is very cheap at 11x.

Forecasts			
YE June	2015 (A)	2016 (E)	2017 (E)
Earnings cps	106.8	125.0	138.7
Dividends cps	54.0	61.0	68.0
PE x	13.1	10.8	9.7
Yield %	3.9	4.4	4.9
Franking %	7.4	21.0	22.0

Origin Energy (ORG)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 5 April 2016)	$4.60
Target Price	$7.00
Analyst	David Fraser

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-7.6%	7.8%	-42.8%

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

Well placed to weather oil price volatility in FY16 and FY17

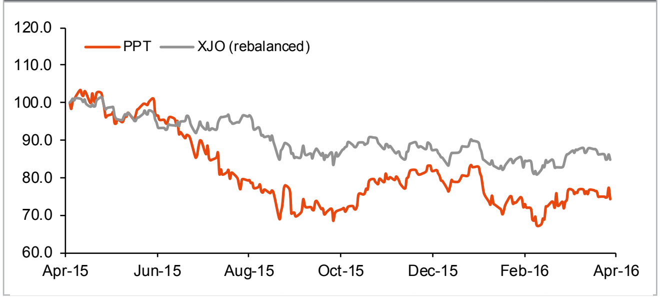
- The Australian Pacific Liquefied Natural Gas (APLNG) project that ORG owns 37.5% of is up and running. Remaining cash contribution to APLNG forecast at $1b in line with FY16 guidance of $1.8b. ORG's targeted $1b of cost reductions is up to six months ahead of schedule with a target of reducing APLNG's breakeven costs by A$3-A$5/barrel oil equivalent (boe) produced.
- Oil put options that ORG has in place will provide a partial offset to any additional contributions to APLNG as a result of further falls in oil prices in FY17 to below US$40/bbl (or A$55/bbl). Underlying LNG EBITDA for FY16 to be $30m-$80m and contribution to ORG's Underlying NPAT within the original guidance range of $170m-$220m. Underlying LNG EBITDA for FY17 to be $650m-$750m (includes recognition of oil put premium expense ($117m, non-cash).
- ORG continue to target Group net debt of less than $9.0b in FY17 (Shaw at $9.1b). $800m of asset sales on course with the $110m sale of the Mortlake Terminal Station completed. Additional proceeds from the sale of the Mortlake and Darling downs pipelines, the Cullerin and Stockyard Hill windfarms and the Cooper and Perth Basin oil and gas assets is forecast to get ORG to its target.
- We base our PT of $7.00 on a 12 month forward probability weighted sum of the parts valuation ($6.99). Given that LNG pricing is closely correlated to global oil prices, our ORG sum of the parts valuation is sensitive to forward oil prices and the forward AUDUSD exchange rate.

Forecasts			
YE June	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	17.0	12.4
Yield %	4.2	4.3	4.3
Franking %	0	0	0

Perpetual (PPT)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 5 April 2016)	$41.50
Target Price	$51.40
Analyst	Martin Crabb

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	0.2%	-3.1%	-8.5%

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

To Lead and Grow

- Investors incorrectly treat PPT as a beta play on the Australian share market. We see value creation in Corporate Trust and Perpetual Private matching the opportunities in Perpetual Investments.
- Perpetual Investments (PI) needs market entry strategies for its Global Equities Fund into Europe and North America – PI is fishing in a very small pond for its Global Equities. The Australian Equities franchise remains strong, and fears over the impact of a changing of the guard are overdone. A recent $1b institutional mandate win is vindication.
- Perpetual Private (PP) is a well-established business but is sub-scale and needs to grow – PP enjoys a strong brand name, wealthy client base and productive adviser force. Its organic growth plans lack ambition and management need to accelerate to capture the demographic tailwind.
- Perpetual Corporate Trust (PCT) is a banking services business that would be more valuable to a global player or consolidator so if the opportunity arose to divest the business and release capital, it should be taken.
- Perpetual has undergone a significant transformation from both a cost out perspective and via the acquisition of Trust Company (TRU). PPT has transformed into a lean organisation and is now generating significant free cash flow. Management must now demonstrate and execute on growth strategies in Investments and Private Wealth and look to capture value from the Corporate Trust business.

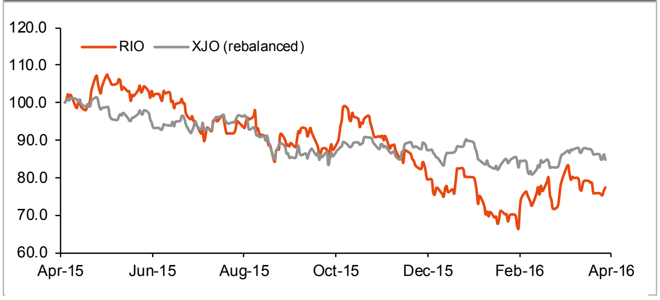
Forecasts

YE June	2015 (A)	2016 (E)	2017 (E)
Earnings cps	265.3	266.3	262.8
Dividends cps	240.0	240.0	245.0
PE x	18.2	15.6	15.8
Yield %	5.0	5.8	5.9
Franking %	100	100	100

Rio Tinto (RIO)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 5 April 2016)	$41.96
Target Price	$59.00
Analyst	Peter O'Connor

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-4.0%	6.5%	-7.3%

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

New year, new CEO, new dividend policy…

- 2016 is shaping as a milestone year with CEO succession announced, a new dividend policy, and financially more nimble - the most attractive leverage vs peers – to enable organic growth and also opportunistic external growth.
- CEO succession - Jean-Sebastien Jacques (JS), to replace existing CEO, Sam Walsh - effective 1 July 2016 - the culmination of a "comprehensive and deliberate succession process." The choice appears logical although not without risk.
- JS … who is he? Interestingly, JS is a bit of an unknown quantity – sure he has been paraded around the investment community in recent years – in so far as we (the market) do not have the depth of understanding of who he is, what makes him tick, what is his vision etc.
- What we expect from JS/RIO – To be honest we hope that JS, takes off where Walsh leaves off i.e. continue the laser cost focus, balance sheet capability and flexibility and delivers on projects already on the books – iron ore, bauxite, copper (Mongolia) etc. We hear market calls that he will deprioritise iron – well that's kind of already happened with iron ore expansions largely completed. And we would be more impressed by what he DIVESTS – more coal, uranium, etc. – than acquisitions and how he tightens the screws on underperforming assets – Australian alumina (Yarwun) and Canadian iron ore. Whilst some desire a "growth junkie" we would like a CEO who inspires the optimisation of ROIC from every existing asset = the lowest risk margin, ROIC upside.

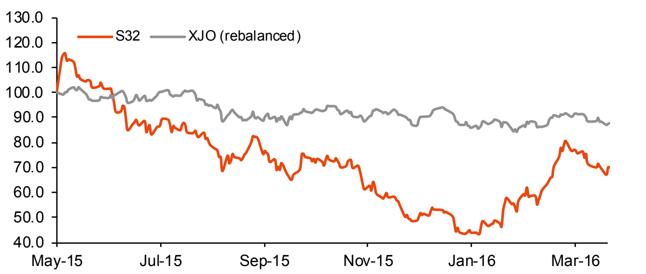
Forecasts

YE Dec (USD)	2015 (A)	2016 (E)	2017 (E)
Earnings cps	251.6	223.9	295.8
Dividends cps (AUD)	286.2	196.8	196.8
PE x	12.9		
Yield %	6.6	3.5	4.6
Franking %	100	100	100

South32 (S32)

Recommendation	BUY
Risk	HIGH
Share Price (as at 5 April 2016)	$1.44
Target Price	$1.60
Analyst	Peter O'Connor

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	2.8%	58.6%	15.2%

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

Cost out and commodity leverage

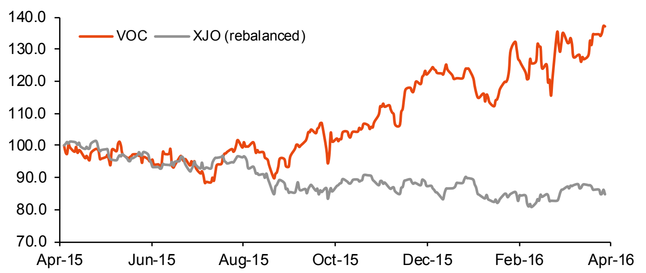
- What a year. With two of last years "laggard" commodity prices – manganese and alumina down 57% and 44% respectively – leading the recovery in 2016 with manganese up 130% YTD and alumina up 25%. In fact every S32 commodity, from nickel to silver to metallurgical coal, has posted YTD priced gains vs 2015 losses.
- EBITDA to DOUBLE on above commodity + cost out. We estimate median EBITDA (2016-17) was around US$1.6bn highlighting that the above commodity leverage (just two recent commodity moves) could add ~US$1bn (~60%) and recently updated cost-out could deliver another ~US$1-1.2bn, (~70%) albeit over a more extended period to end 2017.
- Cost out story continues at a pace, next target >US$1bn – recently updated (1H16 result) and exceptionally detailed cost/capex guidance has been delivered across all major assets, especially those with most operating leverage (coal, manganese, nickel and alumina). We estimate the "new" bottom up cost/capex out details, by assets, amount to at least US$1.2bn, supplementing the current US$300m program. The scaled up cost-out program represents 4x the initial program and around ~20% of current costs/capex.
- Commodity tailwinds over the past 3 months have delivered a significantly improved earnings outlook for S32 lifting S32's share price 63% reversing the 58% price slide post listing in 2015. The frenetic pace of the S32 share price has recently eased with S32 now forming a new "higher base" for future share price upside.

Forecasts			
YE June (USD)	2015 (A)	2016 (E)	2017 (E)
Earnings cps	10.8	1.6	9.1
Dividends cps (AUD)	0.0	0.0	4.8
PE x	12.7	66.8	11.8
Yield %	0.0	0.0	3.4
Franking %	0	50	100

Vocus Communications (VOC)

Recommendation	BUY
Risk	MEDIUM
Share Price (as at 5 April 2016)	$8.39
Target Price	$10.23
Analyst	David Spotswood

Share Price Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	10.5%	23.7%	60.5%

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

Stay Long – Roll Valuation and Upgrade Price Target

- The prize for VOC is if it can fix the Dodo network, improve user experience and reduce its industry high level of churn (36% v 18% indstury). Fixing network experience should also revive Dodo brand perception.
- Leveraging the Commander sales force to penetrate SME market. 700,000 SME's in Australia, so if can get 10,000 subs this would add ~$35m to EBITDA.
- Interegration Risk is high: VOC only acquired AMM in 2H15 and MTU acquired Call Plus in 1H16. Managing the cultural shift of the merged co, to ensure all parties are "on the bus" will provide a high quality product (i.e. not accepting selling a product that doesn't work).
- Very few stocks have this growth profile. Upside provided by ~$14m cost saving from AMM, ~$40m cost savings from MTU, lowering Dodo churn, ongoing 5% growth in home broadband market as NBN expands footprint by 1.3m homes, market share growth due to price leading product offering in home broadband, expansion of VOC into a national player in the corporate data market with VOC offering a superior and cheaper product than TLS.

Forecasts			
YE June	2015 (A)	2016 (E)	2017 (E)
Earnings cps	18.6	29.1	41.7
Dividends cps	8.3	8.0	20.8
PE x	31.1	28.8	20.1
Yield %	1.4	0.9	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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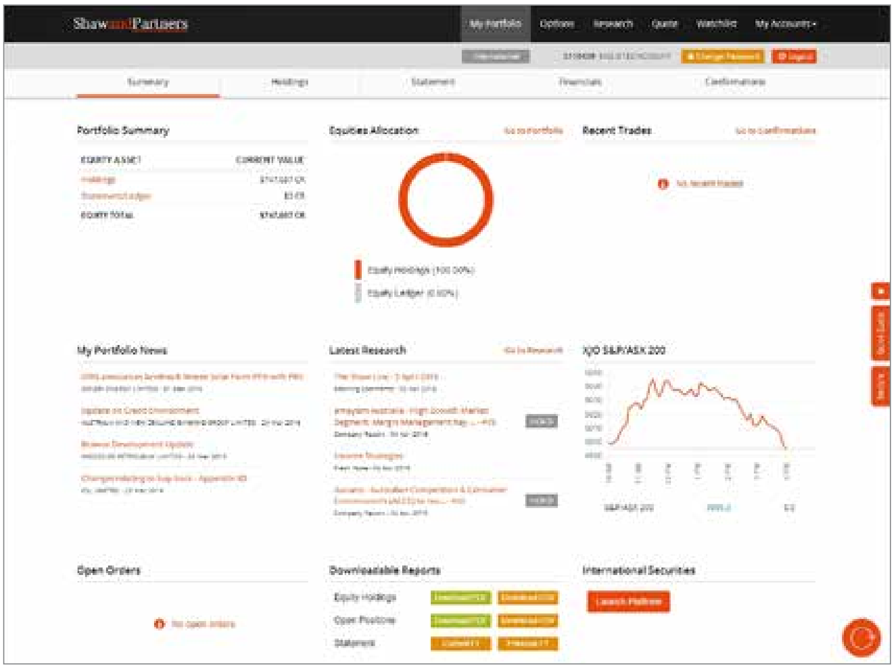

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Portfolio Valuation

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

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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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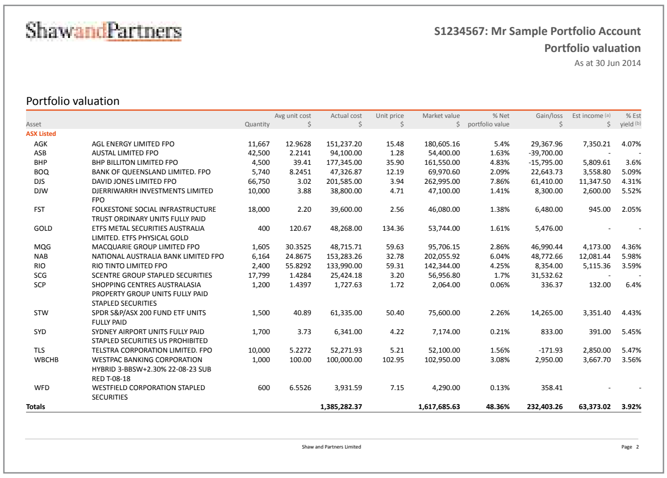
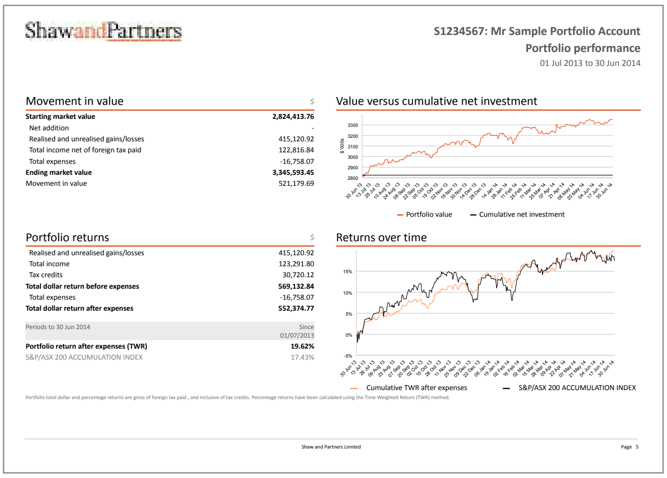
ShawandPartners

Portfolio Service

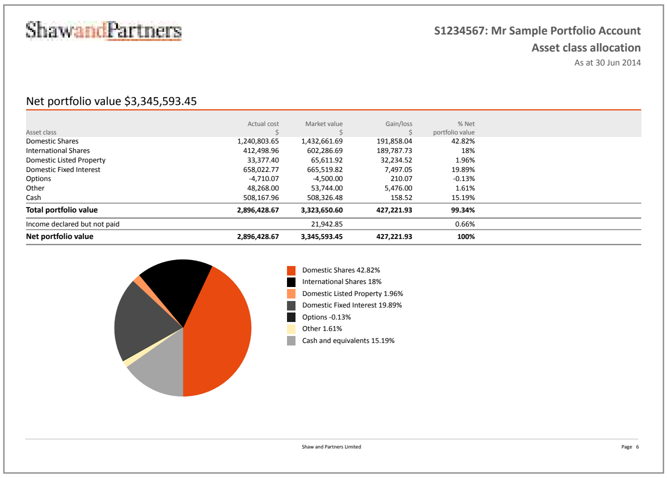
The Portfolio Service covers asset classes including shares, options, managed funds, bonds, bank bills and cash.



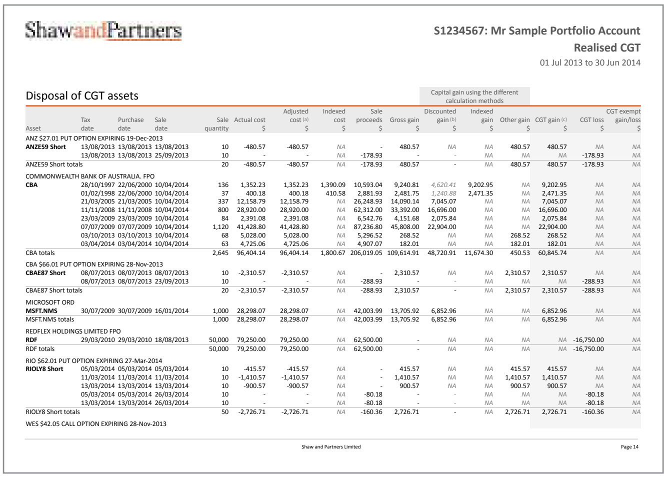
Estimated annual income through dividends, interests and distributions.



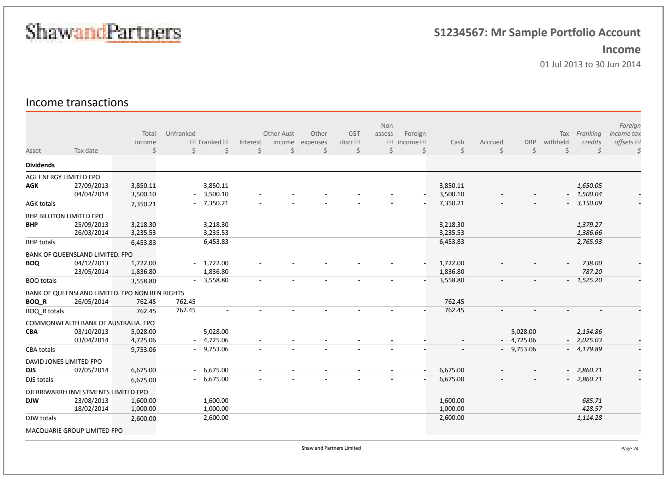
Portfolio performance at the end of the quarter.



Net portfolio valuation with detailed asset class allocation.



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



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