Investment Market Update

Issue 60 - Spring 2016

Message from the Manager

Many organisations produce newsletters but here at CIP/Pentad we really try to produce something that clients will find useful. In this newsletter we have nine articles, and a range of bits and pieces/ snippets that we hope you find interesting and useful. The look of the newsletter is also vastly improved. This is because we now have a full time resource in Kelly Drobek, who is amongst other things responsible for making sure all of our external communications contain a variety of useful information and look professional.

Overall the market has been a little more buoyant of late, but even so, pickings are slim. The market has basically done nothing for the last few years, and my article provides some hints as to why. It matters a lot as regards our advice to you. Paul and Sue take us through the most recent installments in the saga that is Superannuation and Centrelink matters. Scott talks about insurance as it applies to small business, while Russell's contribution is to make readers unashamedly jealous as he explains his retirement. We have our usual investment commentary, something on the business and a rat of bits and pieces about sponsorships and goings on – one of which was Bob Stewart's retirement, and our fabulous send off in the Queensland Outback.

A lot of work goes into this publication. We do it for you. Please read and enjoy.

David French
Managing Director

Economic environment

You'd have to be living under a rock not to have noticed the way interest rates have fallen, but our experience is that many people have short memories, and most have no grasp of just how much they have fallen over a period since at least 1990. As shown below, in the period from 1990 to current, the Reserve Bank of Australia's (RBA) cash rates fell from 17.5 per cent to 1.5 per cent.

Graph of the Cash Rate

Source: RBA

Graph Tips

The striking feature of the graph is that while most of us are aware that interest rates have been falling in recent times, it's in fact a trend that's been in place for more than 26 years.

Interest is the price for holding or lending money. The RBA cash rate is a target rate set by the Reserve Bank. To achieve that rate, it auctions bonds in financial markets. A bond is the promise to pay a set amount of money in the future and the price of the bond determines the interest rate. If the RBA auctions lots of bonds the price will fall and interest rates will rise. The higher rates encourage investment in the bond and takes cash out of the economic system. If the RBA auctions less bonds, then their price will be bid up, interest rates will fall and cash will remain in the system to be lent out and spent on other things. That, in a nutshell, is how the RBA manages interest rates and cash in the economy and thereby indirectly the level of demand in the economy.

The rate you can earn on a Government bond is often technically referred to as the risk free rate. In the early 1990's you could invest your money in government bonds, essentially risk free and earn 17.5 percent.

Now you only get 1.5 per cent. The risk free rate itself can be broken into two components – the inflation rate and the real rate of interest. In 1990, the inflation rate in Australia was about 7 per cent, making the real rate of interest 10.5 per cent. The inflation rate now is about 1.3 per cent, making the real rate of interest almost zero.

You don't have to be an economist to see that a fall from 10.5 per cent to 0 per cent and with a trend lasting more than 26 years, any financial professional needs to think hard about its causes and consequences. More so when, in probably 2/3 of Western countries, official interest rates are negative – that is, you have to pay the bank to hold your money. This is a step-back moment and we are living through it.

Capricorn Investment Partners

the Pentad Group

What we are experiencing is the beginning of a 50 to 60 years period where Western economies save rather than spend. This is not an aberration. It is driven by the aging of the baby boomers, their propensity not to spend, and the costs associated with providing for them in old age. Regardless of the efforts of reserve banks, aging westerners are net savers. They are afraid their retirement money will run out and having already accumulated most possessions, do not need to spend anything like they did, say 30 years ago. This is a manifestation of the "paradox of thrift", which is explained in every first year economics text. On top of this aging westerners require more health care and government support.

The upshot is, lower demand makes for a slower economy, less employment,

and therefore a lower tax take, while Government costs rise. That is exacerbated by the rise of quality competitive manufacturing in eastern countries, and digital technology, both of which decrease the cost of goods, and point to lower levels of employment in the West.

The traditional approach of trying to stimulate the economy through further lowering interest rates doesn't work because rates are already extremely low, and for the simple fact that regardless of the price of money, less people want to buy consumer type goods. What they do want is places to park their money, hence the inexorable rise in the price of bonds (falling interest rates) and real estate. You can think of it as a monetary traffic jam.

Anyhow where do you go when the price for holding or lending money is already zero – well actually what you do is print money to spray round the economy. This is known as "quantitate easing". Difficult to criticise in times of crisis, printing money increases the cost of living and undermines living standards. It also undermines the value of debt, which because it is due to be repaid in the future, is repaid in dollars with less purchasing power. Effectively Governments are funding current and foreseen liabilities by reducing living standards for all.

All this is a big deal, and like a frog in hot water, most people simply don't get it. Instead people retreat for the hills. They demand closing borders to immigration and trade – both key elements in Australia's economic welfare. Sensing financial contraction special-interest groups form, arguing every conceivable type of special case for government and charitable funding. These groups and the public service become strong, because they feign disinterest in (according to the narrative, obviously compromised) financial outcomes, selling only fairness and trust, but with virtually no accountability. As these groups become more organised they use the internet to disseminate their case for special treatment. Using the internet and the law they methodically shut-down any attempt at seeking truth, dismiss well-understood facts, are economical with their own truth and set themselves up in a position well-protected from the spotlight of research and enlightenment. This is known as the "politics of identity" in which the ideal end point is to be a special interest group all of your own, protected by Government from imagined injustices and able to capture public funding for the purpose.

These observations are a matter of fact, but the thing being missed is that contrary to the "fairness and trust" mantra, its actually all about the money. The pie is shrinking and people are fighting over it. They are fighting to retain privileged positions in their respective organisations and movements, and they are fighting to build walls to keep others from sharing the pie.

Back to interest rates. Will low official interest rates keep overall rates low, or is it possible for overall interest rates to rise, even with very low "risk-free" rate? It is the difference between the risk free rate and commercial interest rates is known as the "risk premium". The risk premium rises and falls with the economic risks faced by borrowers. Falling overall demand in the economy increases risk for many businesses and therefore commercial rates of interest can rise, notwithstanding the very low (or even negative) risk free rate. Such an observation means more than ever, that it is imperative to properly analyse the robustness of business cash flows.

All this might sound dramatic. It is

dramatic. What it means for us as your advisers is that we need to look for real or necessary things that generate robust cash flow in a difficult and contractionary economic environment – put another way, investments that benefit from non-discretionary spending. Opportunities like health, retirement living, toll-roads and energy come to mind. Many clients will already be able to see elements of this in their portfolios. Other opportunities include some aspects of agriculture, the integration of IT into functional tasks (using drones to deliver packages for example - known as "the internet of things") and automation of many, many of today's professional tasks (including many aspects of financial planning, law, medicine and accounting).

Finally, with the end of the school year coming up, those clients with children or grandchildren might care to reflect on this too. It's clear to me that the era of

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many “safe” jobs is over. For those looking for career advice I’d suggest following the themes mentioned above and investigating:

- Travel opportunities aimed at retirees where people will pay for knowledge (including formal historical knowledge) and experiences
- Diplomatic and cross-border opportunities
- Agriculture and related roles
- Carving an independent business niche based on talent and passion
- Live performance and management in music, the arts and sport, for which the masses have an insatiable desire.

Hope you enjoyed the read.

David French
Managing Director

Budget changes

Proposed Budget Super Changes - Updated

In mid September, Scott Morrison announced that the government had backed down from the contentious $500,000 lifetime cap that was proposed for non-concessional contributions in the 2016/17 Budget. He also announced a proposed reduction in the annual non-concessional contributions limit from $180,000 to $100,000 from 1 July 2017.

A few days later the government clarified how the changes to the cap would interact with the “bring forward rule”. A summary of these changes are in the following table.

Allowable non-concessional contributions				
2015/16*	**2016/17**	**2017/18**	**2018/19**	**2019/20**
More than $460, 000		Nil	$100,000 pa or 3 year $300,000 brought forward	Nil
Between $180,000 and $460,000	Cannot exceed $460,000 total over 3 year period			Nil
Nil	More than $380,000	Nil	Nil	$100,000 pa or 3 year $300,000 brought forward
Nil	Between $180,000 and $380,000	Cannot exceed $#80,000 total over 3 year period		
*Applies to amounts already contributed lat financial year				

As you can see, the proposed changes will provide individuals with a window of opportunity to make a higher level of non-concessional contributions into superannuation in the short term.

The government has also proposed that individuals with a superannuation balance of more than $1.6 million (tested at 30 June of the previous financial year) will no longer be able to make non-concessional contributions from 1 July 2017. Where an individual’s balance is close to $1.6 million, they can only make a contribution or use the bring forward rule to take their balance to $1.6 million but not beyond (as detailed in the table below).

- The ability for all individuals to claim a tax deduction for lump sum concessional superannuation contributions.
- An increase of the income thresholds for eligibility for the spouse superannuation contribution tax offset.
- Introduction of the Low Income Superannuation Tax Offset (similar to the Low Income Superannuation Contribution which will be abolished from 1 July 2017).

As these changes are proposed legislation at this stage, implemented will not occur until passed through parliament. As updates are announced, we will keep you informed. If you have any questions, please ask your adviser.

Superannuation balance	Contribution and bring forward available
< $1.3 million	3 years $300,000
$1.3 - $1.4 million	3 years $300,000
$1.4 -$1.5 million	2 years $200,000
$1.5 - $1.6 million	1 year $100,000
> $1.6 million	Nil

Proposed measures that still remain unchanged at this point are:

- A reduction in the concessional contributions cap to $25,000 from 1 July 2017
- A $1.6 million transfer cap for tax free earnings in the pension phase of superannuation and the need to reduce pension balances to this threshold by 1 July 2017.
- Increased tax on earnings for amounts held in a transition to retirement pension.

Paul Young
Manager - Client Services and Paraplanning

Centerlink

Centrelink changes from 1st January 2017

From the beginning of the next calendar year, Centrelink will assess assets under different thresholds and will use an increased rate of reduction to the pension when the low threshold is exceeded. It will mean that some age pensioners will have a reduced payment, some will lose access to the age pension completely, and some will actually receive a higher age pension as a result of the changes.

Firstly, an assurance from Centrelink is that anyone who does lose their eligibility to an age pension will automatically receive a Commonwealth Seniors Health Care Card. This card gives its holders access to the same healthcare and prescription benefits that are enjoyed under a pension card.

How each individual or couple is affected will depend on whether they are homeowners or non-homeowners and also the type of assets that they have.

The table below is only a guide, but shows an estimate of pensions for a single person and a couple with 2 different levels of assets, both now and after 1 January 2017.

In all 4 scenarios, there is a reduction in pension after January. We expect that both the single and the couple with the higher asset values will lose their pensions completely as shown in the bottom row of the table.

The good news in this is that those who have assets just above the current lower threshold will actually receive a slightly higher pension payment next year.

Your adviser will be able to assist you in determining what your payment might be when these changes are in effect and in assisting you with covering any shortfall to your income, perhaps by increasing a superannuation drawdown. We understand that Centrelink will advise customers of the expected payment changes before the end of the year, but if you are concerned or have any questions, we suggest that you raise the matter with your adviser as soon as possible.

Sue Dunne
Senior Financial Adviser

	Home Owners			
	Single		Partner	
Asset Value	500,000	700,000	700,000	1,000,000
Current - per fortnight each (approximately)	433	133	353	128
Post 1/1/17 - per fortnight each (approximately)	142	-	171	-

Financial Planning Association (FPA)

On the lookout for Students to accompany us to FPA conference in Perth - November 2016

Are you related to or do you know someone studying business, finance or financial planning?

Each year the Financial Planning Association holds a conference covering a wide range of topics related to financial planning and business in general. It's an event that is abundant in information and quality and this year Capricorn Investment Partners and the Pentad Group are offering to sponsor attendance of a student nominated by clients from each of our Rockhampton and Melbourne offices.

This year the conference is held in Perth from the 23rd to 25th November. We will provide for travel to Perth and accommodation and the Financial Planning Association is providing entry to the conference.

Please let your adviser know if you would like to nominate someone.

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Insurance

Protecting the people in your business

Business owners are usually aware of the need to protect assets such as the business premises, plant and equipment, vehicles and stock via general insurance. However, few owners consider the risks to the future of the business by not appropriately covering its most important asset – the people within the business!

Business owners should contemplate the financial loss if personnel responsible for the equity, credit or ongoing revenue exit the business unexpectedly due to sickness, accident or death.

Business risk protection strategies for key personnel within a business include:

- **Buy/sell protection:** also known as partnership protection. Allows shareholders in a business to insure for the value of their equity to cover death, total and permanent disability or serious medical conditions such as heart attack, cancer, stroke etc. If a partner suffers from an insurable event and exits the business, the proceeds of a claim will be paid to the disabled owner, or their family in the event of death. The cover will ensure that the departing owner or family receives fair value for their share. In addition to the insurance, a legally binding buy/sell agreement should be completed by the shareholders. The buy/sell agreement or 'business will' provides a legal mechanism by which the shares of the deceased/ disabled owner can be acquired by the surviving shareholder. Buy/sell cover is a vital part of your business succession planning, as it ensures that the ongoing ownership and control of the business remains in the hands of the original shareholders.

- **Business loan cover:** in order to obtain a loan or credit facilities from a bank, business owners will need to provide guarantees, and may use business and/or personal assets to secure the debt. The debts are usually 'at call' and the bank can request payment in the event of the death or incapacity of the guarantor. By obtaining adequate cover, their guarantees/ securities are protected, and the surviving business owner(s) and/or family will not have to sell off assets to clear the debt.

- **Revenue protection cover:** also known as key person cover. The loss of a key person due to disability or death may create costs to locate, recruit and train a replacement, and result in a loss of revenue until the new staff member is operating at the capacity of the disabled or deceased employee. This cover will offset the replacement costs and the expected reduction of revenue until the business can recover from the loss of the key person.

- **Business overheads cover:** provides replacement for the fixed operating costs of a business if the owner is unable to work due to sickness or injury. Overheads which are covered include loan repayments, rent, utilities and salary costs.

Scott Plunkett
Risk Adviser

Russell and Sue Warmington arriving in Villafrenche

Lifestyle

Retirement

After many years advising clients on retirement, it was now my turn to follow the advice. I have found that you need to be ready to retire. You need to feel that the time is right. Over the years I have seen friends and clients, who retired, and after they did, found it difficult to adjust. In general most had not given thought to how they would occupy their time. This adjustment is important as it not only affects yourself but can affect your partner as well. Most people have a working life of close to 45 years and in that time you and your partner have adjusted to doing many things on your own, or around work schedules. With retirement that changes, you now spend a lot more time together. This is fantastic, however, you need to remember that you both have your own space, friends and activities that need to continue, as well as the many activities that you can do together.

In planning for my retirement, it was important to make sure that I had my head around what can productively occupy my time. I came up with quite a number. My wife Sue and I are very active members of the Rotary Club of Nunawading, and this is an area I would like to be more

Photo from Russell. Boscastle at low tide

Port Isaac at low tide. Doc Martin's house in the background

involved with. Rotary is a lot of fun and provides a great opportunity for like minded people to actively help local and overseas communities. In October we are volunteering our time to help with a working weekend at the Portsea Camp. This camp is run for disadvantaged children from around Victoria to be able to have a holiday at a fantastic beach environment. Sue and I love to travel and we plan to do more, having a long list of places we would like to visit. We have a small beach house and boat on the Mornington Peninsula that we love getting away to, and in the summer months there is nothing better than being out on the water in the boat. I play tennis weekly with a group of friends who were also clients. This is social but very competitive tennis, followed by dinner at the local Chinese restaurant. A project that I want to undertake is to build the model train set that was my fathers. My father was a model train enthusiast and I have his trains and track waiting for me to make a start.

Our first Post Retirement overseas travel was a fabulous four week trip in August this year. We visited Singapore, London, had a two week cruise around the Western part of the Mediterranean and then 8 days driving around Cornwell in England. The trip was quite different for us as it involved a number of very different activities. Cruising is a wonderful way to see many places, and you get to make many new friends. The ship we went on was the Royal Caribbean Oasis of the Seas. One of the largest cruise ships afloat, catering for 4,500 passengers. We left Southampton and visited Gibraltar, Toulon, Villefranche (Nice), Barcelona, Parma de Majorca, Malaga and Cadiz. At a town just out of Malaga I had never seen so many expensive cars in one place, Ferraris, Lamborghinis, Porsches, BMW's, and Rolls Royce's, just to name a few.

Driving around Cornwell was fantastic. We were able to see the wonderful coastal villages of Plymouth, Falmouth, Penzance, Mont St Michael, Padstow, Port Isaac (Port Wenn of Doc Martin fame) and the really quaint village of Boscastle. Driving around Cornwell was very challenging as many of the roads are narrow, about one car wide. It is interesting, when you meet another car to determine who backs up to let the other through.

Retirement is what you make of it, and Sue and I intend to make the most of it.

Russell Warmington
Adviser - Recently retired

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Investment Briefs

WOW

Much has been made of the challenges facing the domestic supermarkets industry lately. More specifically, Woolworths (WOW) has faced scrutiny from many corners ranging from fund managers to the every day customer. As mentioned in previous newsletters, we have a favourable long term view of WOW and recent company initiatives have reassured us that the company is moving in the right direction.

Over the last six months, WOW has made some significant decisions in a concerted effort to turn around its fledgling supermarkets business. Firstly, the group decided to close down its failed hardware company, Masters. This was a decision embraced by us. It will mean no more capital will be sunk into what may never have been a profitable venture. This ultimately means WOW can focus on its core competencies, supermarkets and liquor. Not only will this help the group's overall return on capital invested metric it will also mean funds can be redirected to profitable divisions (some of which are in need of CAPex).

The second recent major initiative made by the board has been to slow down the group's growth aspirations. An announcement in late July, highlighted that WOW will close down 30 stores across the group. Furthermore, new store openings will slow from 90 over the next few years to just 45. Encouragingly, key operating performance will now be measured upon sales per square metre in stores and return on funds employed. As investment managers this is what we want to see rather than an emphasis on outright growth. Management also have plans to allocate significant capital to store renewals with 82 renewals planned for FY17. We view this as an astute move with very positive results being achieved from 6 trial renewal stores to date.

There is no doubt WOW is making what appear to be the right moves to bring life back to its struggling supermarkets division. Recent decisions to concentrate on key operating metrics will concentrate management's energies on maximising the profitability of existing operations rather than growing for growth's sake. We are also encouraged by WOW's future store redevelopment program due to the initial success and are adding WOW stock to client portfolios where it is suitable.

Evans & Partners International Fund

Often, boring is good in the investment world. Recently added fund to our Approved Products List Evans and Partners International Fund is an equities investment manager that shares many of our core investment beliefs. It places quality filters at the centre of its selection process. If a company in its initial universe doesn't, for example, meet long term return on investment hurdles, the company will progress no further. Evans & Partners have no interest in fad investments or new and exciting sectors of the economy. If the company doesn't have the runs on the board over the long term, it is immediately discarded and no further investigation is made.

The fund places emphasis on missing the worst 20% performers from its investment universe. This priority means that due diligence on each individual investment is paramount. Also, as the fund is relatively concentrated (holding at any given time between 10-15 holdings) limitations on risk metrics such as net debt to EBITDA is enforced. The fund managers much prefer to see the profitability of the company improve, rather than the growth of the investment (such as growth in assets and issued shares), so a growing return on capital invested metric would be seen in a much more favourable light. Once an investment is found, the company must be trading at a discount to intrinsic valuation before the fund invests into the company.

The fund has performed exceptionally well since its Australian inception in February 2014. Compared with its MSCI World Index ex-Australia benchmark, the fund has returned 13.8% over 1 year against 1% for the benchmark, 19.6% over two years compared with 12.1% and 14.7% compared with 11.1%. These returns have been achieved with less volatility than its benchmark and encouragingly excellent performance when international equities markets are falling.

Due to the strong alignment to our internal investment approach and differentiation with Magellan Global Fund we are generally pairing these two funds together in the international equities space. We believe they complement each other well due to Magellan's concentration on technology and Evans and Partners concentration on industrials.

RMD

Much credit needs to go the way of some of Australia's medical device makers. Cochlear (COH) which formed in 1981 to commercialise hearing implants today commands over two-thirds of the global hearing implant market. This is a remarkable achievement. Resmed (RMD) is involved in the manufacture of masks, machines and other products that help diagnose, treat or help manage sleep disordered breathing in patients. Founded in 1989, RMD is now one of the main global players in the fast growing sleep apnea market, a market that is predicted to be worth $5.3bn by 2020.

Sleep apnea is a medical issue that affects the lives of around 100 million people worldwide. It can range from short periods of interrupted sleep, to a precursor to a number of serious health issues such as stroke, heart failure and heart attacks. RMD is one of the global leaders in this market due to the strength of its product development and initiatives to connect with the patient improving clinical outcomes. RMD's last quarter illustrated how well its flow generator products are performing, with the company reporting US sales growth of 8% combined with an increase in market share.

In February this year, RMD announced it was making a significant acquisition of clinical software applications company, Brightree. The acquisition was predicated on expanding RMD's capabilities in providing higher quality patient monitoring systems. Not only is the expectation for Brightree's technologies to further differentiate the RMD offering but it may also assist in global government health reimbursement programs. Patient compliance is forecast to improve and consequently RMD should be more able to display demonstrable benefits thereby underpinning reimbursement. Reimbursement has been one of the historical underlying risks to the sleep apnea treatment market and if successful on this front RMD will become an even more attractive long term proposition.

Although not on our Approved Products List at this stage, we continue to explore the RMD investment case for possible inclusion. The company has historically generated high after tax return on invested capital well above its cost of capital. In FY2016, return on invested capital totaled 16.5%. Furthermore, the company is conservatively managed with very little debt and high free cash flows.

Lachlan McKenzie-McHarg
Adviser Equities Dealing and Research

New Investment Committee Newsletter

Monthly publication

Please be on the lookout for the Investment Committee's monthly newsletter. The newsletters advise clients on gereral recommendations that have, or will be, coming up from the Committee.

The newsletter will be published on a monthly basis (except in the months of December and January).

The information in this newsletter will be generic without a lot of detail. The details are our inhouse knowledge of our Committee which is not public knowledge.

Please contact your adviser if you have any questions.

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The business

From outside, our business probably looks like a receptionist, a room and you and your adviser. Behind the scenes are 35 staff, every one of them working to make the business work in a way that it is of maximum benefit to you.

The September Quarter is a particularly busy time for staff behind-the-scenes. First it signals the final visit for the auditors. At first blush that might seem to have nothing to do with clients, but a lot of their job is in fact making sure that we are complying with our licence conditions and laws, which are designed to protect you. The auditors review the fees we charge, the advice we give, and the extent to which we have implemented that advice. They review our annual data integrity checks, which ensures that holdings recorded in our portfolio system match holdings recorded by the ASX. They make sure there has been no fraud. They check many of our systems and processes. All in all it's a grueling, but necessary part of running a truly professional business.

September is also the time we prepare our annual insurance submissions. It's not well appreciated that professional indemnity insurance and compliance activities generally are set in place for the benefit of clients, not the business. The level of insurance and many of the compliance tasks are mandated by ASIC, and the insurers insist (in fine detail) on every aspect of the business, the requirements for which they change every year. Even with proper recording, it takes nearly a month to prepare all this material for submission.

At the same time we prepare our annual reports. CIPL (Holding) Limited is a public company and the Capricorn Diversified Investment Fund is a Managed Investment Scheme registered with ASIC. This means our financial accounts are prepared to "general purpose" standard. This standard means they comply with all accounting standards and are accepted in any forum. It is beyond that or most small to medium businesses, and it is another way that clients are protected through outside scrutiny.

Meanwhile all of the usual stuff goes on. Advisers meet with clients, senior administrators process data, client services staff set up appointments, the investment team recommends investments and implement portfolio changes.

This September we also did a few new things. The business is now a registered BAS agent. We have applied for a credit licence, so that we can advise on home loans. We think both of those things complement existing activities, especially financial planning, insurance and business consulting.

All in all, ours is a dynamic, professionally run and well-regulated business. We are proud to have you as part of it.

David French
Managing Director

Staffing update

Davina Knight
Compliance Manager

Davina is currently studying her second undergraduate degree, having completed her Bachelor of Business (Human Resource Management), her thirst for knowledge led to her having almost completed a Bachelor of Law. Her work experience has in the past been primarily in human resources and recruitment in particular, however she comes to Capricorn Investment Partners after having worked in Local Government.

Senior Kris Atkinson
Senior Client Services Office

Kris Atkinson is our newest member of staff taking on the role of Senior Client Services Officer in the Rockhampton office. Kris has a background in Financial Services where he began working as a Financial Planners assistant in Townsville in 2005. Kris has a Degree in Commerce and a Graduate Diploma in Economics along with a diploma in Financial Services majoring in Financial Planning. Kris will be managing some major implementation projects behind the scenes and you may hear from him from time to time requesting information.

It is our pleasure to welcome Davina and Kris to our team.

Client Services Update

Quarterly and Taxation reporting

By now you will have received your quarterly and taxation reports for the EFY 2015-2016. Please take a moment to read the cover letter and notes accompanying the tax reports. These will give you some direction on what needs to happen next if you're unsure. The way you receive your correspondence from us is optional, you can elect to receive your reports in the post or if you're keen to save a tree or two you can elect to receive them electronically. As your reports are run, they are automatically archived and available to you via the client portal at www.capinvest.com.au. You can access these at any time.

Using the portal

If you are not yet set up with access to the client portal, please feel free to contact the Rockhampton office on 1800 679 000 and we will set up your access and talk you through how to use the system, it only takes a few minutes. From here you will be able to review and approve your recommendations, change contact information, run your own unofficial reports and access all archived reports along with keeping track of your portfolio day to day and in-between reviews.

Seminars

The seminars in both Melbourne and Rockhampton were a big success with some very positive feedback. Topics included FIIG Bonds with guest speakers Rob Pearce and Simon Michell from FIIG, an Overview on equity markets from David French and Owen Evans and a presentation on Recent recommendations and How our investment committee is guiding the process by Ian Maloney. While we always have handouts for our seminars they are really only useful if you're in attendance. We go to great lengths to ensure the seminars are very informative, diverse and interesting with guest speakers, nice food and venues and do we encourage you to attend wherever possible. We provide an insight into research we're doing on your behalf to improve your portfolios at every opportunity.

Rose Sladden
Client Services Manager

Sponsorships

Paradise Lagoons Campdraft

Our sponsorship of the 2016 Paradise Lagoons Campdraft was a success. We had a market stall set up next to Hamag and spent a lovely long weekend learning about all things campdraft and promoting CIP and Pentad financial services.

We asked Hamish and Maggy, our clients from Wollert, Victoria to come and accompany us to the event to promote their business which sells lovely equesttrian handcrafted leather products along with other gorgeous items that our staff went crazy for.

What is a campdraft you ask? It is a competitive unique Australian sport involving a horse and rider working a particular cattle. The riders get scored on how well they ride and work their cattle.

The event was over four days. During the event, CIP and Pentad had a stall along side Hamag. While the staff from CIP and Pentad spoke to business owners, competitors and horse riders about the financial services we offer, Hamag was busy in their stall selling all things horses.

A big thank you to Hamag for making the journey and partaking in this event with

Challenge the Mountain

Another successful year in sponsoring a local Rockhampton event Challenge the Mountain. The event helps to get the business and staff out participating in community events. Competitors are able to run, ride or walk up Mount Archer, a 5km mountain with over 500m of elevation.

Staff from both Rockhampton and Melbourne participated in Challenge the Mountain this year. In total, 12 members of our staff challenged and conquered the mountain.

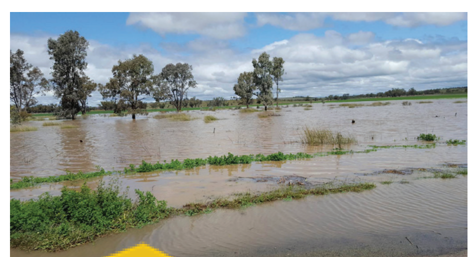
A great job to all who took on the Mountain!

Bob's retirement continues

Bob's retirement has been nothing short of amazing. At 82, Bob retired and the staff not only celebrated his birthday and retirement with a BBQ lunch and cake, but with trip a out West.

Bob and Brenda met some of the staff in Roma and ventured onto Nindigully, QLD for a weekend away.

The weekend was spent where Bob was born, the local pub. It was an adventure to get there with some of the roads covered with water from all the rain the west has been experiencing. Luckily, the food and drinks were plenty, and everyone enjoyed nights relaxing after days of exploration around the area.



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Jodie Thompson	Share Trading Officer
Davina Knight	Compliance Manager
Rose Sladden	Client Services Manager
Kris Atkinson	Senior Client Services Officer
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Katrina Tearle	CHESS Administrator
Natasha Kuhl	Portfolio Administrator / CHESS
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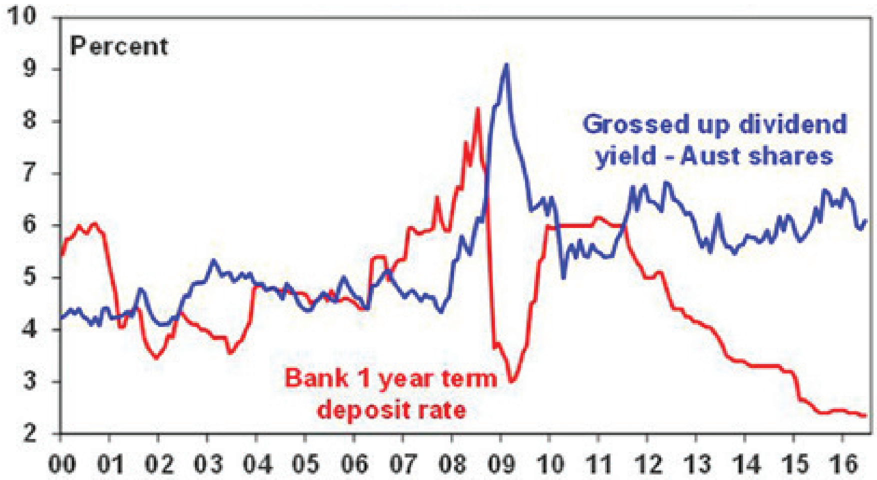
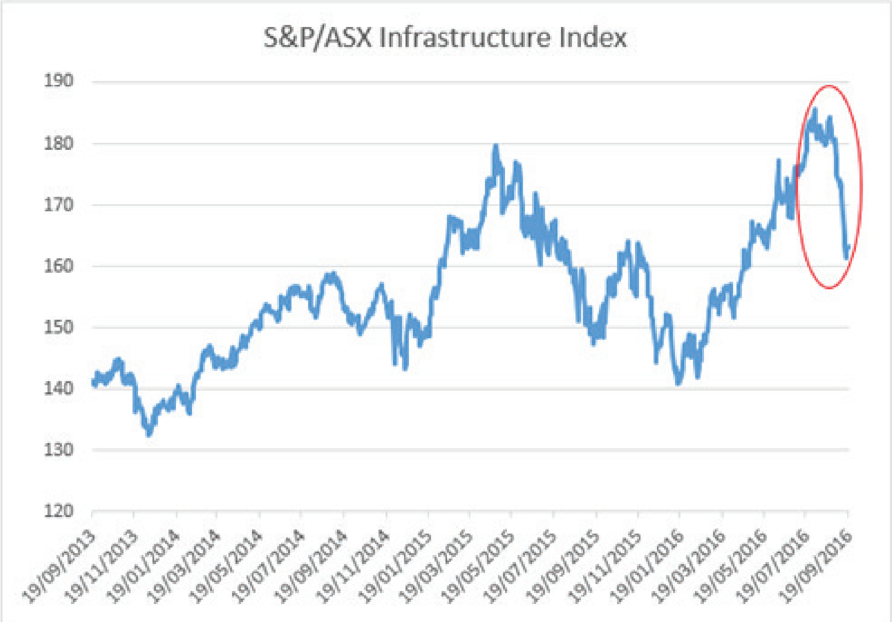
CHART PACK

Show Me The Income: Australian shares still offer good income when compared with bank deposit rates



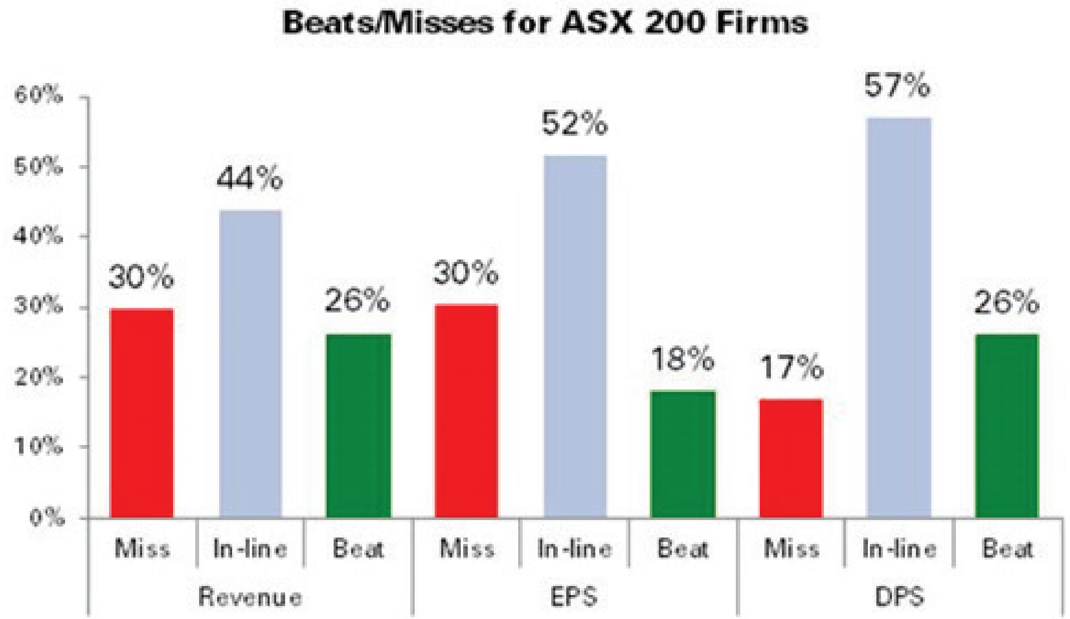
Source: RBA, AMP Capital

Whispers In The Air: Talk of interest rates rising in the US has impacted Australian Infrastructure companies – the sector is down by 12% since early August



Source: S&P Dow Jones Indices

Mixed Bag: Most companies reported in line numbers in the August Reporting Season however, revenue and EPS weaker



Source: Mason Stevens

Photos taken at the Rockhampton Client Seminar, October 2016.

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