The INVESTMENT COLLECTIVE

INVESTMENT
MARKET UPDATE

ISSUE 63 SPRING 2017

MESSAGE FROM THE MANAGER

The history of Capricorn Investment Partners goes back to 2001, and Pentad even before that. The businesses merged in 2013, and since then the journey has been one of change and integration, taking the best from each office, and applying it to the benefit of clients overall.

With those processes well in hand, the Melbourne fit-out complete and the Rockhampton fit-out completed last week, it's time for the rebranding of the overall business to: "The Investment Collective"

While there are a lot of practical and administrative reasons to trade under one name, there are also many deeper reasons. Its these deeper reasons that led to us embracing the decision.

Primary among them are the issues faced by the financial services sector in Australia. I have laboured this point before, but it seems that barely a week goes by without one organisation or another being in the news for all the wrong reasons. Our view is that the term "financial planner" and "financial adviser" are irretrievably tarnished. And in any event, neither term is very informative and we wanted something encompassing and different.

Another strong reason is that despite best intentions, the name Capricorn Investment Partners seems too aligned with the Capricornia region. Likewise, the use of the word "Partners" was an attempt to let people know that we wanted to be seen as partners with our clients, but in fact led to people thinking that we were a partnership, like you would find in a legal or an accounting firm (which we are most certainly not!).

The roots of the name Pentad lie in observation that 5 individuals started what is now our Melbourne office. Now however, our business is owned by around 60 shareholders. We wanted something a little more outward looking.

These things being evident, we thought we'd like something broad enough to encompass all our activities, while conveying the idea that we strive to operate as a "collective", rather than from the viewpoint of hard-core commerce.

Over the next few months you will see a lot of changes to the look of our business. In particular we'll be updating the website, making it much simpler, informative, and easier to update. We'll be loading some corporate videos so people can get an idea of all the valuable services that we offer, on which we deliver every day. From our involvement in solar electricity to personal financial advice to portfolio management, business restructuring and succession planning, this is likely to surprise!

Associated with the rebrand is the fit-outs of both offices, which includes several more meeting rooms. And finally, there is the in-house bond initiative, where on account of FIIG winding back its distribution of bonds, we will be bringing their purchase and management in-house. We expect this to result in more opportunity and lower costs for clients.

Never a dull moment. We hope you enjoy the ride.

David French
Managing Director

Beware of scams

Keeping your information safe online

With our new world of electronic communication, we are never far from the risk of email hacking, identity theft, fraud and groups set up to scam you into sending them money. While keeping your virus software up to date is a great start, it's not enough and we must stay vigilant in protecting ourselves against scammers.

There's been an increase in phone scams where the caller claims to be from a reputable organisation offering to assist with a computer issue. They then attempt to take control of, or access your computer. Do not allow this under any circumstances; just hang up. Also, be particularly vigilant if you're asked to disclose any sign-in details or codes sent to your mobile.

SMS hoaxes might include text such as 'There was an error processing your bank account, please follow this link' or 'your credit card has been accessed, please follow this link to secure your information'. Banks and other Government Departments will never send information in this way. If you're unsure, call your financial institution or Government Department using the phone numbers from their official website or the phone book.

Another scam to be mindful of is the targeting of the elderly with very compelling stories of sick children requiring urgent surgery or sad stories where they 'need your help!' Never launch into transferring money to a bank account which you have not identified as legitimate. If you're unsure, please ask for assistance from a family member, friend or someone who has some experience in this area.

Recently we were made aware of an incident where a home renovator was sent an email with bank details for payment of the not so insignificant amount of $10k, to pay for a renovation. A few minutes later, another email came through stating "sorry, my mistake, please use this account instead". The home renovator paid the money into the second bank account without suspicion. Unfortunately someone had hacked the builders email address and sent the second email with their bank account details. When she realised the error, it was too late for the bank to do anything. The money already had gone out of the account. The police filed the report but the money was gone and she still needs to pay the builders for their work.

To protect yourself from scammers never disclose personal information over the phone or via email. Always seek a second opinion on anything that looks suspicious and never act quickly regardless of how urgent the email sounds and always make a phone call to confirm the legitimacy of any accounts received by email. At The Investment Collective, we will always ask for personal/identifying information if you call us, and we will call you to confirm any email appearing to come from you containing bank details.

Rose Sladden
Client Services Manager

Concessional Contributions

In our previous newsletter, we highlighted the changes to the superannuation rules around concessional contributions that have come into effect from 1 July 2017. In brief and to recap:

- Concessional contributions are those made where a tax deduction is claimed by the contributor.
- The cap is now set at $25,000 for the financial year.
- The "10 Percent Rule" has been removed which means anyone, regardless of "employment status", is now eligible to make a tax deductible concessional contribution.
- Tax is payable on concessional contributions at the rate of 15%.

In the simplest of scenarios, this means that an employee who has $10,000 contributed into super by their employer can make a personal super contribution up to $15,000 and claim a tax deduction for that contribution.

The example below indicates the "gross" tax saving realised under this new rule assuming the assessable income derived by the taxpayer consists solely of their salary and no tax deductions are claimed.

	Pre 1 July 2017	Post 30 June 2017	
Assessable Income	$105,263	$105,263	
Tax Deduction	$0	$15,000	Personal Super Contribution
Taxable Income	$105,263	$90,263	
Gross Tax Payable	$26,579	$21,029	**$5,550** Saving in Gross Tax
		Less: Contributions Tax Payable @ 15% on $15,000 Personal Super Contribution	$2,250
			$3,300 Net Saving in Gross Tax

The ability for any taxpayer, regardless of employment status, to now be eligible to make a concessional contribution opens up the possibility to use that tax deductable contribution to offset any realised net capital gain to negate the tax payable on that gain. The scenario below indicates the effect of being able to offset a realised net capital gain with a concessional contribution.

	Pre 1 July 2017	Post 30 June 2017	
Assessable Income			
- Salary	$105,263	$105,263	
- Net Capital Gain	$15,000	$15,000	
Tax Deduction	$0	$15,000	Personal Super Contribution
Taxable Income	$120,263	$105,263	
Gross Tax Payable	$32,129	$26,579	**$5,550** Saving in Gross Tax
		Less: Contributions Tax Payable @ 15% on $15,000 Personal Super Contribution	$2,250
			$3,300 Net Saving in Gross Tax

The inference in the above scenario is that the $15,000 Net Capital Gain has been discounted (assuming eligibility to discount the gain existed) which implies a realised capital gain of $30,000. Effectively, 50% of the realised capital gain has been transferred into the concessional tax environment of super at the rate of 15% tax as opposed to being taxed at the marginal rate of 37%.

Is this super opportunity – "catch-up concessional contributions from July 2018" a GAME CHANGER?

Following on from the introduction of the change detailed above, from 1 July 2018, if your entire superannuation balance is less than $500,000 at the end of the financial year, any unused portion of the concessional contributions cap from that year can be carried forward, up to 5 years and then be contributed into super in the following financial year.

This change to the super rules can be summarised as:

From 1 July 2018, an individual can carry forward the unused concessional cap amount from the previous financial year for up to 5 years;

The 2019/2020 financial year will be the 1st year an individual will be able to contribute any unused concessional cap into super however, in that year there will be only 1 year of an unused cap to draw from given the change begins on 1 July 2018, in the 2018/2019 financial year;

Any unused concessional cap amount from the prior 5 years can be contributed in excess of the $25,000 cap;

Unused concessional cap amounts not utilised after 5 years are lost and are no longer carried forward.

The following scenario adds some perspective:

During the 2018/2019 financial year, John's employer made mandatory super contributions of $10,000 each year. John made no personal concessional contributions from 2018/2019 to 2022/2023 because he's saving up for an engagement ring, wedding, honeymoon and a deposit for their first home.

The unused concessional contributions cap for each of those 5 years is $15,000 per year, totalling $75,000 by the end of 2022/2023.

John's total balance in superannuation on 30 June 2023 is $210,000.

During the 2023/2024 financial year, John sells some shares, realises a net capital gain of $30,000 and contributes that amount into super as a deductible personal concessional contribution. John's employer also continues to contribute $10,000 in mandatory contributions.

The total concessional contributions in the 2023/2024 are therefore $40,000, $15,000 in excess of the $25,000 concessional contributions cap (assuming no change to the cap amount) therefore, John can utilise the $15,000 unused concessional cap amount from the 2018/2019 financial year.

On 30 June 2024 John's total balance in superannuation is $255,000.

During the 2024/2025 financial year, John's work colleagues' lotto syndicate wins 1st division. They split the proceeds and with his share, John contributes $20,000 into super as a deductible personal concessional contribution. John's employer also contributes $10,000 mandatory contributions.

The total concessional contributions in the 2024/2025 are therefore $30,000, $5,000 in excess of the $25,000 concessional contributions cap (assuming no change to the cap amount) therefore, John can utilise $5,000 of the $15,000 unused concessional cap amount from the 2019/2020 financial year. The remaining $10,000 of the unused concessional cap from the 2019/2020 year is now lost because it will fall outside the 5 year carry forward period.

The above senario can be summarised as follows:

	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
Annual Concessional Cap	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000	$25,000
Concessional Contributions	**$10,000**	**$10,000**	**$10,000**	**$10,000**	**$10,000**	**$40,000**	**$30,000**
Unused Concessional Cap	$15,000	$15,000	$15,000	$15,000	$15,000	$0	$0
Accumulated Unused Cap	**$15,000**	**$30,000**	**$45,000**	**$60,000**	**$75,000**	**$60,000**	**$55,000**

The significant point to take away from this scenario is: in the 2023/2024 financial year John was able to make a personal concessional contribution of $30,000 which is claimed as a tax deduction and further, in the 2024/2025 financial year John was able to make another personal concessional contribution of $20,000 which is also claimed as a tax deduction. Applying this rationale to the 2023/2024 financial year and continuing with the assumptions of no changes to tax rates or other parameters, the saving in Gross Tax Payable for John can be shown as follows:

	No Personal Concessional Contribtuion	Personal Concessional Contribtuion		
Assessable Income	$105,263	$105,263		
Tax Deduction	$0	$30,000	Personal Super Contribution	
Taxable Income	$105,263	$75,263		
Gross Tax Payable	$26,579	$16,007	**$10,572**	Saving in Gross Tax
		Less: Contributions Tax Payable @ 15% on $30,000 Personal Super Contribution	$4,500	
			$6,072	**Net Saving in Gross Tax**

The Explanatory Memorandum accompanying the new legislation provides clarity around why this concept was introduced. It states:

"The measure ensures that people who have not had the capacity to contribute up to their concessional contributions cap in prior years will be able to make catch-up contributions by targeting it to those individuals who have been unable to accumulate large superannuation balances."

This is potentially a game changer for those who are eligible as it has the potential to allow individuals to pay tax on realised net capital gains at the rate of 15% and transfer those gains into the tax-friendly superannuation environment.

This is one of the positive measures to be announced in the raft of recent changes and appears almost too good to be true however, typically, this has barely rated a mention in the media. One can only wonder why?

Dean Tipping
Financial Adviser

Notices

100 Points of Identification:

Legislation now requires us to hold 100 points of identification for all of our clients at all times. Would you please assist your advisor by providing copies of your identification, noting that if the documents are copied elsewhere they should also be certified by a qualified person such as a Justice of the Peace. If you bring originals to our office, we can copy and certify them. The documents required are:

1. An Aus OR Foreign Passport
2. Birth Certificate
3. Drivers Licence or Adult Proof of Age Card
4. Government issued photo ID card
5. Government issued non-photo ID card

Tax Reports:

Tax Reports will be provided for all portfolios managed through our portfolio administration service (PAS). These reports will be available in late October and will be sent to you via your elected method of correspondence. We can also arrange for these reports to be sent directly to your accountant at the same time, so please contact your advisor if you wish this to occur.

Compliance Costs

You will have all received a letter from us mid-July explaining that the cost of maintaining compliance and risk mitigation in the financial services industry is becoming increasingly expensive. In the past, The Investment Collective have absorbed the cost. However there have been a number of changes to the financial services industry that now make it impractical to cover the cost ourselves. While regulators have committed to the goal of providing greater investor and consumer protection, convincing businesses that this commitment is central to their continued performance, substantial new regulation and updates to existing rules are bearing down on the industry and creating a need for firms to juggle ever-changing international regulatory reforms, which is both expensive and resource-draining.

For instance:

1. Insurance

The price of insurance has risen exponentially, while the coverage included in these high premiums has gone down. So not only are we paying more than ever, the price doesn't cover as much as what it used to. Like car insurance, we have an excess should a claim be lodged. However, the excess no longer applies to all claims, it is applicable for EACH and every claim. So if two people were to complain about something, we would have to pay the excess of each on those claims.

2. Privacy Amendment (Notifiable Data Breaches) Act 2017

This was introduced this year and requires organisations covered by the Australian Privacy Act 1988 to notify any individuals likely to be at risk of serious harm by a data breach. The data breach will need to be reported to the Office of the Australian Information Commissions (OAIC), and was created with the idea that this scheme will strengthen the protections afforded to everyone's personal information, and will improve transparency in the way that organisations respond to serious data breaches. In theory, this scheme will give individuals (you, our clients) the opportunity to take steps to minimise the damage that can result from unauthorised use of their personal information.

3. Australian Securities and Investment Commission ("ASIC") to be industry funded

This commenced on the 1 July 2017, and was set up in order to cover ASIC's regulator costs from the entities that create the need for regulation. The idea is that the industry funding model will improve consumer outcomes in the financial services industry. It is proposed that from 2017-18 onwards, all of ASIC's regulatory costs will be recovered (other than those costs associated with ASIC's registry business and prosecution costs) via the industry funding model. But, we won't know how much this is going to cost The Investment Collective until 2018, which is when the first invoices will be released for the 2017-18 period, which means we have to estimate how much this is likely to cost us.

According to the Honourable Kelly O'Dwyer (Minister for Revenue and Financial Services), industry funding for ASIC will "improve transparency, make the industry more accountable for its behaviour and make ASIC a strong regulator" , it will "improve regulatory compliance (good conduct means driving down supervisory levies); improvement of ASIC's resource allocation; and it will enhance ASIC's transparency and accountability through the publication of its expenditure, explanation of its regulatory priorities and account for its performance".

4. Future of Financial Advice ("FOFA")

This has had a huge impact on the demands of AFS Licensees in the financial services industry. Despite the fact that the Australian Government are "committed to reducing compliance costs and the regulatory burden on the financial services sector", every new change they introduce to the sector inflicts additional compliance burdens and cost to not only financial services firms, but also to yourself as a client of a financial services organisation. Take these two examples, of which you will be impacted by over the coming months.

Fee Disclosure Statement ("FDS") – you have already been receiving a version every quarter with your quarterly reports (if you have accounts in PAS). However, with the FOFA reforms, the Australian Securities and Investments Commission ("ASIC") have prescribed exactly what they expect to see in an FDS and what you should be able to understand from an FDS. You will find the new format of the FDS in the quarterly reports in the coming months (keep an eye out for this one), and will be sent to all other platform clients.

Opt-in – This is a new requirement and you will receive this in the next few months. This requires anyone who has entered into a service agreement with us since 2013 (when the FOFA reforms were introduced), to agree that they want to work with use under their current service level agreement. This will be sent out to all clients in the coming months also – keep an eye out in the post or your inbox for this form. These are just two examples of changes that you will see that display the reforms made in the name of FOFA.

If you are thinking that it was a *Global* Financial Crisis, yet Australia is the only one making changes, think again. The industry is making changes throughout the world. According to GTNews, who gathered the opinions of 183 senior financial service executives, compliance professionals and investment managers operating in the US, Europe and Asia, and they said their firms spend an average of 4% of their total revenue on compliance, but expect this could rise to as high as 10% of revenue by 2022! That is a LOT of money going into compliance.

Davina Knight
Compliance Manager

Centrelink Update

In our last edition (No 62 – Autumn 2017), we noted that the Federal Budget of 9 May announced that, effective from 1 July 2017, the Centrelink Pensioner Concession Card would be reinstated to those who lost it as a result of the 1 January 2017 changes in the asset test thresholds. Our understanding is that the effective date of the reinstatement has been moved from 1 July to 9 October 2017. Centrelink clients may be issued with a Low Income Health Care Card between now and 9 October 2017. Centrelink will automatically issue a Pensioner Concession Card to affected Centrelink clients from 9 October 2017.

The current Centrelink pension rate for a single person is $877.10 per fortnight (pf), or $22,804.60 per year.

The current Centrelink pension rate for each member of a couple is $661.20 pf, or $17,191.20 per year.

These rates include the pension supplement of $65.10 pf for singles and $49.10 pf for each member of a couple. It also includes the energy supplement of $14.10 pf for singles and $10.60 pf for each member of a couple.

Below, an update of the Centrelink Assets and Income thresholds from 1 July 2017.

Standard pension asset test

• Full pension

Pensions will decrease when your assets are more than the amounts below:

If you're:	Home-owners	Non-home-owners
Single	$253,750	$456,750
In a couple, combined	$380,500	$583,500
Illness separated couple, combined	$380,500	$583,500
One partner eligible, combined	$380,500	$583,500

• Part pensions

Part pensions cancel when your assets are more than the amounts below. Assets above these limits reduce pension by $3.00 per fortnight for every $1,000 of assessable assets above the relevant threshold:

If you're:	Home-ownwers	Non-home-owners
Single	$550,000	$753,000
In a couple, combined	$827,000	$1,030,000
Illness separated couple, combined	$973,000	$1,176,000
One partner eligible, combined	$827,000	$1,030,000

Standard pension income test

These are the income rules for most pensioners.

• Single person

If your income per fortnight is	Your pension will reduce by
$168	$0
Over $168	50 cents for each dolar over $168

• Couple living together or apart due to ill health

If your income per fortnight is	Your pension will reduce by
$300	$0
Over $300	50 cents for each dolar over $300

Robert Syben
Head of Financial Planning

Capital Raising

Businesses are not always able to grow their operations organically and often need to attain additional capital in order to expand. Whether expansion is through acquiring another business, building a new warehouse, purchasing more machinery or opening a new store on the other side of town, this issue is faced by businesses of all sizes and across all industries. Likewise, if you are establishing a new business it is imperative that you have the resources to get it off the ground and running.

There are many sources of capital available that suit the control and leverage preferences of owners. The most common sources are debt, equity, convertible debt and crowd funding.

Debt

Bank loans are the most common form of debt financing, but other alternatives such as commercial paper or short-term instruments are also available. The advantages of debt financing include:

- the low interest rates currently available;
- lower transaction costs compared with issuing equity;
- the opportunity for less ownership dilution (less shareholders are potentially needed to raise a given equity component); and
- interest payments are tax deductible which causes Return on Equity (ROE) to increase during favourable economic conditions.

Disadvantages include:

- the restrictive debt covenants imposed by lending institutions; and
- the effect of mandatory principal and/or interest payments on cash flows and liquidity.

Equity

The advantages of equity financing include:

- investors take on all the risk;
- investors take a long position and in this type of venture, would not normally expect an immediate return on investment;
- profits accrue to shareholders rather than debt repayments; and
- there will be more cash on hand and there is no requirement to repay the investments if the company fails.

Disadvantages include:

- shareholders can vote on business decisions, reducing management and individual control;
- transaction and listing costs are higher than debt issuance;
- investors may require returns higher than interest rates of debt financing; and
- profits have to be distributed to investors.

The most common forms of issued equity is common stock and preference shares. Common stock is entitled to dividends and has voting rights. Different classes of common stock can be assigned different voting rights. For example, a Class A share might entitle a holder to five votes per share while a Class B share might only have one. Preference shares are shares that are entitled to a dividend before common shareholders receive a dividend. Preference shares generally do not hold any voting rights.

Convertible Debt

Convertible debt comprises a hybrid between debt and equity. Essentially a company borrows money from an investor with the intention of converting the debt to equity at some later date. If a company believes its equity will be worth more at a later date, then it will dilute less by issuing debt now and converting it to equity later. Issuing debt and later converting it also results in lower transaction and listing costs than pure equity issuance. This option can be very useful for start-up operations where it is difficult to estimate the value of the equity.

Crowd Funding

The costs of issuing equity via traditional channels and risks of bank funding can be avoided via crowd funding websites such as OzCrowd, Crowdfund it!, Pozible and Kickstarter. New rules are being introduced regarding equity crowdfunding in Australia. We understand these include:

crowd funding will be available to unlisted public companies with less than $5 million in assets and less than $5 million in annual turnover;

investments will be capped at $10,000 per investor over a 12-month period;

public companies will be exempt from some reporting and governance requirements for a five-year period; and

investors will be protected by a five-day cooling-off period during which they can reclaim their investment if they have second thoughts.

Another source of crowd funding could be through listing on the Australian Small Scale Offerings Board (ASSOB), of which CIPL Holding is a member.

At The Investment Collective, we have the analytical skills to determine the appropriate method for raising capital based on individual businesses' preferences whether it be through debt, equity, convertible debt, crowd funding or a combination of options. We achieve this through appraising the health of the business, assessing the viability of the planned use of funds and determining an accurate level of investment needed through the construction of valuation and cash flow models.

If the aspirations for your business are currently hindered by its slow or stagnant growth, or if you want to start your own business but do not have access to the required capital, then perhaps it is time to come in to one of our offices to discuss these options with our consulting team.

Jake Brown
Business Consultant

Insuring the Younger Generation

When it comes to the younger generation, life insurance can often seem unnecessary and/or too expensive. But what would happen if your young adult child had an accident that left them totally and permanently disabled? Assuming the child has no insurance, next to no superannuation savings, and no other forms of cash holdings. I would presume, being the loving parents you are, you would want to help your child at any cost. However, as a consequence, you might stand to lose a significant amount of capital, and therefore forgo the retirement lifestyle you've always dreamt of having.Here's some reasons why 'young' people should have insurance:

They may have debt that needs to be covered. This debt may be in the form of HECS/HELP, car loans, personal loans or credit cards.

Future insurability – whilst they may not require a large amount of cover now, it is more than likely their needs will change in the future e.g. start a family, buy their first home, etc.

Establishing a life insurance policy as a young adult ensures protection for the long-term. Whilst still young and healthy, there is less change of premium loadings and exclusions being applied to cover as a result of health issues.

The earlier life insurance is put in place, the cheaper the cover.

One way of safeguarding your family's future is to fund your child's premiums if they are not in a position to do so themselves. By funding Life, Total & Permanent Disablement, Trauma and Income Protection insurance, you and your child will have the protection in place should the unthinkable occur.

Premium amounts vary according to age, gender, occupation, smoker status and health. For example, to insure a female, age 28, non-smoker, professional for $500,000 of Life and TPD cover, it would cost approximately $400-$500 per annum or $33-$42 per month – a small price to pay for security.

Take the time to talk with your children about their financial situation. If your (adult) children have not planned ahead and the unthinkable occurs, this could detrimentally affect your retirement. You owe it to yourself to start the conversation as soon as possible.

Amy Gill
Risk Adviser

Amcor (AMC)

Recently we introduced Amcor (AMC) to our Approved Products List (APL).

It is a constant exercise to monitor and evaluate positions on our APL and seek out opportunities for prospective inclusion. Due to our high benchmarks, we operate a relatively low turnover list and once extensive due diligence is made and a company is included on the list their strong quality overlay generally provides longevity of inclusion. Due to the applied benchmarks, inclusions are difficult to find. After extensive due diligence on AMC we decided as a committee to include the company.

Amcor is a global packaging company with operations across Australasia, North America, Latin America, Europe and Asia. The group has two main operating segments being the Amcor Flexibles division and the Amcor Rigids division. Both segments focus on packaging for stable and largely consumer staple products such as fresh food, ready meals, pharmaceuticals, personal care and wine and beer just to name a few. As a result, AMC's revenue streams are relatively stable and move generally in line with global GDP.

We were attracted to AMC due to its exemplary operating performance since the company underwent a significant re-shaping over the course of a number of years. Beginning at close to the depths of the Global Financial Crisis, AMC opportunistically acquired Alcan Packaging from Rio Tinto for US$2025m. The transaction was widely accepted to be hugely beneficial to AMC as it provided significant scope within the important flexibles division. The company also made a transformative divestment of Orora Group (ORA) which, combined with other factors, released AU$2.2bn of capital from the AMC balance sheet. Orora operates mainly in the highly commoditised corrugated cardboard segment of the market and is simply an inferior business. To put this in perspective, because of this divestment AMC's group Return on Invested Capital (ROIC) rocketed 300 basis points higher from 7.9% to 10.9% in FY2014.

We hold a favourable outlook for AMC as it continues to provide a solid outlook for investment returns going forward. As a total return, the expectation is for between 8% - 12% with 4% derived from dividends, 3% - 4% from organic growth and the remaining from share buybacks. The company is a high return on capital business with high free cash flows. Furthermore, due to the nature of AMC's defensive earnings stream it exhibits a very low beta (volatility of share price against the broader market) of 0.55x. Regular readers of this column will know that a low beta is something we strive for when we build and maintain client portfolios.

James Hardie

James Hardie (JHX) has suffered a chequered history. From the late 1970's, the group was on the receiving end in asbestos related lawsuits being filed against it. As the serious health effects of asbestos became well known, the group ceased production of products containing asbestos. Still today, the company is paying for its historical malpractice and continues to pay out asbestos liabilities. However, legacy issues aside, JHX must be assessed as a future investment prospective.

JHX specialises in fibre cement manufacturing and developing technologies, materials and processes for the production of building materials such as external sidings, internal linings, facades and tile underlay as well as many other applications. JHX derives close to 80% of its revenues from the North American market so it is highly exposed to US building starts. Further, the company has continually won market share and management have guided the market to a long-term “35-90” objective based on fibre-cement's 35% share of the US cladding market for JHX aims to command 90% of that market. These are ambitious targets but this is testament to the quality of the JHX business.

There are some market concerns over recent quarterly results from JHX showing underwhelming performance with a decline in net profit and margins however, much of this is due to short-term capacity restraints for the business which is being rectified with investment into greenfield manufacturing production sites. We view this as relatively short term in nature and with strong top line revenue growth; JHX is still performing well in its key markets.

JHX is not a company currently on our Approved Products List (APL) however, given the company meets many of our benchmark criteria such as high return on invested capital, strong free cash flow and low gearing levels it is worthy of further investigation. At this stage JHX needs more work from a due diligence perspective however, we will continue to monitor the company in the interim.

CSL

After years of significant reinvestment back into its business, CSL (CSL) is reaping the rewards.

On the 19th of January this year, the company announced a significant profit upgrade from an expected 11% increase in profit to a range of between 18%-20%. The share price rocketed 12.5% higher on the day of the announcement and more recently, management announced an entry into the Chinese plasma market with a US$352m 80% stake in Ruide.

Ruide is a relatively small, high quality plasma fractionator and product developer. This announcement on top of the influenza business performing better than market expectations has resulted in a very positive share price environment for CSL this year.

When the business is generating an after tax return on invested capital of 24% (FY16), it is logical for management to invest back into the business. CSL has benefitted from significant investment into its US plasma collection sites and in light of a global plasma shortage, CSL has been able to win market share as its volumes have risen over and above the market. As plasma is a vital input for its key products such as those in treating haemophilia (IDELVION and AFSTYLA) CSL has been able to control its costs as well as leveraging its superior products with robust sales growth. Furthermore, we view CSL as having a long platform of potential growth due to its product pipeline being in various stages of the regulatory approval process.

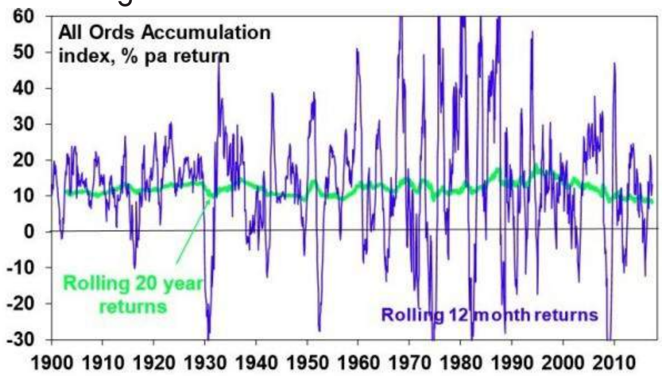
The decision to purchase an 80% stake in Ruide in China was one that the market looked upon favourably. It is a market currently underpenetrated by CSL, and the move will now enable CSL to manufacture albumin in China rather than rely on its importation. Furthermore, the Chinese market (demand for plasma) has exhibited a 15% compound annual growth rate (CAGR) since CY11 with CSL forecasting it to grow at another 16% CAGR over the next 10 years. Due to the small current scale of CSL's Chinese operations these numbers will not influence total group profit significantly in the short term but we view the longer-term Chinese story as a positive one for CSL.

We continue to hold CSL and will purchase more in times of market weakness for clients. When investing, we seek out companies that we would invest in if the share market closed for 10 years and CSL fits the bill with this very nicely. A long platform of growth combined with the company's resilient earnings base (low beta of 0.87x) form the foundation of our investment thesis.

Lachlan McKenzie-McHarg
Adviser Equities, Dealings & Research

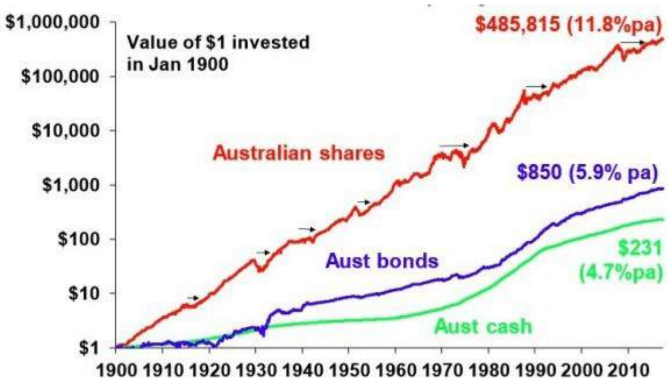
Chart Pack

Sit tight - for solid stock market returns look through the daily noise



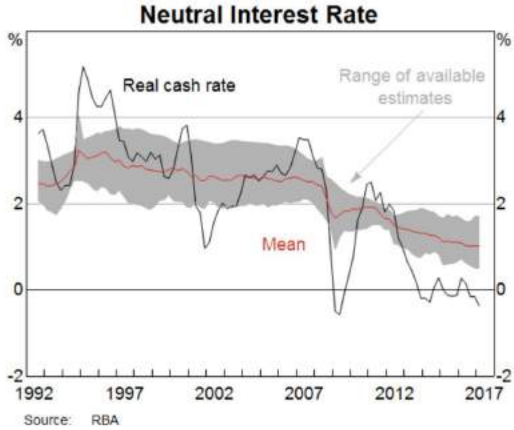
Source: Global Financial Data, AMP

A new normal? - The recent RBA meeting has affirmed market expectations of lower rates for longer



Source: RBA

Tortoise v the Hare - Australian equities provide for a sound long-term return



Source: Global Financial Data, AMP

Running a Marathon

If you have ever known someone to run a marathon or even just trained for one, your first reaction would probably be: “You are crazy.” Right? Well, I am proud to say I am one of those crazies.

Why a marathon? The idea of running a marathon stemmed from my New Year’s Resolution back 2016. I just had my quarter life crisis and decided that 2016 would be the year that I would travel more, experience more and challenge myself more. And for the latter, I thought my very first official 42.195 kilometres would be quite the epic milestone – challenge accepted!

Once I got the guts to register for the marathon and had it bright on my calendar, the rush and anticipation was ecstatic!

…Before I realised that, the countdown began. I had to prepare.

So I put my professional Goggle-ing skills to good use and devised an intensive 3-month training regime, which went something like this:

- First half
  - o 3 runs per week
  - o 10 kilometres per run
  - o Total coverage for the week: 30 kilometres
- Second half
  - o 3 runs per week
  - o 10-15 kilometres per run on weekdays and a 30+ kilometres run each Saturday
  - o Total coverage for the week: 60+ kilometres

The training alone really tested me, both physically and mentally, not to mention my discipline. Through it all, motivation and sheer determination kept me on track (that, and the excruciating pain I was told I would go through if I under-prepared). For every time I said to myself, “What am I doing?” when waking up at 6am on a weekend to go run a ridiculous length of time, I would always have a good reason to keep going.

And I am proud to say… I did it!

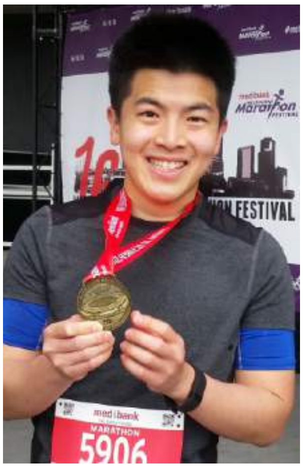


Image: 2016 Medibank Melbourne Marathon Festival

Now, as I write this, I am 4 weeks away from my next marathon attempt in Sydney, 8 weeks from the 2017 Medibank Melbourne Marathon Festival; and am undergoing the second half of my training regime.

(So if you see me scoffing down a double serve of pasta, please don’t judge me!)

But, today, the message I want to focus on is not the hours of training, not on the hitting of the dreaded wall, or the blood, sweat, tears, snot and other assorted bodily fluids shed in the course of training for, and the completion of, a marathon.

Despite the various reasons for (and against), signing up for, not one but two, is for the unforgettable race-day experience. Running a marathon is not just getting through 42.195 kilometres of running. It is soaking up the energy of the crowd there just to watch the runners. It is feeling the camaraderie of thousands of fellow runners before and during the race. It is the chance to travel and to run in iconic places. It is high-fiving kids along the route, and high-fiving complete strangers at the finish line. It is all those little things that make running a marathon such an awesome experience.

Marathon Karaoke – Top 5 Hits

1. Bon Jovi – Living On a Prayer
2. Fall Out Boy – Centuries
3. Macklemore – Glorious
4. The Killers – Mr. Brightside
5. The Lonely Island – Jack Sparrow (some giggles).

Ken Khoo
Senior Paraplanner

Our Sponsorships

Paradise Lagoons Campdraft

Paradise Lagoons Campdraft was held on the 20th-23rd of July just outside of Rockhampton. We have been proud to sponsor the campdraft the past few years and 2017 was no different. Cheryl, one of our bookkeepers, and I spent four days at the event representing the company. We had many other staff visit us over the weekend, and they all gave a helping hand.

A lot of us also went to the Ladies Luncheon on the Saturday, where we had a great view of the campdrafting action. Our lunch was delicious and Gold Logie winner Denise Drysdale provided everyone with comedic entertainment, it was a fantastic afternoon.

Image: The Investment Collective staff at the Ladies Luncheon

Over the weekend, we enjoyed meeting and talking to lots of new people, visiting other stalls at the Trade Fair and enjoying the campdraft action!

Pineapple Field Day

A new sponsorship this year was Growcom's Pineapple Field Day. CDIF Solar sponsored the agricultural event and Adrian, our Consultant/Analyst, attended with Troy Lobegeiger of The Power Shop.

Held in Maroochydore, the two day event included various presentations, farm tours, networking lunches and a gala dinner.

Image: Adrian at Pineapple Field Day

Challenge the Mountain

The past couple of years we've sponsored and had staff participation in Challenge the Mountain. Held in Rockhampton on the 1st-3rd September, the main event is a walk/run/cycle up Mount Archer.

We attended the Sportmans Dinner to begin the challenging weekend, where Steven Bradbury and Dane Bird-Smith were guest speakers.

The big event was on the Saturday. We had staff participating (both cycling and running up the mountain) and volunteering, with a couple of staff members handing out fruit and water up the top.

Image: The Investment Collective staff with Dane Bird-Smith after Challenge the Mountain

Image: Amy volunteering at Challenge the Mountain

To finish off the weekend, there was a family fun run, Running of the Bulls and another cycling event, Chady's Ride. Staff participated in both events and look forward to challenging themselves again next year!

Image: The Investment Collective staff at Running of the Bulls

This year we also have a staff member performing in Rockhampton Musical Union's annual production. We've sponsored the RMU for many years and can't wait to see their production of '*Les Miserables'* which will be on during the last weekend of October at the Pilbeam Theatre.

Caitlin Toohey
Social Media and Marketing Officer

Staff Update

Welcome Pardis!

Pardis joined us as our new Financial Services Assistant in August and will be working in the Rockhampton office. Pardis previously worked within the banking industry and comes with finance, planning and client service experience.

Welcome Nicole!

Nicole started as Financial Services Assistant in September and will be working in the Rockhamtpon office. Nicole was previously working in banking, specifically in lending, home finance and insurance. Nicole has over 15 years' experience in finance and real estate.

Welcome Yan!

Yan started in our Melbourne office in September as our new IT Assistant. Yan is from China and has been living in Australia for seven years. She is proficient with coding and programming and experienced in IT. Yan has an interest in Japanese culture and travelled extensively throughout Asia.

Welcome Hannah!

Hannah started in our Melbourne office in October as a new Financial Services Assistant. She has a mixed background in genetics and finance and spend quite a lot of time working with native Australian wildlife and the Animalia Wildlife Shelter.

Welcome Daniel!

Daniel started in our Melbourne office at the end of October as a Financial Services Assistant. He will be working as part of our Investment Team.

Staff

Rockhampton - 1800 679 000

David French	Managing Director
Sue Dunne	Senior Financial Adviser
Dean Tipping	Financial Adviser
Selena Smith	Reception / Administration Support
Dylan Tyler	Reception / Administration Support
Bronwyn Nunn	Compliance Support Officer
Jodie Thompson	Share Trading Officer
Pardis Hudson (NEW!)	Financial Services Assistant
Nicole Retallack (NEW!)	Financial Services Assistant
Davina Knight	Compliance Manager
Rose Sladden	Client Services Manager
Adrian Cahill	Consultant / Analyst
Katrina Tearle	CHESS Administrator
Natasha Kuhl	Portfolio Administrator
Caitlin Toohey	Social Media / Marketing Officer
Cheryl Walton	Bookkeeper
Christine King	Bookkeeper
Sandra French	Bookkeeper
Kailan Augustine	Bookkeeper
Louise Bidenko	Bookkeeper / Manager Business Support
Boden Abell	Undergraduate Trainee

Melbourne - 1800 804 431

Robert Syben	Head of Financial Planning / Financial Adviser
Chris Heyworth	Senior Financial Adviser
Lance Livermore	Senior Financial Adviser
Mark Buisman	Senior Financial Adviser/ Mortgage Broker
Joshua Scipione	Financial Adviser
Stephen Coniglione	Financial Adviser
Scott Plunkett	Risk Adviser/ Mortgage Broker
Morgen Harris	Risk Adviser
Amy Gill	Risk Adviser
Hannah Smith (NEW!)	Financial Services Assistant
Daniel Trajkoski (NEW!)	Financial Services Assistant
Ian Maloney	Manager Share Trading
Lachlan McKenzie-McHarg	Adviser Equities Dealing and Research
Ming Hou	IT Manager & Senior Developer
Yan Li (NEW!)	IT Assistant
Sharon Pollock	Manager - Client Services and Paraplanning
Tracey Briggs	Client Services Officer
Jake Brown	Business Consultant
Michelle Su	Reception / Administration Support

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