The INVESTMENT COLLECTIVE

INVESTMENT MARKET UPDATE

ISSUE 64 SUMMER 2018

MESSAGE FROM MANAGER

In the 1970's, Rockhampton had two television stations, locally owned RTQ7 (which was amazingly, listed on the Stock Exchange) and the ABC. With their combination of comedy sketches and social commentary, and before the obligatory ABC news, an evening highlight was The Goodies.

The motto, "we do anything, anywhere, anytime" stuck with me since, and for a long time, it was my response when people asked me what our business did. It's a shame that the nuance is probably mostly lost on people younger than say 50 – it harks back to a time when "going above and beyond" was simply what people tried to do (even if it means setting up a hospital in a park!).

Helping some clients in Dubbo the other week, I was amazed to meet a public servant who more or less insisted on filling out the forms for a proposed water licence for a client's farm. "It's just what we do" he said, and sure enough within a week, a pre-populated form arrived, accompanied by maps and some questions seeking further clarification. This is so different to our usual day to day experience with regulators and others, for whom the modus operandi is to say "you'll need to get your own legal advice on that".

It's also very different to the culture within our own organisation. We want to help, and we often go to extraordinary lengths to get satisfactory outcomes for clients. Just last week Pardis in the Rockhampton office spent days on the phone fixing an error, caused by Centrelink, that affected many clients firmwide. We've gone in to bat for clients against the ATO, and against multinational franchisors. We have sometimes become involved in unpleasant family mediations and we have facilitated sensible outcomes with demanding banks. We've helped clients recover debts, and make helpful arrangements when aged and alone, clients unexpectedly found themselves in hospital. All that is in addition to the day to day tasks of providing advice regarding people's financial affairs, superannuation and helping to manage portfolios and their tax situation.

The Goodies mantra is an insight into an attitude – to roll your sleeves up and do things whatever comes your way. Perhaps it's a bit dated – a less humorous alternative might be George Clooney as lawyer Michael Clayton speaking to an associate – "We're not miracle workers, we're janitors".

David French
Managing Director

Thinking of downsizing?

Many Australian retirees find they want a smaller home, or a home more suited to their empty-nest requirements. For some retirees, selling the family home can be a great way to release built-up equity to pay for retirement living expenses or in-home support that will allow them to stay at home longer.

Older Australians are the people targeted by the Government's new policy to allow homeowners aged 65 years or over to downsize their family home and invest the surplus into their super. The downsizing and super contributions proposal was announced as part of the 2017/2018 Federal Budget (May 2017 Budget). The proposal became law on 13 December 2017.

From 1 July 2018, Australians aged 65 years or older will be able to make a non-concessional (after-tax) contribution into their super account of up to $300,000 from the sale proceeds of their family home if they have owned the property for at least 10 years. The legislated rules indicate that the property sold must be the person's primary residence.

Couples will be able to contribute up to $300,000 each, giving a total contribution per couple of up to $600,000.

Any super contributions made using the new downsizing rules are in addition to any voluntary contributions made under the existing non-concessional (after-tax) contributions cap.

Although downsizing and contributing to super is an interesting idea, there are definitely some benefits and dangers – together with a few unknowns – to consider before taking the plunge.

Set out below are 10 important issues to consider before downsizing your home and contributing to your super account:

1. Opportunity to boost super balance

Retirees who have not had the opportunity to save sufficient funds for a comfortable retirement will be able to use the new downsizing cap to top up an inadequate super balance.

2. No 'work test' or age limit

The existing 'work test' for voluntary contributions made by those Australians aged 65-74 does not apply to downsizing contributions. Currently, people in this age group need to prove they worked in gainful employment for 40 hours within a 30-day period during the year to make a super contribution.

3. Retirement phase transfer balance cap remains in place

Australians making a downsizing contribution into their super account will still face a $1.6 million transfer balance cap on the amount of super savings they can move into tax-exempt retirement phase income streams. If a person has reached their $1.6 million transfer balance cap, then any downsizing contribution they make will need to remain in accumulation phase (and be subject to 15% tax on any earnings derived from the investments).

4. Contributions not subject to the $1.6 million Total Superannuation Balance restriction

Since 1 July 2017, an individual cannot make non-concessional (after-tax) contributions to a super account if they have a Total Superannuation Balance of $1.6 million or more. Individuals who have maxed out their opportunity to make non-concessional contributions to a super account will still be able to make a downsizing contribution as these contributions are exempt from the new $1.6 million Total Superannuation Balance limit.

5. No requirement to buy a new home

An individual making a downsizing contribution (from the sale of their principal place of residence) is not required to buy a new home after they sell their home.

6. You must submit a downsizing contribution form

Downsizing contributions will be invested within the super environment, which means such assets will be able to take advantage of the lower tax rate levied on investment returns within the super system. Earnings received on a super balance are only taxed at 15% (or are tax-exempt if rolled into a retirement income stream) rather than taxed at the person's normal marginal tax rate.

Given the tax advantages, it's worth noting that the ATO will be responsible for administering the scheme. Before accepting contributions under the downsizing scheme, super funds require verification on behalf of the ATO that downsizing contributions are from the sale of a family home owned for more than 10 years. An individual planning to make a downsizing contribution must provide his or her super fund with the special form before or at the time of making the downsizing contribution.

7. Contributions count toward Age Pension tests

The government has confirmed downsizing contributions will be counted for the assets and income tests used to determine eligibility for the Age Pension and DVA benefits. Downsizers will be moving money out of an exempt asset (their family home) into the non-exempt and assessable environment of their super fund.

8. Transfer and property costs limit surplus capital

The costs involved in selling a family home can be substantial due to high stamp duty and land taxes, therefore, people considering downsizing should carefully calculate this impact.

In addition, selling a large home and downsizing to a smaller property does not always release much excess capital (particularly in a capital city) hence potential downsizers should check they will have sufficient funds left over for a worthwhile super contribution.

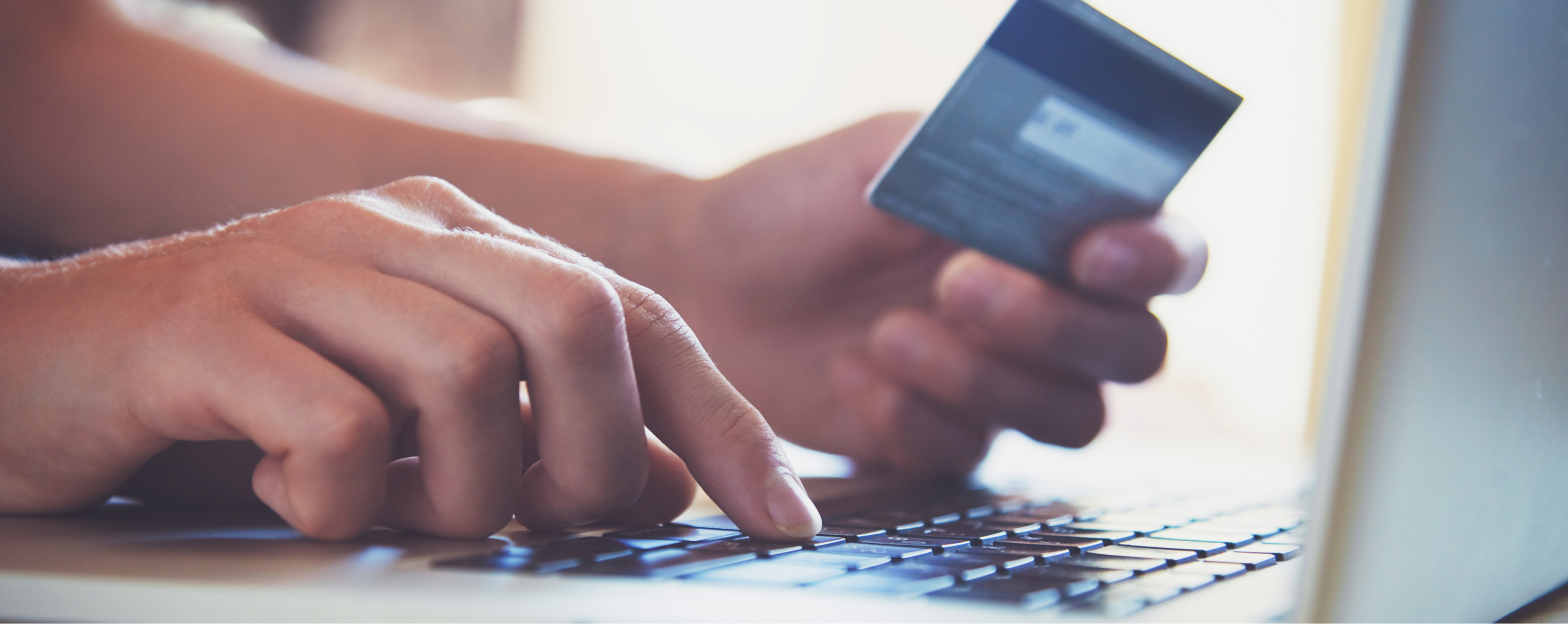
9. Timeframe (90 days) for contributing sale proceeds into super

The new downsizing law specifies that an individual hoping to take advantage of this measure must make the downsizing contribution within 90 days of receiving the sale proceeds (typically settlement day) from their family home before they are prohibited from making a downsizing contribution.

10. 90-day timeframe may give opportunity to invest sale proceeds before contributing

The downsizing policy starts from 1 July 2018. The new laws don't appear to preclude investing the sale proceeds or mixing the proceeds with other money in the period between settlement and making a super contribution.

Josh Scipione
Financial Adviser



Are you experiencing credit card stress?

By now, you would have received your credit card statement following the spending spree of Christmas, and the impulse purchases made during the Boxing Day/New Year's sales. Maybe you overindulged in online shopping over the holiday period.

Credit cards offer a quick and convenient way to purchase goods and services; however, it may be more difficult to keep track of your spending when compared to using cash. If you have substantially increased your credit card balance, or reached your limit, you may be struggling to keep your repayments up to date within the interest free period.

When paying via credit card we often believe that we will repay the balance within the interest free days, but that may not always be the case! When you exceed the interest free period, the purchase interest rate can be around 20% per annum or higher (22%+ p.a.) for a store card.

What are your options to get your credit card debt under control? Here are some alternatives to consider:

BALANCE TRANSFER CREDIT CARD

Most providers offer a balance transfer facility to attract new business. The debt from the existing card can be transferred to a new credit card which offers a reduced interest rate (as low as 0%), for a fixed period. The balance transfer rate can apply for 6 – 24 months depending on the provider; however, any additional spending will incur the standard interest rate of the new card. The key to this strategy is to be disciplined by not clocking up more debt, and to take advantage of the 'honeymoon' period to focus on repayments, and ensure that you clear your credit card balance on time. Once the balance transfer period has ended, the rate will default to the provider's purchase interest rate, which may be higher than the rate on your old card! It is important to check if there are any balance transfer fees, and what other terms/conditions and charges will apply after the introductory period has ended.

LOAN CONSOLIDATION – PERSONAL LOAN

Obtaining a personal loan to consolidate the debt on your credit card(s) may be an option. Many providers offer the ability to consolidate several credit cards, with a lower fixed or variable interest rate, over a loan term of several years. Consolidating your debt should make it easier to manage your repayments, and you may be able to clear the debt earlier by paying more than the minimum amount.

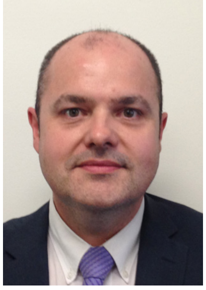
REFINANCE/CONSOLIDATION - HOME LOAN

If you have sufficient equity in your home, you could consider refinancing your mortgage to consolidate your credit card debt. We are currently in a record low interest rate environment, with some providers offering rates of >4% p.a. With or without credit card debt, if you haven't reviewed your home loan for a few years, you may be paying too much on your current mortgage!

Consolidating credit card or personal loans into your home loan will allow you to clear these debts sooner if you have the ability to pay above the minimum home loan repayment.

There may be many issues to consider before consolidating debt, or deciding to refinance your home loan. Please contact one of our lending specialists to determine the costs and benefits, and to discuss your options.

Scott Plunkett
Risk Adviser/Mortgage Broker



Is Bitcoin really an investment?

I've known 'Joe' for about a year. He's a barista at one of my favourite local coffee shops. Most mornings our conversation doesn't progress past the weather. However, last week, as he's handing me my extra-shot cappuccino, Joe suddenly asks me, 'Robert, I want to invest in Bitcoin. My mate bought some last year and quadrupled his money. What do you think, good idea?'

'Joe' I said, 'Buy it if you want mate, but don't call it an investment. Call it what it is, a punt.'

Bitcoin is like the money in your wallet, except it's digital. It's 'digital money'. Encryption techniques are used to regulate the generation of new units as well as verify transactions. Nobody controls it and nobody's responsible for it.

Now, although I don't really understand how Bitcoin works, I'm pretty sure that at some point in the future, we'll all be using some form of 'digital money' to buy things. However, I don't know whether that digital money will be Bitcoin or something else.

But here's what I do know. When my barista starts asking me about buying Bitcoin as an investment, red flags start going off in the back of my head.

The price of this 'investment' has just exploded over the last few months, as Joe's mate and thousands of others like him, started buying Bitcoin aided by the numerous means by which they can now do so. And of course, the mainstream and social media are now awash with reports of how individuals have struck it rich trading Bitcoin. Meanwhile, all this excitement is being fanned by 'market analysts' predicting that having just breached the $20,000 valuation, Bitcoin is on its way to $1 million by 2020.

I also know that the associated volatility in price of these 'digital currencies' is simply stomach churning. For Joe and his mates, that's perhaps exactly what they're seeking; an 'investment' that will pay off big time within a short time. They don't know how it works, and probably care less. They're not interested in a steady, reliable income stream over the longer term. Everyone else seems to making big money, and they just want in on that action.

So, what do I know? It sounds like a punt, and if that's your thing, good luck! Just don't call it an investment.

Robert Syben
Head of Financial Planning/Senior Adviser

Farewell Lance

At the end of October 2017 Lance Livermore moved away from day-to-day involvement in the business.

He remains a director of the Board of CIPL (Holding) Limited. Lance contributed a couple of decades to the creation and development of the financial planning business in Camberwell. Some health issues over recent months meant that Lance was not able to look after his clients and help his colleagues to the level he aspired to. It is a testament to the integrity of the man that he chose to move away from the business rather than fall short of his own expectations.

Lance was an enthusiastic supporter of the Western Bulldogs AFL team. The rest of us had to put up with Bulldogs stickers around his work area and the draping of a scarf in team colours when they won. During the 2016 season (when the Bulldogs won "the flag"), his support for them became ever more evident, however the expression "humble in victory, gracious in defeat" would well apply to Lance the supporter and the person. Lance was also one to share, after the event, the great odds he was able to get when backing some team or player to seize victory from the jaws of defeat – the rest of us didn't hear of these irresistible opportunities as they arose, unfortunately.

We wish Lance and his wife, Pam, well in the next phase of their lives. A chance for more extensive travel, greater interaction with the grandchildren and working on the golf handicap. We miss his presence around the place, his sense of humour, his support for and interest in others. Lance forged many strong relationships with those he worked for and with and we look forward to keeping in touch and hearing about any new adventures.

Are you underinsured?

Every so often we hear how Australians are underinsured, and how income earners and their families experience financial hardship as a result of suffering from sickness, injury, long term disability or death. I've developed a quick guide to help you see if you're at risk, and what you can do to rectify the problem.

1. Do you have insurance?

Recent statistics have shown that 83% of Australians say they have car insurance, and only 31% of those have income protection. Did you know that your income is your biggest asset?

For example, John is 35 years old, earning $80,000 per year and is married to Jane who is a stay at home mum. They have 2 young children, and have a $350,000 mortgage. Over a 15 year period (assuming a salary increase of 3.5% p.a.), John will have earnt over $1.5 million. Looking further in the future, by the time John looks to retire at age 65, he will have earned just over $4 million. How much is your car worth? How much is your house worth? Is it more than your accumulated income?

Many Australian's don't think twice about insuring their car or home, but struggle to see the importance of insuring themselves.

2. Where is your insurance held?

Is it held within superannuation, or is it personally owned? Many Australians have some form of insurance via their super fund, and may think that it is enough. But this is often not the case. Super funds offer various insurance benefits according to the fund design, and member eligibility criteria. The amount and type of insurance cover you have could be on a cost per unit basis, or a fixed amount depending on your age, occupation, etc. It is unlikely that the default cover offered via your super fund is appropriate for your specific circumstances.

You should be aware that there may be tax implications for holding insurance within your super fund.

Let's go back to John. He holds $300,000 of Total & Permanent Disablement (TPD) cover inside his industry super fund, and goes to claim. Due to his age and other contributing factors, out of the total sum insured, he will need to pay almost $73,000 of tax. Leaving a payable amount of $227,000, this is not even enough to pay off his mortgage.

Another thing to keep in mind is that some super funds will decrease your insurance entitlement as you get older. So if you're relying on the insurance in your super fund, it may not be enough to cover your needs.

3. How much is enough?

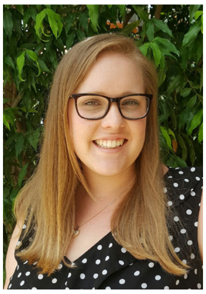
When calculating the required amount of Life and TPD insurance, there are a few things you will need to consider:

- Repayment of debts
- Funeral costs
- A lump sum to allow for home and vehicle modifications
- Future income expenditure. For example, costs of living, school fees, childcare, etc.
- Allowances for tax implications

There are a number of ways to calculate your need for insurance. The best way however, is to speak with one of our friendly Risk Advisors who can assist with some tailored recommendations.

If I were John's adviser and he told me he didn't have any life insurance, I would be asking him this one simple question: how will your family survive if you're not around to provide?

Amy Gill
Risk Adviser



Compare The Pair

A client recently asked me about the performance of his PAS investment account. He told me that his brother has an industry fund account invested in their Balanced Option, which returned 11.7% for the year to 30 June 2017. However, when he looked at his own PAS account, also invested in a Balanced Option, it had only returned 6.9% for the 12 months. Understandably enough, he was somewhat perplexed, and a little disappointed.

That is, until he and I looked a little closer at the details of the two so-called balanced portfolios. It turns out that although both his brother's industry fund account and his PAS account were both called balanced, they didn't look remotely similar.

As you can see from the table below, there are significant differences in how each of these two balanced accounts is invested. In broad terms, the industry fund balanced account has only an 11% investment in defensive assets, and an 89% investment in growth assets. On the other hand the PAS balanced account has a 35% investment in defensive assets, and a 65% investment in growth assets. The difference in performance can be largely explained by the difference in asset allocations. Our client understood and accepted this explanation. He was much more comfortable with his PAS balanced portfolio that was invested 'true to label' compared with a so-called balanced portfolio that really did look more like a growth portfolio.

The takeaway here is to keep in mind that just because two funds call themselves the same thing, doesn't make it so.

	An Industry Super Balanced Asset Allocation	**PAS Balanced Asset Allocation**
Cash	5%	4%
Fixed Interest	6%	31%
Aust Shares	21%	31%
International Shares	26%	14%
Property	12%	20%
Alternatives	30%	0%
Defensive Assets	**11%**	**35%**
Growth Assets	**89%**	**65%**
Total return for 12 mths to 30 June 2017*	11.7%	6.9%

**Before fees*

Robert Syben
Head of Financial Planning/Senior Adviser

Farwell Lachlan

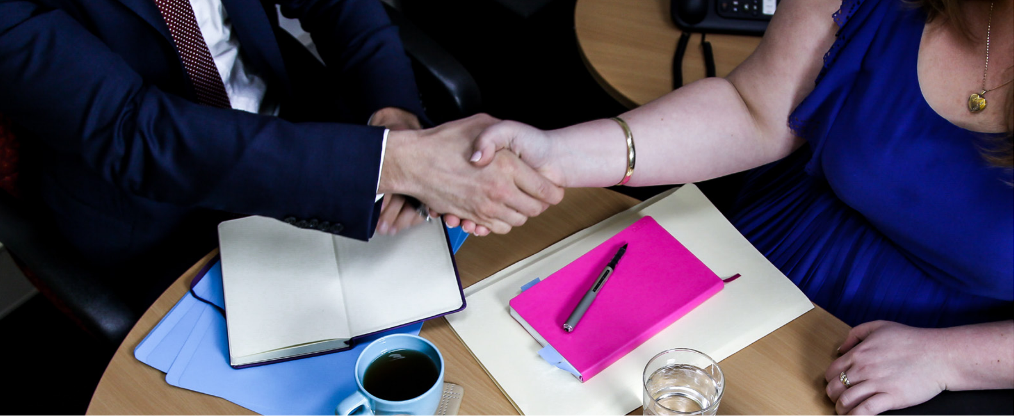
During the month of December Lachlan McKenzie-McHarg handed in his notice. Lachlan started working for Capricorn up in the Rockhampton office with Bob Stewart and then moved down to Melbourne to head up the Investment division. Not a month would go by without him bragging about how he made it through a Rockhampton wet season without an air conditioner. He has been writing articles for the quarterly newsletter for years and his views on the different companies that he has reported on were always well written and informative. For someone that had become part of the furniture we were all surprised and saddened by his resignation.

For the next phase of his life Lachlan is moving away from investing and becoming a restaurateur. Lachlan and his partner have bought a place called Tolarno in St Kilda. Tolarno has been an institution in Melbourne since the mid 1960's with previous owners such as Ian Hewitson and Guy Grossi. The Melbourne staff had their Christmas party there this year and the food was fabulous. We wish Lachlan the best in his new venture and hope to see him on the cover of Gourmet Traveller sometime soon. Please drop in if you are in the area and feeling hungry!

Welcome

Welcome Diane!

Diane joined our Rockhampton office in November as David's Executive Assistant. She has a background in retail management and is a group fitness instructor.



Professional Standards

A big change that is being applied to the Financial Planning sector is the introduction of Education and Professional Standard for Financial Advisers. The industry is striving to have Financial Planners be classified as professionals, just like doctors, accountants and lawyers with strict criteria of entry into the profession.

In brief, an independent standards setting body was established in July 2017 who will be responsible for deciding the education standards and other requirements to become a Financial Planner. From 1 January 2019, anyone wishing to become a financial planner will be required to hold a bachelor's degree or equivalent qualification. They will also need to undertake a professional year and pass an entrance exam. Existing planners are going to need to meet minimum educational requirements, though this may not necessarily mean they need to obtain a degree (it will depend on the amount of study/qualifications they have already achieved).

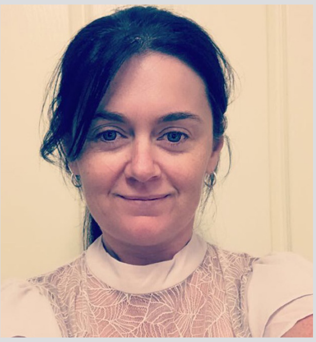
New and existing financial planners will both need to complete the exam by January 2021, will be subject to a code of ethics from January 2020 and all will need to undertake continuing professional development.

At The Investment Collective, we have long had a focus on education and training. The majority of our advisers are already degree qualified and we hold company-wide training (not just for advisers but for the office staff you don't meet – the administrators that actually complete the trades, move the money, maintain the systems that ensure you have access to your portfolio). Our staff are actively encouraged to pursue education and we maintain subscriptions to industry publications that are always left in a place that everyone can read. Our staff receive training on a variety of topics, from compliance issues, to how best to work with clients and how our business operates. This is all done in an effort to make every staff member, not just your financial adviser, the very best person to be handling your investments.

Why would this be of interest to you?

This means that you are getting the "crème de le crème" when it comes to financial advisers. Our advisers are qualified through education, training and supervision to provide you with the best advice. New advisers are trained by our senior advisers, with direct supervision of a new adviser for an average of a year. The Investment Collective financial advisers are already subject to the Financial Planning Association's Code of Conduct and the Continuing Professional Development requirements. All of this means that you are getting an adviser who is not a salesperson. You are getting an adviser who has studied and been mentored to be able to provide you with sound financial advice which is in your best interest.

Davina Knight
Compliance Manager

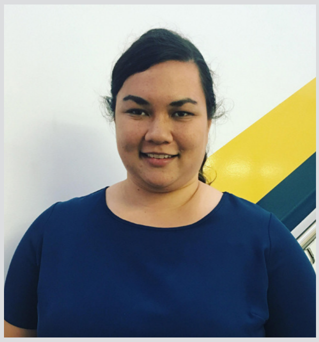


Welcome Traci!

Traci joined us in November as a new Bookkeeper. She brings over 20 years experience to the role and has previously been self-employed and a franchisee. Traci will be working from the Rockhampton office.

Welcome Imelia!

Imelia started as our new Reception/Admin Support Officer in Rockhampton in January. Imelia was born and raised in South Africa and has previously lived in New Zealand before relocating to Rockhampton.



Welcome Mary!

Mary joined us in the Rockhampton office in January as our new Bookkeeper. She has a Master of Professional Accounting and previous experience in client services in public practice accounting.

Christmas in Rio

I'm not quite sure how this is going to read given I have absolutely no credentials whatsoever as a "travel journalist"…but here goes.

For personal reasons and also to do something completely different than what has been done for the 48 years I've been on this planet, Rio de Janeiro was the destination for the recent holiday season for this quiet, shy boy who grew up in country Victoria, a very long way from Rio.

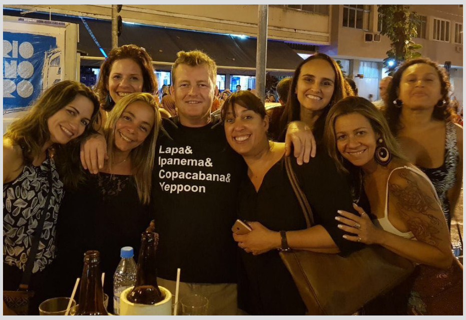
Some of you have no doubt been to Rio and Brazil…I hope this brings back found memories of your own experiences.

Rio de Janeiro, or the "River of January", was founded by the Portuguese in 1565. The place was given that name as they thought they'd sailed into a river but alas, that was not the case. But gee, those Portuguese explorers must have thought they'd found an absolute paradise given the topography around Guanabara Bay and the distant mountains are nothing short of spectacular, even today with the huge mass of "apartamentos" and favelas.

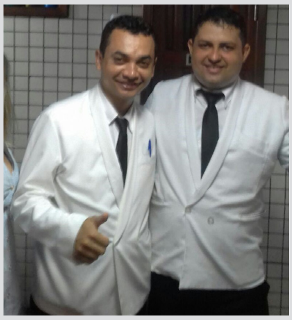
Sadly though, close up, it would be a fair stretch to say that Rio is a "paradise" especially when there's 30+ checkouts at the local "supermercado" and that the time waiting to be served is akin to the gestation period of a human. Your frozen vegies might not be in that state by the time you clear the gate however, to be fair it was the day before Xmas Eve and all the Cariocas were stocking up. The shelves and trolleys were full of 3.3lt bottles of soft drink and as for "cervejas" there is enough beer on sale at a supermarket (not in a licensed area/bottle shop mind you as there are no liquor licence requirements) for the Brazilian Navy to drink themselves into a stupor.

There's no Boxing Day in Brazil therefore, Xmas eve is when it all happens this time of the year and boy, does it happen.

"The Girls of Ipanema"- A tribute to my old mate Bob Lane who once said on the balcony at Headland Golf Club; "I'm surrounded by beautiful women…"



The waiters who worked at a "Chopperia" near the "Theatro Municipal" in Cinelandia. You enjoy full table service in the bars of Rio.



Parties are in full swing everywhere as the Carioca are very social people…they really know how to enjoy life and unofficially, there seems to be a contest as to who can let off the loudest cracker. For those who have experienced Territory Day in Darwin well, this is not a patch on what happens in the suburbs of Rio.

Densely populated with favelas that have sprung up and sprawled into the most unlikely of locations, the irony is the poor enjoy some of the most spectacular views Rio has to offer. More power to them!

For many Carioca, through no fault of their own, the circumstances under which they live their lives would leave many in this country feeling "unentitled" and hard done by. To their immense credit, the Carioca don't complain, blame or look to the government to "save them" but rather, they just get on with life and make the most of their circumstances.

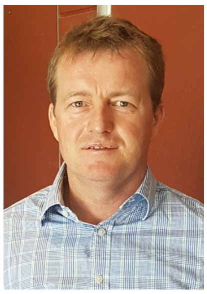
The Carioca are not ungrateful people. They respect each other… seats on the subway are offered up to seniors, pregnant women and people with children without hesitation mind you, there aren't that many seats in the carriages given the number of people that need to be transported daily. As an infrastructure business you wouldn't mind having an interest in the Metro in Rio…cash cow!! That said, the next time your mobile phone battery runs out and you don't have a charger and you're all in a tizz, spare a thought for the chap I saw on crutches wearing only a pair of shorts, no shoes, sifting through the rubbish to drink what's left in empty cans and bottles.

It was the 2nd time in "The River" for me having first venturing there in February 2009 for carnival which, is another experience altogether. This time, post the recent World Cup & Olympics I was keen to see how the place had changed.

The airport has been upgraded, the subway extended down to Barra da Tijuca, there is a "Walk Rio" which is a great way to explore the city at your own leisure without a map and there was nowhere near the number of "policia" present on the streets. I felt safe, however, it's wise not to carry too much cash or have visible signs of wealth because as a "turista" you do stand out. You need to keep your wits about you and there are areas of Rio not far off the beaten track you would not even consider venturing into.

The "River of January" is raw, loud, unregulated and so different to Australia…it is FANTASTIC!

Dean Tipping
Financial Adviser



Investment Update

Telstra (TLS)

Telstra has been a longstanding component of portfolios due to its monopoly pricing power in Australia's telecommunications industry and its regular high yield dividends. However, Telstra's recent earnings and dividend policy moving forward has led us to review its place in portfolios.

Comprising 77% of total recurring earnings, Telstra's primary business segments are its mobile and fixed line services. The ownership of telecommunications infrastructure has resulted in Telstra enjoying a dominant monopoly position in these markets since its inception. The maturing of the mobile industry, coupled with new entrants, has reduced segment revenue by 3% over the last two years. The rollout of the NBN in rural communities has effectively eroded Telstra's monopoly over the fixed data market, as customers are able to choose from a range of service providers that utilise the same network. In a sense, Telstra has now just become another player in the market with no monopoly protection and will have to compete on a level playing field for the first time in its history. Although fixed data revenue has remained steady, the market disruption from NBN has reduced fixed data profit margins by 11% over the last five years. The revenue from fixed line (landline) has decreased by 9% since 2007 as customers migrate to mobile services. Telstra owns a 50% stake in Foxtel that has also experienced market disruptions as customers switch to streaming services such as Netflix and Stan.

The recent poor performance of these business segments has caused Telstra to cut its historically high dividend from 31 to 22 cents in FY2018, which includes a special dividend from one-off NBN payments. However, the outlook is not optimistic and it is our view that this policy is not sustainable.

The continuing maturity of the mobile industry and its increased competitive landscape will negatively affect earnings. The growth of streaming services and the resulting shift of customers from Foxtel, coupled with decreasing margins because of increasing TV rights deals, will continue to reduce earnings. The migration of customers to the NBN will continue to reduce margins as the NBN rolls out in urban areas. Finally, the inevitable shift of customers off the landline network will further reduce earnings.

Knowing the precarious position it is in, Telstra's board attempted to securitise its future NBN payments. The aim was to use the funds to buy back shares and pay down debt thereby artificially and unsustainably, increasing dividends and earnings per share. The failure of this bid adds to the negative outlook for shareholders.

We believe Telstra will struggle to sustain its forecast dividend with its current mix of businesses. Although payments from the NBN will continue to prop up the dividend for the next few years, these payments have a finite lifespan and this revenue will be hard to replace.

ResMed (RMD)

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

RMD is a global manufacturer of CPAP (continuous positive airway pressure) and VPAP (variable) masks, machines and other products that diagnose, treat or help manage sleep-disordered breathing (SBD), obstructive sleep apnea (OSA), chronic obstructive pulmonary disease (COPD) or other respiratory conditions. The company was founded in Australia in 1989 but relocated to San Diego in 1990 and sells its products in the US, Europe and Asia Pacific. RMD is traded on the NYSE and as a Chess Depository Instrument on the ASX on a 10:1 ratio.

RMD's initially caught our eye with its high Return on Equity (ROE) of 17% and Return on Invested Capital (ROIC) of 15% in 2017. The ROIC is particularly attractive as it accounts for a number of recent acquisitions including the 2016, primarily debt-funded US$800m acquisition of cloud-based software provider Brightree. Before this acquisition, ROIC had increased from 15% in 2010 to 22% in 2015.

Another attractive factor is RMD's dominant position within the underpenetrated and high growth sleep respiratory care industry. Compared to its major competitors, Phillips Respironics and Fisher & Paykel Healthcare (ASX: FPH), RMD has increased its market share to 45% in 2016. To further cement its market position RMD is taking advantage of the industry's barriers to entry by allocating 7% (US$144.5m) of revenue and 14% of its employees toward research and development. Additionally, RMD's beta of 0.77, when compared to the healthcare sector's beta of 0.94, displays a lower level of inherent volatility.

RMD is actively taking a role in growing the sleep respiratory industry by increasing awareness of the disease's relationship with comorbidities such a heart failure, diabetes and stroke. As the market for sleep respiratory care develops, we believe RMD's dominant presence in the market, alongside its impressive outlay on R&D could help the company realise significant growth prospects.

We hold a favourable outlook for RMD as it boasts significant financial strength, strong market position, an inherent low volatility and attractive growth prospects.

Cochlear (COH)

We have also recently introduced Cochlear (COH) to our approved product list (APL).

COH is a medical device company that designs, manufactures and supplies the hearing implants (not hearing aids). Its main products are the Nucleus cochlear implant, the Hybrid electro-acoustic implant and the Baha bone conduction implant. COH manufactures principally in Sweden (Baha) and Australia and its products are sold to over 100 countries, with 48% ($A595m) of sales revenue from the America's, 34% ($A428.5m) from Europe, the Middle East and Africa and 17% ($A216.2m) from Asia-Pacific as of 2017.

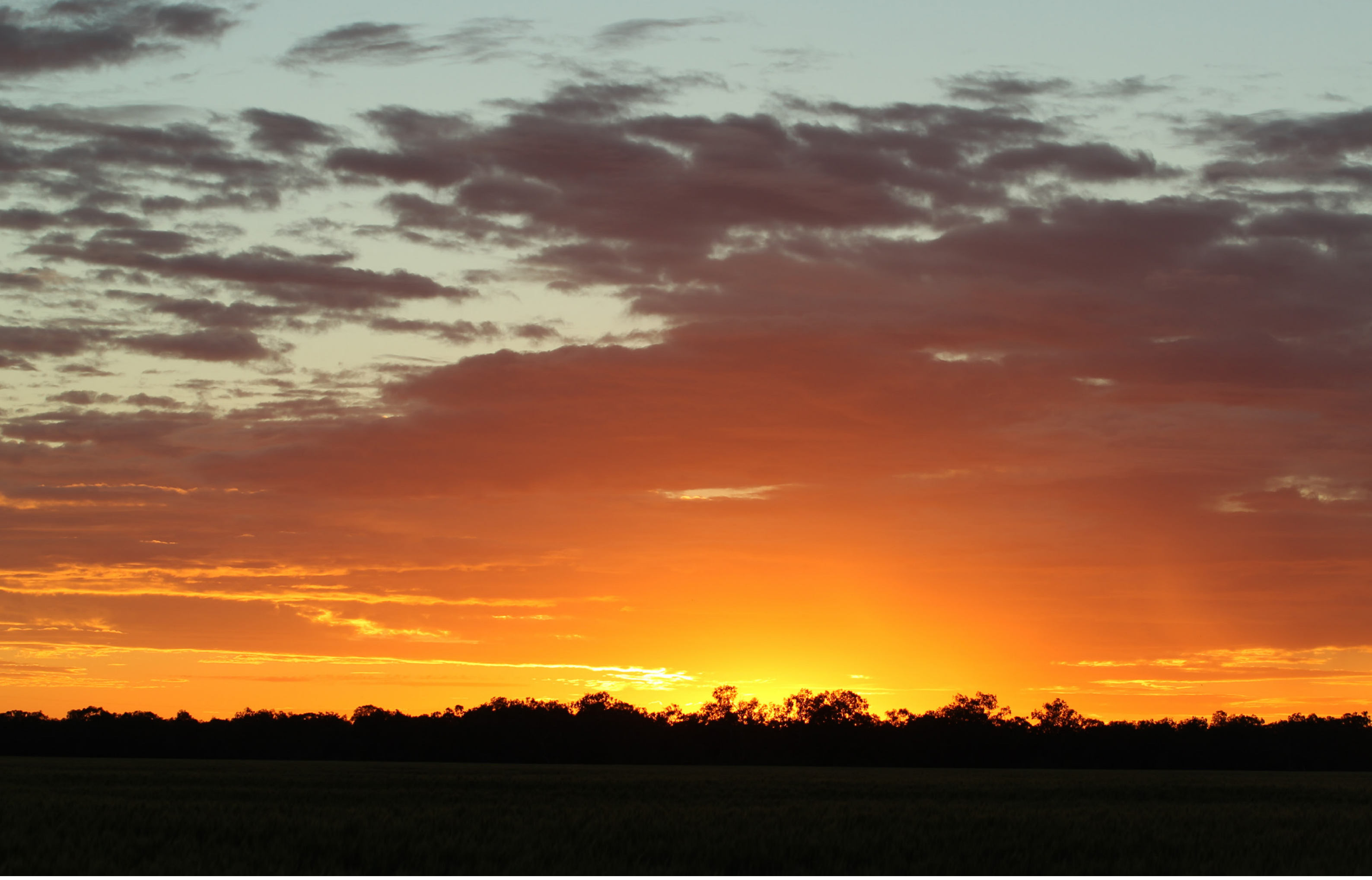
COH boasts a ROE of 41% and a ROIC of 33% in 2017, highlighting just how lucrative the business is for COH's shareholders. Since 2010, there have been only two years where ROE and ROIC were below 28 %. These years, 2012 and 2014, were marred by a product recall and a patent dispute that resulted in ROE of 15% and 28% and ROIC of 15% and 18%. These returns, although much less than in 2017, are still attractive and highlight COH's resilience.

The products and procedures associated with the industry are very invasive, as such, reputation with physicians and customers is integral for business performance and growth. Nucleus, the first cochlear implant approved by the FDA, has recorded 99% reliability over the last 8 years (including the 2012 product recall), which is more than any similar product in the market. In 2013, it was reported by Reuters that COH held 65-70% market share of the worldwide hearing implant market. COH strives to cement its market position through product innovation by deploying 12% of revenue ($A152m) into R&D.

According to COH, market penetration for hearing implants is currently <5%, coupled with an ageing population, this suggests that increased product awareness will facilitate growth. COH is actively working with governments to encourage increasing reimbursement rates, which would have a knock on effect on the number of patients and consequently service revenue. In 2017, the number of implants sold increased 8% to 32,544. The increasing number of patients has resulted in the revenue collected from servicing existing patients increasing by 190% since 2014 to result in 25% of total revenue coming from existing patients.

The impressive returns on equity and invested capital, the dominant market position in an underpenetrated market, the development of its service revenue and a market beta of 0.68, all contributed to our conviction to add COH to the APL.

Jake Brown
Business Consultant/Financial Analyst



Staff

Rockhampton - 1800 679 000

David French	Managing Director
Sue Dunne	Senior Financial Adviser
Dean Tipping	Financial Adviser
Imelia Potgieter (NEW!)	Reception / Admin Support
Rose Sladden	Client Services Manager
Diane Booth (NEW!)	Executive Assistant
Pardis Hudson	Financial Services Assistant
Nicole Retallack	Financial Services Assistant
Jodie Thompson	Share Trading Officer
Davina Knight	Compliance Manager
Bronwyn Nunn	Compliance Support Officer
Katrina Tearle	CHESS Administrator
Natasha Kuhl	Portfolio Administrator
Caitlin Toohey	Social Media / Marketing Officer
Cheryl Walton	Bookkeeper
Sandra French	Bookkeeper
Kailan Augustine	Bookkeeper
Mary Rash (NEW!)	Bookkeeper
Traci Young (NEW!)	Bookkeeper
Louise Bidenko	Manager Business Support
Christine King	Asset Manager
Boden Abell	Undergraduate Trainee
Dylan Tyler	Undergraduate Trainee

Melbourne - 1800 804 431

Robert Syben	Head of Financial Planning / Financial Adviser
Chris Heyworth	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
Michelle Su	Reception / Administration Support
Sharon Pollock	Manager- Client Services and Paraplanning
Tracey Briggs	Financial Services Assistant
Hannah Smith	Financial Services Assistant
Daniel Trajkoski	Financial Services Assistant
Ian Maloney	Manager Share Trading
Ming Hou	IT Manager & Senior Developer
Yan Li	IT Assistant
Jake Brown	Business Consultant/Financial Analyst

The INVESTMENT COLLECTIVE

Rockhampton Office
Suite 4, 103 Bolsover St
PO Box 564
Rockhampton QLD 4700
1800 679 000
07 4922 9069

Melbourne Office
Lvl 1, 4 Prospect Hill Rd
PO Box 1134
Camberwell VIC 3124
1800 804 431
03 9813 0442

www.investmentcollective.com.au
enquiries@investmentcollective.com.au
AFSL: 471728