

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

CBG Capital Limited (CBC)

Listed Managed Investments

June 2018 Quarterly Review

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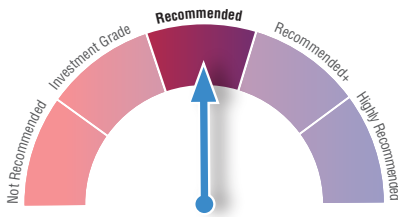
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- 6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

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Rating



LMI Type

Listed investment company

Investment Area

Australia

Investment Assets

Listed companies and other

Investment Sectors

Diversified

Key Investment Information

Price (\$) as at 17 August 2018	0.96
Market cap (\$M)	24.1
Shares on issue (M)	25.1
Options on issue (M)	0.0
Shares traded (\$M p.a)	5.9
12-month L/H (\$)	0.85/0.995
Listing date	December 2014

Fees

Management Fee (%)	1.0
Performance incentives (%)	20.0*

*20% of outperformance of the the S&P/ASX 200 Accumulation Index, subject to a high watermark.

Premium/Discount to Pre-tax NTA

As at 30 June 2018	-13.1%
Average since listing	-8.5%

Dividend Yield*

	%
FY16	3.37ff
FY17	2.78ff
FY18	3.30ff

*Based on FY end data.

Substantial Shareholders

	%
Dynasty Peak Pty Ltd	7.8
Jacqueline Kay Pty Ltd	6.0

As at 30 June 2018

COMPANY OVERVIEW

CBG Capital Limited (ASX:CBC) is a listed investment company. The company listed on the ASX in December 2014 following an equity issue that raised \$24.2m through the issue of 24.2m shares at \$1.00 per share. The company invests in a long only portfolio of ASX listed investments with the ability to invest up to 10% of the portfolio in international investments. The portfolio is managed by CBG Asset Management Limited (CBG), a boutique asset management firm that was established in 2001. In July 2017 listed fund manager, Clime Investment Management (ASX:CIW) acquired a 100% interest in CBG. Following the acquisition there are no changes to CBC's investment style or objectives.

INVESTMENT OBJECTIVE

CBC seeks to achieve an attractive rate of return for shareholders over the medium to long term, while minimising the risk of permanent capital loss. The company aims to provide both capital growth and franked dividend income.

STYLE AND PROCESS

The Manager has a long only portfolio of listed investments. The Manager seeks to identify quality companies that are undervalued and has a capital preservation focus. Stock selection is based on bottom up, fundamental analysis. The Manager employs a multi-faceted investment process comprising both quantitative and qualitative screens.

PORTFOLIO CHARACTERISTICS

The company has an all cap portfolio. The Manager decreased its exposure to large cap stocks over the June quarter from 55% to 41.1% of the portfolio. The portfolio is largely invested with 1.6% cash at June-end. The portfolio is concentrated with the top ten holdings accounting for 51.7% of the portfolio, well above the benchmark weighting for these stocks. Exposure to the Financials sector was reduced during the June quarter, however, still remains the largest sector exposure in the portfolio. Exposure to the Materials sector increased over the quarter with 24.1% allocated to this sector at June-end.

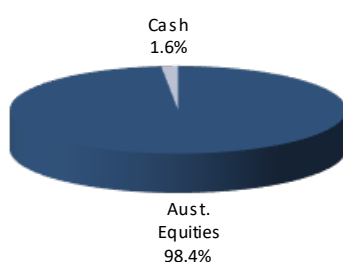
INDEPENDENT INVESTMENT RESEARCH COMMENTS

CBC offers investors the opportunity to invest in a professionally managed portfolio of domestic equities. While the Manager has the ability to invest in international equities, it currently has no intention to invest outside the domestic market. The portfolio is managed by an investment manager with significant experience in the investment industry. Following its acquisition by Clime Investment Management in July 2017, the Manager's investment processes and core investment team are unchanged. However, the Manager now has access to the additional resources, including investment analysts and administrative support, of a larger boutique fund manager. We see this as positive for CBC. The company has now been trading for over three years. Since listing, the portfolio (pre-tax NTA plus dividends) has underperformed the benchmark index (S&P/ASX 200 Accumulation Index), with the portfolio increasing 4.6%p.a compared to the benchmark index increase of 8.4%p.a. The share price (plus dividends) gained some momentum over the June quarter, with the share price increasing 8.1%. Despite the strong performance over the June quarter, the share price (including dividends) performance has been weak since listing with a return of 1.2%p.a. The company continues to trade at a discount to pre-tax NTA. We attribute the discount to a combination of underperformance of the benchmark index since listing and the sub-optimal size of the company. It is difficult to see the discount being eliminated unless the manager is able to build a track record of consistent outperformance. Post the end of the quarter, the company announced a proposal for the issue of bonus shares on a 1 for 25 basis. The proposal will be put to shareholders at the AGM in September. If the proposal is approved by shareholders an additional 1m shares will be issued.

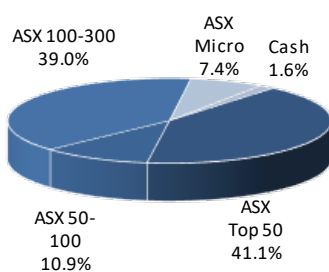
SECTOR BREAKDOWN (EX CASH)

Sector	31 Mar (%)	30 Jun (%)
Financials (ex Property)	34.2	29.8
Consumer Discretionary	11.8	12.1
Information Technology	11.0	12.6
Materials	21.7	24.1
Industrials	3.7	6.1
Consumer Staples	6.0	6.5
Energy	3.2	4.3
Healthcare	2.8	0
Property	1.7	0
Telecommunication Services	3.9	4.5
Utilities	0.0	0

Asset Weighting



Size Weighting



Board of Directors

Ronni Chalmers	Chairman (Executive)
James Beecher	Director (Non-Executive)
John Abernethy	Director (Executive) (Appt. 2 February 2018)
Biju Vikraman	Company Secretary

Note: IIR classifies Directors that are employed by the appointed Investment Manager as Executive Directors.

PERFORMANCE ANALYTICS

Performance	Jun Quarter	1 year	3 year p.a	5 year p.a
Pre-tax NTA + Dividends (%)	7.4	12.7	6.2	na
Peer Group Median (pre-tax NTA plus dividends), %*	7.4	10.1	6.9	na
S&P/ASX 200 Acc Index (%)	8.5	13.0	9.0	na
Out/Under performance of index (%)	-1.1	-0.3	-2.9	na
Share Price + Dividends (%)	8.1	6.3	2.3	na
Tracking Error (%)	5.1	4.0	5.8	na

*Australian large cap shares as classified in the IIR monthly LIC report.

Note: All pre-tax NTA figures are after tax on realised gains and before tax on unrealised gains.

OTHER DATA

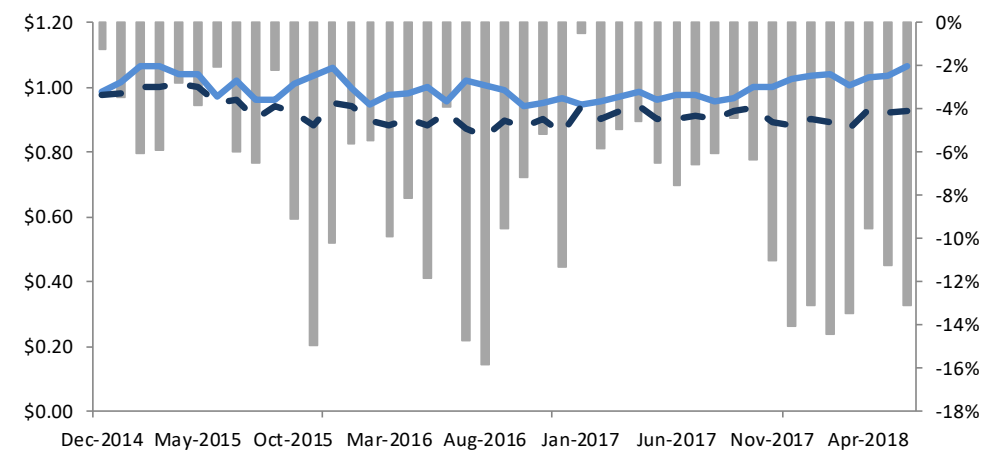
- ◆ **Dividend policy** – The company will seek to pay franked dividends semi-annually.
- ◆ **Capital management policy** – The company may undertake on-market buybacks and may also consider the issue of additional securities.
- ◆ **LIC tax concessions** – Yes
- ◆ **DRP available** – Yes

CBC's Portfolio (Top 10) Weighting (Ex Cash)

Code	Portfolio (%)	S&P/ASX 200 (%)
BHP	8.1	6.0
NAB	7.1	4.2
WES	5.6	3.1
WBC	5.2	5.6
CBA	4.7	7.1
SDA	4.4	0.1
RIO	4.3	1.9
WPL	4.2	1.9
WEB	4.1	0.1
APT	4.0	0.1
	51.7	30.1

Source all figures: CBC/Independent Investment Research/IRESS.
All data as at 30 June 2018 unless otherwise specified.

NTA & Share Price Performance

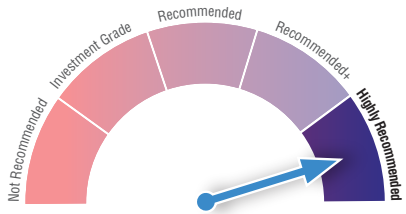
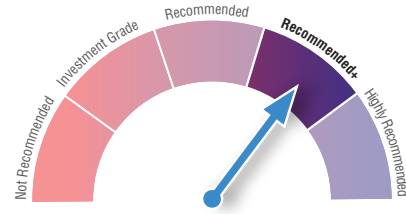
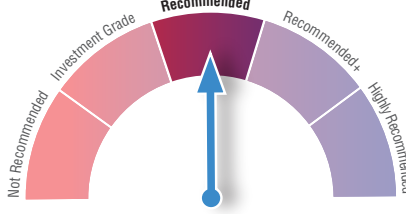
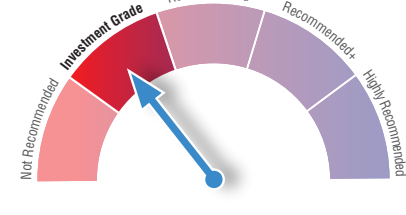
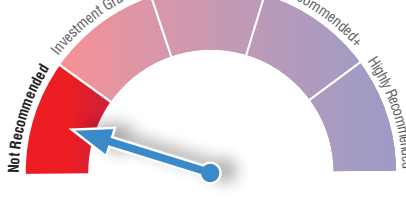


■ Premium/Discount Pre-tax NTA (RHS) — NTA (pre tax) - LHS - - Share Price - LHS

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

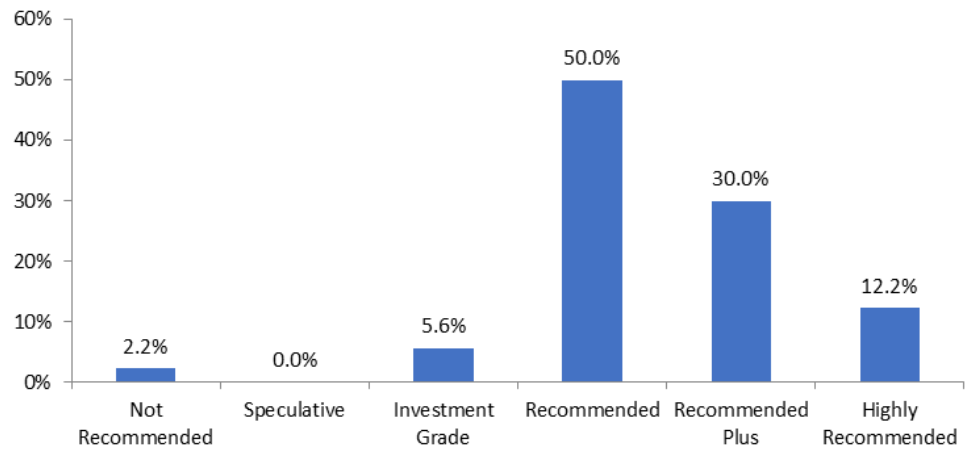
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p>Recommended +</p> 	<p>79–83</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p>Recommended</p> 	<p>70–79</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p>Investment Grade</p> 	<p>60–70</p> <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes that despite the product’s merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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