CBG CAPITAL LIMITED

Net Tangible Assets Report

March 2019

Market Commentary

While the rate of growth moderated during the month of March, with the S&P/ASX200 Accumulation Index up 0.7%, the first quarter of 2019 has come as a welcome relief for growth asset investors. Following the sharp pullback last November and December, global investor sentiment and market prices have recovered some of their optimism, largely off the back of a more dovish US Federal Reserve.

The reversal of fortunes in risk assets has come despite generally disappointing macro data across Europe, the US and China and the tempering of corporate earnings forecasts globally. The rally in global equities to date in 2019 has not been driven by expectations for better growth and rising corporate profits, but by reassurance that global central banks would temper their inflation-fighting objective and seek instead to sustain the post-GFC recovery.

Another factor supporting the equity market recovery has been the sense that the sell-off late last year was overdone. The near 30% de-rating in global equity PE ratios from end-January 2018 to end-December 2018 was both brutal and unexpected, given that the world's largest economy, the US, was growing strongly and experiencing a buoyant year for corporate earnings. But of course, markets are forward-looking, and fears of "peak earnings", a Sino-American trade war, a hard landing in China and a Federal Reserve determined to "normalise" rates sapped confidence and soured the mood. The fact that many of these fears have proved either unfounded or exaggerated has supported the rebound.

Now that the first quarter is over, we must assess whether that rebound is either warranted or sustainable. Over the course of the first 3 months of 2019, the S&P/ASX200 has risen 10.9% while global markets have enjoyed similarly impressive quarterly returns. A good part of those figures may be making up the losses from the quarter before that, but it remains for the market to be tested for the most critical factor, which is value.

The likelihood of material further upside for equity markets in the short term is, in our view, now dependent on central banks allowing financial conditions to remain loose, policymakers stimulating activity through prudent infrastructure spending and fiscal relief for households, the successful conclusion to trade talks, the US economy remaining reasonably strong and some sparking of growth in the European and Chinese economies.

In particular, we highlight the effectiveness or otherwise of the broad range of measures implemented by the Chinese authorities to cushion their growth slowdown. The Chinese consumer is the "single most important (factor) in the world economy", said Jim O'Neill, former Goldman Sachs chief economist. "The next 40 years of global growth might be about the Chinese consumer. It is very unlikely that any other country could step in to drive global consumption," he said. China has contributed around 30% of the global economy's growth since 2013, compared to 11-13% from each of India, the European Union, and the United States. The strength of China's economy is critical.

A key support to developed economies (the US, the Eurozone and Japan) remains consumption growth backed by solid labour markets and continued wage growth. To date, the absence of wage growth has been the disappointing factor in the recovery that we saw during last year, and this has been a spur to the growth of populism in many countries. A pause in the central banks' rate rising program and a well-targeted stimulus from China should provide the basis for global growth a little below trend. Resolution of trade conflicts would no doubt also reduce uncertainty and support global growth.

In an environment where economic risks are building and global growth is slowing, careful assessment of investment opportunities is required. The change in tone from the US Fed, and its increased sensitivity to growth and the financial cycle, has led to a fundamental reassessment of risks and opportunities in many financial markets, as the "lower for longer" thesis on interest rates reasserts itself. At the same time, while trade talks between the US and China seem to be progressing, the Brexit imbroglio and many other political risks remain heightened. However, these risks and changes in economic growth expectations present opportunities and an argument for active management and active asset allocation.

Clime's base case is that overall global equity returns in the medium term are likely to be positive but more muted than investors have been used to for most of the post-global financial crisis period. Nonetheless, we expect that late cycle volatility and macro-thematic market drivers combined with company-specific opportunities will provide a satisfactory set of portfolio alternatives for patient investors.

Thank you for your continued support of CBG Capital.

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Portfolio Commentary

The CBG Capital portfolio returned +1.6% in March, net of fees and pre-tax on unrealised gains/losses, compared to a +0.7% return for the S&P/ASX 200 Accumulation Index.

The strongest contributors within the portfolio for the month were: Jumbo Interactive (JIN, +25.0%), HUB24 (HUB, +19.2%) and Afterpay (APT, +13.7%).

Jumbo Interactive has continued to attract investor interest after upgrading full year earnings guidance in late February. The company is benefiting from the shift to online lotteries, an increased incidence of large jackpots following a change to the Powerball odds and early revenues from licencing the software to charity lotteries.

HUB24 was added to the S&P/ASX 200 Index during March and continues to benefit from strong inflows as the HUB platform takes share from incumbent providers.

Afterpay also reported a strong result in late February and web analytics demonstrate rapid early stage adoption in the large US market.

The largest detractors were:
Webjet (WEB, -6.5%), Lovisa (LOV, -8.9%) and GUD Holdings (GUD, -5.5%) which pulled back modestly after strong returns of +30.7%, +38.8% and +14.9% respectively in the month of February.

NTA before tax	Rolling 12 month dividend	Share price
$1.03	3.3cps	$0.97

Net Tangible Assets (NTA)

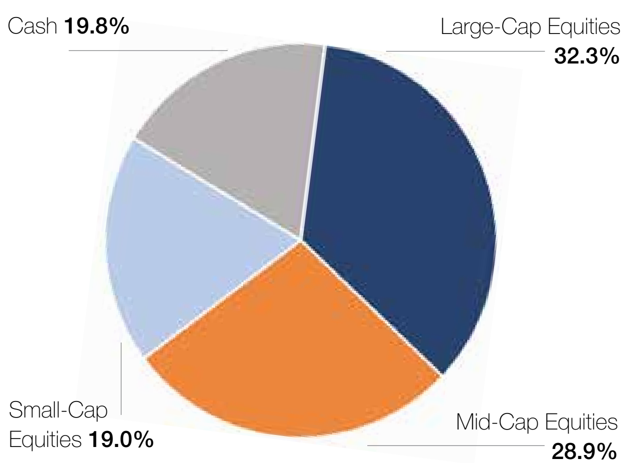
	March	*February*
NTA before tax	$1.03	$1.02
NTA after tax*	$1.01	$0.99
CBC Share Price**	$0.97	$0.95
Shares on issue (million)	26.2m	26.2m

* Please note that the post-tax figures are theoretical, assuming all holdings in the portfolio are sold and then tax paid on the gains that would arise on this disposal.
** Share price is cum 1.7c fully franked dividend, trading ex dividend on 2 May 2019.

Company Overview ($m)

Australian Securities	$21.4
Net Cash & Equivalents	$5.3

Gross Asset Allocation



Top Holdings (% of Gross Assets)

Australian Equities	
BHP Limited	6.3%
National Australia Bank Limited	4.8%
Amcor Limited	4.7%
Wesfarmers Limited	4.2%
Webjet Limited	3.8%
Other	56.4%
Cash	*19.8%*