

Prime Australian Equities Growth Portfolio - December 2014

Portfolio Objective

To achieve capital growth with moderate tax-effective income via franked dividends through investment in listed Australian securities.

The Model Portfolio is managed in line with Prime's investment principles of **long-term investment in high quality securities**. The bottom-up approach focuses on business fundamentals, seeking businesses with strong balance sheets, structural competitive advantages, and purchasing them with the requisite dividend yield and growth prospects. The portfolio benchmark is the **S&P/ASX200 Accumulation Index**.

Market Commentary

The **ASX Accumulation Index** rose **2.06%** in December.

The evolving macroeconomic environment proved the major feature for equity markets in December, with the falling **Australian Dollar** still most prominent. During the month, the **AUD fell further from 85c to 81c**.

Much of the driver for the ongoing **Australian dollar weakness** is the diverging interest rate outlooks for both **Australia** and the **United States**. With multi-year highs in US economic growth, the Federal Reserve looks certain to raise interest

rates before mid-year, whereas locally the continued slump in exports and consumer confidence means the RBA stand a very strong chance for cutting rates as soon as Q1 2015.

Australian bond yields fell further in the month, with 3 year bonds yielding less than cash (2.24%) and 10 year bond yields now at 2.8%.

Stocks most exposed to a falling Australian dollar dominated performance in December. With that in mind **Healthcare** was the standout sector rising 6%. **QANTAS** surged 25% on strong profit guidance, and the market's encouragement at its leverage to falling jet fuel prices. Telecoms and Banks also did well as bond yields fell.

Materials and oils remained pressured and lagged the broader index performance.

Portfolio Commentary and Positioning

*The **PRIME Australian Equity Growth managed portfolio** OUTPERFORMED the benchmark ASX200 Accumulation Index in December, returning a gain of 2.73% (ASX200 Accumulation Index +2.06%).*

For the record, the portfolio has risen in calendar 2014 by 13.39%, far outperforming the index benchmark return of 5.58%. We feel this performance would easily rank PRIME in the highest echelons of Australian equity fund performance in 2014, and is a figure we are both proud of, and keen to maintain into 2015.

The major change to the **GROWTH** portfolio this month was our deployment of cash. We chose to add to raise our underweight banking sector position quite significantly, and to utilise our overweight cash position to do just that.

This move reflects our newfound optimism for **Australian equity markets** on a 12 month forward view.

The major contributors to performance were once again our exposures to **Magellan Financial Group (MFG) & RESMED (RMD)**, which rose 15% and 11% respectively in the month. MFG is now 35% up on our initial buy level, and RESMED is 40%+ above our entry. MFG surged in the month after strong funds under management numbers were reported, but also due to earnings upgrades occurring in light of the strong US market and a weaker Australian dollar.

Again we are mindful of being vigilant with our large exposures here, and remain watchful for the appropriate levels to trim or exit these excellent trades.

Telstra (TLS) was also a handy contributor to the portfolio, rising 5% on the month. TLS saw a new NBN deal rubber-stamped, and though comforting to see, this should not have been a major driver to performance. Simply put, with falling bond yields, TLS stands out as a large bond proxy. We continue to target \$6+ for TLS before reviewing our weights.

Lastly, **Woodside (WPL)** regained ground lost in November. WPL announced the US\$3.75bn acquisition of Apache Energy's 13% stake in the giant Wheatstone LNG complex in WA, along with related stakes in producing fields and in a proposed Canadian LNG development. The deal isn't cheap, but strategically is extremely sound.

We like the fact that **WPL** was able to rise 6% against the market in spite of the ongoing oil price slump. As we stated last month, it remains a core position in our portfolio in spite of likely near term softness in world oil markets.

The major drag on performance this month came in **Crown Resorts (CWN)**, a more recent portfolio acquisition. Concerns relating to Macau gross gaming revenue (now tracking down near 30% annually) continue to overhang the stock, however we feel really quite strongly that this position will prove a medium term winner for us. CWN's Macau affiliate MPEL, has already bounced near 20% from its low's in recent weeks, and that is yet to be reflected in the CWN share price.

BHP (BHP) and **IOOF (IFL)** also lagged the market and weighed on the portfolio. Neither of these stocks worry us in the least since BHP is our sole resources holding, and in the case of IFL we feel it is only a matter of time before the market rewards its cost-cutting story, equity leverage and strong dividend outlook.

Transactions for the month

Trade	Stock
Add	ANZ Bank
Add	National Australia Bank
Add	Westpac Bank
Reduce	RESMED
Reduce	Cash

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