

NABTRADE WEBINAR

NAVIGATING MARKETS, RISKS AND EMERGING TRENDS

GEMMA DALE – MODERATOR

13 MARCH 2018



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AGENDA



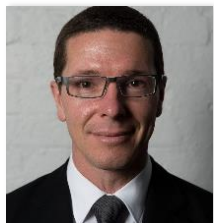
GEMMA DALE (MODERATOR)

Director
SMSF & Investor Behaviour,
nabtrade



VIHARI ROSS

Head of Franchises -
Portfolio Manager,
Magellan Asset Management



ROGER MONTGOMERY

Founder & Chief Investment Officer
Montgomery Investment
Management



CATHERINE ALLFREY

Principal and Portfolio Manager,
Wavestone Capital

Opening remarks and what we'll discuss

- Lessons from 2017
- Top long-term investment themes
- Stock ideas for 2018 and beyond
- Risks on the horizon
- Cryptocurrencies, medical marijuana and lithium – buy or sell?



50 minutes

Q&A and closing remarks

- **Don't forget, you can submit questions at any time**
- **You can also download the presentation**



20 minutes

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WHAT WAS YOUR BIGGEST LESSON DURING 2017?



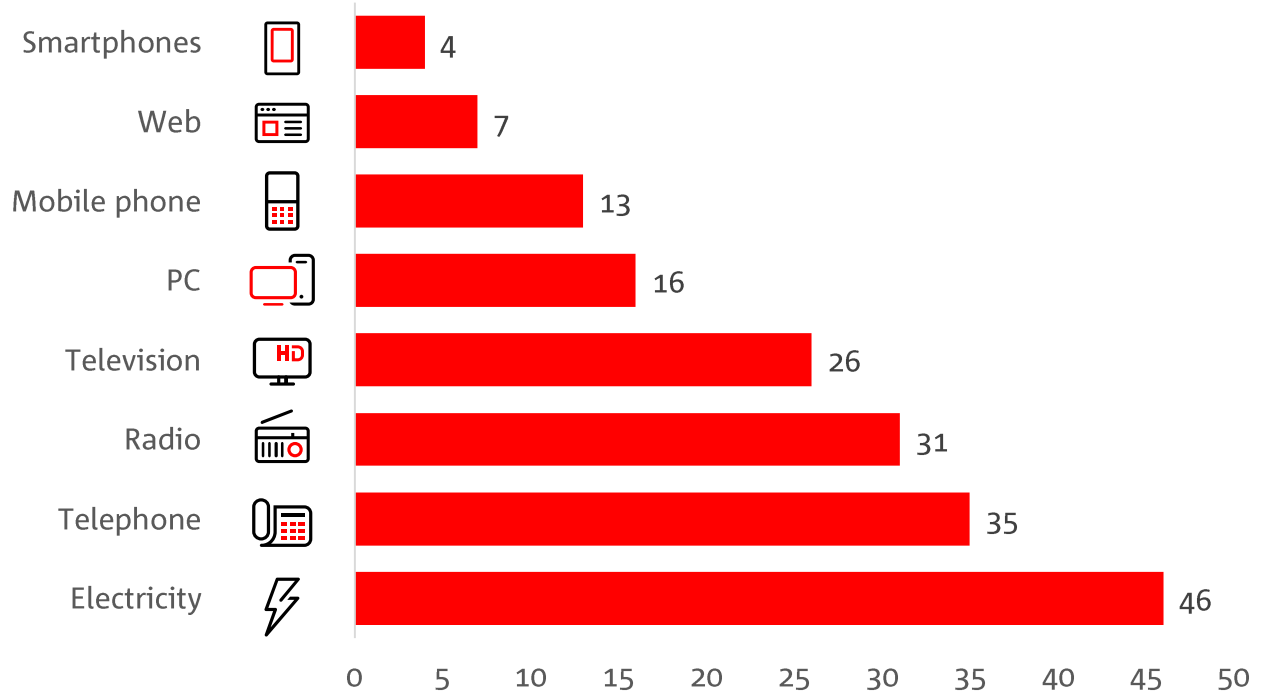
VIHARI ROSS

**Don't look in the
rear-view mirror**



Tech change

TECHNOLOGY ADOPTION IS ACCELERATING



Source: U.S. Census, Wall Street Journal. Information provided by Magellan Asset Management

WHAT WAS YOUR BIGGEST LESSON DURING 2017?



ROGER MONTGOMERY

**Shifting
sentiment**

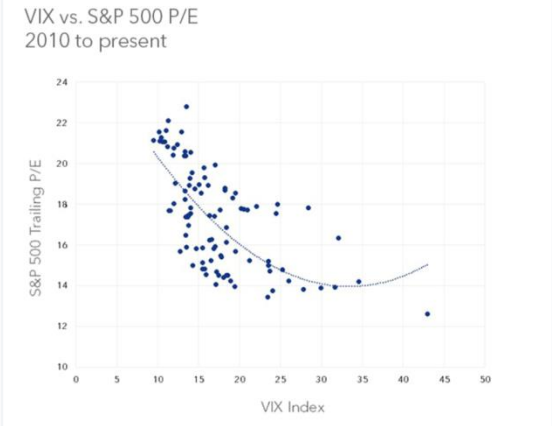


Risk

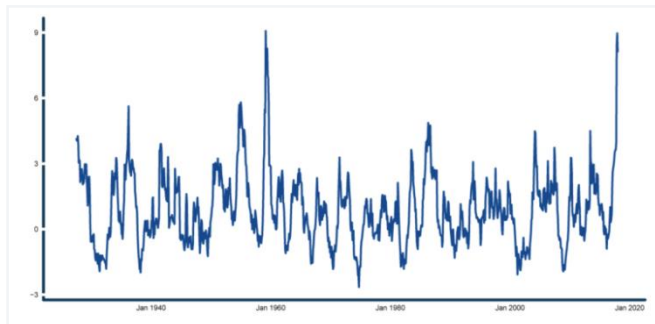
S&P 500 VALUATIONS SINCE 1880



VIX VS. S&P 500 P/E



ANNUALISED SHARPE RATIO



Source: Mulptl, Seeking Alpha. Information provided by Montgomery Investment Management

WHAT WAS YOUR BIGGEST LESSON DURING 2017?



CATHERINE ALLFREY

**Focus on
fundamentals**



Valuation discipline



Valuation discipline became very important



2017 was a stock pickers market, 2018 shaping up the same



Companies have started to reinvest capital for growth

WHAT WAS YOUR BIGGEST LESSON DURING 2017?



VIHARI ROSS

Don't look in the
rear-view mirror



Tech change



ROGER MONTGOMERY

Shifting
sentiment



Risk



CATHERINE ALLFREY

Focus on
fundamentals



Valuation discipline

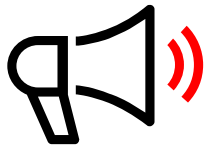
⚡ It's lightning response time ⚡

WHICH INVESTMENT THEME OFFERS THE BEST POTENTIAL?



VIHARI ROSS

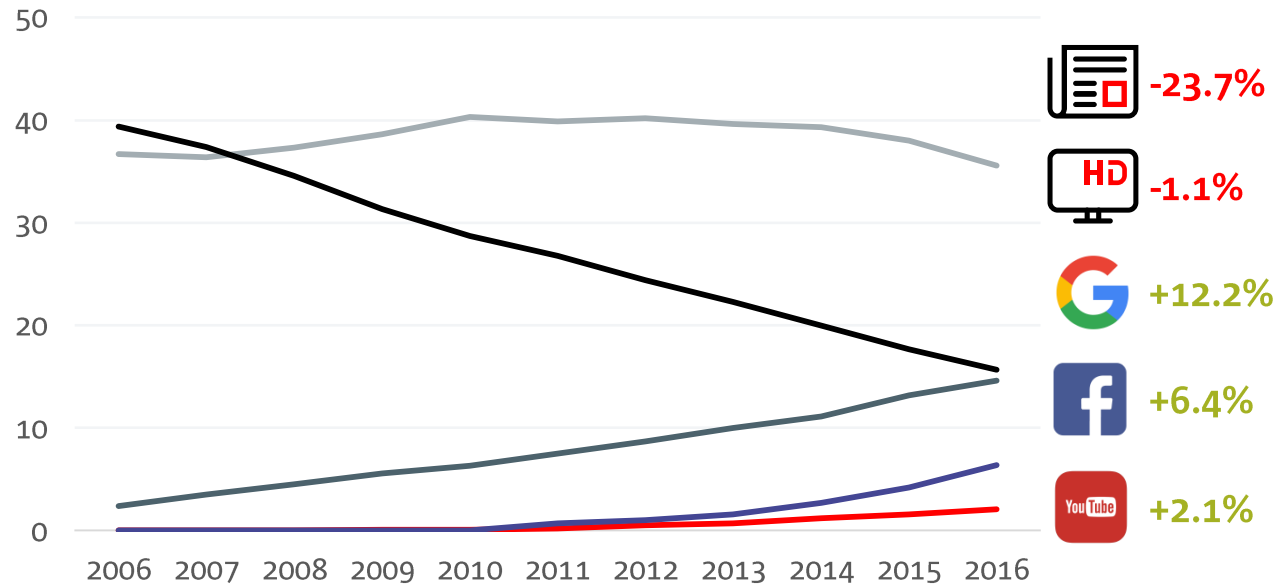
Rise of digital
advertising platforms



Impact on
advertising

WHAT'S HAPPENING IN THE ADVERTISING MARKET?

2006-2016 global advertising market share (ex-China)



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WHICH INVESTMENT THEME OFFERS THE BEST POTENTIAL?



ROGER MONTGOMERY

**Value
investing**



**Value
and risk**

THE RELATIVE GAME

“

Valuations seem to be aligned with historical benchmarks only after account is taken of the level of bond yields.”

AND

“

Equity markets continue to be vulnerable to the risk of a snapback in bond markets, should term premia return to more normal levels.”

Then (11/9/2017)

US 10 Yr

Yield	2.15%
P/E	46.5
Growth	0%

S&P 500

P/E	30.3
Growth	6.40%

Now (08/03/2018)

US 10 Yr

Yield	2.8%
P/E	34.7
Growth	0%

S&P 500

P/E	33.6
Growth	6.40%

*Source BIS Sep Qtrly Report 2017. Information provided by Montgomery Investment Management

WHICH INVESTMENT THEME OFFERS THE BEST POTENTIAL?



CATHERINE ALLFREY

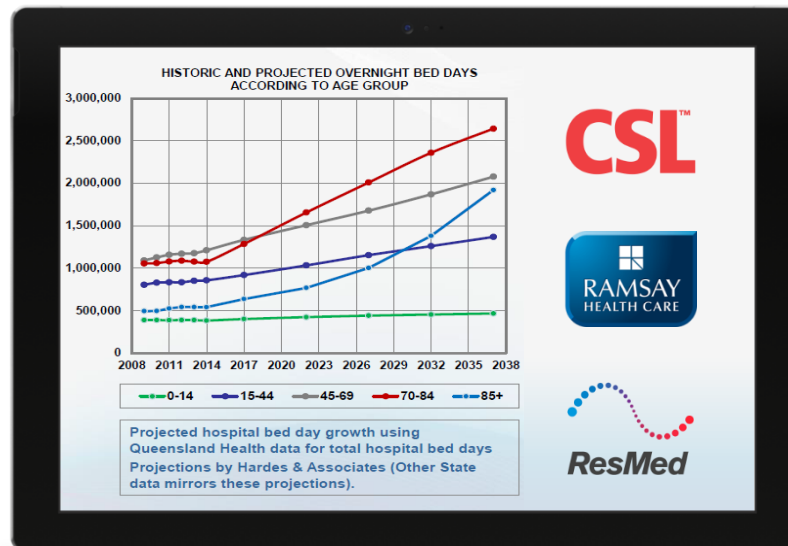
Healthcare



Demand
and growth

HEALTHCARE

Proven franchises, global reach, growth underpinned by strong demographics



1. Demographic tailwinds are the unavoidable driver of demand
2. Multiple growth drivers – organic, expansion and outsourcing
3. Global reach and opportunity
4. Concentrated market structure and negotiating position. However, regulatory risks shouldn't be ignored

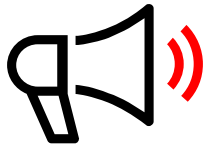
Source: Information provided by WaveStone Capital

WHICH INVESTMENT THEME OFFERS THE BEST POTENTIAL?



VIHARI ROSS

**Rise of digital
advertising platforms**

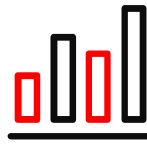


Impact on
advertising



ROGER MONTGOMERY

**Value
investing**



Value
and risk



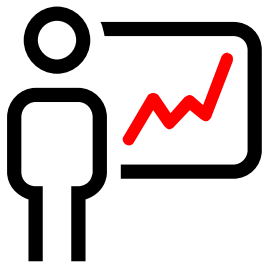
CATHERINE ALLFREY

Healthcare



Demand
and growth

⚡ It's lightning response time ⚡



WHICH TWO STOCKS?



VIHARI ROSS

Alphabet

Investment style: Growth

- Alphabet's search advertising business is dominant globally and continues to deliver strong growth driven by mobile search, YouTube, and programmatic ad tools
- Alphabet is leading the race in artificial intelligence and digital assistants, which presents enormous potential for search monetisation and beyond
- Adjusting for cash and other bets we consider Alphabet to be undervalued

Commentary provided by Magellan Asset Management

Alphabet stock overview

- **Sector:** Technology
- **Stock code:** GOOG:NAS
- **5-year return:** +93%
- **Market cap:** US\$759 billion
- **Dividend:** Nil

Source: nabtrade (data as at 7 March 2018).
Past performance is not indicative of future returns

facebook

Investment style: Growth

- FB's users and engagement continue to grow year on year. It now has ~2.1b monthly active users
- FB is successfully monetising engagement with a 48% total ad revenue growth in the last year
- The platform is incredibly valuable to advertisers and we assess the stock is undervalued








Commentary provided by Magellan Asset Management

Facebook stock overview:

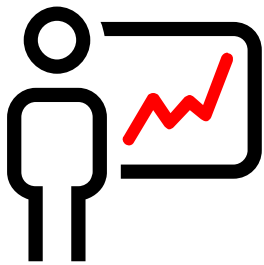
- **Sector:** Technology
- **Stock code:** FB:NAS
- **5-year return:** +543%
- **Market cap:** US\$524 billion
- **Dividend:** Nil

Source: nabtrade (data as at 7 March 2018). Past performance is not indicative of future returns

ADVERTISING WINNERS

	Advertising % of revenue	Dominant	Current core revenue growth	Current P/E	Nascent businesses
 (Alphabet)	~90%	~90% Search market share (ex-China)	~20%	21X (adjusted) ¹	  WAYMO  Google Cloud Platform
	100%	>2 billion users	~50%	23X	 WhatsApp  Facebook Messenger

Source: Magellan estimates, Bloomberg. Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners. Nothing contained herein should be construed as granting by implication, or otherwise, any license or right to use any trademark displayed without the written permission of the owner. 1 Magellan estimates, adjusted for cash and Other Bets losses, share price as at 15 February 2018. Information provided by Magellan Asset Management



WHICH TWO STOCKS?



ROGER MONTGOMERY



Investment style: Value

- REA has the ability to raise prices, despite an excess supply of websites in Australia offering to list a vendor's home or investment property – many for free
- REA has been regularly raising prices either directly or by creating and offering superior products and services
- The result has been a strong growth in revenues despite the fact that listing volumes have been declining nation-wide for some years

Commentary provided by Montgomery Investment Management

REA Group

- **Sector:** Technology
- **Stock code:** REA:ASX
- **5-year return:** +185%
- **Forward P/E:** 38.29
- **Market cap:** A\$10 billion
- **Dividend:** 1.3% (fully franked)

Source: nabtrade (data as at 7 March 2018).
Past performance is not indicative of future returns



Investment style: Value

- The fundamental drivers are very strong with an aging population looking for a secure income stream in retirement
- Regulatory changes that are due to be introduced will most likely benefit annuities
- Challenger's market position is very strong and although we do think there will be additional competition in the future, we believe the company has built a strong moat around itself

Commentary provided by Montgomery Investment Management

Challenger

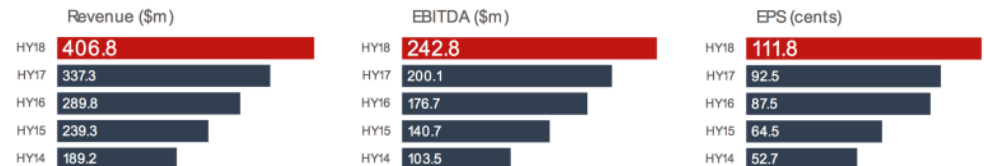
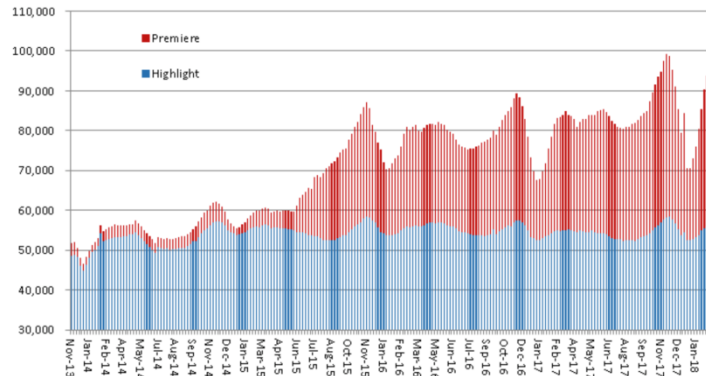
- **Sector:** Financials
- **Stock code:** CGF:ASX
- **5-year return:** +211%
- **Forward P/E:** 18.45
- **Market cap:** A\$7.6 billion
- **Dividend:** 2.8% (fully franked)

Source: nabtrade (data as at 7 March 2018).
Past performance is not indicative of future returns

KEY DRIVERS

REA GROUP

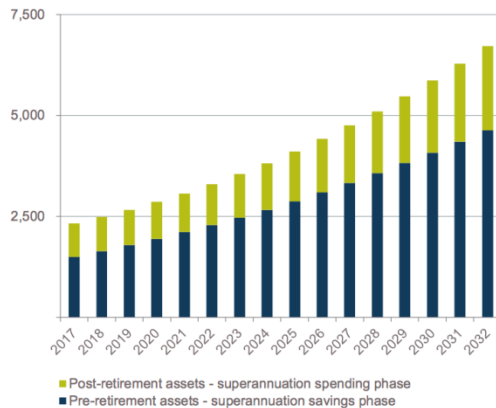
REA GROUP WEEKLY DEPTH AD VOLUMES



Source: Morgans & REA Group Ltd. Information provided by Montgomery Investment Management

CHALLENGER FINANCIAL GROUP

Projected superannuation assets² (\$bn)



Pre-retirement Super savings phase

- Funds management target market
- Supported by mandated and increasing contributions

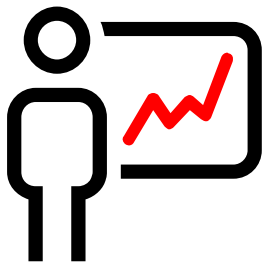
Post-retirement Super spending phase

- Life target market
- Supported by ageing demographics, rising savings and Government enhancing retirement phase

Annual transfer from pre to post retirement phase

**~\$60bn¹
in 2018**

Source: Challenger. Information provided by Montgomery Investment Management



WHICH TWO STOCKS?



CATHERINE ALLFREY



Investment style: Growth

- Robust demand growth for core IG products – increasing penetration, new indications and geographic rollout
- Scale and efficiency benefits in manufacturing means lowest cost producer
- Expanding portfolio of specialty products, reward for R&D investment and potential margin expansion

Commentary provided by WaveStone Capital

CSL stock overview:

- **Sector:** Healthcare
- **Stock code:** CSL:ASX
- **5-year return:** +171.7%
- **Market cap:** A\$73 billion
- **Dividend:** 1.2% (no franking)

Source: nabtrade (data as at 7 March 2018). Past performance is not indicative of future returns.



Investment style: Growth

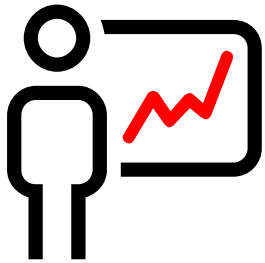
- Demographics trends of an ageing (and growing) population intersecting with technology and innovation
- Largest player in the obstructive sleep apnea market which is growing single mid digits
- Expanding in the hospital and home care respiratory ventilation market

Commentary provided by WaveStone Capital

ResMed stock overview:

- **Sector:** Healthcare
- **Stock code:** RMD:ASX
- **5-year return:** +186%
- **Market cap:** A\$17.3 billion
- **Dividend:** 1.6% (no franking)

Source: nabtrade (data as at 7 March 2018). Past performance is not indicative of future returns.



**WHICH TWO
STOCKS?**



**VIHARI
ROSS**

Alphabet



Investment style:
Growth



**ROGER
MONTGOMERY**



Investment style:
Value



**CATHERINE
ALLFREY**



Investment style:
Growth

⚡ It's lightning response time ⚡

THE SINGLE BIGGEST RISK FOR INVESTORS?



VIHARI ROSS

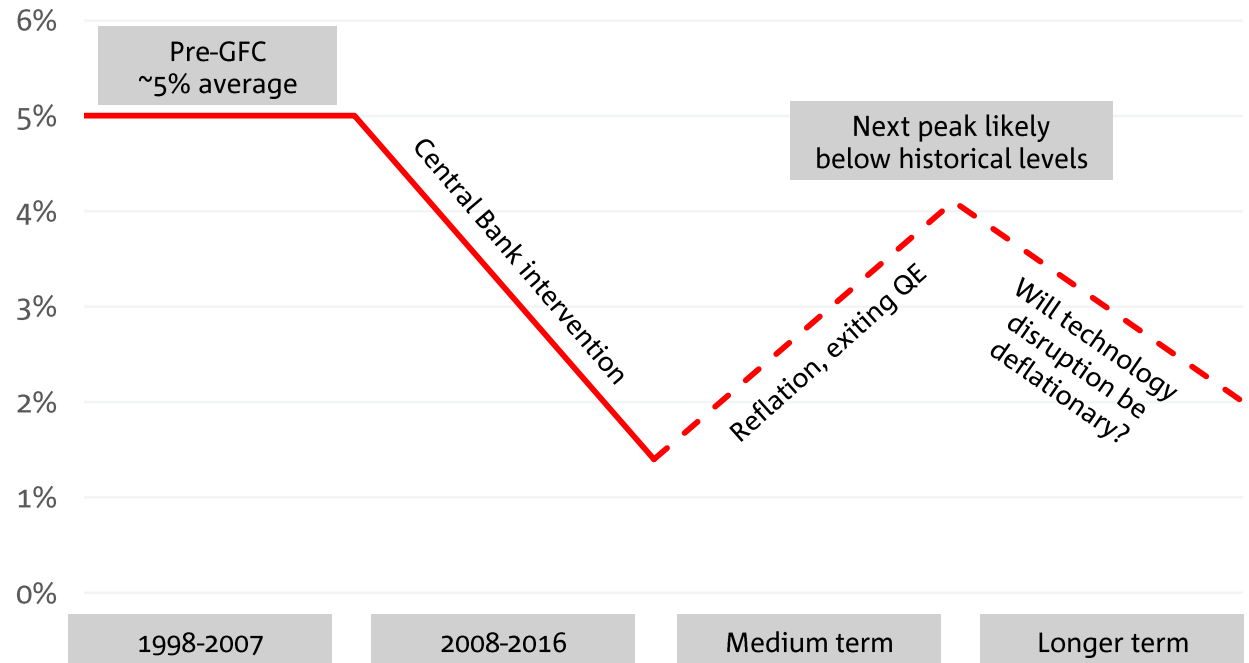
**Rise in
interest rates**



Long term
interest rates

PROBABLE PATH OF LONG TERM INTEREST RATES

10 year US Treasury yields



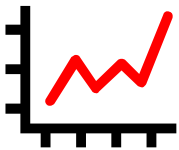
Source: Bloomberg; Information supplied by Magellan Asset Management

THE SINGLE BIGGEST RISK FOR INVESTORS?



ROGER MONTGOMERY

**High P/E
concept stocks**



**Growth and
disruption**

HIGH P/E CONCEPT STOCKS

“

EPS growth for these companies are expected to increase circa 30% annually for the next 10 years on our modelling. Are investors being unrealistic?”

- Roger Montgomery

Afterpay Touch Holdings (APT:ASX)



Forward P/E = 67.6

Kogan.com (KGN:ASX)



Forward P/E = 54.7

Source: nabtrade (data as at 7 March 2018). Past performance is not indicative of future returns

THE SINGLE BIGGEST RISK FOR INVESTORS?



CATHERINE ALLFREY

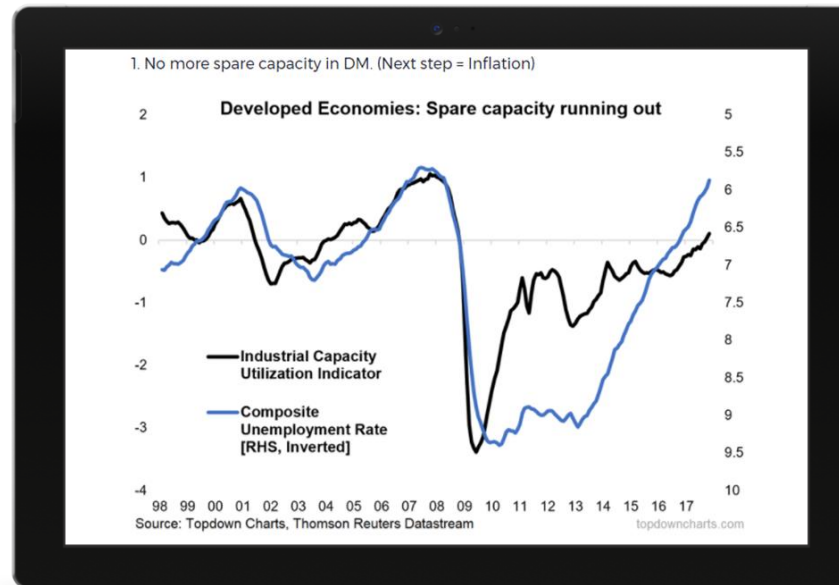
Return of
inflation



Inflation

INFLATION

Biggest tail risk for investment markets



1. Inflation has been muted globally
2. US has the least spare capacity with the tax cuts expected to stimulate further
3. Expectation is for modest inflation
4. Australian wage growth is likely to remain muted for longer as unemployment and underemployment remains higher than other OECD countries

Source: Information provided by WaveStone Capital

THE SINGLE BIGGEST RISK FOR INVESTORS?



VIHARI ROSS

Rise in
interest rates

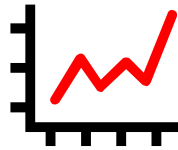


Long term
interest rates



ROGER MONTGOMERY

High P/E
concept stocks



Growth and
disruption



CATHERINE ALLFREY

Return of
inflation



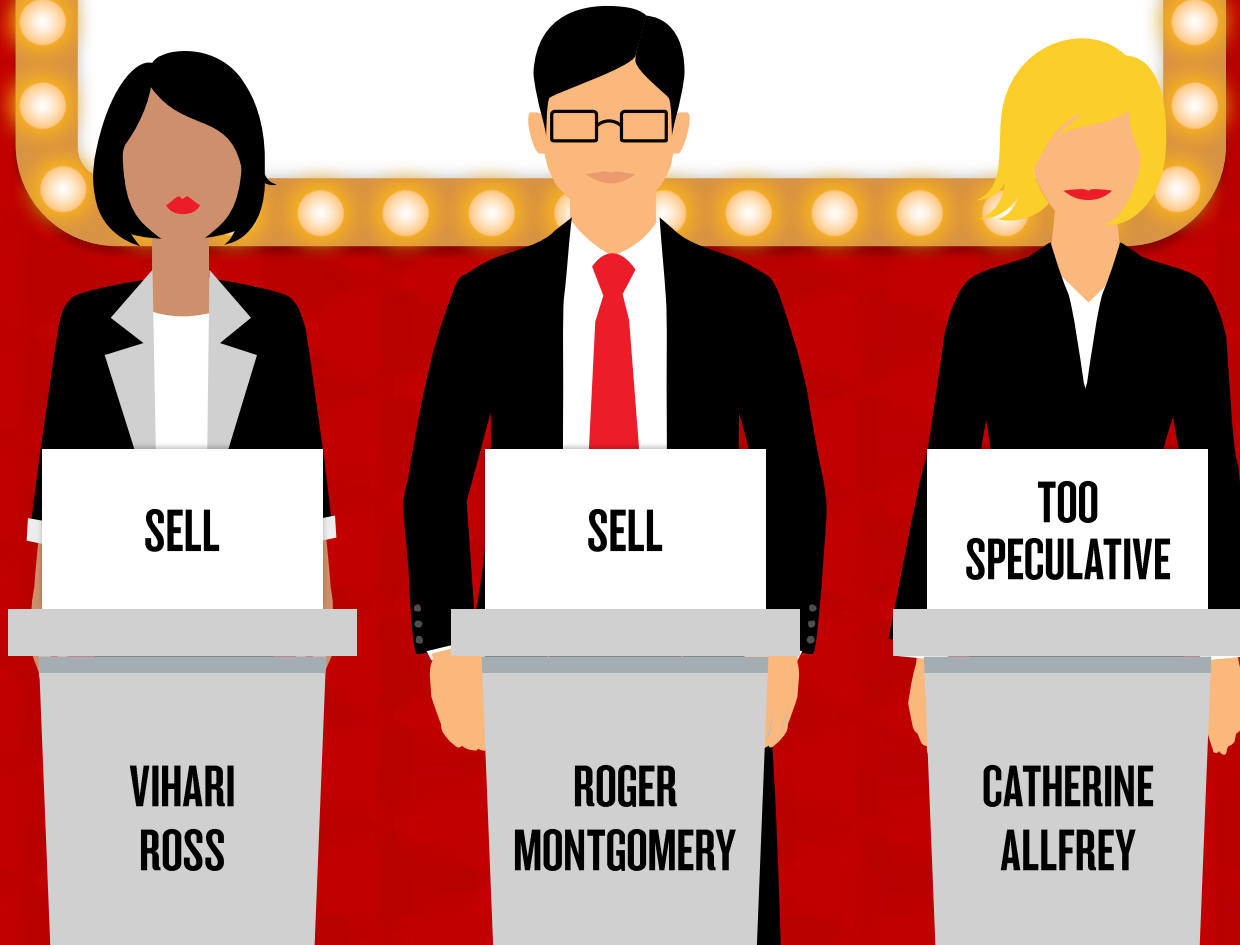
Inflation

⚡ It's lightning response time ⚡

BUY OR SELL

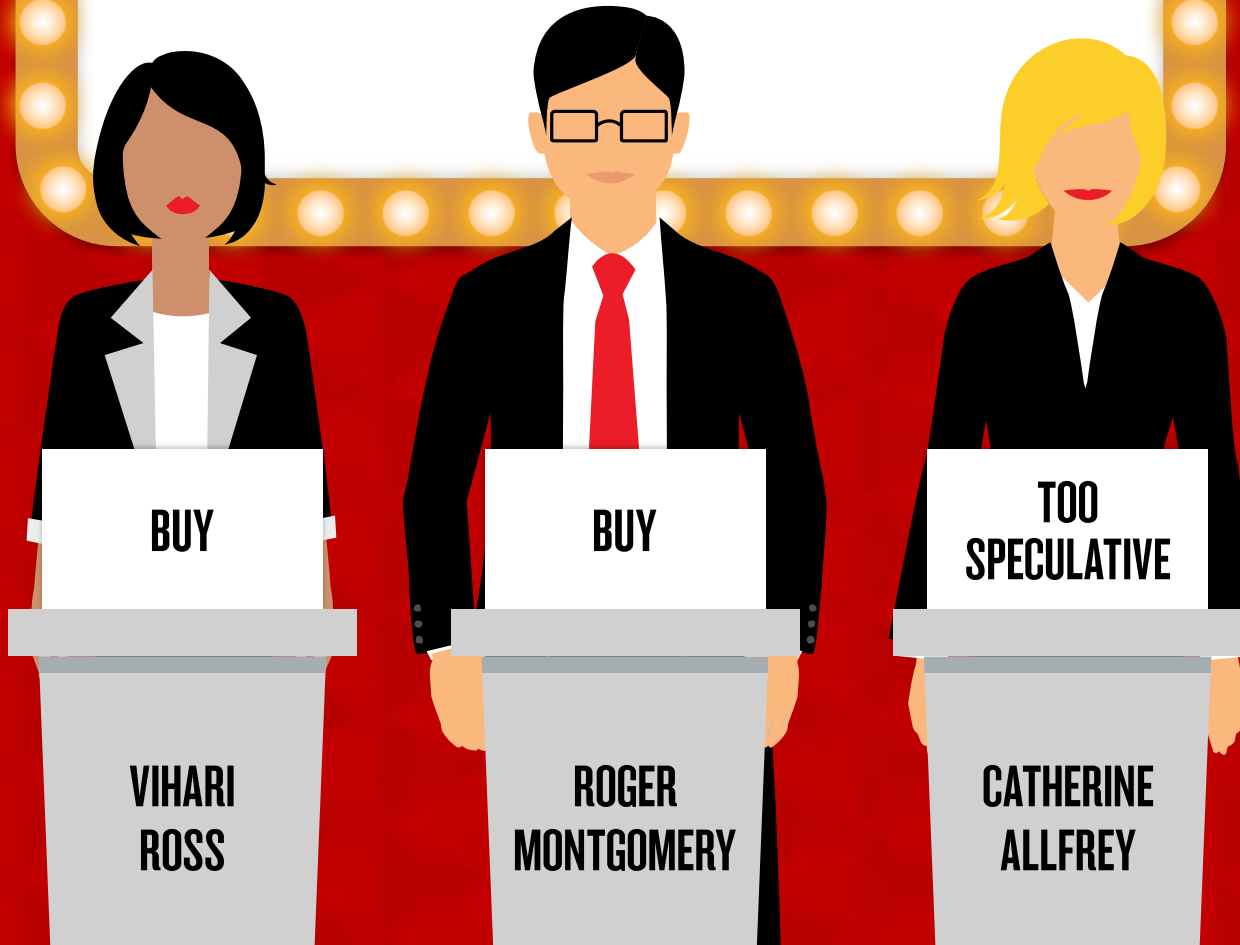
BUY OR SELL

CRYPTOCURRENCIES



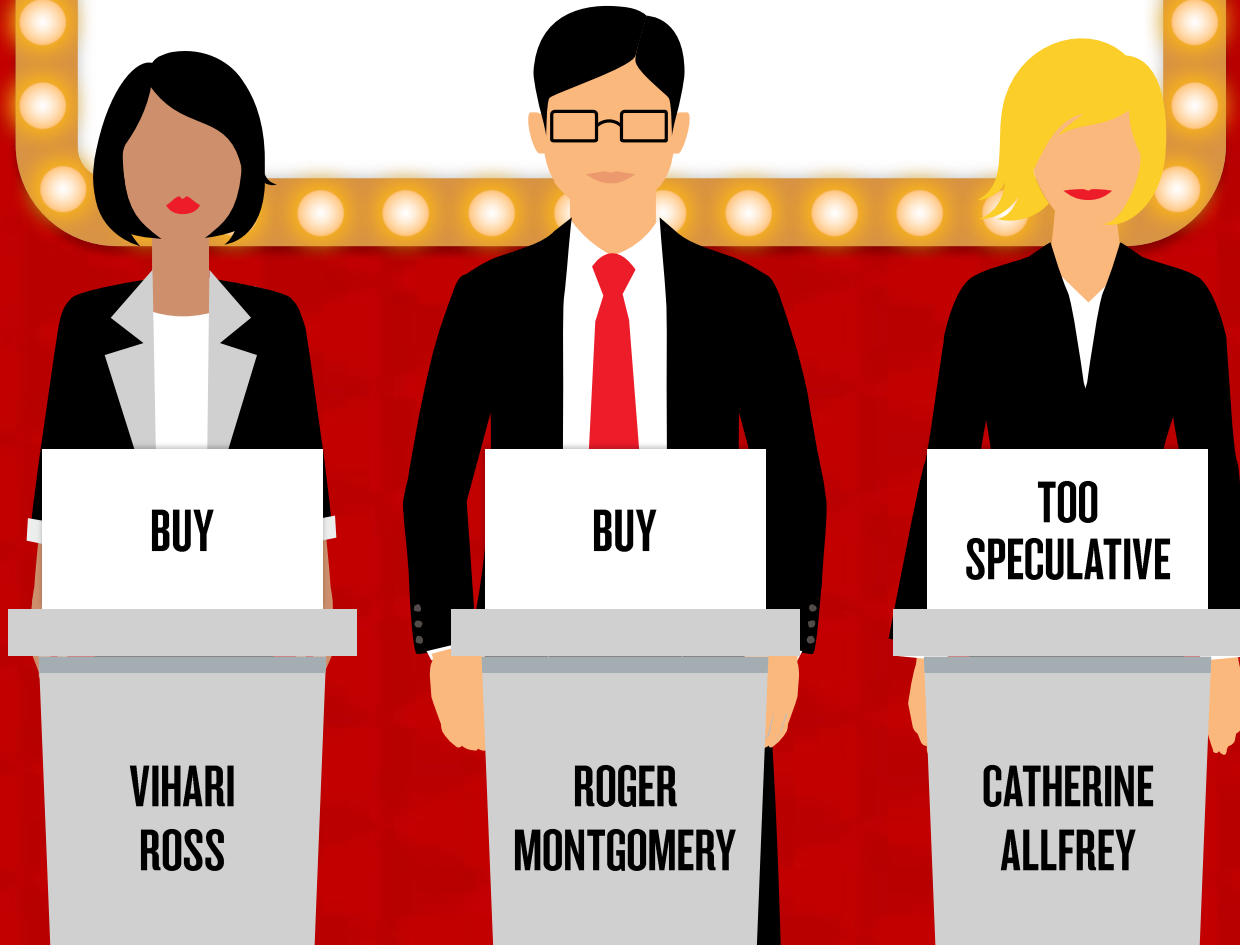
BUY OR SELL

MEDICAL MARIJUANA



BUY OR SELL

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