# WHITEFIELD QUARTERLY REPORT

NOVEMBER 2017

## PERFORMANCE SUMMARY

At 30 September 2017

| | Last Quarter % | One Year % | Three Years % *** | Five Years %*** |
|---|---|---|---|---|
| **Before Tax Returns** | | | | |
| Total Portfolio | (0.718%) | 6.450% | 8.308% | 13.110% |
| Benchmark* | (0.928%) | 7.530% | 8.553% | 12.664% |
| **After Tax Returns** | | | | |
| Net Asset Backing (pre deferred tax)**[1] | (1.445%) | 5.263% | 7.621% | 12.944% |
| Net Asset Backing (post deferred tax)**[2] | (0.615%) | 5.185% | 7.036% | 10.501% |
| Share Price | (0.661%) | 9.016% | 6.318% | 14.019% |

* ASX 200 All Industrials (XJIAI) ** Including Dividends *** Annualised

1 Investment returns based on net asset backing (pre-tax) represent the investment return prior to any provision for deferred tax benefits or liabilities, but are after the payment of current tax at company rates on income and on realised capital gains.

2 Investment returns based on net asset backing (post-tax) represent investment returns after provisions for deferred tax liabilities and benefits, including a provision for capital gains tax should the company's investments be realised in entirety.

## FINANCIAL OUTCOMES

| | 6 Months to 30 Sep 17 | 6 Months to 30 Sep 16 | % Change |
|---|---|---|---|
| Investment Revenue | $10,778,779 | $9,768,795 | 10.3% |
| Profit Before Tax & Realised Gains | $8,354,307 | $7,523,376 | 11.0% |
| Income Tax Benefit/(Expense) | ($665,183) | ($497,098) | 33.8% |
| Profit After Tax before Realised Gains | $7,689,124 | $7,026,278 | 9.4% |
| Earnings before Realised Gains Per Share | 9.1cps | 8.6cps | 5.8% |

## RESULTS COMMENTARY

Whitefield is pleased to report an Operating Profit after tax of $7,689,124, representing an increase of 9.4% on the equivalent first half in the prior financial year. After allowing for increases in the company's issued capital over this period, this equated to an increase in earnings per ordinary share of 5.8%.

The strong growth in income in this period was driven by increases in dividends and distributions across a very high percentage of the companies within the portfolio. Larger contributors included CIMIC, Aristocrat, IAG, Transurban, Macquarie Group, Woolworths, Wesfarmers and AGL.

In a half year characterised by softer telecommunications, financial and retail stock returns, Whitefield's investment portfolio generated a return of (2.04%) a small margin above the return of the benchmark S&P/ASX200 Industrials Accumulation Index return of (2.33%). The company's rolling 5 year return amounts to 13.11%pa and compares to the S&P/ASX200 Industrials Accumulation return of 12.66%pa and the broader S&P/ASX200 Accumulation return of 10.09%pa.

Stronger returns within the half year came from holdings in Flight Centre, Fisher & Paykel Healthcare, ALS, CIMIC, Downer, Cochlear, Boral, Aristocrat, REA, Orica, IAG, Sydney Airport, Goodman Group, Macquarie Group and Treasury Wine.

## DIVIDENDS

Whitefield has declared the following fully franked dividends, payable 12th December 2017, with a record date of 27th November 2017:

- 8.75 cents per Ordinary Share (an increase of 0.25 cents)
- 350 cents per Convertible Resettable Preference Share [CRPS]
- 4.0 cents per 8% Preference Share

## NET TANGIBLE ASSETS

At 30 September 2017

| | |
|---|---|
| NTA (post-tax & preference shares) | $389.9 million |
| Ordinary Shares on Issue | 87,042,544 |
| 8% Cumulative Pref. Shares (Face Value) | $23,790 |
| Convertible Resettable Prefs. (Face Value) | $40,000,000 |
| NTA per share (pre-tax) | $4.84 |
| NTA per share (post-tax) | $4.48 |
| Share Price | $4.51 |
| (Discount)/Premium to NTA (pre-tax) | (6.82%) |
| (Discount)/Premium to NTA (post-tax) | 0.67% |

## TOP 5 CONTRIBUTORS TO PERFORMANCE FOR THE QUARTER*

At 30 September 2017

| | Portfolio Weight | Contribution |
|---|---|---|
| National Australia Bank Limited | 6.15% | 0.366% |
| Westpac Banking Corporation | 7.79% | 0.335% |
| Wesfarmers Limited | 3.42% | 0.197% |
| CIMIC Group Limited | 1.41% | 0.190% |
| ANZ Banking Group | 6.34% | 0.175% |

## TOP 5 DETRACTORS TO PERFORMANCE FOR THE QUARTER*

At 30 September 2017

| | Portfolio Weight | Contribution |
|---|---|---|
| Commonwealth Bank of Australia | 8.91% | (0.624%) |
| Telstra Corporation Limited | 2.57% | (0.476%) |
| Ramsay Health Care Limited | 0.92% | (0.161%) |
| QBE Insurance Group Limited | 1.00% | (0.157%) |
| Sonic Healthcare Limited | 0.92% | (0.125%) |

*Contribution = weighted contribution to investment performance

## SECTOR BREAKDOWN

At 30 September 2017

| | Excluding Cash | Including Cash |
|---|---|---|
| Commercial Banks | 31.57% | 30.71% |
| Real Estate | 10.68% | 10.39% |
| Financials Excluding Banks | 10.07% | 9.80% |
| Health Care | 9.21% | 8.95% |
| Industrials | 9.13% | 8.87% |
| Consumer Staple | 8.90% | 8.65% |
| Consumer Discretionary | 7.03% | 6.83% |
| Materials | 4.77% | 4.63% |
| Telecommunication Services | 3.73% | 3.62% |
| Utilities | 3.15% | 3.06% |
| Information Technology | 1.76% | 1.71% |
| Cash & Cash Equivalents | | 2.78% |

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## CHANGES TO INVESTMENT EXPOSURES

Adjustments to portfolio exposures during the quarter included:

- Increasing exposure to Boral, ALS, Ramsay Healthcare and Woolworths
- Decreasing exposure to Goodman Group, Perpetual, CSR, Challenger Group, Incitec Pivot and Stockland

## COMPANY TAX RATE

Under the Treasury Laws Amendment (Enterprise Tax Plan) Act 2017, company tax rates in Australia will be progressively reduced from 30% to 25% by 2027.

During October 2017 additional legislation was introduced into Parliament to address some aspects of the manner in which the progressive lowering of tax rates will apply. The legislation is yet to be approved.

Based on the newly introduced legislation, it now appears most likely that Whitefield will continue to be taxed and frank dividends at the 30% company tax rate until the 2024 financial year at which time it would adopt the 27.5% rate (and lower rates in subsequent years). However it should be recognised that the proposed legislation has not yet been approved, and even once approved there may be some circumstances where Whitefield would adopt the 27.5% company tax rate at earlier dates.

Accordingly, based on its current position Whitefield will continue to pay tax and frank dividends at 30% in the near term and would advise shareholders should that position change.

Our comments in this regard supersede our prior guidance on Whitefield's transition to the lower company tax rate.

## OUTLOOK

The Australian economy continues to display a modest level of positive growth.

Employment has been steadily strengthening. Construction activity has remained firm with infrastructure development growing as residential activity eases from recent peaks. The Australian dollar continues to be supportive of domestic industry. Financial markets activity and business and consumer services are mirroring the mildly positive trajectory of the broad economy.

Notwithstanding these positives, the area of notable domestic weakness is consumer spending. Ultra-low interest rates are having the effect of constraining retirement incomes and by boosting the size of consumer loan principal are in turn promoting a high degree of caution amongst consumers. The entry into the country of a multitude of large global retailers has also magnified competition, putting pressure on prices and limiting market share for local retailers. Further, with the Australian population rising and global labour markets easily accessible, wage growth for Australian consumers is now at its lowest level for many decades.

Global economic growth has strengthened further. Employment and corporate profits in the US are firm. European economic data continues to reveal steady positive progress. The Japanese economy appears more buoyant than it has for many years, and while Chinese commercial growth rates are subdued relative to the past, consumer activity continues to develop favourably. It is most likely that these levels of synchronised growth will see global interest rates move upwards, an action which ultimately will have an influence on Australian rates.

This environment of rising global interest rates and a cautious Australian consumer is likely to encourage a progressive tilt in Government policy to strengthen the bargaining power of wage earners. Equivalent trends may also emerge in other countries, many of which are similarly confronted by low wage inflation and an increasingly politically motivated wage earner. These structural developments can take many years to evolve. However there is currently a strong global appetite to embrace change.

Accordingly while economic conditions are progressing in a broadly positive direction, these developments are supportive of our view that upcoming years are likely to entail a higher degree of political, economic and technological transformation than we have seen for some decades.

We have been encouraged by the strong growth in income from our portfolio over the last year, and are pleased to have been able to increase our ordinary dividend rate accordingly. We now look forward to providing further reports on progress as we progress into 2018.

ANGUS GLUSKIE
CHIEF EXECUTIVE OFFICER

## QUARTER ENDED 30 SEPTEMBER 2017

### TOP 20 HOLDINGS

At 30 September 2017

| | % | Value $'000 |
|---|---|---|
| Commonwealth Bank Of Australia | 8.91% | 41,107 |
| Westpac Banking Corporation | 7.79% | 35,948 |
| ANZ Banking Group Limited | 6.34% | 29,242 |
| National Australia Bank Limited | 6.15% | 28,379 |
| CSL Limited | 3.91% | 18,051 |
| Wesfarmers Limited | 3.42% | 15,773 |
| Woolworths Limited | 2.79% | 12,855 |
| Telstra Corporation Limited | 2.57% | 11,850 |
| Scentre Group | 1.96% | 9,053 |
| Transurban Group Limited | 1.77% | 8,156 |
| Insurance Australia Group Limited | 1.74% | 8,051 |
| Macquarie Group Limited | 1.73% | 7,961 |
| AGL Energy Limited | 1.71% | 7,873 |
| Cimic Group Limited | 1.41% | 6,486 |
| Amcor Limited | 1.28% | 5,893 |
| Aurizon Holdings Limited | 1.20% | 5,557 |
| Westfield Corporation | 1.18% | 5,463 |
| Sydney Airport | 1.18% | 5,433 |
| Orica Limited | 1.16% | 5,368 |
| Brambles Limited | 1.04% | 4,785 |
| Cash & Cash Equivalents | 2.78% | 12,833 |