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October 2014

Investment Watch

Medibank Private Share Offer

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The Commonwealth of Australia expects to lodge a prospectus with the Australian Securities and Investments Commission ("ASIC") in relation to an initial public offering of shares in Medibank Private Limited ("Medibank Private") ("the Offer"). A copy of that prospectus may be obtained after it has been lodged with ASIC by visiting medibankprivateshareoffer.com.au or calling 1800 998 778. Anyone who wants to acquire shares in Medibank Private will need to carefully consider the prospectus and complete an application form that will be in or will accompany the prospectus. Pre-registrants are not obliged to apply for shares. This document does not constitute an offer to sell, or a solicitation of an offer to buy, securities in the United States or in any other jurisdiction. The shares referred to herein have not been, and will not be, registered under the U.S. Securities Act of 1933 (the "U.S. Securities Act") or under the securities laws of any state or other jurisdiction of the United States and may not be offered or sold in the United States absent registration under the U.S. Securities Act or an exemption from registration requirements.

Important disclosures regarding companies that are the subject of this report and an explanation of recommendations can be found at the end of this document.
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Think Childcare & Education Initial Public Offer

Think Childcare and Education's strategy is to acquire and integrate childcare centres offering high quality services with high occupancy rates and excellent staff. Think aims to create efficiencies through operational and management integration. With over a decade operating in the sector, Think's management team has an excellent track record of identifying, acquiring, integrating and improving the performance of childcare centres.

Morgans is a Joint Lead Manager to the IPO which is expected to list on the ASX on 17 October.

Contact your adviser to find out more about Think Childcare.

Riding through the Adjustment

Some perspective

Australian equities have fallen around 7% since the end of August. While corrections can be unnerving, we break down the facts to conclude this is simply an overdue adjustment within markets which are in fundamentally sound shape.

We have discussed the possibility of a correction for some time. Currency volatility was just the catalyst.

Chief Economist Michael Knox's highest conviction call for 2014 was for global currency re-alignment due to anticipated strength in the US$. The US$ started to accelerate in September on the ramping up of the European and Japanese equivalents of "QE" as the Americans begin to conclude their own long running program. This triggered a flow of funds into US$ assets which caused a depreciation in a number of global currencies including the A$.

Currency volatility unnerves investors in perceived 'risk assets' including emerging markets (like China), commodities and commodity currencies, all to which Australia is exposed. This is particularly felt by offshore investors in Australian equities who suffer the combined impact of falling prices and a falling value of their US$ invested in A$ terms. Marginal offshore investors will either lower their exposure to Aussie equities (sell) or at least wait for currency markets to stabilise before considering fundamental value (buying) again.

We're taking a measured approach to our tactical strategy in these market conditions;

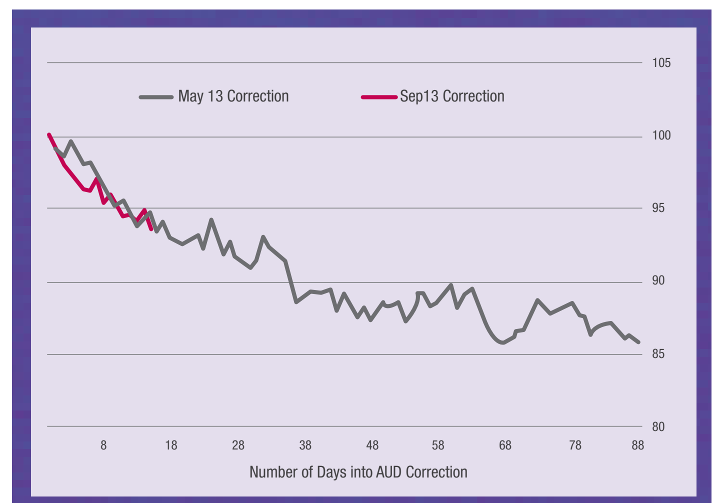
- Below we see that the current A$ correction is almost perfectly mirroring the May-13 correction, which took almost 3 months to play out. Buyers may choose to sit on the sidelines until the A$ stabilises.
- There is some concern around steepening yield curves and the relative attractiveness of bonds over equities. While yield has been a dominant market driver, equally our Income Strategy targets high quality corporates capable of growing dividends in a benign growth environment, rather than just simply those stocks attracting the yield arbitragers.
- US Bond rates (and the US$) are rising in part due to strengthening of economic fundamentals. US growth is forecast to build to 3.3% by 2015, well above the 2.4% long term average. This is highly supportive for equities.
- A lower A$ also generates very positive impacts for a number of major Australian corporates including the commodity exporters, and industrials with strong offshore franchises.

Morgans High Conviction stocks incorporate many of the features discussed here, with several now looking very cheap relative to their fundamental valuations. Stocks which look most interesting on this pullback, include **Oil Search (OSH)**, **Challenger Group (CGF)**, **Seek (SEK)** and **Transurban (TCL)**. See Page 6 for more details.

Investment Watch this month focuses on the interest rate sensitive sectors (whether real or perceived) including the Banks, Property, Infrastructure and Telstra. Now is an opportune time to talk to your adviser about sensible exposure to these sectors, balanced with capitalising on opportunities being uncovered through the current market adjustment.

Corrections in the A$ (Indexed to 100) versus time

The sharp correction in A$ (and equities) may drag on for some weeks to come.



Source: IRESS

Visit our website to watch our Chief Economist Michael Knox discuss his views on the economy

GPT Metro Office Fund

Initial Public Offer

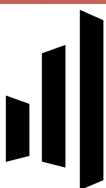
7.4% distribution yield (FY15)

GPT Metro Office Fund is undertaking an IPO to raise $255.2m. The Fund offers investors exposure to a portfolio of quality metropolitan and business park office assets located in Sydney, Melbourne and Brisbane. There is a high level of income stability with leases held by a range of high quality, reputable tenants with structured rental growth. The fund offers 100% occupancy at IPO*, a 7.40% FY15F distribution yield, low gearing of 35% and a long WALE of 6.3 years.

Morgans is a Co Lead Manager to the Offer.

Speak to your Morgans adviser about this opportunity.

* Occupancy excluding the Rental Guarantees is 99.3%



GPT | METRO OFFICE FUND

Economic Update

US, Europe, China, Australia

US

The meeting of the US Federal Reserve in September 2014 was an important turning point for monetary policy. Chair of the Fed Reserve Janet Yellen announced a reduction in the assets purchased under the Quantitative Easing program to US$15 billion per month. She suggested the program would come to an end after the next meeting in the last week of October.

At the same time, she released estimates of growth, inflation and unemployment up to and including 2017. These estimates were released together with estimates of settings for the Fed Funds rate. The Open Market Committee of the Federal Reserve estimates that GDP growth in 2014 will be 2.1%. This will rise to 2.8% in 2015. Growth will drift sideways to between 2.7% and 2.8% growth in 2016 before declining to 2.4% growth in 2017. This means there will be three years of growth above the long term trend of 2.15%.

US unemployment is expected to fall to 6.0% by the end of 2014. It will ease further to 5.5% by the end of 2015 and 5.3% by the end of 2016. The long term average rate is expected to be 5.1%. Inflation is expected to remain below 2%, up to and including 2017. The long term average is expected to be 2%. The Fed Funds rate is expected to rise to 1.1% by the end of 2015, 2.75% by the end of 2016 and 3.75% by the end of 2017. The long term average interest rate is expected to be 3.75%.

Europe

ECB president, Mario Draghi outlined the beginning of the Targeted Long Term Refinancing Operation (TLTRO) in September.

The purpose of the TLTRO is for the ECB to provide funds to banks so that banks can increase their lending to non-financial businesses. These funds are not to be used to fund property investment or investment in financial firms.

This money is available for a term of four years. This means that banks using the funds to support non-financial corporation lending, will receive four year money for this purpose at a cost of only 15 basis points.

In the first TLTRO on 18 September, the ECB provided €82.6 billion. This money was provided to 255 counter parties. A total of 382 entities were eligible to bid, representing 1,372 credit institutions.

Further funds will be provided on 11 December. Additional funds will be provided in March 2015. Further quarterly lending to maintain this expansion of the ECB balance sheet will follow in June, September and December of 2015, plus March, June and September 2016. The total lending under the TLTRO may continue to grow until it reaches its maximum level of a trillion euros.

> "Our research shows that a 1% fall in the A$/US$ exchange rate will generate a further half a percent fall in the ASX200 in the month in which the fall in the A$ occurs."

China

There is a mistaken belief that falling iron ore prices indicate a slowdown in the Chinese economy. This is simply not the case. Iron ore prices are falling like many other US$ commodity prices because the US$ is going through a period of extreme strength, relative to most other currencies. When this period of US$ strength comes to an end, we think traders will come back into the commodity markets and bid up many commodity prices.

The best available estimates suggest that Chinese GDP will grow by 7.4% in 2014, easing to 7.2% in 2015. There is no hard landing here. Inflation in China should be 2.4% in 2014 and 2.9% in 2015. These numbers suggest a steady path for the monetary policy of the People's Bank of China and no need to generate a slowdown to slow inflation.

Australia

We have suggested all year long that the A$ would come under pressure against the US$ as we came towards the end of the year. This sell-off in the A$ is now happening. We think it will continue. Our research shows that a 1% fall in the A$/US$ exchange rate will generate a further half a percent fall in the ASX200 in the month in which the fall in the A$ occurs. This is because traders are standing aside from Australian equities, waiting for the A$ to find its low. When the A$ does find its low, the equity market rebounds towards its fair value in terms of earnings per share and bond yields as traders re-enter the market looking for bargains.

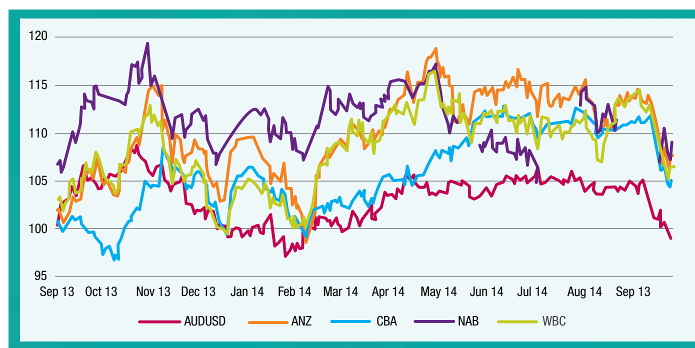
Banks are fundamentally sound
The recent weakness appears currency driven

Looking at the bigger picture
Since the start of September 2014, the major banks' share prices have declined 5.5% which is exactly in-line with the A$ which has also declined by 5.5%. More significantly, estimates for bank earnings have actually increased over the same period. Since banks earnings are actually improving this tells us that: 1) fundamentally there is nothing to worry about; and 2) the share price decline is most likely being driven by currency movement or macro drivers (more specifically a repatriation of international investment funds). Our Economist, Michael Knox, expects the A$ to continue to weaken against the US$ which means we may see ongoing weakness in the banks and other high yielding stocks over the coming months. Overall, we think it's prudent to let the currency trade play out before diving back into the banks.

Banks currency exposure
Of the major banks Macquarie Bank (MQG) has the most exposure to US$. Every 10% increase in the US$ relative to the A$ equates to a 7% increase in MQG's NPAT. Earnings for the major banks are not materially exposed to the US$ but ANZ Bank has the most exposure. ANZ Bank's exposure relates to US interest rates. If the US$ LIBOR increases from its current lows to around 1.5%, this would increase ANZ's NPAT by around 5%.

Consider your portfolio weighting in banks
We acknowledge that banks are a major part of most portfolios. They account for 30% of the ASX200 and we'd expect an even higher weighting in most retirees' portfolios. It's important to manage your portfolio weightings and we remind you of the Morgans Model Portfolios allocations. We suggest holding around 35% of an Income Portfolio in banks, in a Balanced Portfolio we recommend around 26%, and in the Growth Portfolio around 20%.

Currency driving bank shares lower in near term



Source: IRESS

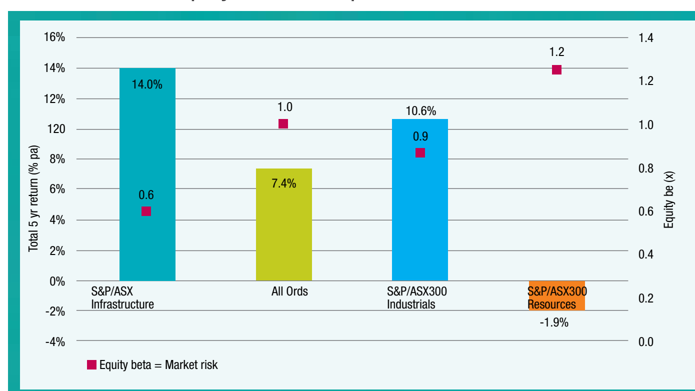
Infrastructure
In for a period of underperformance, following strong run

The share prices of a number key infrastructure stocks reached all-time highs in late August / early September, buoyed by solid dividends, defensive and growing earnings, and the market's ongoing appetite for yield in a low interest rate environment. This continued a stellar period of performance for the sector, with returns over the last five years in excess of the overall market and the broad industrials and resources indices. Importantly, these returns came at a lower unit of systematic or market-wide risk, as indicated by an equity beta across the period well below the other broader indices.

Our analysis also shows that over the last five years there has been a strong negative correlation between share prices for the infrastructure sector and interest rates. In other words, rising share prices were accompanied by falling interest rates. Through September the reverse occurred, with the share prices of a number of infrastructure stocks retreating, accompanied by a rise in interest rates.

Rising interest rates will have differing timing and magnitude impacts on revenues and debt service for each stock. In the short term at least, there is a risk that rate rises may see the sector in for a period of underperformance. In this environment, our preference is for **APA Group**, **Sydney Airport**, and **Transurban** due to their growth potential that may offset the interest rate increases.

Total return and equity beta – compared to broader market



Source: Morgans, S&P

Healthcare
Temperature rising

We have seen a number of new IPOs and solid share price appreciation across the **Healthcare** sector in the last three months. The ageing population thematic, medical innovation and outsourcing opportunities from the public health system are attracting investors into a sector which is likely to deliver sustainable earnings growth through to the end of the decade. Healthscope (second largest private hospital operator) and **Japara** (aged care operator) have both been successful listings and Morgans clients have had the opportunity to participate in these raisings. As we look to the end of the year we expect more offerings in the Healthcare sector to emerge; speak to your adviser for details. Our high conviction call remains **CSL** which should be a key part of investors' long term portfolios. At the smaller end, our key call is **Admedus** which has a strong pipeline of newsflow around its vaccine and tissue regenerative businesses.

Telstra remains healthy

The recent weakness appears currency driven

Much like the major banks, Telstra has actually experienced a slight upgrade to earnings expectations over the last month or so, which is contrary to its share price performance. At its recent result, Telstra surprised with a higher than expected final dividend (a fully franked 15 cents per share dividend was declared) and announced a small off market buy-back which should increase earnings per share by around 2% (due to a lower share count).

Telstra's share price has dropped by c3% over September, consequently it hasn't been as impacted by the 5.5% currency decline as the major banks, which are down 5.5%. That said, it's largely in the same boat. We think the repatriation of foreign investment funds is driving the sell-off. Momentum in the US economy, US interest rates, and US currency has started to accelerate and the A$ has consequently started to decline (relative to the US$). Consequently foreign investment funds which are most likely been invested in the high yielding and liquid ASX investments (such as Telstra and the major banks) are looking to bring the funds back home. It's important to remember that while this may create some short term share price volatility, the fundamentals and our key reason for being invested in Telstra remains sound.

Property

Year to date, the ASX 200 AREIT Accumulation Index has outperformed the ASX 200 Accumulation Index largely driven by the ongoing low interest rate environment and M&A activity. In line with the broader market, the sector has weakened during September.

Abnormally low yield curves are the key reason many yield investors have diverted capital from bonds to higher yielding property stocks. REIT prices have had a dual benefit from falling interest expense in recent years and improved attractiveness relative to suppressed bond yields. We don't know when the yield curve will rise, but when it does there will likely be some volatility. We note that the last unexpected rise in the yield curve occurred in May 2013, when US Federal Reserve Chairman, Ben Bernanke, flagged a possible tapering of US quantitative easing. In the ensuing three weeks, yields on 10 year US treasuries increased by 10% and both Australian and US REITs declined 10%.

Currently REITs are continuing to benefit from low interest costs (with good debt tenure so any impact from rising interest rates won't be immediate), balance sheets are in good shape, and most groups have guided for higher FY15 distributions. We also note that most (if not all) groups have interest rate hedging in place to mitigate potential future interest rate increases ensuring earnings and distributions remain stable. The key long term driver of earnings for REITs remains rental growth and when interest rates normalise there should be a corresponding improvement in economic conditions which will also benefit many REITs.

We believe good quality industrial property (**360 Capital Industrial Fund**) has a favourable near-term outlook with ongoing tenant demand driven by internet retailers and businesses looking to upgrade their logistics infrastructure. **Cromwell Property Group** has a five year weighted average lease expiry and a track record of managing cycles (recent net seller of assets with $200m in cash) which we believe will help buffer against near term challenging office markets (the yield also remains above the sector average).

We also like REITs with exposure to niche sectors/high barriers to entry **APDC Group** (data centres), **Generation Healthcare REIT** (healthcare) and **National Storage REIT** (self-storage). Our preferred retail exposure remains **Federation Centres**. For diversified exposure we continue to prefer **Stockland Group** which has good leverage to the residential markets. The newly restructured Westfield Corporation also offers investors global exposure (US and UK) although we note it's not for pure yield investors but will benefit from US economic recovery.

Ellerston Global Investments

Initial Public Offer

Ellerston Global provides access to a global equity portfolio with a distinctively contrarian high conviction investment strategy. Ellerston Global provides access to the expertise of Ellerston Capital Limited, a specialist funds manager with over $3bn in funds under management.

Morgans is a Joint Lead Manager to the IPO which is expected to list on 22 October 2014.

Contact your adviser to find out more about Ellerston Global.

ELLERSTON CAPITAL

Ingenia Communities Group

Retail Entitlement Offer

Ingenia Communities Group is undertaking a $89.1m capital raising including a $15m retail entitlement offer for eligible shareholders. The offer price is $0.45 and there is a top-up facility to allow shareholders to apply for additional shares. Funds raised will assist with the acquisition of three lifestyle parks and a further pipeline of acquisitions.

Morgans is a Joint Lead Manager to the offer which closes 15 October 2014.

Contact your adviser about this opportunity.

Elders Limited

3-for-5 Entitlement Offer

Elders has undertaken a substantial turnaround in FY14 and is now in a financially stable position with a new highly experienced board and management team. This capital raising will repay existing debt and allow Elders to re-focus on its operational performance and direct capital into high return opportunities.

Morgans is a Joint Lead Manager to the Elders entitlement offer which closes on Tuesday 7 October 2014.

Contact your adviser about this opportunity.

High Conviction Stocks

In the digitial edition, you may click on the stock tables for links to the latest company research reports from our website.

Top 100

This month's changes

This month have made two changes to our top 100 High Conviction list, removing Telstra (TLS) and adding Oil Search (OSH).

Fundamentally Telstra remains very healthy with surplus capital and an immaterial earnings exposure to a weakening US$. However we think currency, which is likely to head lower still, is the key short term driver for the marginal buyer and therefore the share price. With this in mind we think the repatriation of offshore investment funds will maintain selling pressure on Telstra so, in the short term, we remove it from our High Conviction buys.

Brambles BXB			
Price	$9.52	PE (x)	22.5
Price Target	$10.04	Yield	3.2%
Upside	5.5%	Gross Yield	3.6%

Brambles (BXB) is a supply-chain logistics company operating in more than 50 countries, primarily through the CHEP and IFCO brands.

Key reasons to buy

- Long-term international growth opportunities from new products and emerging markets.
- It is leveraged to an economic recovery in the US and Europe (~80% of earnings). With organic growth forecast in those key markets we expect earnings growth to accelerate from mid-single digit to low double-digit.
- Its PE multiple (~20.8x FY15 at present) is above the historical average of 18x, but well below previous peaks of 25x plus and we think BXB is entering a PE re-rating cycle.

Challenger Limited CGF			
Price	$7.12	PE (x)	11.7
Price Target	$7.76	Yield	3.9%
Upside	9.0%	Gross Yield	5.3%

Challenger Limited (CGF) is an investment management firm focusing on retirement income products, in particular annuities. Challenger holds the dominant market share of annuities sales in Australia as well as operating a growing Funds Management division.

Key reasons to buy

- Annuities have strong tailwinds: CGF recorded 28% sales growth last financial year. The outlook for annuities sales remains strong over the medium-term, with a structural demographic shift (aging population); and the potential for positive regulatory reform and policy settings to encourage the take up of retirement products.
- Funds management +27% growth in FY14: CGF's funds management division is one of the fastest growing managers with significant existing capacity.
- CGF recently successfully raised $250m recently which sures up its capital base for growth. The stock trades on an undemanding valuation of 11x FY15 PE.

CSL			
Price	$74.17	PE (x)	21.9
Price Target	$70.01	Yield	1.7%
Upside	-5.6%	Gross Yield	1.7%

CSL is a leading global human blood plasma company which generates approximately US$5.0bn in sales (40% in US, 30% in Europe and 40% in the Rest of World).

Key reasons to buy

- CSL has delivered average EPS growth of 21% for the last six years and our forecasts suggest mid teen growth for the next three years.
- To fund its continued growth CSL spends over 5% (or A$0.5bn) of revenue on R&D, with most promising targets in the haemophilia space.
- Although the current share price is higher than our fundamental price target, CSL offers investors with a medium term view attractive capital growth prospects.

Oil Search OSH *			
Price	$8.92	PE (x)	19.5
Price Target	$11.22	Yield	1.3%
Upside	25.8%	Gross Yield	1.3%

Oil Search (OSH) is an E&P company with over 18-20 mmboe production expected this year and significant production growth expected in FY15.

Key reasons to buy

- The share price has pulled back recently on macro commodity price concerns, resulting in an opportunity to buy a quality oil and gas stock with growth potential and a strong production base.
- The strategy review is expected to finalise in 4QCY14, which will finalise dividend payout and capital management policies as well as planned investment in growth.
- Near term appraisal work in PNG may lead to additional LNG project growth potential, which may lead to de-risking and value upside.

Origin Energy ORG			
Price	$14.97	PE (x)	21.0
Price Target	$14.52	Yield	3.3%
Upside	-3.0%	Gross Yield	3.3%

Origin Energy (ORG) is the leading Australian integrated energy company, which has diverse operations across the energy supply chain; from gas exploration and production to power generation and energy retailing.

Key reasons to buy

- Recent outlook statements for FY15 and beyond are for stabilisation and growth in the Energy Markets, a recent area of concern for the market.
- Expectations of a more clear dividend policy of at least 60% payout post APLNG startup, and a decision to issue a European hybrid rather than raise equity this year to fund its acquisition of the Poseidon offshore WA gas discovery.
- A diverse gas portfolio secured ahead of the startup of the LNG projects on the East Coast, which may benefit margins post the LNG startups in 2015/2016.

Seek SEK			
Price	$16.21	PE (x)	24.1
Price Target	$19.76	Yield	1.8%
Upside	21.9%	Gross Yield	2.6%

Seek (SEK) is the leading provider of online employment services in Australia, China, Southeast Asia and Latin America. The company also owns a rapidly expanding online education business.

Key reasons to buy

- The Australian recruitment cycle is at or near to all-time lows in churn rates and recently volumes have begun to rebound.
- Year to date job ad growth is higher than we have assumed in our forecasts .
- Seek's offshore operations will deliver high double-digit growth in FY15 as the benefits of the Jobstreet acquisition become available. The company is achieving strong growth while simultaneously de-leveraging its balance sheet.

Stockland Group SGP*			
Price	$3.95	PE (x)	15.5
Price Target	$4.30	Yield	6.1%
Upside	8.9%	Gross Yield	6.1%

Stockland Group (SGP) is Australia's largest developer given its significant land banks.

Key reasons to buy

- Around a third of earnings are derived from residential development. Given the improving macro environment, we believe SGP is well placed to benefit in the medium term.
- The balance of the investment portfolio is good quality (office, retail, logistics, retirement), and although medium term retail and office conditions are challenging, the earnings visibility is good given contracted rents. SGP's strategy is to reduce its office exposure over time.
- SGP offers investors an attractive FY15 distribution yield of 6.1%.

High Conviction Stocks

In the digitial edition, you may click on the stock tables for links to the latest company research reports from our website.

Transurban Group TCL			
Price	$7.72	PE (x)	68.0
Price Target	$8.06	Yield	5.1%
Upside	4.4%	Gross Yield	5.4%

Transurban Group (TCL) develops, operates, and maintains toll roads in Australia and the US.

Key reasons to buy

- We expect TCL to generate double-digit EBITDA growth over the next three years driven by traffic growth, CPI/CPI+ toll increases, ongoing cost control, and contribution from growth projects.
- We expect this traffic and earnings growth to translate into double-digit growth in distribution per share.
- Confidence in this growth outlook can be gained from the management incentive plan, which rewards management for growing free cashflow per share at 10-13% per annum CAGR across FY14-17.

Ex 100

This month's changes

This month we have made one change to our ex 100 High Conviction list, including Virtus Heatlh (VRT).

Admedus AHZ			
Price	$0.15	PE (x)	n/a
Price Target	$0.23	Yield	0.0%
Upside	54.3%	Gross Yield	0.0%

Admedus (AHZ) has a diversified life science portfolio across, medical products, regenerative medicine and DNA vaccines.

Key reasons to buy

- AHZ is a well funded following an A$18m capital raising, which will accelerate sales in Europe and the US for its key regenerative medicine product called CardioCel.
- AHZ is developing DNA vaccines, using Prof Ian Fraser's technology and an efficacy trial is expected to start later this year following a successful safety trial in HSV-2 (genital herpes).
- Plenty of newsflow in next six month – additional CardioCel approval in the Asian region, increasing sales for CardioCel and further updates on the vaccine trial.

GBST Holdings GBT			
Price	$3.88	PE (x)	16.4
Price Target	$4.86	Yield	2.4%
Upside	25.3%	Gross Yield	3.5%

GBST provides software and systems to banks and fund managers to enable them to manage order and settlement work flow in a highly automated and efficient fashion.

Key reasons to buy

- The five-year drought in spending on new systems by financial institutions has come to an end, offering GBST a chance to pick up significant new contract wins over the next few years.
- The company implemented 16 new customer projects in FY14, some of which were implemented at the end of the financial year. The full-year impact of these new installations will deliver double-digit growth in FY15.
- GBST will be debt free in FY15 and will be poised for acquisitions or capital management by FY16.

Mantra Group MTR			
Price	$2.34	PE (x)	17.5
Price Target	$2.45	Yield	4.3%
Upside	4.7%	Gross Yield	6.1%

Mantra Group (MTR) is a leading accommodation operator in Australia and New Zealand and is also expanding in Indonesia.

Key reasons to buy

- The company is leveraged to improving domestic leisure and business travel demand through its Resorts and CBD businesses. It is also benefiting from strong international inbound travel to Australia, lead by Asia.
- MTR offers investors a solid earnings growth profile, strong FCF and an attractive fully franked dividend yield.
- We expect that MTR will rerate towards our A$2.45 valuation as it delivers on its FY15 forecast and makes further accretive acquisitions.

National Storage REIT NSR			
Price	$1.34	PE (x)	15.1
Price Target	$1.45	Yield	6.3%
Upside	8.6%	Gross Yield	6.3%

National Storage REIT (NSR) is the first ASX-listed, internally managed and fully integrated owner and operator of self-storage centres.

Key reasons to buy

- First mover advantage in the self-storage asset space.
- Future growth potential via acquisitions given the fragmented storage market; and
- An attractive FY15 distribution yield of approx. 6.4%.

Pact Group PGH			
Price	$3.96	PE (x)	12.9
Price Target	$4.31	Yield	5.6%
Upside	8.8%	Gross Yield	7.2%

Pact Group (PGH) is the leading supplier of rigid plastics packaging in Australia and New Zealand. It also has an emerging presence in Asia.

Key reasons to buy

- We view this defensive, strong cashflow packaging business as a core portfolio holding.
- PGH is trading at an unwarranted discount to its global peers given it has industry leading margins and cashflow conversion.
- PGH also offers an attractive dividend yield.

Shine Corporate SHJ			
Price	$2.58	PE (x)	15.8
Price Target	$2.70	Yield	1.5%
Upside	4.8%	Gross Yield	1.5%

Shine Corporate (SHJ) is a market leader in the area of damages based plaintiff litigation.

Key reasons to buy

- We believe SHJ's EPS growth into FY15 (+15.5%), balance sheet capacity for future accretive acquisitions and internal initiatives to improve margins will see the stock re-rate further.
- We believe SHJ will continue to benefit from a fragmented market and its ability to acquire value enhancing acquisitions.
- SHJ provided FY15 EBIITDA guidance of A$41-45m which should prove to be conservative.

Virtus Health VRT			
Price	$7.77	PE (x)	18.7
Price Target	$8.78	Yield	3.5%
Upside	13.0%	Gross Yield	5.0%

Virtus Health (VRT) is Australia's leading provider of IVF services (market share 45.5%) and recently has expanded into Ireland and Singapore.

Key reasons to buy

- VRT is forecast to grow its net profit by greater than 10% pa for the next three years, driven by international expansion, domestic IVF cycle growth of 3% and medical inflation of approx. 4%.
- To help counter increased domestic competition, VRT has a low cost model which now contributes over 10% of revenue.
- VRT continues to develop and review new genetic tests, with their diagnostics revenue up strongly (17%) for the year and now contributing approx 8% of revenue.

360 Capital Industrial Fund TIX			
Price	$2.28	PE (x)	10.9
Price Target	$2.48	Yield	8.4%
Upside	8.8%	Gross Yield	8.4%

360 Capital Industrial Fund (TIX) owns a portfolio of 21 industrial assets across Australia valued at around $470m.

Key reasons to buy

- Attractive FY15 yield of 8.6%.
- Cashflows supported by stable rents which average 3.5% rental growth pa.
- Strong portfolio metrics (Woolworths largest tenant) including a WALE of 6 years.

Source: IRESS, Morgans, Factset FY15 Forecasts

* Applies consensus forecasts.

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