SFML Quarterly Newsletter No. 56

June 2017

In this quarterly edition, we review performance and attribution. During the Quarter, we attended the Cochlear and Computershare investor days. We travelled to the U.S. visiting Sims Metal, Altium, Impedimed and we attended the ASCO conference. We also comment on Asian Energy, the changing travel landscape and Credit Ratings Agencies. Image: The dying art of hand sorting scrap.

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selector

About Selector

We are a boutique fund manager with a combined experience of over 150 years. We believe in long-term wealth creation and building lasting relationships with our investors.

Our focus is stock selection. Our funds are high conviction, concentrated and index unaware. As a result, we have low turnover and produce tax effective returns.

We seek businesses with leadership qualities, run by competent management teams, underpinned by strong balance sheets and with a focus on capital management.

Dear Investor,

Eight years on and our main index, the All Ordinaries, is yet to breach the peak it set back in 2007. In sharp contrast, both major U.S. indexes, the Nasdaq and the Dow Jones Industrial Average, have marched well into record territory. There are plenty of reasons as to why this may be the case, be they structural, cyclical or economic. However, it is also apparent that for business, profits are harder to come by.

Heightened competition, lower levels of economic growth and the continual shift to online is crippling businesses caught in the crosshairs. The absence of political leadership is embarrassing and continues to contribute to the significant obstacles facing businesses and individuals as they attempt to navigate an economy that is in transition.

Our opening quote from Scott Farquhar, co-CEO of enterprise software provider Atlassian sums it up best. *"It's not the largest company, it's not the most successful company, it's not the strongest company. It's the most adaptable companies that are going to survive."*

So, while the Index may suggest little has happened, quite the opposite is true. In our investment universe, a raft of businesses turned in stellar performances over an extended period including leading bionic ear provider Cochlear, slot machine operator Aristocrat Leisure, domestic private health insurer NIB Holdings and enterprise software provider Technology One. So, while there are numerous businesses and industries to steer clear of, those that are prepared to adapt can do exceedingly well.

In this quarterly, we cover a range of topics including feedback from investor days held by Cochlear and Computershare. During the period, we travelled to the U.S. to attend both the Sims Metal Management North American site tour, as well as the American Society of Clinical Oncology (ASCO) conference held in Chicago. We also comment on the growing importance of the Asian region, including its impacts on the global LNG market, changing travel patterns and influence on international equity markets.

The fund delivered a gross positive return of **7.45%** for the June 2017 quarter compared to the All Ordinaries Accumulation Index negative return of **1.54%**. For the financial year, the Fund has delivered a gross gain of **14.40%** against the Index rise of **13.12%**. We trust you find the report informative.

Regards,

Selector Investment Team

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Quote: Scott Farquhar, Atlassian Co-CEO

"Companies today are optimised for the current environment they live in, and when change happens, as it inevitably does, companies can't adapt. It's not the largest company, it's not the most successful company, it's not the strongest company. It's the most adaptable companies that are going to survive."

CEO Farquhar adds:

"About a third of our revenue, give or take, comes from the cloud. There are many companies that haven't yet adopted the cloud and want to choose to run something internally for various reasons. We have invested heavily so we have leading cloud versions of our products…we see the future. In 10 years' time, I would think 90 per cent of our customers will be in the cloud."
SFM

Performance June 2017

For the quarter ending June 2017, the Fund delivered a gross positive **7.45%** return of as compared with the **1.54%** fall in the All Ordinaries Accumulation Index.

Performance table since inception

Returns	Gross Fund Return (%)	All Ordinaries Accumulation Index (%)	All Ordinaries Index (%)
3 Months	7.45	-1.54	-2.37
6 Months	9.35	2.89	0.79
1 Year	14.40	13.12	8.54
3 Years annualised	16.08	6.83	2.31
5 Years annualised	22.68	11.60	6.87
10 Years annualised	7.15	3.46	-0.90
Since Inception annualised	12.10	7.83	3.37

Fund's Top 10 holdings

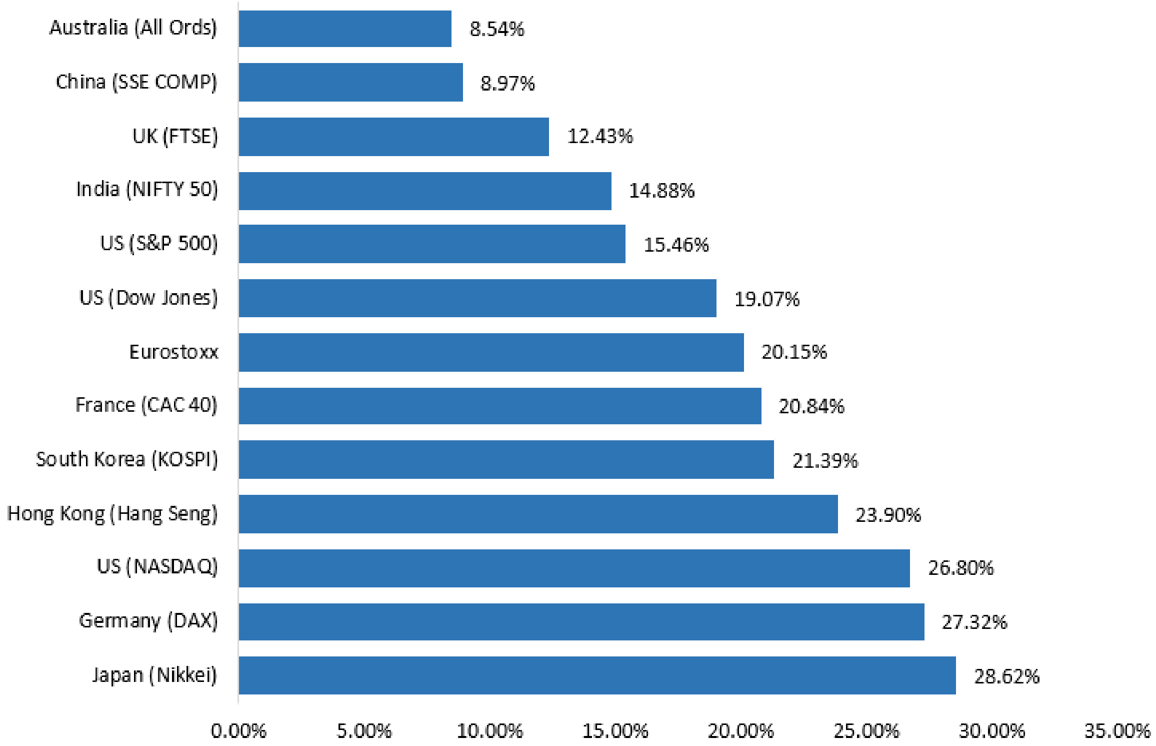
Top 10 June 2017*	Top 10 March 2017*
ALTIUM	ALTIUM
ARISTOCRAT LEISURE	ARISTOCRAT LEISURE
COCHLEAR	COCHLEAR
CSL	CSL
FLIGHT CENTRE TRAVEL GROUP	IRESS
IRESS	NIB HOLDINGS
NIB HOLDINGS	RESMED
RESMED	SEEK
SEEK	TECHNOLOGY ONE
TECHNOLOGY ONE	THE STAR ENTERTAINMENT GROUP
Top 10: 45.73%	**Top 10: 45.39%**

* *Listed in alphabetical order*

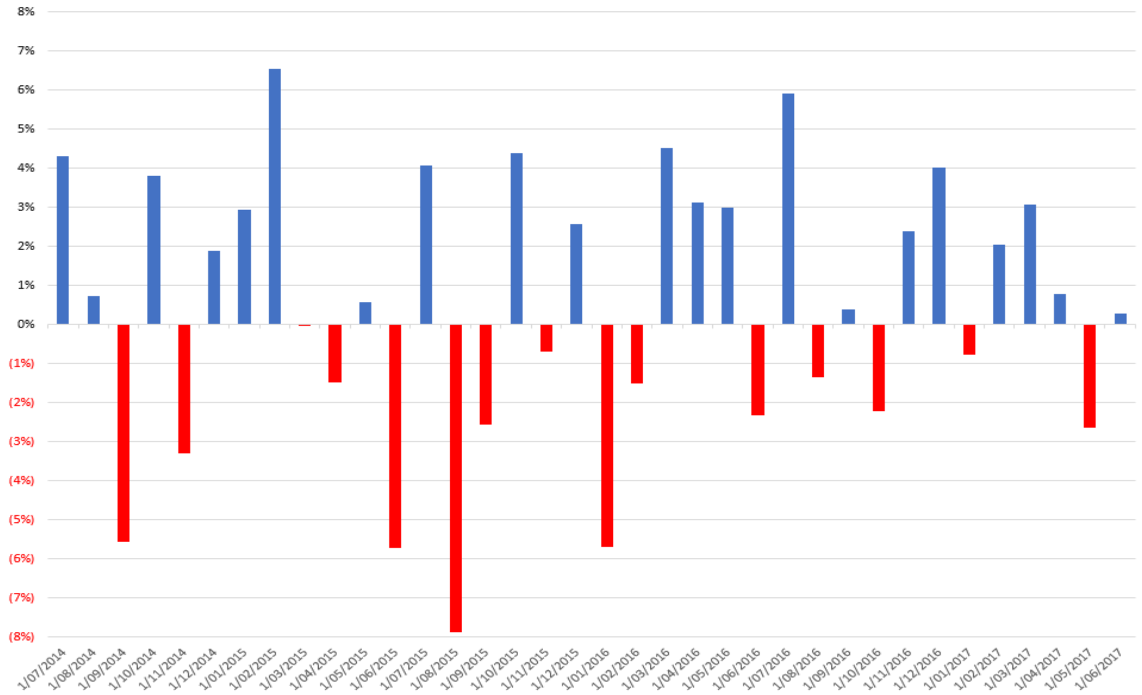
Selector employs a high conviction, index unaware, stock selection investment strategy, which typically targets 15-25 stocks for the Fund. As shown above, the Fund's top 10 positions usually represent a high percentage of its equity exposure. Current and past portfolio composition has historically been very unlike that of your average "run-of-the-mill index hugging" fund manager. Our goal remains focused on truly differentiated broad-cap businesses rather than the closet index hugging portfolios offered by most large fund managers.

Market Insights

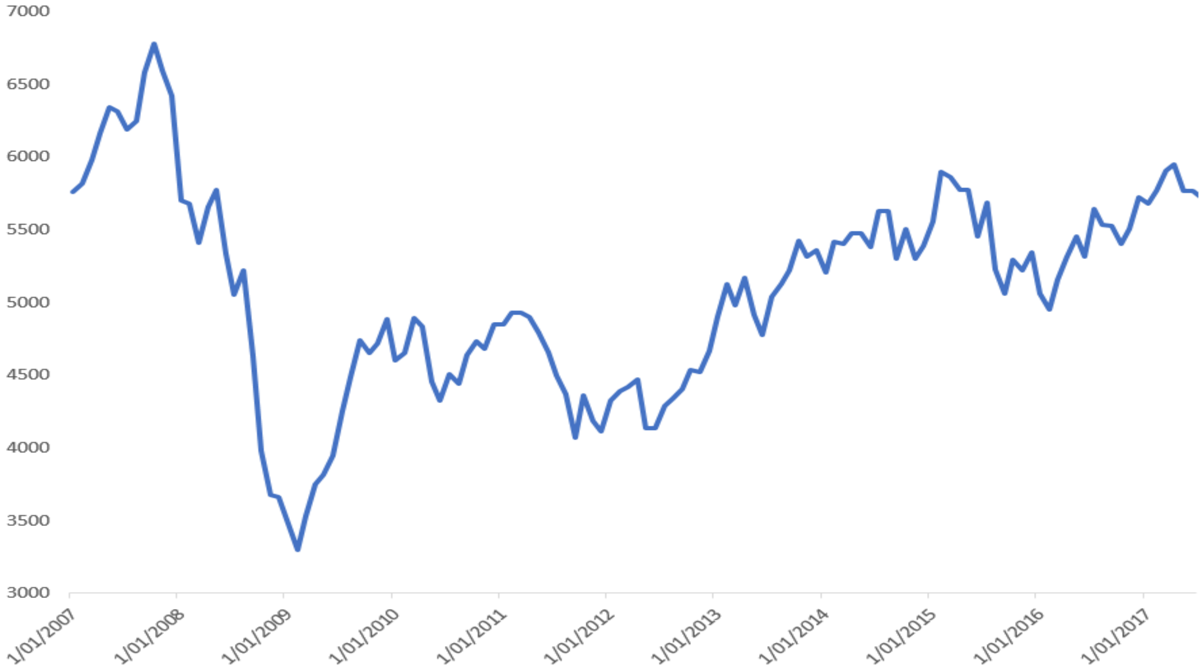
Global Equities 12 Month Returns



Monthly All Ordinaries Accumulation Index Returns 2015 – 2017 Financial Years



All Ordinaries Index June 2007 – June 2017



ASX Sector Performance – June 2017 Quarter

S&P ASX Industry Sectors	June 2017 Quarter Performance (%)
INDUSTRIALS	7.91
HEALTH CARE	7.14
INFORMATION TECHNOLOGY	4.54
CONSUMER DISCRETIONARY	1.80
MATERIALS	0.12
CONSUMER STAPLES	-5.62
ENERGY	-5.65
FINANCIALS	-5.97
TELECOMMUNICATIONS	-8.36

Portfolio Commentary

June 2017 Quarter

Top 5 contributors	%	Top 5 detractors	%
ARISTOCRAT LEISURE	1.86	BLACKMORES	-0.45
FLIGHT CENTRE TRAVEL GROUP	0.86	SIRTEX MEDICAL	-0.29
JUMBO INTERACTIVE	0.72	THE STAR ENTERTAINMENT GROUP	-0.27
ALTIUM	0.63	OIL SEARCH	-0.19
SIMS METAL MANAGEMENT	0.56	DOMINO'S PIZZA ENTERPRISES	-0.14

Financial year 2017

Top 5 contributors	%	Top 5 detractors	%
ARISTOCRAT LEISURE	3.76	GBST HOLDINGS	-1.05
ALTIUM	1.90	SIRTEX MEDICAL	-0.78
SIMS METAL MANAGEMENT	1.64	BLACKMORES	-0.75
JUMBO INTERACTIVE	1.53	OFX GROUP	-0.73
NIB HOLDINGS	1.23	VIRTUS HEALTH	-0.39

Top Contributors

1. Aristocrat Leisure (ASX: ALL)

Leading global slot machine operator Aristocrat Leisure delivered a strong result for the first half of the year, lifting revenues 22% to $1.2b and net profits by 49% to $273m.

CEO Trevor Croker has continued in the same vain as former CEO Jamie Odell. Crocker is focusing on the group's core markets to drive further product penetration. Significant ongoing expenditure in design and development continues to deliver industry leading games which are helping to grow market share across all regions and product segments.

The U.S. remains the group's single most important region, representing over 57% of revenues and 60% of segment profits. Recurring revenues earned from the company's Class III and Class II gaming operations continue to grow, with over 37,000 installed machines earning the group on average US$49 per day. Including the company's Digital division, the group's recurring revenue base now represents over half of group turnover, providing strong cash flows and requiring less working capital.

The company ended the half with net debt of $833m, down from the $1.2b recorded in the previous corresponding period. Management maintained earlier guidance for the full year of increasing normalized profits between 20% and 30%, which could see them deliver profits of $478m-$518m.

2. Flight Centre Travel Group (ASX: FLT)

Australia's leading travel group provided a trading update just after the end of the quarter. Management noted that an improved second half would see the company hit the top end of earnings guidance for underlying pre-tax profit of $325m-$330m. The announcement called out stronger performances from the North American, the U.K., New Zealand and Canadian operations. In addition, strong sales volume is beginning to emerge from the crucial Australian market.

This improvement has been underpinned by external factors, namely a decline in airfare discounting and internal changes. These factors have seen the business refocus on initiatives to fast-track revenue growth and reduce costs globally. This has seen a streamlining in support structures and renewed investment in the group's core operations. The company is expected to release its full year results on 24 August.

3. Jumbo Interactive (ASX: JIN)

Online lotteries retailer Jumbo Interactive announced the extension of its reseller licenses from Tatts Group for a minimum of 5 years until 2022. As a part of the improved relationship, Tatts has been issued 6.6m Jumbo shares at a price of $2.37 giving the group a 13% stake. Tatts have an option to acquire a further 3.4m shares at the same price, whereby ownership would then increase to 18.5%.

The move demonstrates the strategic importance of Jumbo as a distribution channel to Tatts. Tatts moved quickly to secure this channel after Lottoland acquired a 7% stake in Jumbo. Lottoland subsequently disposed of their stake at the end of the quarter.

4. Altium (ASX: ALU)

Altium is a printed circuit board design software group with operations in the U.S., Europe and Asia. The company operates a subscription based business model and is making significant progress in expanding its product offering with short term aims of growing revenues to US$100m by 2017 and market leadership in PCB design by 2020. No net debt.

SFML visited the La Jolla, California headquarters of Altium during the period.

5. Sims Metal Management (ASX: SGM)

See SGM article.

Bottom Contributors

1. Blackmores (ASX: BKL)

Blackmores has a strong brand presence in Asia spanning 35 years, covering complementary medicines.50% of group sales are now driven by Asian shoppers. Strategic priorities centre on building consumer acceptance, product leadership and operational leverage.

The Chinese central government has indefinitely postponed the introduction of restrictions on product imported via e-commerce channels. While this is positive, regulatory risk is a constant.

Short term risks to consumer demand in China are offset by the size of the addressable market for western vitamins which is estimated to be US$20b. BKL has $17m of net debt.

The company announced the resignation of CEO Christine Holgate during July following a nine-year career leading the group. Holgate is parting with Blackmores to take up the top role at Australia Post. Marcus Blackmore will assume the role of interim CEO, while current interim Chairman Stephen Chapman will remain in that role permanently post the appointment of a new CEO.

SFML met with the Blackmores management team during the period.

2. Sirtex Medical (ASX: SRX)

See SRX article.

3. The Star Entertainment Group (ASX: SGR)

Star Entertainment Group continues to execute on its core integrated resort strategy. This is centred on the Star Sydney casino complex and the Queensland properties located on the Gold Coast and in Brisbane.

Attention has been drawn to the sector following the jailing of 19 Crown Resorts Limited employees by Chinese authorities.

Management have outlined key priorities for 2017 including:

1. Secure planning approvals at the Sydney and Gold Coast properties,
2. Progress the Queen's Wharf Brisbane development,
3. Drive improved branding and customer loyalty programs across each property,
4. Improve earnings through cost focus and operational efficiencies.

The company released their interim result in February which showed that revenue excluding the VIP business was up 11.4%. While it is difficult to make comparisons with the prior period due to the timing of Lunar New Year, the VIP business saw front money up 4.4% and turnover down 11.9% due to a higher than average win rate.

Normalised EBITDA for the 6 months to December 2016 decreased 14.5% during the period which was a pleasing result considering the scale of the disruptive capital works currently underway.

A trading update released in early May stated that the VIP business had continued to be impacted by the Crown Resort related events in China. Gross revenue excluding VIP is up 4.1% to date.

4. Oil Search (ASX: OSH)

The latest results from Oil Search showed that the Exxon managed PNG LNG project has continued to operate well above the nameplate capacity of the facility. In addition, the project has one of the lowest break even oil prices. This ensures the owners of the project generate healthy cash returns on their investment, even in a subdued price environment.

Oil Search also own a 22.8% share in Papua LNG which is expected to be one of the lowest cost LNG projects globally when it comes online around 2020. Papua LNG will have improved economics due to resource quality and proximity to LNG buyers. The project will likely be developed as a brownfield expansion of the pre-existing PNG LNG project, dramatically reducing the capital costs of the development.

During the quarter, Oil Search announced that they would farm into several exploration fields in the Papuan Gulf Basin, adjacent to the Elk Antelope fields. This move further strengthens Oil Search's ties with Exxon Mobil.

A drilling update in May confirmed that the Toro reservoir at the Muruk field is of high quality. It is similar to the Hides field, which is one of the main contributing resources to PNG LNG.

5. Domino's Pizza Enterprises (ASX: DMP)

Many investors refer to Domino's Pizza Enterprises as a technology company. The results delivered to date reflect a strong culture of innovation and improvement. This has enabled Domino's management to successfully deploy technology across all its business systems.

Despite the stellar performance of the business, recent press has called into question their ethics and the employee payment practices of franchisees.

We maintain that we are dealing with an honest management team who are extremely passionate business owners. They are long serving and have deep experience. Both CEO Don Meij and Europe CEO Andrew Rennie started as franchisees. They clearly understand the system and its operations.

Today Meij and Rennie continue to mentor the successful franchise operators within the system. They also acknowledge the need to weed out franchisees that do not "play with a straight bat". The future of the business will see fewer franchisees own more stores and operational controls improve.

Furthermore, Domino's management and board have significant equity positions that drive shareholder alignment. The company has the scale and a balance sheet to deal with these issues.

At this juncture management appear to have a strong desire to tackle the problems at hand. They have a track record of being proactive and investing ahead of the curve, and appear to grasp the magnitude of the issues.

Investor day - Cochlear

Leading global hearing implant provider Cochlear held its investor day during May at its Sydney headquarters. This was just the second such meeting for an organization that first listed back in 1995. We have written extensively on Cochlear in the past, having outlined our thoughts in the December 2010 Quarterly Newsletter. Since that time, the business has lifted its performance to another level.

The excellent work of previous CEO Chris Roberts and CFO Neville Mitchell is now continuing under the leadership of the new CEO Chris Smith. Interestingly, Smith, who was previously President of Cochlear's North American operations, was hired by Roberts, an example of the positive impact that Roberts has had on the business.

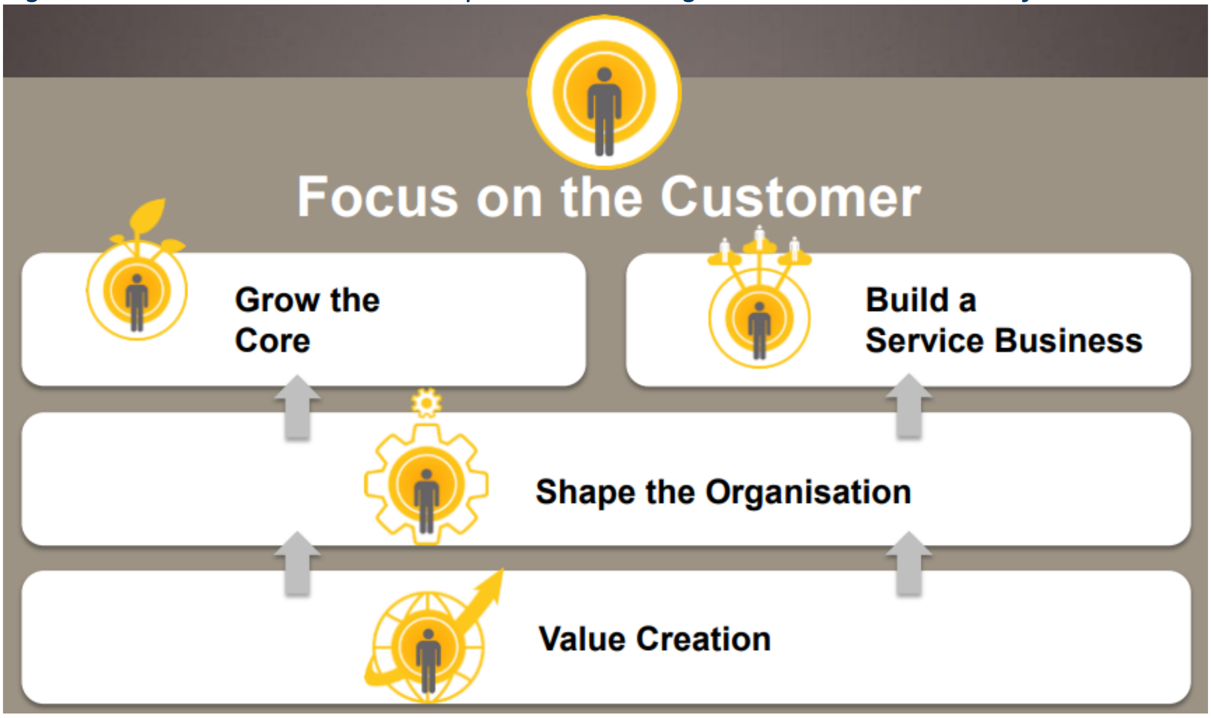
Rather than detailing the day's events, we would like to share our thoughts on the considerable effort being undertaken by management to expand the group's addressable market. Technology plays a considerable role not only in the products but in the way current and future cochlear implant recipients are serviced.

It goes without question that the global opportunity is significant. The company has spoken about the potential but also the challenges that need addressing. Listening to the presenters, what struck us was the consistency of the message and the relative simplicity of the strategy. Those who read our last quarterly, which featured our article on *"Focus"*, would appreciate why this approach resonates with us.

Unlike many other industries that are struggling to grow, the hearing loss market is far from penetrated. Obviously estimating the size of the opportunity is difficult, however Cochlear conservatively estimate that less than 5% of the 37 million people who could be classified as profoundly deaf are currently being treated as such. Adding weight to this argument, the World Health Organization (WHO) report released in March this year estimated the global cost of not treating hearing loss is US$750b per annum. The WHO also recognised cochlear implants as a cost-effective solution.

To date, the company has implanted over 450,000 recipients since operations began in 1981, a figure which increases by 30,000-40,000 patients each year. Consequently, the task at hand is not about growing demand but raising awareness. Somewhat surprisingly, an external survey revealed that less than 20% of the general population and only 50% of audiologists were familiar with the workings of cochlear implants.

Figure 1: Cochlear aims to make implantable hearing solutions the standard of care



Source: From Cochlear's investor day presentation hosted on 4th May 2017

This general lack of awareness drives the company's first strategic priority, to *"grow the core".* This strategy has three pillars: providing innovative technology, raising consumer awareness and improving access. As greater numbers of the world's population shift into the middle class, the demand for better health outcomes also rises. This, along with better reimbursement, has seen growth of cochlear implants in the developed world increase to 8%-10%. The company is confident that this level of growth can be sustained over the medium term.

The second strategic piece is to *"build a service business".* Cochlear's unique service offering *"Hear now. And always."* speaks to their commitment that all current implant recipients will benefit from any future technology advancements. The company is committed to ensuring all 450,000 implant recipients have access to processor and accessory upgrades.

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Process Automation - Computershare

We attended global registry operator Computershare's investor day at its Melbourne headquarters during April. Most investors would be familiar with the group's traditional share registry operations. Founded in 1978, Computershare has grown considerably and is now the global leader of this field. During the first half of 2017, the group's Registry Maintenance division posted revenues of US$330m and operating profits of US$123m, equivalent to 51% of company profits.

Over the ensuing years the scope of services as well as its geographical coverage has broadened. Today Computershare describe themselves as *"World leaders in financial administration"*. The group operates in 20 countries, employing 16,000 staff and servicing 16,000 clients. The company views its core skills as delivering *"market leading solutions for high integrity data management, high volume transaction processing and reconciliations, payments and stakeholder engagement."*

In short, the company is involved in high volume data processing, that is repetitive in nature and requires a high level of accuracy. As a trusted partner of its clients, compliance is integral to all its services.

CEO Stuart Irving spoke of the enduring qualities within the organisation which obsesses about execution and eliminating waste. It was precisely this topic that grabbed our attention on the day. The past few years have been anything but easy. Post the global financial crisis, lower volumes and falling interest rates have buffeted the group's bottom line. Management reported earnings have been largely flat in U.S. dollar terms since 2012.

This led to a broader discussion about adoption of technology and the delivery of cost reductions. To this end, the initiation of the group's cost management programs, referred to as Stage 1 and 2 remain on track. Benefits to operating earnings are expected to be in excess of US$100m and will be delivered over the period to 2020. In terms of what follows, Irving remains tight lipped, although he noted: *"we are working under the hood on Stage 3, it's a sign there's more to come. We will talk when we have clear line of sight on the scale of the opportunities. Undoubtedly more process automation will feature."*

Process automation is a phrase readers should get used to hearing. Already the use of Artificial Intelligence (AI) in normal business settings is gaining acceptance. In his presentation to investors, Mark McDougall, Chief Investment Officer at Computershare, outlined the thought process behind the delivery of efficiencies using process automation. While Stages 1 and 2 have centred on traditional cost out programs, Stage 3 will be new. McDougall outlined: *"digital ops has got many titles and descriptions, but really what we're talking about is the digitization of information that comes into a company and then using things such as software robotics to automate those processes."*

For a business heavily dependent on volume and processing capabilities, the benefits from digital automation are considerable. McDougall spoke of thousands of business processes that could be automated, with project turnaround times of 6-8 weeks. So far, the group has

21 processes in place with two new processes being added per week across the globe. It is a start but what of the opportunity? *"So the size of the prize is really in how much you can digitize at the backend. If you're a company with lots of paper and you haven't digitized your data yet, then this opportunity won't be as high. Computershare has a history of investment in automation and we're in a very, very good place to be able to use that data in a digital format and then automate the processes. The industry is looking at a 3 to 5 full time employees to 1 robot ratio at the moment. And when you think about it, you know, a robot doesn't go on holidays, it doesn't get sick, a robot didn't go to the Anzac Day footy match. It actually can work 24 hours a day and you can assign it across the globe. So, you know, maybe the ratios are a bit higher."*

Welcome to the new world of process automation, cloud computing and artificial intelligence. ***SFM***

Letter sent to CEO of Sims Metal Management Limited

30 June 2017
Letter to the Board & Management
Attention Mr Galdino Claro
CEO, Sims Metal Management Ltd

Dear Mr Claro,

On Monday 5 June 2017, we attended management presentations given by yourself and the wider Sims Metal Management Ltd team. We also participated in tours of the Claremont facility at Jersey City, New Jersey and the Paulina Street operations in Chicago, the following day.

We would like to thank Todd Scott Group Vice President Investor Relations, for his efforts in furthering our understanding of your business. After the briefings, you asked for our feedback.

Selector Funds Management invests for the long term in business with:

1. Honest and competent management,
2. Leadership qualities or unique business attributes,
3. A conservative balance sheet that provides optionality, and
4. A sensible and sustainable capital management program.

We see these attributes in your business today. We note Sims' leadership position in terms of market share and we are also mindful that Sims is a price taker.

The circumstances in which Sims finds itself today include:

- A breakeven point that has been lowered to 7m tonnes while capacity upside has been retained,
- A return on adjusted capital (ROC) of circa 7% with a trajectory that should see this metric rise to 10% in 2018, and
- A net cash balance sheet of circa $300m.

These hard-won gains, while welcome, have come at some expense to shareholders who weathered the previous period of ill-disciplined expansion.

If Sims achieves the targeted ROC of 10% you have "*earned the right to grow*". And the net cash balance sheet provides the optionality to deliver acquired growth.

With that backdrop we provide our feedback.

Your management team's consistent execution has delivered on both the "*Streamline*" and "*Optimise*" programs. In the face of the rapidly deteriorating market place Sims encountered, this strategy likely saved your business and its 100-year history. We commend you on this achievement.

All Boards and Management teams face the institutional imperative to deliver growth. You will no doubt feel this pressure as you outline the next 5-year plan which includes the long-awaited articulation of your "*Grow*" strategy.

We believe sustainable organic growth achieved through new "*Optimise*" projects, that require incremental capital expenditure with the disciplined financial hurdles outlined, represents the best interests of long-term shareholders. The projects you outlined during the investor day have our full support.

Larger acquisitions that are in the long-term interests of shareholders are rare. Setting a timeline or expectation around these is not in the best interests of shareholders.

We believe that your net cash balance sheet provides important flexibility and optionality. Once lost, this optionality is very hard to replace in a price taking environment or when under duress. We hope some of the outcomes of the poor decisions of the past are not lost in the corporate memory of Sims Metal Management Limited as you plan for the future.

Sincerely,

Tony Scenna	Corey Vincent
Portfolio Manager & Managing Director	Portfolio Manager & Managing Director

Sims Metal Management (ASX: SGM)

During June, we visited the U.S. operations of leading global scrap merchant Sims Metal Management. We have discussed Sims in past newsletters including our March 2017 and September 2015 Quarterlies.

Apart from a first-hand look at the group's largest business, management provided investors with their initial thinking beyond the original five year financial targets set in 2013. They also asked for feedback which we provided in the letter accompanying this piece. Here we explain some of the thinking behind our letter to the board.

Photo 1: Ferrous ready to load in Claremont, New Jersey

Source: SFML USA site visit

Sims confirmed it is on course to hit its targeted return on capital (ROC) metric of greater than 10% on its adjusted asset base by 2018. This is an attractive return and it's also conservative for two reasons. Firstly, the target is based on net profit after tax (NPAT). Secondly, although the target assumes the payment of a 30% tax rate, the company will be able to use accumulated losses to reduce their tax bill in the medium term. We expect to see this ROC run rate realised in 2018.

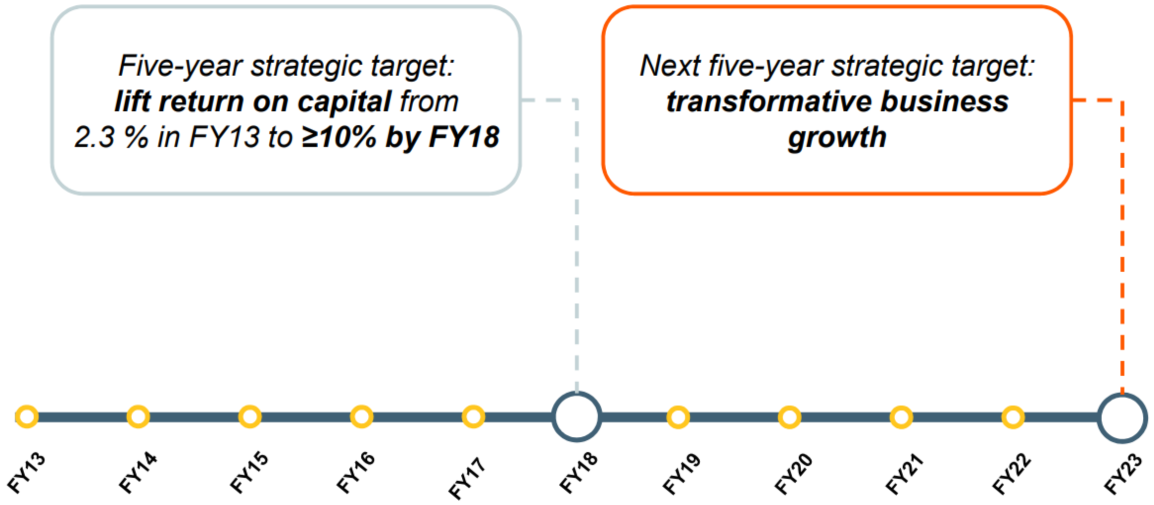
We believe this ROC is made more attractive by the fact that significant latent capacity exists within the business. Sims have a break even run rate of 7m tonnes per annum. They are currently processing 8.5m tonnes of scrap at the bottom of the cycle. They can produce 12m tonnes with little to no additional capital required. Any increase in volumes in the U.S. should drive higher margins and an improved bottom line.

Additional growth related capital expenditure should see Sims Metal Management become a world class recycler. A ROC hurdle of 15% is used for potential new projects. We discuss some of these later.

Photo 2: Deep water export port at Claremont, New Jersey, Manhattan skyline background

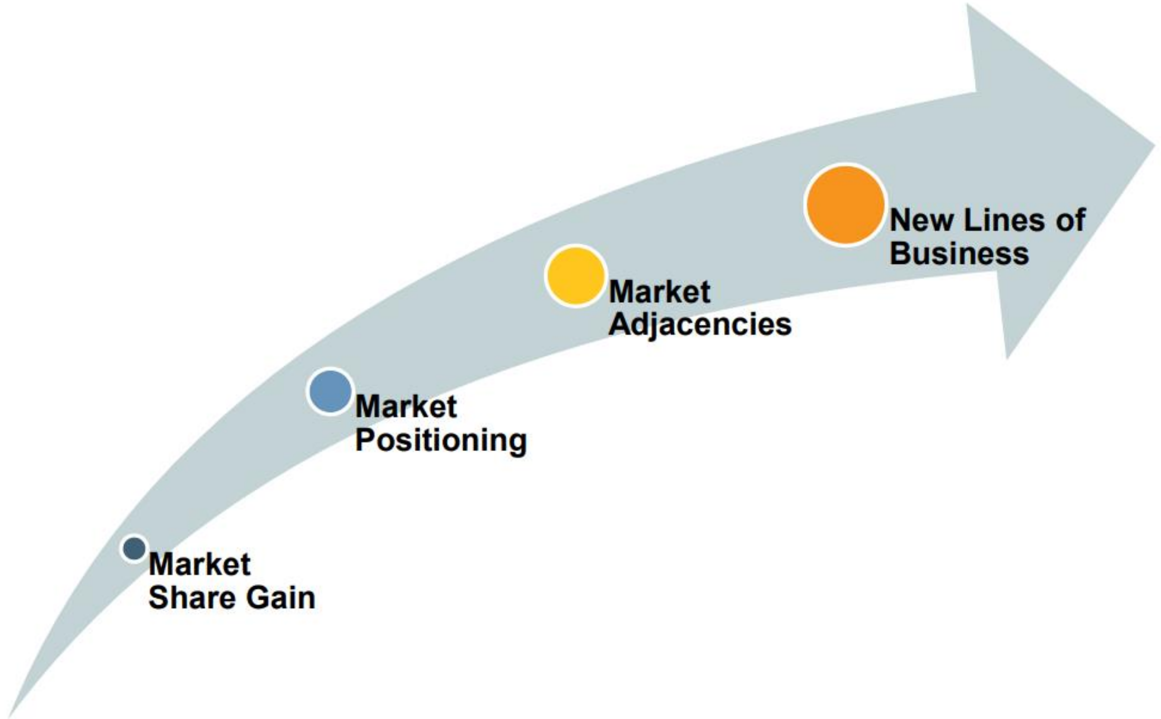
Source: SFML USA site visit

Figure 2: Nearing final year of initial strategic plan



Source: SGM North America investor site visit presentation, 5th-6th June 2017

Figure 3: Next five-year plan will focus on business growth



Source: SGM North America investor site visit presentation, 5th-6th June 2017

Each opportunity will be expanded upon during the company's 2018 interim results but we have our own views on what a sensible path forward looks like.

The Sims scrap business is not spectacularly profitable and it operates in a tough environment but it has defendable qualities that can be enhanced under the right leadership. We believe that CEO Galdino Claro is backed up by a culturally unified management team that has both purpose and financial discipline.

Following a difficult period that forced management's hand into a series of divestitures and write downs, the business now finds itself in better operational shape. On current projections, revenues of over $4.5b and operating earnings of $180m are expected for 2017. As mentioned above, the breakeven tonnage has been reduced to 7m tonnes and upside capacity to 12m tonnes has been retained. The balance sheet has net cash of $300m. Collectively this mix represents significant future upside and optionality.

Under Claro and his team, the notion of *"earning the right to invest"* shareholder capital is one that appears firmly ingrained following years of underperformance and misallocation of capital. There is no question that the company has made some bad calls in the past, but with that comes caution and self-reflection. The *"earn the right to invest"* hurdle was set at the 10% ROC level which now appears to be achievable.

Our suggestion to the current board and management team is to proceed with caution. Focus on the core business. The opportunity to extract more from the numerous operational and manufacturing layers appears considerable. To date, *"Optimise"* has delivered net cost savings of $212m since 2013. This figure is after the reinvestment of additional funds to support growth. It has also reduced the breakeven throughput to 7m tonnes.

An example of the *"Optimise"* program is the system wide shift to rail and barge haulage from road. In North America Sims operates some 20 rail connections, 500 rail cars and 15 barge connections. This flexibility offers a competitive advantage. So far savings of $10 per tonne have been achieved. While fuel-driven savings represent approximately 1/3 of the benefit, management attribute the bulk of the savings to *"Optimise"*.

Ongoing initiatives stretching out to 2018 are expected to deliver additional profits. This will require new capital but in our opinion this is exactly where management should be heading. Not only is this a lower risk strategy but reinvestment of this nature strengthens the organisation and places additional pressure on competitors to remain relevant.

The organic expansion includes the installation of a new Metal Recovery Plant (MRP) at Sims' largest facility in Claremont, New Jersey. This facility will be replicated in Paulina Street (Chicago) providing standardised metal separation and recovery processes across the group.

The shredded material is separated by magnet and fed into two separate processing plants, producing three products:

1. Zorba – an aluminium (Al) dominated product,
2. Zurik – stainless steel, and
3. ICW – insulated copper wire.

Photo 3: Old MRP plant to be scraped at Claremont, New Jersey

Source: SFML U.S. site visit

The key here is that the Zorba product derived from the MRP will be a higher-grade aluminium. This product is called Twitch and represents a new market for Sims. 85% purity Zorba sells at discount to pure aluminium of circa 15%-25%. The purity of Twitch can be improved to 98%, which in turn, reduces the discount. To put this into perspective, our rough estimate puts Zorba at 4% of Sims' 7m tonnes of ferrous or 84,000 tonnes of higher value product.

In contrast, during our visit to Paulina Street we watched an experienced metals separation specialist performing this task by hand. Going forward Sims will take Zorba from other suppliers and add value. This has previously been dominated by Chinese operations with a labour cost advantage.

Big bang acquisitions attract attention but this is precisely where the greatest caution should be applied. Very few boards and management teams are immune to the institutional imperative to act or to seek growth from large acquisitions. The list is long of transformational deals that go sour.

We would not be disappointed if organic growth or ongoing optimisation of existing operations remained the dominant focus going forward.

As outsiders, it appears to us that Sims' business has significant organic runway. In its largest market, the group's share of scrap intake volumes is market leading at an estimated 11%. The company also enjoys a one quarter share of the exported scrap market. This provides a solid base for sensible organic growth, built on improving service delivery and closer customer engagement.

This is a market prone to rash competitor responses but Sims has shown a renewed focus on shutting unprofitable operations and investing to drive yield improvement. It is precisely this approach that management should stick to.

Optimisation of the business must be the priority. To this end, we would encourage a continuation of the current strategy of improving logistics, driving operational excellence and delivering higher quality products.

It is also refreshing to hear from a management team who are prepared to maintain a net cash balance sheet. This attitude is no doubt shaped by past experiences.

Looking beyond 2018 we know that the institutional imperative will pressure management to deviate from this strategy. We trust that the lessons learnt from previous misadventures will not be forgotten and they will continue to favour the less glamorous but more predictable route to ongoing profitable growth. Time will tell.
SFM

U.S. ASCO Conference

We also attended the American Society of Clinical Oncology (ASCO) annual conference in Chicago during the quarter.

Attending a conference with 30,000 participants is an event that is difficult to put into words. It is a showcase of leading drug development attended by both physicians and medical organisations. This year both Sirtex Medical and Impedimed, presented their achievements at ASCO.

Impedimed

Dr Pat Whitworth presented a poster session at ASCO which demonstrated the clinical benefits Impedimed's L-Dex monitoring device can have detecting early onset of Lymphoedema in breast cancer patients.

The study was a retrospective review of 600 breast cancer patients over a six-year period to 2016. It nevertheless demonstrated that patients who developed an elevated L-Dex score of greater than 10 units relative to their pre-surgical baseline score, could take preventive actions to mitigate the onset of chronic Lymphoedema. In total, only 18 patients or roughly 3% of the study group developed Lymphoedema. In comparison, incidence in breast cancer patients is typically 7%-36%. Importantly, the patient cohort was deemed high risk, with roughly 80% falling into this category.

This study aligns with other retrospective works including Soran (2015) and Laidley (2016) which suggest there are substantial benefits associated with early detection using Impedimed's L-Dex device.

The company is currently undertaking its own randomised trial involving over 1,100 patients to provide evidence that would support private payer adoption in the U.S. market. This would complement the company's existing government reimbursement status. Initial results from this trial are expected in the second half of calendar year 2017.

Sirtex Medical

Sirtex has been in the headlines for several reasons over the course of the past few months with a number of trial results and corporate developments impacting investor sentiment. Any company which undertakes clinical trials runs the risk of disappointment. In the case of Sirtex, the SARAH trial results, followed by results from both the FOXFIRE and SIRveNIB studies were viewed as disappointing.

While the studies failed to meet their primary end points, they did provide several important secondary outcomes. The ASCO conference provided the stage for Sirtex and the studies' lead investigators to explain these outcomes. Both the FOXFIRE trial for patients with liver metastases from colorectal cancer (mCRC) and the SIRveNIB study looking at hepatocellular carcinoma (HCC) patients were presented in oral abstract to the conference. This setting allowed the lead investigator of each study, Dr Ricky Sharma and Dr Pierce Chow respectively, to present their findings before fielding audience questions.

In a field where very few medical advancements have been made, the SIRveNIB study provided sufficient evidence to support the of use of SIR-Spheres in the treatment of HCC patients. While the primary endpoint of improved overall survival was not met, the study showed survival equivalence compared with the existing gold standard for treatment, Sorafenib.

Importantly, secondary results pointed to numerous positive outcomes in favour of SIRT. Specifically, SIRT was shown to be better tolerated with fewer adverse events than Sorafenib.

With an improved safety profile compared to the current standard of care, the company plans to submit a new application to the U.S. Food and Drug Administration (FDA) to extend the device's current label claim to include HCC patients. This will be at least a 6-month process.

The company also completed the search for a new CEO, appointing Andrew McLean to the role. He commenced during June with a commitment to refocus on the organic opportunities in the company's approved patient population and to appoint a new head for the group's important U.S. operations. The company commenced the previously flagged, $30m buy-back funded by the group's $107m cash balance.
SFM

The Asian Acceleration

Oil Search – Asian Energy market

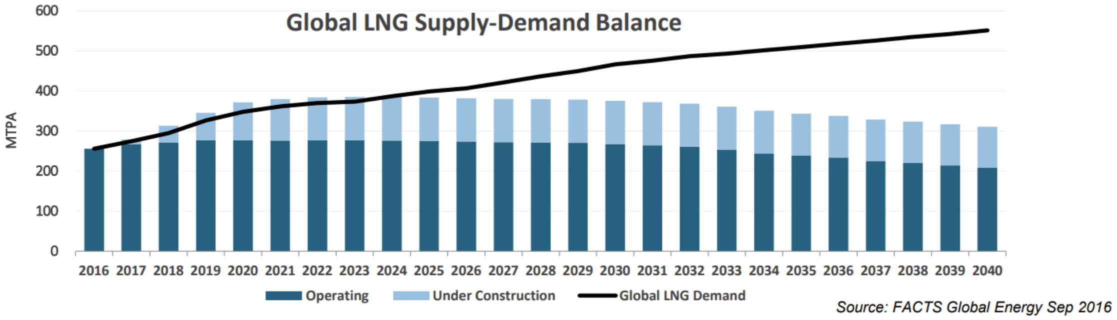
There are perhaps few companies that have been as consistent in their pursuits as Oil Search. Established in Papua New Guinea in 1929, the company's largest asset is a 29% interest in the PNG LNG project, operated by ExxonMobil.

The project came on stream in 2014, cementing the region as an increasingly important global energy exporter, making Oil Search one of the lowest cost producers of high quality LNG. The company also holds the rights to key development fields Elk-Antelope (22.8% ownership), P'nyang (38.5%) and Muruk (37.5%).

The following charts go some way to illustrate how well the company is positioned for the medium and long-run. Specifically, we focus on:

1. Global LNG demand,
2. Asian energy demand,
3. LNG project breakeven prices, and
4. Oil Search's strategic position.

Chart 1: Global LNG demand



North East Asia – expiring LNG contracts 2017 – 2026 (MTPA)	
Japan	>45
Korea	>20
Others	~7

- View in 3Q16 (chart above) that additional supply required from ~2024 to meet global demand
- LNG buyers and sellers have indicated market now expected to rebalance earlier, with new supply required to meet both market growth and expiring contracts
- FID for new supply required this decade
- North East Asia remains key growth region

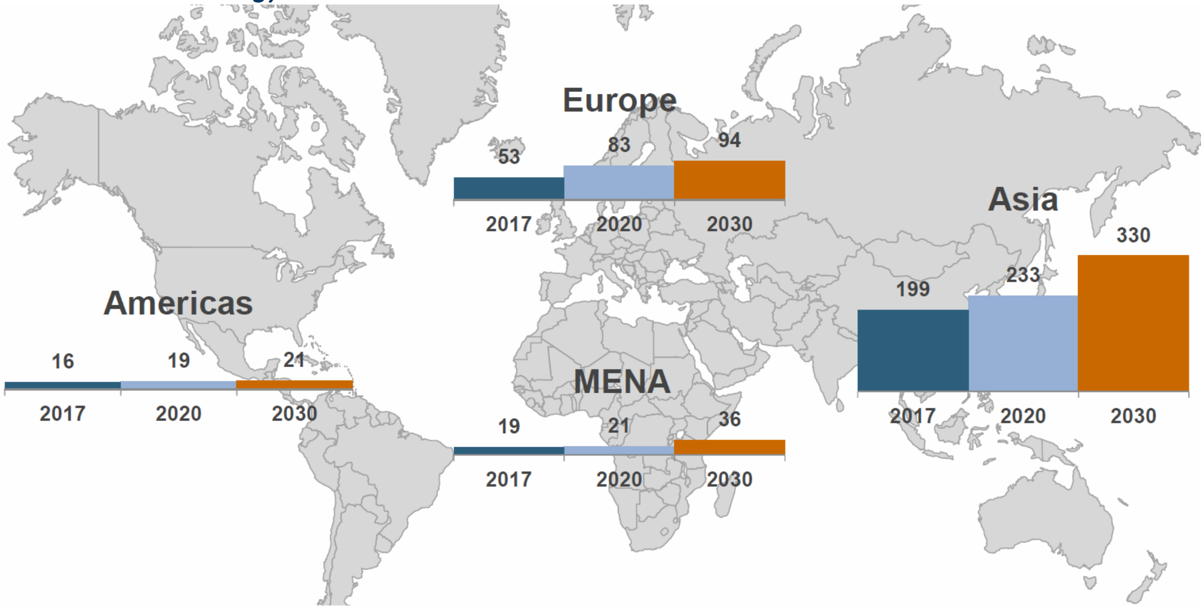
Source: Oil Search, FACTS Global Energy

It's always dangerous to rely heavily on forecasts, *Chart 1* however, outlines the supply-demand balance for LNG and how it is expected to evolve over the following decades. The long-term consistency of supply of LNG as an energy source underpins its attractiveness.

While current expectations show that supply of LNG will outstrip demand in the short term, a combination of demand growth, natural reductions in production of aging projects and a lack of development of new projects will see this dynamic reverse by mid-2020.

Energy markets are notoriously short-sighted which has historically caused significant volatility. A low spot LNG price, combined with the poor short term supply-demand outlook has made investments in new projects unpalatable for many production companies. This is in spite of the longer-term opportunity, which illustrates the market's short-sightedness. A lack of investment approvals for new projects to replace ageing assets and meet expected growth has the potential to exacerbate volatility in the future. Despite this, investors capable of withstanding the volatility of energy markets will reap the benefits of structural shifts by positioning themselves for the long term.

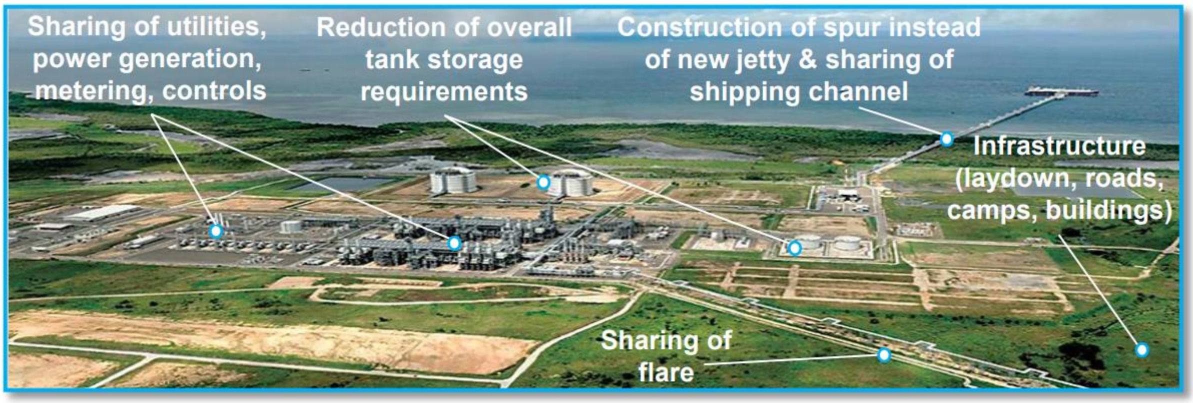
Chart 2: Asian energy demand

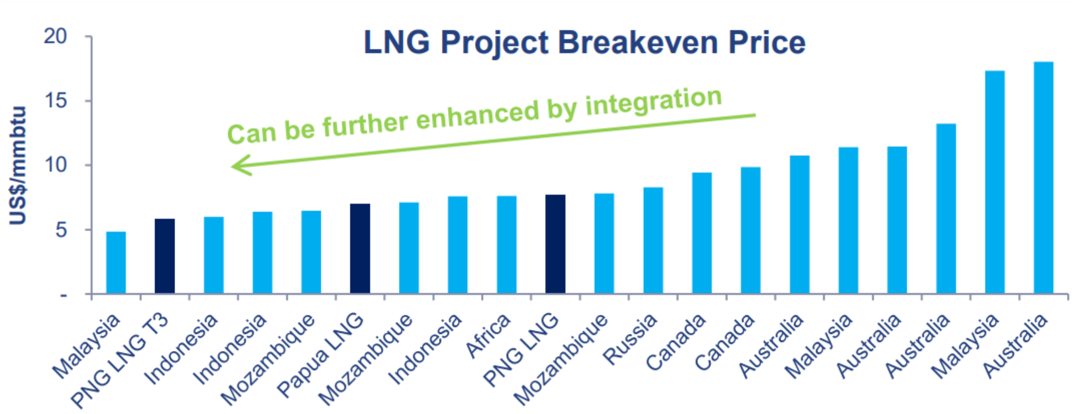


Source: Oil Search, FGE Online Data System, May 2017
Units in million tonnes per annum (MTPA) of LNG

Asia is expected to become the fastest growing region for LNG globally with efforts to reduce carbon emissions by incentivising the use of gas as a cleaner, alternative fuel source. Papua New Guinea and Australia's proximity to Asia gives exporters a material transportation cost advantage over producers in the Middle East and Americas.

Chart 3: LNG project breakeven prices





Source: Oil Search, Wood Mackenzie

Unlike Australia's newest coal seam gas projects, Oil Search's PNG LNG project, fed by conventional gas reservoirs, sits near the bottom of the global LNG cost curve. This ensures that the project generates healthy cash flows even in today's low price environment. As illustrated by *Chart 3*, Papua LNG and PNG LNG Train 3 would both enjoy similar and potentially even lower breakeven cost advantages as a result of sharing infrastructure already in place for the original PNG LNG project.

Table 1: Papua New Guinea project and acreage ownership structures

Investor	PNG LNG Project	Elk-Antelope (PRL 15)	P'nyang (PRL 3)	Muruk* (PPL 402)
Oil Search	29.0%	22.8%	38.5%	37.5%
ExxonMobil	33.2%	35.5%	49.0%	42.5%
Total	–	40.1%	–	–
Kumul Petroleum (PNG Government)	16.8%	–	–	–
Santos	13.5%	–	–	20.0%
JX Nippon	4.7%	–	12.5%	–
MRDC (PNG Landowners)	2.8%	–	–	–
Other	–	1.6%	–	–

Source: Oil Search

Table 1 shows that Oil Search holds interests across an extensive range of resources and future projects in Papua New Guinea. The successful completion and subsequent operational performance of PNG LNG, has positioned the partners well to expand production capacity. Further, the entry of French oil and gas major Total to the region via their farm in to the Elk-Antelope resource signals the attractiveness of Papua New Guinea to international operators. This interest is not only supportive of the investment case but also opens up Oil Search to potential corporate interest.

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Travelling Landscape

In a recent piece that appeared in The Australian, Bernard Salt shared some thoughts on the changing tourism landscape and its relevance to Australia. The facts that back up his views, in time, will shape the services that are provided. Below we outline the key findings that Salt noted in his article.

Before we begin it is worth highlighting the following populations of some of our nearest neighbours for context:

- China - 1.3b,
- Japan - 126.7m,
- Singapore - 5.8m,
- New Zealand - 4.7m.

These nations have consistently placed in the Top 10 of visitor arrivals to Australia over the past two decades.

Table 2: Top 10 annual visitor arrivals 1997

Country	Visitor Number
Japan	806,500
New Zealand	678,700
United Kingdom	371,200
United States America	230,000
Singapore	224,000
Taiwan	157,200
Hong Kong	153,300
Indonesia	150,800
Germany	125,900
Total	**4,061,100**

Source: The Australian

Table 3: Top 10 annual visitor arrivals 2007

Country	Visitor Number
New Zealand	1,067,300
United Kingdom	726,000
Japan	638,500
United States America	454,400
China	319,400
South Korea	268,600
Singapore	231,600
Germany	150,900
Hong Kong	148,800
Malaysia	147,900
Total	**5,331,100**

Source: The Australian

Table 4: Top 10 annual visitor arrivals 2017

Country	Visitor Number
New Zealand	1,345,400
China	1,228,600
United States America	720,900
United Kingdom	712,100
Singapore	442,500
Japan	416,300
Malaysia	388,600
South Korea	289,700
India	262,800
Hong Kong	248,600
Total	**7,969,600**

Source: The Australian

In 2016, the official numbers showed that there were 1.3m visitors from New Zealand and 1.2m from China. Over the past decade, the New Zealand numbers have risen by 26% whereas Chinese visitors have jumped 285%. Salt notes in his article:

"Until 2004, the only air connection between Australia and China was with Hong Kong. Australian airports now offer direct flights into 13 mainland cities in addition to Hong Kong.

By the end of the 2020s, assuming no regulatory or fundamental geopolitical shifts, there could be direct flights between Australia and 30 cities in China — let alone an uplift in the frequency of flights on established routes.

There's no direct flight to Australia from Tianjin, for example, a city of 11 million. Or indeed from Dongguan (seven million), Foshan (seven million), Shenyang (six million), Suzhou (five million), Haerbin (five million) or Dalian (four million). New Zealand's connectivity is maxed out; China can drive connectivity for another 20 years.

China is now Australia's leading export market and has been since it overtook Japan at the time of the global financial crisis. It is also our largest source of imports, our biggest source of overseas migrants and students, and the country with which we have most connection points."

With this as a backdrop it is relatively easy to form a positive stance on specific industries that will look to service these visitors. Obviously our airports will be in strong demand as the first port of call. This naturally extends to hotels, resorts and a diverse range of complimentary services such as education and medical needs.

Interestingly, Australians are not averse to travelling either but, historically, incoming tourists have always exceeded outgoing tourists typically by a ratio of 4:3. Today the situation has reversed with monthly incoming visitors of 700,000 lagging the 820,000 outgoing market. This has persisted despite the end of the resources boom and a weakening Australian dollar.

The trajectory of travel related services looks solid and despite regulatory changes to Australian's 457 visa program, the overall economic implications of more visitors travelling to our shores remains positive.

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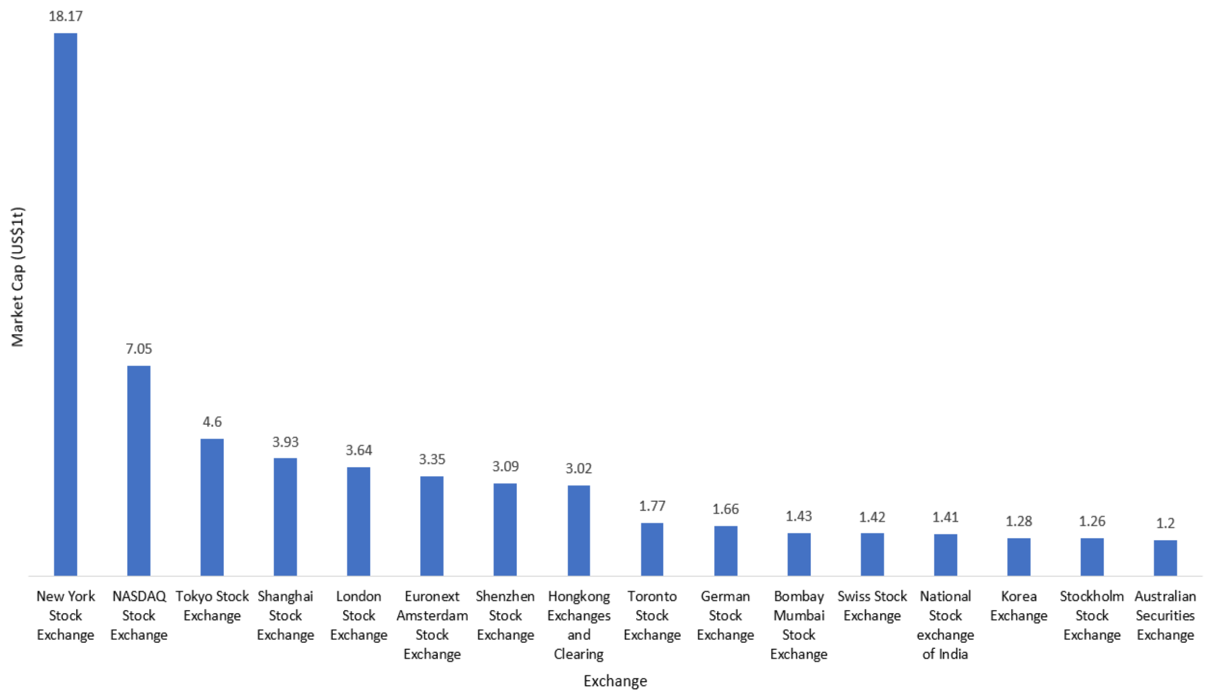
The Equity Markets and China

As with our earlier articles on travel and energy, the Asian region is also flexing its muscles in another important industry, that of equities. The ramifications are significant as the following brief note aims to highlight. It reinforces our positive view on both the region and those companies that have set up operations to participate in its growth.

In June, U.S. index provider MSCI announced 222 China A-shares[1] would be included in the MSCI Emerging Markets Index. As of May 2018, index funds with be required to buy Chinese shares. Although it will grow over time, the allocation will carry an initial weighting of 0.7%.

China's A-shares market has a capitalization of US$7.7t and is the second largest equity market globally. This event will see just US$34b included from next year although this will be the start of a long term upward trend.

Chart 4: Capitalisation of world markets



Source: Stockmarketclock.com as at 30 June 2017

Credit Suisse suggests the biggest losers from this re-weight are those companies with the highest proportion of passive-index focused investors. These are invariably the larger capitalized stocks that count passive investors including Blackrock, Vanguard and State Street as major holders. In this setting, the Top 20 stocks are more than 9% owned by passive investors while this drops to 6% for the Bottom 20 of the ASX 100 Index composite.

In time this will require funds re-weight their investments out of existing markets, resulting in sharp equity moves as witnessed during the month. As the shift to passive investing gains

[1] A-shares are equity securities traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange.

momentum, these types of moves will become more common. This will inevitably provide stock pickers with opportunities to take advantage of the herd mentality that drives passive investing.

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Credit Rating Agencies

Table 5: History of Credit Rating Agencies

Year	Event
1860	Henry Varnum Poor published “History of Railroads and Canals” in the United States.
1900	John Moody and Co. published the “Moody’s Manual”, containing statistics and information on stocks and bonds.
1906	Standard Statistics was formed. It published ratings on corporate & municipal bonds & sovereign debt.
1909	“Moody’s Analyses of Railroad Investments” focused on security valuation.
1913	John Knowles Fitch founded Fitch Publishing. “The Fitch Stock and Bond Manual” and the “Fitch Bond Book” were produced.
1914	Moody’s Investor Services was created. It focused on providing credit ratings for the government bond markets.
1924	Fitch introduced the “ABC” system with ratings from AAA to D. This became an industry standard.
1941	Standard Statistics merged with Poor’s Publishing forming Standard and Poor’s Corporation (S&P).
1966	McGraw-Hill Companies Inc. acquired Standard and Poor’s Corporation, re-named as S&P Global.
1970	Moody’s began to provide ratings for commercial paper and bank deposits, becoming a full-service agency.
1970	The credit ratings industry began to charge issuers of securities fees for rating services.
1975	Nationally-Recognised Statistical Ratings Organisations (NRSRO) were mandated by the SEC. This included S&P, Moody’s, and Fitch.
1997	Fitch merged with IBCA of London and acquired market competitors Thomson Bankwatch and Duff & Phelps Credit Ratings Co.
2007	The Global Financial Crisis (GFC) highlighted flaws in the credit rating system.
2008	SEC began investigation into credit rating agencies.
2009	The California Public Employee’s Retirement System (CalPERS), the largest public pension fund in the US, sued S&P, Moody’s, and Fitch. They claimed inaccurate ratings resulted in “US$1b of investment losses for CalPERS.”
2010	S&P downgrades Greece debt to “junk” status.
2011	CalPERS settles with Fitch for “negligent misrepresentations”. No payment was made.
2011	The European Securities and Markets Authority was created to provide regulatory oversight in the EU.
2012	Full bench of Australian Federal court rules S&P’s AAA credit rating is “misleading and Deceptive” leading to a settlement of $25m with 12 local councils
2012	U.S. Dodd Frank Act vests SEC with additional powers & oversight authority of NRSROs.
2013	S&P downgrades all EU debt.
2015	Justice Department reaches US$1.375b settlement with S&P for defrauding investors in the lead up to the GFC.
2015	S&P settles with CalPERS for US$125m.
2016	Moody’s Investor Services settles with CalPERS for US$130m.
2017	Moody’s settles with Justice Department and State partners for US$864m for their conduct leading up to the GFC.

Source: Moody’s, S&P, Fitch, Justice Department, AFR, Investopedia.

Credit Rating Agencies (CRAs) Standard and Poor's and Moody's have recently downgraded many of Australia's most recognised financial institutions. Their view is that *"they face an increased risk of a sharp correction in property prices"*.

These widely feared *"credit rating downgrades"* force up the cost of borrowing for financial institutions. The increased costs are either passed on to customers or they are reflected in lower profits and dividends.

This article aims to provide an introduction to CRAs. Our timeline provides a brief history of the industry. We also discuss some of the controversies and conflicts that shroud these opaque institutions.

Credit ratings are defined as *"an assessment of a financial issuer's creditworthiness, their ability to repay debt or their likelihood of defaulting"*. These ratings are provided by the CRAs.

The *Big Three* CRAs are all U.S. based. They include Standard and Poor's or S&P (NYSE: SPGI), Moody's Investor Services (NYSE: MCO), and Fitch Ratings (Unlisted).

CRAs are important to both equity securities and fixed-income markets alike. They rate the risks within the business or product. Their analyses extend to profit and loss, cash flow and balance sheets, focusing on debt and equity structures on and off balance sheet. In addition, payment histories, such as current and historic supplier and client relationships, are scrutinised. In each case an *"ABC"* rating is derived from the analyses. See table below.

Table 6: The different rating systems employed by the Big Three

S&P	Moody's	Fitch	Definition	Notes
AAA	Aaa	AAA	Investment Grade	Prime
AA+, AA, AA-	Aa1, Aa2, Aa3	AA+, AA, AA-	Investment Grade	High Grade
A+, A, A-	A1, A2, A3	A+, A, A-	Investment Grade	Upper Grade
BBB+, BBB, BBB-	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	Investment Grade	Lower Grade
The following ratings are considered "junk".				
BB+, BB, BB-	Ba1, Ba2, Ba3	BB+, BB, BB-	Non-Investment Grade	Medium Speculative
B+, B, B-	B1, B2, B3	B+, B, B-	Non-Investment Grade	Highly Speculative
CCC+, CCC, CCC-	Caa1, Caa2, Caa3	CCC	Non-Investment Grade	Substantial Risk
CC, C	Ca	CC, C	Non-Investment Grade	Extreme Risk
D	C	DDD, DD, D	Non-Investment Grade	In Default

Source: Moody's, *S&P and Fitch*

Chart 5: Share price of S&P Global Inc (Market cap: US$38.13b)

Source: Google Finance as at 11th July 2017

Chart 6: Share price of Moody's Corporation (Market cap: US$23.35b)

Source: Google Finance as at 11th July 2017

The market capitalisation of the two listed CRAs plummeted in the GFC. In early 2009, Moody's had a market capitalisation of US$4.2b. S&P had a market capitalisation of US$4.5b.

Since then, regulatory change, massive settlements and reputational damage, seem to have had little or no impact on the strong growth of these businesses. In the eight years since the GFC Moody's market capitalisation has increased 9-fold.

CRA ratings are applied to:

- Countries that issue debt obligations,
- Companies,
- Fixed income securities including:
    - Government bonds,
    - Corporate bonds,
    - Certificates of deposit (CDs), and
    - Municipal bonds, preferred stock.
- Collateralized debt obligations, and
- Mortgage-backed securities.

Lack of Competition

According to the Basel Committee on Banking Supervision report, published in 2000, there are about 150 CRAs worldwide. However, only a handful of these companies are Nationally-Recognised Statistical Ratings Organisations (NRSRO). NRSRO ratings are officially considered by the Securities and Exchange Commission (SEC) in determining whether a security must be registered.

The industry is dominated by the *Big Three*, who collectively hold *"roughly 95 percent"* of global market share (2013). With such dominance, it can be argued that the *Big Three* have too much influence. This can also lead to conflicts of interests.

Conflicts of Interest

The business model behind CRAs has been a hot topic. Most CRAs, including all of the *Big Three*, adopt an *"issuer-pay model"*. CRAs charge the issuer of the security a fee for the provision of the credit rating.

This model allows the CRA to provide their ratings to the wider public, free of charge. This obviously has the benefit of increasing public access to ratings information and in doing so creating an informed market. Inevitably though, despite the denials from the agencies, conflicts of interest arise through this model.

The CRA receives payment from the issuer whose securities they are evaluating. This may result in artificially inflated ratings. Additionally, rating agencies may be less inclined and or slow to downgrade securities of firms who are paying them for these services for fear of losing business. Essentially this is a client relationship, yet it requires total impartiality. In the past, this has not been achieved.

The alternative is the subscription model. Under this model, investors and market participants subscribe to a rating service. Problems arise when large investors, such as hedge funds, exert an influence on a CRAs findings. It is of course in an investor's best interests to have ratings that support their investment strategy. Again, the independence of the CRA can be questioned.

Subprime Crisis

At the height of the Global Financial Crisis (GFC) in 2008, CRAs came under fire from the SEC. The SEC claimed the *Big Three* had not adequately reflected the risk of the mortgage-related securities.

As housing prices began to tumble in 2007, Moody's had to downgrade 83% of the US$869b in mortgage securities it had rated as *"Aaa"* during 2006. It was also widely argued that the *Big Three* should have considered the greater systemic risks associated with these structured products. Not surprisingly, the CRAs were accused of upholding high ratings to maintain their lucrative profits. They were also pilloried for being slow to downgrade them.

In Europe, the *Big Three* were accused by governments and policymakers of harsh treatment of sovereign ratings. The negative evaluations and low ratings were alleged to have further accelerated the European sovereign debt crisis. Eventually Greece, Ireland, Portugal and Spain received IMF bailouts. Controversy raged around the CRAs involvement.

In April 2010 S&P downgraded Greece's debt to *"junk"* which is defined to be below investment grade, refer to *Table 6*. This immediately weakened investor confidence and raised the cost of borrowing. Some argue that this forced the financial rescue package of May 2010.

Further protests and complaints were made in relation to S&P's downgrade of nine Eurozone states in 2012 and the downgrade of European Union debt in 2013.

Financial regulation:

After the GFC, renewed steps were taken to regulate NRSROs. The U.S. Dodd Frank Wall Street Reform and Consumer Protection Act (2010) and the establishment of the Office of Credit Ratings granted the SEC with additional oversight of NRSROs. Under this legislation, the SEC was handed the authority to levy fines and the powers to deregister agencies under certain conditions.

The European Securities and Markets Authority (ESMA) was established in 2011. The idea was to establish an EU wide financial watchdog. One of its main tasks is to regulate CRAs.

Lawsuits

America's largest pension fund, the California Public Employee's Retirement System (CalPERS), sued S&P, Moody's, and Fitch in 2009 after it sustained losses from investments which were rated by these CRAs. They settled with Fitch in 2011 for *"negligent misrepresentation"* with no payment.

The flood gates were opened in 2012 when the full bench of the Australian Federal Court upheld a ruling by Federal Court Judge Jayne Jagot. Jagot found that S&P's AAA credit rating of synthetic derivatives arranged by ABN Amro were *"misleading and deceptive".* This finding lead to a settlement of US$25m with 12 local councils. Interestingly Jagot, recently ruled against Perpetual Trustees (PPT) in favour of Brickworks (BKW) and Washington H. Soul Pattinson (SOL) Directors lead by the Milner Family.

CalPERS later received settlements of US$125m from S&P in 2015 and US$130m from Moody's in 2016.

In 2015, S&P agreed to pay US$1.375b to settle a Justice Department lawsuit alleging that S&P had defrauded investors through issuing inflated ratings in the years preceding the GFC.

In early 2017, the Justice Department, 21 states and the District of Colombia reached a US$864m settlement with Moody's. This related to allegations surrounding credit ratings in the lead up to the financial crisis.

Should we care?

In summary, the regulation of CRAs has undoubtedly increased. However, issues identified during and after the GFC remain. These include:

1. The significant power of the *Big Three* remains unchecked,
2. The business models are unchanged, and
3. The inherent conflict of interest of a client relationship still exists.

A reasonable argument still exists to suggest the framework under which CRAs operate can be both conflicted and compromised.

We have not even delved into the fact that the structures that are rated by CRAs are opaque to all but industry specialists. Even with reams of disclosure, their workings are often far too sophisticated for the end user. It remains a situation of buyer beware.

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Company visit diary June 2017 Quarter

April

Date	Company	Description
04 - Apr	NVT	Navitas Investor Day
05 - Apr	NXT	NextDC UBS Emerging Companies Conference: Technology
05 - Apr	Data Republic	Data Republic UBS Emerging Companies Conference: Technology
05 - Apr	WTC	WiseTech Global UBS Emerging Companies Conference: Technology
05 - Apr	CGL	The Citadel Group UBS Emerging Companies Conference: Technology
05 - Apr	FLN	Freelancer UBS Emerging Companies Conference: Technology
05 - Apr	MP1	Megaport UBS Emerging Companies Conference: Technology
05 - Apr	Soprano	Soprano UBS Emerging Companies Conference: Technology
05 - Apr	IFM	Infomedia UBS Emerging Companies Conference: Technology
05 - Apr	hipages	hipages UBS Emerging Companies Conference: Technology
05 - Apr	CAT	Catapult Group UBS Emerging Companies Conference: Technology
05 - Apr	WEB	Webjet UBS Emerging Companies Conference: Technology
05 - Apr	MPL	Medibank Private Morgan Stanley Healthcare and PHI Forum
05 - Apr	Lorica Health	Lorica Health Morgan Stanley Healthcare and PHI Forum
05 - Apr	Bupa	Bupa Morgan Stanley Healthcare and PHI Forum
05 - Apr	NHF	NIB Holdings Morgan Stanley Healthcare and PHI Forum
18 - Apr	OSH	Oil Search Management Meeting
26 - Apr	IPD	Impedimed Q3 Conference Call
26 - Apr	ZIP	Zip Water UBS Management Meeting
27 - Apr	SLC	Superloop Goldman Sachs Small & Mid Cap Conference
27 - Apr	TLG	Talga Resources Goldman Sachs Small & Mid Cap Conference
27 - Apr	NAN	Nanosonics Goldman Sachs Small & Mid Cap Conference
27 - Apr	GBT	GBST Holdings Goldman Sachs Small & Mid Cap Conference
27 - Apr	CAT	Catapult Group Goldman Sachs Small & Mid Cap Conference
27 - Apr	CPU	Computershare Investor Day
27 - Apr	BKL	Blackmores Q3 Conference Call
27 - Apr	MYO	MYOB Group Annual General Meeting
28 - Apr	RMD	ResMed Q3 Conference Call
28 - Apr	BWX	BWX Goldman Sachs Small & Mid Cap Conference
28 - Apr	IPH	IPH Goldman Sachs Small & Mid Cap Conference
28 - Apr	TNE	Technology One Goldman Sachs Small & Mid Cap Conference
28 - Apr	MYO	MYOB Group Goldman Sachs Small & Mid Cap Conference
28 - Apr	IRE	IRESS Goldman Sachs Small & Mid Cap Conference
28 - Apr	AFY	Afterpay Goldman Sachs Small & Mid Cap Conference

May

Date	Company	Description
02 - May	WOW	Woolworths Q3 Conference Call
02 - May	BIN	Bingo Industries Macquarie Australia Conference
02 - May	SYD	Sydney Airport Macquarie Australia Conference
02 - May	SLC	Superloop Macquarie Australia Conference
02 - May	QAN	Qantas Airways Macquarie Australia Conference
02 - May	GTN	GTN Macquarie Australia Conference
02 - May	AGL	AGL Energy Macquarie Australia Conference
02 - May	BRG	Breville Group Macquarie Australia Conference
02 - May	ORG	Origin Energy Macquarie Australia Conference
02 - May	OSH	Oil Search Macquarie Australia Conference
02 - May	MPL	Medibank Private Macquarie Australia Conference
02 - May	NCK	Nick Scali Macquarie Australia Conference
03 - May	CSL	CSL Macquarie Australia Conference
03 - May	WTC	WiseTech Global Macquarie Australia Conference
03 - May	SEK	SEEK Macquarie Australia Conference
03 - May	BVS	Bravura Solutions Macquarie Australia Conference
03 - May	JBH	JB Hi-Fi Macquarie Australia Conference
03 - May	ARB	ARB Corporation Macquarie Australia Conference
03 - May	SGR	The Star Entertainment Group Macquarie Australia Conference
04 - May	CPU	Computershare Macquarie Australia Conference
04 - May	FXJ	Fairfax Media Macquarie Australia Conference
04 - May	FLT	Flight Centre Travel Group Macquarie Australia Conference
04 - May	TCL	Transurban Group Investor Day
04 - May	IRE	IRESS Annual General Meeting
04 - May	RMD	ResMed Morgan Stanley Management Meeting
04 - May	COH	Cochlear Investor Day
08 - May	OSH	Oil Search Management Meeting
15 - May	RWC	Reliance Worldwide Industries HOLDRITE Conference Call
18 - May	JHX	James Hardie Industries Q4 FY17 Conference Call
18 - May	SRX	Sirtex Medical Conference Call
18 - May	JHX	James Hardie Industries Results Dinner Meeting
22 - May	FPH	Fisher & Paykel Healthcare FY17 Results Conference Call
22 - May	JIN	Jumbo Interactive Holdings Management Meeting
23 - May	OFX	OFX Group FY17 Results Conference Call
23 - May	TNE	Technology One HY17 Results Presentation
24 - May	OFX	OFX Group Management Meeting
25 - May	ALL	Aristocrat Leisure HY17 Results Conference Call
29 - May	FPH	Fisher & Paykel Healthcare UBS Management Meeting
29 - May	ALL	Aristocrat Leisure Management Meeting
30 - May	ZML	zipMoney UBS Emerging Fintech Conference
30 - May	HUB	HUB24 UBS Emerging Fintech Conference

Date	Company	Description
30 - May	BVS	Bravura Solutions UBS Emerging Fintech Conference
31 - May	BAP	Bapcor UBS Emerging Consumer Conference
31 - May	ASG	Autosports Group UBS Emerging Consumer Conference
31 - May	PWH	PWR Holdings UBS Emerging Consumer Conference
31 - May	BKL	Blackmores Investor Day

June

Date	Company	Description
01 - Jun	IRE	IRESS Post AGM Management Meeting
03 - Jun	IPD	Impedimed ASCO Conference Chicago
04 - Jun	SRX	Sirtex Medical ASCO Conference Chicago
05 - Jun	SRX	Sirtex Medical ASCO Conference Chicago
05 - Jun	SGM	Sims Metal Management USA NY Management Meeting
06 - Jun	SGM	Sims Metal Management USA Chicago Management Meeting
06 - Jun	IFL	IOOF Holdings Investor Day
07 - Jun	ALU	Altium USA Management Meeting
07 - Jun	JHX	James Hardie Industries USA Management Meeting
07 - Jun	IPD	Impedimed USA Management Meeting
08 - Jun	Calvary Hospitals	Calvary Hospitals UBS Healthcare Tour
08 - Jun	Chemist Warehouse	Chemist Warehouse UBS Healthcare Tour
08 - Jun	RMD	ResMed UBS Healthcare Tour
08 - Jun	Australia Clinical Labs	Australia Clinical Labs UBS Healthcare Tour
08 - Jun	COH	Cochlear UBS Healthcare Tour
13 - Jun	CSL	CSL Acquisition conference call
15 - Jun	OSH	Oil Search Credit Suisse Energy Conference LNG Update
15 - Jun	VRT	Virtus Health Morgan Stanley AUS Emerging Companies Conference
23 - Jun	JIN	Jumbo Interactive Management Conference Call
27 - Jun	OFX	OFX Group Management Meeting
27 - Jun	BKL	Blackmores CEO Resignation Conference Call
30 - Jun	BKL	Blackmores Management Meeting

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