Shedding light on growth potential

FLOAT WATCH

BEACON LIGHTING GROUP
ASX•CODE: BLX
SHARES•ON•OFFER: 96.75m
LISTING•PRICE: 66c
MARKET• CAPITALISATION: $141.9m
LISTING•DATE: April 15

TIM MORRIS

MORE than a 150 years since the humble light bulb's invention, lighting technology is undergoing its biggest ever revolution. Edison's original incandescent device is being edged out of developed markets in favour of more energy efficient varieties, including fluorescent and LED technologies.

Fluorescent lighting was a Depression-era innovation that took 50 years to enter the residential mainstream. LED technology was made possible by development of white diodes in the 1990s, and launched commercially last decade.

The prospect of further penetration in residential markets is driving interest in the coming listing of Beacon Lighting Group. Established in 1967, the lighting products retailer has a national store network incorporating 71 company-owned and 14 franchised outlets.

Network expansion has been a growth driver over the past decade. Store numbers have doubled, fuelling turnover from continuing operations to rise more than threefold.

While its listing represents a selldown by existing shareholders, further store openings and increasing penetration of LED products offer sustained growth potential. It witnessed 100 per cent sales growth in the LED category last year. With management to retain a 55 per cent interest in the firm, its undemanding valuation and potential for sustained growth offer a favourable outlook.

Tim Morris is an analyst at wise-owl.com.

Local ambition for firm with a global reputation

PORTFOLIO STRATEGY

ANDREW MAIN

RENEE NOWYTARGER

Randal Jenneke, head of equities for fund manager T. Rowe Price's Australian operation

FUND manager T. Rowe Price has a global reputation but it is less well known in Australia — a situation it is eager to change.

Head of equities at the Australian operation, Randal Jenneke, who joined the firm in 2010 from a similar post at Schroder Investment Management in Sydney, believes the change will come as Australian institutional mandates build.

What's the history of your operation in Australia?

T. Rowe Price established a sales office in 2006 with the appointment of Murray Brewer. The focus was to sell the firm's international equity and bond products to the Australian market. In 2010 the company decided to establish a domestic equities capability with a dual mandate to build an Australian equities business and provide investment ideas on Australian stocks to the global portfolio managers.

I was hired as the head of equities in June 2010.

Viral Patel was hired as Australian head of research in March 2011, followed by the rest of the team over the ensuing nine months.

The five-person investment team was built, in a careful and considered way, with a focus on industry expertise, investment experience and cultural fit

How much do you have under management globally, and in Australia?

Total assets under management for T. Rowe Price globally were $773.9 billion as of December 31 with total firm-wide holding of Australian equities at $2.5bn. Assets under management for the T. Rowe Price Australian Equity Fund is $$60 million.

What has been your performance record in Australia?

Performance has been strong with our alpha annualised since inception (gross of fees) of 5.26 per cent as at December 31. The fund has delivered an annualised since inception performance of 23.26 per cent. For the calendar year 2013 the alpha (gross of fees) was 6.19 per cent and total return (gross of fees) of 26.39 per cent

What separates you from your peers in terms of your approach?

We have a very strong, experienced investment team which has deep sector knowledge and investment expertise across the market. This is a function of our careful and considered approach to organically building the team, enabling us to hand select individuals who meet the criteria and qualities we were looking for: intellect, experience, industry/technical knowledge, curiosity, cultural fit to name a few.

We are a "quality" investor. This means we look for investment opportunities among higher quality stocks that we define as businesses generating attractive returns on capital and which are growing (the higher the returns and faster the growth the better).

Being part of T. Rowe Price brings many competitive advantages including access to information and internal investment experts in key markets around the world. Additionally, we are able to access company management at overseas corporations who compete with Australian listed companies. Another significant benefit is the access to the global resources and systems of one of the world's largest and most successful investment managers.

What sectors and what stocks are you looking at in Australia as we move into 2014?

The most interesting sectors this year look to be those which are predominantly domestic focused. Market scepticism is high about the effectiveness of low interest rates and therefore a pick-up in domestic economic activity, which would benefit the building/housing sector as well as retail.

It is clear that the RBA has been successful in kickstarting the housing market and this is now starting to flow through to the retail sector.

We expect this will lead to better earnings for stocks in these sectors, which are currently under-earning relative to their longer term history. This is also a pretty good environment for banks, with credit growth expected to accelerate and bad debts likely to remain low.

Do you plan to launch any new funds in the short term?

The plan for the short to medium term is to focus on the current Australian equities product. There are no current plans to launch any new funds

What's the minimum investment your fund will accept, at the wholesale and retail level?

For sophisticated investors it's $500,000 but retail investors can also access it in smaller size via platforms.

Are you an activist fund manager in terms of making changes to the management of underperforming companies?

We take a long-term approach and act in the best interests of our clients.

Where we have concerns around management and/or the board we will voice these opinions to the chief executive or chairman and/or the board and seek change if we deem it necessary.

Inflation may catch retirees by surprise

DON STAMMER

Malcolm Edey

SEVEN years ago, emerging strains in US subprime mortgages brought on the early days of the global financial crisis.

Five-and-a-half years ago, whole banking systems were poised on the edge of a financial abyss. And five years ago most sharemarkets were at their low points for this cycle.

An important recent speech by Malcolm Edey, an assistant governor at the Reserve Bank, reminds us of these timelines.

He attributes the severity of the financial crisis to extremely low interest rates around the world, which led to similar risk-taking in most countries; to the strong growth and complexity of financial markets; and to the initial crisis having a knock-on effect via problems in the eurozone.

The theme of his talk — with which I agree — is the "after-effects of the crisis are still with us and ... will continue to shape the business environment for some time to come".

However, I should point out I'm more of a worrier about how those after-effects might take shape over the medium term.

In particular, they may cause forthcoming cycles in economic conditions and investment markets to be uncomfortably wide.

The experiences of the US and Europe in the past half-dozen years show how hard it is to re-establish economic growth after a severe financial crisis: confidence is low, banks are unable or unwilling to lend and many people and businesses are intent on reducing debt.

Even highly accommodating settings in monetary policy result mainly in higher prices for assets and increases in money balances, rather than giving a strong boost to spending.

The general view of the economic outlook among treasury officials, central banks and agencies such as the International Monetary Fund is that the US and Europe still face extended periods of sub-par growth from the economic headwinds of balance-sheet stress and the measures governments will need to take to lessen their large budget deficits.

This assessment has risks that investors need to consider. A not inconsiderable one is that, as confidence returns and money starts circulating again, the ultra-accommodating settings in policy will gain traction — but even then governments will be slow in their medium-term fiscal consolidations and central banks will drag their feet in withdrawing (or sterilising) the massive volumes of liquidity they've created in recent years.

As a result, spending will be boosted more than is currently anticipated and, with a further lag, inflation will return.

There are fair chances in my view that the US economy will soon reach the take-off point at which policy regains its impact and that economic growth in Europe will rebound cyclically in the next year or two.

Were this stronger growth in the North Atlantic economies to eventuate, there would be a boost to corporate earnings around the world; bond yields would likely rise (and bond prices fall); cash rates would likely increase, though with a lag; and sharemarkets would experience a tug-of-war between better earnings and the squeeze on sharemarket valuations from higher bond yields.

We would be looking, in other words, at wider-than-expected cycles in global growth and global investment markets — and in global inflation.

Up to now, the GFC mostly has resulted in low inflation in Australia, disinflation in most other Western countries and concerns of deflation in the eurozone.

The short-term global outlook is for low inflation to continue. But looking out another three, four or five years, the risk is for a cyclical increase in inflation in the big economies that catches many people by surprise.

That after-effect of the GFC, were it to eventuate, would present a significant challenge to many investors — especially those in or close to retirement and drawing on defined contribution superannuation.

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In big economies, the GFC greatly increased government debt

Per cent of GDP

	2007	2013
US	46.5	87.4
EURO AREA	52.1	74.9
BRITAIN	38.4	84.8
AUSTRALIA	-3.8	12.1

Source: IMF, Treasury, RBA

End of an era as ATO chucks cheques and paper for SMSF payments

MONICA RULE

SELF-MANAGED superannuation fund trustees must prepare for new ways to receive superannuation contributions for their members — cheques will no longer be acceptable from July 1.

A new law requires certain employers to make contributions for their employees into SMSFs electronically.

Employers affected are those who have 20 or more employees. The law does not apply to SMSFs that have related parties as employers. Employers with fewer than 20 employees will need to comply with the new law from July 1 next year.

The law is designed to improve efficiency. It is aimed at improving the quality of superannuation records, allowing the use of tax file numbers to identify members, improve rollover transactions between super funds and standardise making contributions.

It requires affected employers to make superannuation contributions for their employees by submitting payments using the new data and payment standards and having the payments recorded electronically in a prescribed format. It means employer contributions made by cheques or other paper formats are no longer acceptable.

The superannuation system needs this new law as there are more than 180 payroll systems used by different superannuation funds, and the processes are complex, time consuming and expensive. The new requirement will provide a minimum standardised format for all superannuation funds and will reduce manual processing, improve data quality, reduce errors, lower costs, require less preparation time and provide faster receipt of contributions for members.

It will mean better information about the amounts and timing of payments made and improve data matching, which will reduce lost superannuation accounts and members with multiple accounts having to pay multiple administration fees and insurance premiums.

SMSFs that receive superannuation contributions from unrelated employers will need to contact their employers and provide them with an electronic service address (different from an email address) for the delivery of contribution messages. The information to be provided is:

- The SMSF's Australian Business Number.
- The SMSF's bank account details.
- An electronic service address for receipt of a contribution data message.

SMSF trustees will need to ensure that their SMSF bank account is able to receive electronic contributions and contribution messages with information about the payments in the new electronic format. To receive contribution messages electronically, trustees will need to obtain an electronic service delivery address. To help SMSF trustees obtain an electronic service address, the ATO has published a register of messaging solution providers on its website.

Australia Post is one of the providers that can assist SMSFs with receiving readable messages from employers and other superannuation funds. It is providing a special welcome offer of $25 for a 12-month registration. The offer ends on May 31. SMSFs that fail to comply with the new electronic standard will not be able to receive superannuation contributions from unrelated employers and rollovers from retail superannuation funds.

An administrative penalty of maximum of $3400 may also be imposed by the ATO for non-compliance. The ATO can also issue a direction to an SMSF trustee to address the contravention and take action.

Monica Rule is the author of The Self Managed Super Handbook: Superannuation Law for Self Managed Superannuation Funds in Plain English.

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