

FLOAT WATCH

Early demand speaks volumes

Raya Group Limited

(To be changed to Xped Holdings Limited)  
ASX CODE: RYG — to be changed to XPE  
SHARES ON OFFER: 320 million  
LISTING PRICE: 2.5c  
MARKET CAPITALISATION: \$42.3 million  
LISTING DATE: March 31

SIMON HERMANN

Strong demand for Xped's prospectus raising enables the "Internet of Things" company to list on the ASX.

Having invested more than \$6 million in its technology, Xped Holdings is entering the final stage to backdoor list on the ASX through former geothermal mining company Raya Group. The acquisition is expected to conclude in March, after which the company will list under the ticker code XPE.

Principally focused on "Internet of Things" technology, Xped has developed its auto discovery remote control technology, which allows a single control unit like a smartphone to remotely control and command any common industrial device or household item. Xped has developed a portfolio of intellectual property that focuses on enabling any electronic device to be added to a network such as WiFi and controlled via one master app known as a device browser.

The Internet of Things is a colloquial expression for technology that enables physical objects or "things" to collect and exchange data with cloud platforms, other things and humans via connectivity with the internet. Industry estimates for connected devices to the internet range from 20 billion to 100 billion with a median average of about 50 billion devices that could be connected to the internet by 2020.

With the ADRC software supporting prototype demonstrations, Xped is now engaging prospective industrial customers. The company has established a memorandum of understanding with Tytronics, Vital Xense and Wire By Click and most recently with a Nasdaq-listed chip set manufacturer.

Its patent portfolio, and existing commercial partnerships are attractive qualities. Validation of Xped's technology via a binding commercial agreement is the major potential value driver. Xped has developed a simple and universal solution that has the potential to disrupt the sector and through the injection of funds from the prospectus raising, Xped will look to pursue growth opportunities. With up to 50 billion devices forecast to be connected to the internet by 2020, the company aims to tap into a significant opportunity.

Simon Hermann is an analyst at wise-owl.com.

Four changes to consider in what is a 'new' market

DAVID WALKER



If this year's crucial interim reporting season tells us anything, it's that companies change less than their underlying share prices. The challenge is to reconcile the volatility in share prices with fundamental trends in profitability and earnings, which are less variable.

Investing to benefit from the compounding and growth of earnings has certainly become a longer-term game, which requires more patience than before.

Meanwhile, most companies delivering consistent and reliable growth are fully priced and indeed equity markets are no cheaper than historical averages. The headlines and volatility combined are a negative. What is an investor to do? Here's the four key changes for a value investor.

1. Returns come in a rush

A cool and calm approach that understands the new distortions driving share prices, and uses these to find opportunities to buy equities trading for less than they are worth, is worth considering. Investors will need to be patient and disciplined.

Value investing has changed. Investors used to be able to trust share prices would trend higher



MARTIN REDDY

The Reject Shop's shares have risen as much as 158 per cent in eight months

with equity and earnings per share multiplied by a reasonable factor for profitability, growth and risk. Today though, ultra-low interest rates and full pricing of many markets and equities is fuelling the growth of a "volatility industry" of hedge funds, which make money out of share price manipulation and leveraged trading. These hedge funds are certainly not holding companies to benefit from the compounding of earnings. Hedge funds are able to borrow extremely cheaply globally and use this to fund their activities.

For value investors this means

their returns are more likely to come in a rush at the end of the holding period, not as a gradual linear rise in the share price. An example is The Reject Shop, where the share price has risen by as much as 158 per cent in eight months even though the company is likely to earn less in fiscal 2016 than it did four years ago, in 2012.

This remarkable small-cap turnaround story at The Reject Shop sorely tested the patience of value investors who backed it because most of the returns came in two sudden short-covering rallies for which investors had to wait

months and years. There was no gradual, reassuring unwind of the share price discount for earlier failures.

2. Short sellers have become more powerful

Global fund managers are "de-weighting" Australian equities in favour of other asset classes, reducing underlying buying support on the ASX. This increases the relative weight of short-selling of the stocks value investors are likely to buy: those which are out of favour, misunderstood and over-looked due to problems. Value in-

vestors will have to get used to much more volatility as they wait for the market to correctly price their stocks. Other misunderstood and shorted companies I like where the market is taking its time to realise underlying value are: Ardent Leisure Group, Credit Corp and Challenger.

3. Popular stocks get over-priced

Meanwhile, the momentum trade in a handful of fast-growing mid-caps is breaking down. Domino's Pizza, Blackmores and Bellamy's were overbought because

little else was going up on the sharemarket and investors jumped on the few uptrends they could find. Now, as these companies announce their actual earnings results this reporting season, investors are realising the growth, even where this meets expectations, does not justify earnings multiples of 40, 50 and 60 times and the share prices are retreating. Separately, companies that disappear, like Ansell, Amaysim and 3P Learning, are being dealt with severely by the market.

4. Good execution is the ultimate asset

Although there are reasons to be positive, this is a bear market that is not over yet and caution is required. The way forward is to prefer companies with records of consistent delivery against strategy ("good execution" in analyst-speak), business models that are less susceptible to financial market volatility and slow economic growth, and which become undervalued in bouts of bear market panic. Our model portfolio distinctly leans towards this kind of "quality" in companies. We have done well with BT Financial, CSL, Caltex, Japara Healthcare, Nick Scali, Magellan and Transurban.

This reporting season we are introducing new stocks like Macquarie Group and Ramsay Health Care and we are concentrating our bank holdings in Commonwealth Bank and National Australia Bank, which we far prefer to ANZ and Westpac.

Macquarie has been sold off in the bear market but its asset management business is driven by infrastructure, not equities, and the market is underpricing this. Ramsay Health Care generates some of the strongest cash earnings on the ASX and should trade at our valuation of \$69, not a 16 per cent discount.

ANZ's trading update was not as bad as feared but the strategic error to bulk up in Asia continues to dampen returns. In banking, the place to be was and remains Australia and New Zealand, where profitable growth is available and loan quality remains excellent. CBA is the highest-quality bank with smooth execution of a customer-focused strategy, and National's return on equity is set to improve post the exit from Britain. National is also leveraged to the acceleration in business lending.

David Walker is senior analyst at StocksInValue.com.au.

Is an SMSF really what you're looking for?

MONICA RULE



There are now almost a million Australians with self-managed superannuation, and every year more investors consider the possibility of doing it themselves. But would it suit you?

I worked in the super area of the Australian Taxation Office for more than 17 years, so I'm aware some people establish self-managed super funds (SMSFs) without really understanding their responsibilities.

While the thought of having their own SMSF excites some people — and no doubt there is great satisfaction to be gained from a successful, low-fee investment strategy — I've often noticed would-be DIY investors who lack concrete plans don't really know what to do with an SMSF once it is established.

These people rely heavily on their accountant to advise them on what to do.

By relying on their accountant, these SMSF investors may not be using their retirement savings effectively.

They may not implement useful strategies to accumulate wealth in their SMSFs.

Worse still, they may have to

pay penalties, imposed by the ATO, when they misinterpret the law.

If you are too busy to take the time to understand super law and need other professionals to manage your SMSF, then an SMSF is not for you.

But if you are someone who takes an interest in managing your retirement savings, then you may wish to learn about the following super strategies and discuss them with your adviser to see if they are suitable for your circumstances. They might assist in growing your retirement wealth.

• **Transition to retirement pensions:** This pension can be started from your SMSF if you are 56 or older. You do not need to retire or cease work. It could reduce the tax paid by your SMSF. There is speculation the TRP scheme could be terminated or tightened up in the May budget, but for now this remains speculation.

• **Two-year bring-forward rule:** You can make non-concessional contributions of up to \$540,000 in one year, as long as you are 65 at some time during the year and have not already used the two-year bring-forward rule in the previous two years.

• **Contribution Reserves:** Some SMSF members use a contribution reserve to make concessional contributions in excess of the maximum \$35,000 limit in a financial year. This may allow you to claim a larger tax deduction when you most need it.

• **Re-contribution strategies:** Re-contributing your super benefits

back into your SMSF may change the tax-free and taxable components of your super account. This reduces the tax payable by your adult children when they receive your death benefit.

• **Anti-detriment payments:** Some set up anti-detriment reserves in their SMSFs so their dependants will receive a larger death benefit upon their death. There is some talk the government may change the rules on anti-detriment payments. While it is now available, you may want to investigate whether this strategy is worth implementing before

The ultimate responsibility and accountability for your SMSF lies with you

any potential changes.

• **Binding death benefit nominations (BDBN):** A BDBN can ensure your retirement savings go to people you nominate to receive your death benefit. This will avoid disputes, particularly where members have remarried and have children from previous relationships.

Potential SMSF investors should know that regardless of whether you rely on your accountant or other professionals to manage your SMSF, the ultimate responsibility and accountability in managing your SMSF lies with you and not your advisers.

If your SMSF does not comply

with the law, the ATO can take a number of actions on you and/or your SMSF that includes:

• **Imposing an administrative penalty** ranging from \$900 to \$10,800. If an SMSF is established with individual trustees, then the penalty is imposed on each trustee — which means for an SMSF with four members the penalty could amount to \$43,200 (that is, \$10,800 x 4).

• **The ATO could disqualify you** from being a trustee. If the ATO disqualifies you as an individual trustee, it means you can never again occupy the role of a trustee for any super fund. This is even if the mistake made by your SMSF was not your fault.

• **The ATO could remove the compliance status of your SMSF.** This is the worst outcome, in my opinion. If the ATO removes the compliance status of your SMSF, it means your SMSF will end up losing almost half its assets to a tax liability. For example, if an SMSF has accumulated retirement savings of, say, \$1 million, the tax bill would be \$470,000.

SMSFs are not for everyone. Consider carefully why you want one. If a retail or industry super fund already does the things to meet your investment goals without you having to do any work, you might be better off leaving your money there.

Monica Rule is the author of "The Self Managed Super Handbook — Superannuation Law for SMSFs in plain English" www.monicarule.com.au

Diving deeper into CBA's Perls

ELIZABETH MORAN



Is the price right? That's the question being asked by retail investors this week as CBA launched a major new hybrid note Perls VII. Private investors are the largest segment of the hybrid market and bank issues are invariably popular.

This is the first financial institution hybrid of the year, it is Basel III-compliant and I would expect more to come over the next 12 months. Recent poor hybrid performance has shown that previous issues were cheap funding for the banks and the institutions that shied away from the market were right to do so.

This is highlighted in the new, high issue margin of Perls VIII at 5.20 to 5.35 per cent above the benchmark, about 85 per cent higher than the 2.8 per cent margin offered under Perls VII, which is some price jump! The predicted overall yield on the Perls VIII, assuming the benchmark BBSW is 2.28 per cent is between 7.50 and 7.65 per cent.

In the time between the two issues, much has changed. Almost from day one, Perls VII began trading sub-par and this week was priced around \$85, a dreadful re-

sult for retail investors trying to survive in a low-interest rate environment.

The cost for banks to raise funds in international markets across a range of debt securities, senior and subordinated bonds and hybrids has been rising. So banks have been paying more.

Further, last week we had an example of what happens if things start to unravel. Global German giant, Deutsche Bank, was thought to have insufficient liquidity to pay the distributions on their CoCos, the European version of hybrids more commonly known as contingent convertibles. The price of the CoCos fell from \$95 in January to just \$70 and the corresponding yield climbed from 7.5 to 13 per cent, displaying the possible sharp turn in market sentiment on the chance that the distribution might be missed.

The CoCos have since recovered to \$80 as Deutsche reassured the markets by announcing a buyback of senior bonds to show its liquidity.

However, the ride for European investors has been volatile. Like Australian investors, Europeans have also been driven by low yields, to buy riskier securities to generate income and this has seen large investment by institutions and retail investors in CoCos.

Perls VII marked the recent low point for hybrid margins, which have since climbed to this new high at Perls VII from Australia's largest bank.

But is it enough? The short answer is no.

The margin is still too skinny for the following reasons.

1. Existing hybrid securities offer better value for shorter call dates with yields of 8.0 to 8.4 per cent available with the major banks.

2. Investors should be paid a premium to purchase a new security over existing securities. In the case of CBA, this would require greater than BBSW +5.80 per cent, which is where the Perls VII are now trading.

3. Institutional investors still prefer the risk and reward offered by senior or subordinated bonds.

4. International spreads on similar HSBC securities, a similarly rated bank can be higher.

Assuming the lower yield of BBSW +5.20 per cent, the Perls VIII are more attractive than previous issues and this reflects the market's greater understanding of the risk of these complex securities.

While the margin will be attractive to investors, CBA will need to rely on the strength of its brand to get investors to commit with similar hybrid issues already trading at higher margins.

Investors who decide that the new deal offers the necessary income and view CBA as low risk should be prepared for volatility if markets or conditions change.

Elizabeth Moran is a director of education and research at FIIG Fixed Income Specialists. www.fiig.com.au

PERFORMANCE THAT TURNS HEADS AND HEARTS  
THIRD LINK GROWTH FUND an Australian share fund where your fees are donated to charity

KEY FEATURES

- ✓ Managed by industry veteran, **Chris Cuffe**
- ✓ A fund-of-funds, meaning Third Link Growth Fund is invested with other investment managers, including Aberdeen Asset Management, Bennelong Australian Equity Partners, Colonial First State, Cooper Investors, Goldman Sachs Asset Management, Greencapital Capital, Harness Asset Management, JBWere Wealth Management, Lazard Asset Management, Montgomery Investment Management, Paradise Investment Management, Ophir Asset Management and Pengana Capital.
- ✓ The fees you pay (net of expenses) are donated to a variety of children's charities (showcased on the website). **Over \$4 million donated to date.**
- ✓ Minimum you can invest is **\$20,000**

FUND PERFORMANCE as at the end of JANUARY 2016

(fund performance percentage returns are annualised and are after fees with the assumption that distributions were reinvested)

	Three Months	Six Months	One Year	Three Years	Five Years
Third Link Growth Fund	+1.5%	+1.2%	+8.8%	+12.8%pa	+10.9%pa
S&P/ASX 300 Accumulation Index	-3.5%	-9.7%	-5.8%	+5.3%pa	N/A
Performance relative to benchmark	+5.1%	+10.9%	+14.6%	+7.5%pa	N/A

Full performance information is shown on the website. A comparison of the Fund return to the S&P/ASX 300 Accumulation for the 5 year period has not been included as until the end of January 2012 there was a different benchmark. Past performance is not indicative of future performance. Returns can be volatile.

For more information or a **Product Disclosure Statement** visit **thirdlink.com.au** or call **1300 793 855**



Treasury Group Investment Services Limited (TIS;AFSL 227326) is the responsible entity and issuer of the Third Link Growth Fund (Fund). Third Link Investment Managers Pty Limited (Third Link;AFSL 321611) has been appointed by TIS to invest and manage the investments of the Fund. Applications can only be made on the form in the current PDS, dated 1 July 2014. You should consider the PDS before deciding to invest or continue to invest.