Switzer Super Report
Advice you can trust

Thursday November 19 2015

Time for that reality check

Despite the recent awful events in Paris that shook us all, the markets have not exactly caved-in. You all know me as the eternal optimist and it's about time we realised there is good news out there. Just look at our job numbers and the RBA's reasonably upbeat assessment on economic growth.

This week, my mate Charlie Aitken reminds us about the importance of investing. He says that we have to separate emotion from reality. He also notes that now is not the time to shy away from risky assets.

It's not just our health and food stocks that are doing well out of Asia. In the *Switzer Super Report* today, Tony Featherstone looks at tourism stocks leveraged to Asian demand – he shares with us three quality picks that are also well-priced.

Sincerely,

Peter

Peter Switzer

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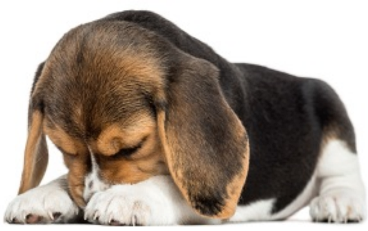

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Don’t shy away from risks assets

by Charlie Aitken

Obviously the terrorist attacks in Paris were a horrible event. My thoughts are with all affected by them.

I did get many questions from friends and investors in my fund about what they meant for markets. My simple answer is you have to separate emotion from economic reality.

There should be no doubt the “shock value” of terrorist attacks is diminishing. It’s a terrible development but we are becoming conditioned to these events. 9/11 was in my view the most shocking and unexpected event in modern world history. We will all remember where we were when the twin towers fell.

Similarly, 9/11 was a major market event with the NYSE closed for 5 days and the investing world having to hedge risk (via selling) in markets that were open in the rest of the world. The Federal Reserve pumped liquidity via rate cuts and repos.

In the aftermath of the Paris attacks the world markets opened for business in an orderly manner, led by Paris’s CAC Index. In fact, S&P500 Index Futures which opened in Asian trading down -1%, rallied all day to close up +1.5% by the end of NYSE trading. They rallied another +1.5% last night.

The internal reaction in specific markets was to mark down companies in the European travel and tourism sector. Conversely, companies that produce defence sector equipment were marked up. That is a valid response to tighter border controls, general sentiment about the necessity to travel and an upgraded military resolve in Syria.

Outside of that the market response was calm, as it should have been. In fact by Tuesday, European equity indices had advanced sharply as traders placed further bets about the ECB expanding its QE bond buying programme.

I don’t want you to mistake me for some cold hearted commentator. However, as I said above, my job is to separate emotion from economic reality.

My view is the events in Paris and the most likely military reaction of the world in Syria/Iraq is not a reason to decrease exposure to risk assets. In fact, many other commentators I have read on the topic believe the increased determination to destroy ISIS will be a good thing for world markets (eventually).

What remains far more important to the future direction of world and domestic equity markets is Federal Reserve “lift off”.

As you know I think the Fed has done a **TERRIBLE JOB** in communicating its policy towards interest rate normalisation. Not only do they say too much, but too many Fed Governors blur the picture with their own views, which simply serves to deliver increased short-term volatility.

The fact the Fed didn’t raise rates at its September meeting played the key role in the equity market correction that followed, led by Wall St. The markets were worried the Fed *“knew something they didn’t”*, to which I argued in these notes was “absolute rubbish”. The Fed actually knows not much more than you and I. They are assessing the same economic data we all see and I remain of the view their communications policy is hopeless. Hopefully they can fix this a notch on December 17th when 81% of investors believe they will raise US cash rates for the first time in 9 years.

Markets are about confidence. Confidence is a derivative of leadership. The fact the Fed, the central bank of the biggest economy in the world, showed a lack of confidence, to even get the Fed

Funds Rate (FFR) from 0% in September, triggered an equity market correction.

The Fed now has the chance to rectify that by confirming they are confident enough in the US economic trajectory to get the FFR off zero.

I believe the Fed funds rate rise on December 17th will prove a *buy the fact* event for risk assets. Why? Because it brings *certainty* after a year of *uncertainty* that has been reflected in elevated market volatility.

It is vitally important the Fed gets its message right. **Nobody is scared of a 25bp rate rise from 0%**, the world needs comfort on the trajectory of rate rises. If the Fed can convince markets any further rate rises will be at a "measured pace" then I believe the markets will buy that fact and rally into year end, potentially quite sharply considering how much cash is sitting on the sidelines.

Here's something else to consider. The consensus view is the Fed will lift the FFR by 25bp on December 17th. However, the FFR is a range and the current rate is 0% -.25%. It's been put to me by people who have insight into Fed thinking that it's not out of the question the Fed lifts the FFR range by only 12.5bp to a new range of 12.5bp to 37.5bp. If that does happen you would see the mighty US Dollar fall and risk assets rise sharply, led by anything denominated in USD including the Australian Dollar.

It's worth noting the move we have seen up in the US Dollar Index (DXY) is the biggest move ever before a Fed rate decision. My opinion is the USD is now 100% pricing the chance of a 25bp rate rise and a 25bp rate rise (or less) may well trigger a *"sell the fact"* event/*"profit take the fact"* event in the US Dollar.

If that happened you would see a short-covering rallying in the Australian Dollar, New Zealand Dollar, Euro and Yen. You would also see a short-covering rally in commodities and emerging markets. US equities would outperform European and Japanese equities, while Australian equities would also catch a bid into year end.

As most of you are most interested in Australian equities I thought I'd share my views on what happens from here in the ASX200. To recap from what I wrote in last week's *Switzer Super Report:*

Quite clearly, the ASX200 has had the perfect storm against it in 2015, suffering not only from losses in its heavyweight index components, but also the double whammy fall in the AUD/USD cross rate.

The ASX Twenty Leaders Index (XTL) has been leading the broader market low. BHP & RIO in the miners, WPL, ORG, STO in energy, the four major banks, WOW and TLS has played the major role in our index underperformance of the world.

Some of those falls are driven by earnings downgrades and others by large scale equity raisings/dilution. Some by both.

In the last month alone we have seen another earnings downgrade from WOW, equity issues from ORG, STO and WBC and a very unfortunate dam collapse for BHP in Brazil which saw BHP fall to a fresh 6-year low.

Quite frankly the description of "perfect storm" is correct in large cap Australia, but it is always darkest before the dawn and I am trawling through the damage looking for contrarian large cap ideas in Australia to add to my portfolio. I think the ASX200's -19% underperformance of Wall St in USD is now too wide and I expect the equity issuance pressure on the ASX200 to ease a few notches into calendar year end.

As you know my fund has been running pretty high cash levels but I am starting to see specific opportunities in Australia where I can see a prospective total 12 month return well better than cash, remembering the risks to the RBA cash rate remain to the downside in 2016.

A week later I have put some more money where my mouth is, increasing our funds exposure to Australia via derivatives and stock specific exposure because the technically important 5000 index level held again.

Our view is the ASX200 can get back up around/above 5400 by late January ahead of the February interim reporting and dividend season. On that basis we have sold ASX200 Index puts at 5000 and bought ASX200 Index calls at 5300. Interestingly the put we sold was more expensive in premium than the call we bought. We got net paid by the option market to take this upside risk. That shows you how bearish option traders had become.

That option position, known as a risk reversal, starts making money as time decays and the market bounces. The reason for derivate overlay is to make sure you capture upside when it comes.

As I wrote to you last week we are building a position in **Telstra (TLS)** and we continue to do that earlier this week feeling the knife has finally stuck in the deep value/yield support floor. TLS looks to have bottomed to us.

We have also increased our position in **Macquarie Group (MQG)** feeling the staff selling window and market pullback gave us a chance to buy MQG's earnings growth profile at a discounted price. MQG should also give us leverage to any year end global equity market rally.

And finally, it does appear that confidence in Malcolm Turnbull's leadership is translating to consumer confidence and employment growth. It is worth noting Australia added 40,000 full time jobs last month and the unemployment rate dropped below 6%. This is undeniably good news and led to my investment team and I adding another Australian consumer discretion name to our portfolio as a play on a better than expected Xmas retail trading period. That stock was **Harvey Norman (HVN)** which looks cheap to us vs. its projected earnings growth. The other Australian consumer discretionary stock we own is the newly listed **Baby Bunting Group (BBN)**, which looks a category killer to us with excellent management and growth prospects. BBN has performed very well since its IPO.

All-in-all we have increased our exposure to Australia by derivatives and specific industrials. I realise for SMSF's it's been a tough year with the basket of most widely held SMSF stocks hit harder than the index itself this year. The good news is I think the worst of that is over and your portfolios might get a little brighter into year end.

I am also in the Christmas spirit and have dropped my minimum investment in the **AIM Global High Conviction Fund** from $250,000 to $100,000 for the month of November. If you are a sophisticated investor and you want to join us for the journey please email us at la@aimfunds.com.au. The fund continues to perform well, being up around +3% since August 1st while the ASX200 is -10% and MSCI World Index -4%.

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Blockbuster showing for tourism stocks

by Tony Featherstone

The new James Bond film, *Spectre*, broke records on its opening weekend in China this month, earning US$48 million. Strong Asian demand prompted talk that *Spectre* will be Sony's next billion-dollar movie. It's halfway there in a matter of weeks.

For context, *Spectre*, in a single weekend, earned only US$11 million less than the previous Bond instalment, *Skyfall*, made in its entire Chinese run. That was despite Spectre only being shown in 2D and having weaker critical reviews than its predecessor.

Spectre's success is good news for Sony shareholders. But it is also an intriguing anecdote on the power of the Asian middle-class consumption boom – a trend that will be among the most profound in history and of vital importance to Australian investors.

Consider what's ahead. The global middle-class is expected to grow from 1.8 billion in 2009 to 4.9 billion by 2030, on OECD forecasts. Two-thirds of the new middle-class will be Asian. If the OECD is correct, another two billion middle-class Asian consumers will be on Australia's doorstep within 15 years.

Is it any wonder that Asian leisure and entertainment demand is booming?

Our tourism industry is an early beneficiary. I analysed the tourism megatrend for the *Switzer Super Report* in August, nominating Sydney Airport, Crown Resorts, SeaLink Travel Group and Ardent Leisure Group as key local beneficiaries of inbound Asian tourism.

SeaLink has soared 45% since then, Ardent is up 15% and Sydney Airport has rallied 14% in a flat market. Crown Resorts has disappointed, falling 16% since that report. Crown looks reasonably valued at the current price.

Australia's tourism industry has incredible potential. International visitors to Australia spent $33.4 billion in FY15, up 10% on the year and the best since 2001, Tourism Research Australia data shows. Chinese visitors rose 22% to 862,000 and their trip spend increased 7% to $7 billion. Chinese tourists now account for 21 cents of every dollar that international tourists spend here.

Impressive as they are, these numbers are only scratching the surface. Surveys show the high intention of Chinese tourists to travel to Australia is not matched by their actions. Globally, Australia has a small slice of Chinese tourism, but there is potential for market share gains.

Our tourism industry can do much more to win Chinese travellers. Our airports, by global standards, are antiquated and have poor facilities and signage for Asian travellers. Our tourism marketing to Asia, with some exceptions, can improve. And our tourism attractions need to be better aligned with the needs of Asian tourists.

If our tourism industry gets it right, a services export boom to Asia will be the next phase of explosive growth, after mining and agriculture.

The challenge for investors is finding tourism and entertainment stocks that are leveraged to Asian demand and still attractively priced. The three stocks below have excellent long-term prospects as Asian tourists flock to our hotels, theme parks and casinos. None are cheap, but their earnings could be stronger than the market expects as the tourism boom unfolds.

1. Village Roadshow

The owner of Gold Coast and Sydney themes parks, cinema operator and film distributor has clawed back market confidence this year after a disappointing first half in FY15. Village has rallied from a 52-week low of $5.08 to $7.22.

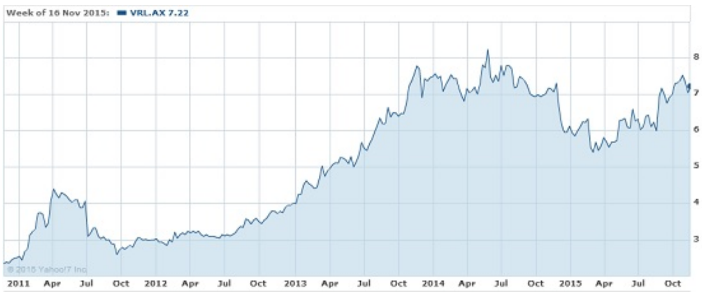
Village's second-half result helped it top consensus analyst forecasts for the full year and sparked a re-rating of its stock. A strong showing from its Australian cinema business offset a disappointing start at its Sydney Wet'n'Wild theme park.

The momentum should continue in FY16. A new theme-park ticketing strategy, where consumers pay in monthly instalments, will boost earnings this financial year. A summer of blockbuster movies such as *Spectre* and the latest *Star Wars* instalment should drive sharply higher cinema attendance, particularly in the better-margin Gold Class offerings.

Village's Gold Coast themes parks – Sea World, Wet'n'Wild and Movie World – should benefit from an expected warmer, drier summer, and continued strong growth in Asian tourism to south-east Queensland. A bumper summer movie season also provides more cross-promotion opportunities to drive theme park attendance.

Five of seven broking firms that research Village have a buy recommendation and two a hold, consensus estimates show. A median price target of $7.15 suggests Village is fully valued. That valuation looks about right for now, but Village has potential to beat market estimates in FY16, given this summer could be its most promising trading season in several years.

Village Roadshow



Source: Yahoo!7 Finance, 19 November 2015

2. Mantra Group

Australia's second-largest accommodation provider serves two million guests annually through more than 100 Peppers, Mantra and Breakfree hotels, and is an obvious beneficiary of growth in inbound Chinese tourists seeking accommodation.

Mantra listed on ASX in June 2015 through a $239-million initial public offering (IPO). The $1.80 shares have soared to $4.35, making Mantra among the best IPOs in years.

Stronger-than-expected earnings growth has justified the re-rating. Mantra reported underlying earnings (EBITDA) of $73.1 million in FY15, slightly ahead of market expectation and its upgraded guidance.

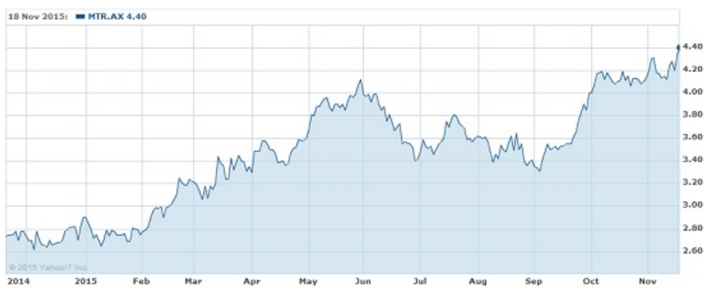
I like Mantra's medium-term prospects. More Chinese tourists will drive demand for its Queensland leisure properties and offset lacklustre corporate demand in its CBD properties. An expected lower Australian dollar is another potential tailwind, as is a slight recovery in domestic consumer and business travel demand in the next two years.

Longer-term, a capital-light business model and good balance sheet offer scope to continue opening new hotels and upgrade existing ones. New hotel openings in Queensland could be the catalyst for further share price growth in FY16.

Mantra is due for a share price pullback or consolidation after stellar gains. The median price target from a consensus of nine brokers is $4. But few Australian companies have more direct leverage to Chinese tourists in the coming decade. Management is pulling the right strings. Customer satisfaction ratings at its properties are high, and hotels are being opened or upgraded just in time to cater to for an influx of Asian tourists.

Mantra is in a sweet spot.

Mantra



Source: Yahoo!7 Finance, 19 November 2015

3. The Star Entertainment Group (previously Echo Entertainment Group)

The integrated resorts operator is driving a multi-billion-dollar investment program to capitalise on Asian demand for Australian casinos and hotels.

Its flagship Sydney casino, The Star, will benefit from another $500 million in refurbishment and additions over the next five years, in addition to an $870-million refurbishment program (2009–13) that has driven noticeably improved performance.

A $345-million redevelopment of Jupiters Hotel & Casino is well underway and the group is leading a consortium on the multi-billion-dollar Queen's Wharf project in Brisbane, due for completion in 2022. If all goes to plan, The Star will own and manage three leading, much larger, integrated resorts as casino demand from Asia grows.

I like The Star's strategy. Having three upgraded or new casinos under one brand vastly improves its ability to market in Asia and cross-promote its offerings in Australia. Encouraging Sydney casino visitors to extend their stay in Brisbane, or Brisbane visitors to spend time at the Gold Coast, has real earnings upside.

The Star, of course, has big challenges. A second legal Sydney casino at Barangaroo will be formidable competition, although it could help the western edge of the CBD become a much stronger entertainment precinct and benefit both casinos when it opens in 2020. Also, The Star's large capital works program has execution risk, but is being managed well so far with little disruption to operations or earnings.

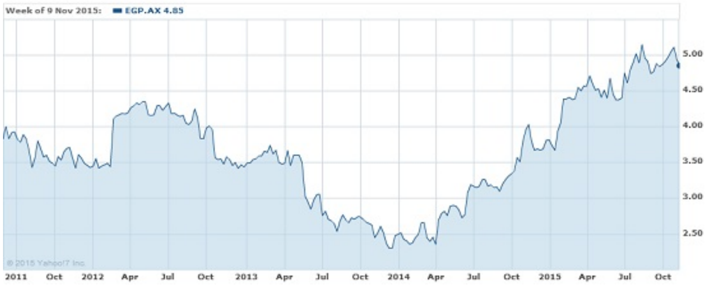
Domestically, The Star has potential to get more punters out of clubs and into its casinos. But the real jackpot is Asian tourists who choose Australia and move between the Star's east coast casinos. The well-run group looks like it has timed its expansion perfectly.

The Star looks slightly better value than other large tourism stocks. Six of 11 brokers that cover it have a buy recommendation, three a hold, and two a sell. A median price target of $5.55 compares to recent trades around $4.80.

Like others on this list, The Star is a long-term play on Asian tourism. With Crown Resorts, it dominates the Australian integrated market and is a natural beneficiary of fast-growing Asian demand for our casinos. The Star and Crown can carve up this market for years to come, such are the barriers to entry for new casino operators in our capital cities.

In Bond speak, the next decade could be *Casino Royale* for the largest Australian operators as the middle-class Asian consumption boom spark a tourism bonanza.

The Star Entertainment Group



Source: Yahoo!7 Finance, 19 November 2015

Tony Featherstone is a former managing editor of BRW and Shares magazines. The column does not imply any stock recommendations. Readers should do further research of their own or talk to their adviser before acting on themes in this article. All prices and analysis at November 18, 2015.

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Buy, Sell, Hold – what the brokers say

by Staff Reporter

In the good books

Alacer Gold Corporation (AQG) Upgrade to Buy from Hold B/H/S 3/2/1; Evolution Mining (EVN) Upgrade to Buy from Hold B/H/S: 2/4/0; and Newcrest Mining (NCM) Upgrade to Hold from Sell by Deutsche Bank: B/H/S /1/4/3. The broker observes the gold sector remains volatile and, with a US rate hike imminent, both US and Australian dollar priced gold have retreated. Hence, valuations for equities are more interesting. On the other hand, the broker notes cost reductions are largely done and dusted and higher all-in costs will be emerging in 2016.

Cover-More Group (CVO) Upgrade to Buy from Hold by Deutsche Bank: B/H/S: 3/0/0. The AGM signalled gross written premium was up 10.2% in the first quarter and the current run rate is expected to be maintained through 2016. UBS observes the company continues to outperform domestically and the growth outlook is encouraging in the UK and India. The broker believes the company now needs to strike a balance between margin recovery and maintenance of market share.

Simonds Group (SIO) Downgrade to Hold from Add by Morgans: B/H/S: 0/2/0. The company will buy Western Australian (WA) home builder, Gemmill Homes, for $6 million and will also undertake a review of the Madisson Projects, which have experienced a continuing weakening of margins. The broker queries the entry into WA at this point in the cycle but suspects Simonds will leverage its existing supply agreements to drive improved margins while trade labour will become more accessible as the cycle softens.

In the not-so-good books

Monadelphous Group (MND) Downgrade to Sell from Neutral by Citi: B/H/S 0/2/5. Another market update, another soft guidance from the company who once was the absolute champion, and market darling, from the China-related commodities super-cycle boom. One can almost hear a big sigh from the analysts at Citi. Where exactly is that bottom? It's not in sight just yet is the analysts' conclusion. They have become even more cautious on contracts and on margins. The direct result is yet another chainsaw treatment for estimates.

QBE Insurance Group (QBE) Downgrade to Underweight from Neutral by JP Morgan : B/H/S 6/1/1. The company faces a challenging margin outlook because of soft conditions and headwinds in the mortgage insurance business. The broker believes this scenario limits the chances of achieving double digit margins, despite the likelihood of interest rate rises and cost savings.

SMS Management and Technology (SMX) Downgrade to Equal-Weight by Morgan Stanley: B/H/S 1/3/0. The analysts lament the absence of organic growth post yet another profit warning from the company. The analysts do believe the balance sheet keeps the company in a good position to benefit through M&A, but the absence of organic growth has triggered a downgrade to Equal-Weight.

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The Professional's Pick – McDonalds

by Monik Kotecha

Monika Kotecha is the chief investment officer at Insync Funds Management.

What is your professional pick?

Our focus is on investing in exceptional businesses which deliver consistently high returns on capital, strong cash flow generation and look after shareholders in the form of growing dividends and/or share buybacks.

McDonald's Corporation franchises and operates McDonald's quick-service restaurants (QSR). Founded in 1948, the company currently has more than 36,000 locations in more than 100 countries. More than 80% of McDonald's restaurants worldwide are franchised, and approximately 60% of the units are located outside the U.S.

The company is well diversified geographically generating approximately 44% of profits in the U.S., 41% in Europe and 15% primarily in Asia.

How long have you held the stock?

We have held McDonald's for 8 months. Prior to the purchase the stock has not performed as well as the market. The company had a period of slower growth with disappointing operational performance over the last three years. Growth in the top line had decelerated leading to generally negative sentiment on the stock.

We had been following the company for a number of years and in our experience most companies at some point in time experience a temporary slowdown in their business which the market often views as a structural problem which provides an attractive entry point. The change in management we believe will be a key driver of positive change.

What do you like about it?

McDonald's has a number of characteristics we look for in a great business. Firstly it has a high level of recurring earnings with 75% of operating profits derived by royalties and rent which provides stability in earnings. The company's focus on value in the food sector provides the business with a high degree of resilience through the economic cycles with positive EPS growth throughout the last recession.

How is it better than its competitors?

No other QSR chain has the company-level financial resources of McDonald's, as McDonald's generates greater than 10 times the operating profit of QSR (Burger King/Tim Horton's), greater than thirty times Wendy's and greater than three times YUM Brands. Despite recent stumbles McDonald's remains around 3-6 times larger than each of its major rivals domestically, and with around US$2.6m sales/store MCD is by far the industry volume leader as well. McDonald's industry-leading advertising budget and product development resources are a significant advantage versus its peers.

What do you like about its management?

Steve Easterbrook, who was previously the senior executive brand president and chief brand officer at McDonald's, replaced Don Thompson as chief executive in January of this year and in our opinion is a key catalyst. Easterbrook is McDonald's first British CEO. In 1993 he joined McDonald's as a financial reporting manager in London. He spent 18 months at "Hamburger University," McDonald's corporate training academy near Chicago. He worked in various operational and finance roles before being promoted to vice-president for the UK's southern region in 2001. In 2006 he became the CEO of the McDonald's UK, overseeing more than 1,200 outlets.

During his time there he was credited with turning around the business in the region, by introducing a sharp focus on employee training, adding healthy options to the menu and implementing a major restaurant redesign.

The early signs of his impact on the whole business appear to be positive with improving SSS (same store sales) trends in their international operations and stabilization in the US.

Where do you see the value?

MCD is undervalued as there is significant operating leverage in the business available through efficiency improvements which will drive greater margins which when combined with improving SSS could lead to significant earnings growth over a number of years which the general market is not appreciating.

What is your target price on the stocks?

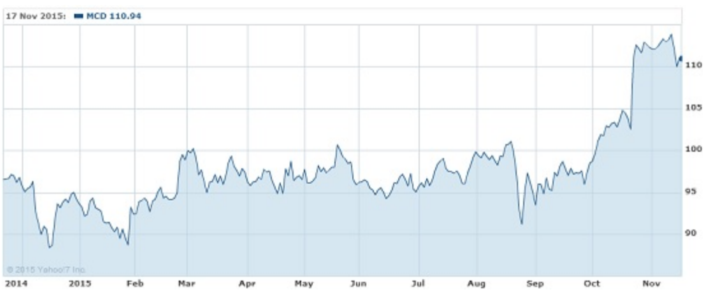
We believe that the stock could reach a price in the high $120s over the next 12 months with the potential to go higher if same store sales in the US continues to increase over time.

At what point would you sell it?

We will consider selling once valuations reflect its full potential. At this stage it is in the early stages of turning around the performance. Metrics that we follow include SSS trends, whether the high returns on invested capital is being maintained and does the company continue to reward shareholders with increased dividends and/or share buybacks.

The stock has added value increasing over 13% in the period held.

McDonald's Corporation (NYSE: MCD)



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Selling the big 4 and the corporate trustee model

by Questions of the Week

Question: I am considering selling some of my big four bank and five other big-cap high yield shares and buying into top 20 and high yielding Australian ETFs. I am thinking I will get more diversity for capital growth for the same dividend return. Is this strategy a worthwhile option? Also, I already have exposure to mid-cap shares through a LIC.I cannot find a LIC that just covers top 20 shares – do you know of any?

Answer (by Paul Rickard): It is certainly one way you can play the market. I think if you want broad based exposure, you should consider the majors Listed Investment Companies (LICs) such as Argo, AFIC, and Milton. While they invest in more than just top 20 stocks, they are pretty heavily weighted to the top part of the market and put quite a high weighting on owning major cap shares paying fully franked dividends. Argo and AFIC are trading at horrendous premiums to NTA (particularly Argo) – so I would look at Milton Corporation, which is trading very close to its NTA.

Question: Currently I have a SMSF with two individual trustees. I want to replace the two individuals as trustees with a corporate trustee (same two individuals as directors of the trustee company, and same two members). My SMSF investments consist of only shares, bank accounts and term deposits. In order to transfer my trusteeship from individuals to a corporate trustee is it just a matter of minuting the change and writing to the banks and the shareholding companies advising of the transfer of trusteeship? As such, do the bank account numbers, share reference numbers and holder identification numbers remain the same?

Answer (by Tony Negline): The banks and share registries will want to see a trustee minute showing that the trusteeship has changed. Therefore:

- The ATO must be informed;
- The share registries will charge a fee to make the change; and
- Before proceeding, check with each bank and share registry what each of their specific requirements are, as they can all be slightly different, especially with term deposits (I've heard of some very strange demands such as having to terminate one term deposit with penalties and then having to start another with a market lower rate!)

Question: Do you have an opinion on whether IFM is still a good medium to long term growth stock, and whether at current levels one should be adding more? Knowing that the Montgomery Fund is a substantial shareholder does give me confidence.

Answer (by Paul Rickard): Thanks for your question on Infomedia (IFM). Whenever a company goes through a period of friction between the CEO/Board/Shareholders, the share price drops – and that is what you have been seeing at IFM. It sounds like this is now largely over, although the stock remains relatively friendless. At around $0.76, it is trading on a reasonable multiple of 16.2 times FY16 earnings. Not bad value, however, not outstanding value.

My caution on this little micro-cap, with almost no analyst coverage is – what is going to be the catalyst to take the share price higher? It will need an institution to step in and drive it up. Perhaps the Montgomery Fund might step in.

Question: I am considering this investment for my SMSF- new issue, Australian Unity Bonds – Series B. Would appreciate your views on it. Also I am new to this sort of investment and wondering if at the end of the term you just get your capital

back?

Answer (by Paul Rickard): These are effectively floating rate notes that mature in 5 years' time and will pay interest at a margin of 2.8% over the 90 day bank bill. They are not subordinated – but they are also unsecured debt obligations.

There is, however, no higher ranking securities and also a negative pledge not to issue any higher ranking securities. Will you get your capital back? Australian Ratings has assigned Australian Unity a BBB+ rating, which means: a Credit Rating of BBB+ represents a moderate degree of creditworthiness with adequate credit attributes.

A BBB+ rating represents a good capacity to meet financial obligations in a timely manner. No one has a crystal ball, however I would say that you should have a reasonable degree of confidence that you will get your money back. As always, diversification is the name of the game to minimize specific risk.

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