WHITEFIELD

Quarterly Update

Issued February 2020

Whitefield delivered a total shareholder return of 5.7% for the quarter and 27.9% for the year to 31 December 2019.

Earnings

Whitefield's Operating Profit after Tax for the 9 months to December 2019 amounted to $13,522,946. After allowing for increases in share capital and decreases in preference share dividend costs, this translates to Earnings Per Ordinary Share of 13.6 cents, consistent with the prior year outcome (where EPS was also 13.6 cents).

While the company generated a moderate level of dividend and distribution growth from the majority of its investment holdings this was offset by cuts in dividends from NAB, Westpac, AMP and Telstra.

Investments showing stronger levels of growth across the year included Brambles, ASX, Suncorp, CSL, Macquarie Group, APA Group, Aristocrat Leisure, Medibank, QBE and ResMed.

Variable operating costs were higher as a result of the significant growth in the value of the company's investments over the year. Tax expenses also expanded with a greater percentage of unfranked income earned over this period.

FINANCIAL OUTCOMES

	9 Months to 31 Dec 19	9 Months to 31 Dec 18	% Change
Revenue[1]	16,083,999	16,012,138	0.5%
Profit[1] before Tax	14,344,685	14,498,160	(1.1%)
Income Tax Expense	(821,739)	(530,276)	55.0%
Profit[1] after Tax	13,522,946	13,967,884	(3.2%)
Earnings[1,2] Per Share	13.6cps	13.6cps	0.0%

[1] Revenue, Profit and Earnings include investment distributions and dividends but do not include movements in the value of investments or capital gains, nor do they include an abnormal gain on the reset of preference shares in the prior year.
[2] Earnings Per Share reflects Net Profit After Tax and After Preference Share Dividends per Ordinary Share and excludes the abnormal gain on the reset of preference shares in the prior year.

Dividend Outlook[a]

Whitefield expects to pay fully franked final dividends on its Ordinary and Preference shares subsequent to its financial year end which closes on 31 March 2020. Consistent with prior years, the dividends would be paid in June 2020.

At this time Whitefield expects the dividend on Ordinary shares to be at least equal to the 10.25 cent interim dividend paid in December.

[a] Investors should recognise that while this dividend outlook represents the company's expectation at the present time, no dividend is certain until declared and paid. Whitefield shall consider its income, market conditions and other relevant factors prior to finalising and declaring the next dividend.

Net Asset Backing

NET ASSET BACKING

At 31 Dec 2019	
Net Asset Backing [NAB] (Post Deferred Tax)	$443.1m
Ordinary Shares on Issue	92,411,570
Convertible Resettable Pref Shares (Face Value)	$32.1m
Net Asset Backing per Share (Pre-Deferred Tax)	$5.26
Net Asset Backing per Share (Post-Deferred Tax)	$4.79
Share Price	$5.17
(Discount)/Premium to NAB (Pre-Tax)	(1.7%)
(Discount)/Premium to NAB (Post-Tax)	7.9%

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Reliable returns through a structured and disciplined investment strategy that can be consistently applied over time.

Portfolio Return

The investment portfolio generated a nine month return of 11.4%.

As noted at last quarter-end, while the year to date investment return was particularly strong at an outright level, this return was slightly below the benchmark index (S&P/ASX200 Industrials Accumulation) outcome for the same period. The return differential from this period also lowers our return relative to benchmark when measured over 5 years.

The differential between the returns is partly attributable to the low interest rates achievable on cash we accumulate to pay our six-monthly dividends (compared to the strong market return) and partly to the differences between Whitefield and the Index's investment holding weightings.

Stronger returning stocks within the portfolio over the nine months included CSL, ResMed, Medibank, Aristocrat, Transurban, Magellan Financial, Mirvac, Cochlear, ALS, Stockland, REA, CSR, Aurizon, Woolworths, and Wesfarmers.

INVESTMENT RETURNS

At 31 December 2019	One Qtr	One Yr	Five Yr pa
Before Tax Returns			
Investment Portfolio	(0.29%)	21.08%	7.84%
Benchmark [ASX200 Ind XJIAI]	(0.29%)	22.66%	8.27%
After Tax Returns			
Net Asset Backing (Pre-Def Tax)	(0.95%)	20.96%	6.86%
Net Asset Backing (Post-Def Tax)	(0.31%)	17.07%	6.66%
Share Price	5.66%	27.93%	8.31%

Quarter Ended 31 Dec 2019	Portfolio Weight	Weighted Contribution to Performance
TOP 5 CONTRIBUTORS TO PERFORMANCE		
CSL Limited	8.68%	1.23%
Macquarie Group Limited	3.04%	0.19%
Aristocrat Leisure Limited	1.49%	0.18%
Bravura Solutions Limited	0.67%	0.13%
Xero Limited	0.59%	0.13%
TOP 5 DETRACTORS TO PERFORMANCE		
Westpac Banking Corporation	5.79%	(1.02%)
National Australia Bank Limited	4.94%	(0.76%)
ANZ Banking Group Limited	4.96%	(0.60%)
Aurizon Holdings Limited	1.29%	(0.16%)
Smartgroup Corporation Limited	0.42%	(0.15%)

During the quarter adjustments to investment exposures included:

- Increasing exposure to stocks in the Technology, Industrial, Diversified Financial and Banking sectors;
- Decreasing exposure to stocks in the Property Investment, Healthcare, Consumer Discretionary and Infrastructure sectors.

Investment Exposures

TOP TWENTY HOLDINGS

As at 31 December 2019	
Commonwealth Bank of Australia	9.78%
CSL Limited	8.68%
Westpac Banking Corporation	5.79%
ANZ Banking Group Limited	4.96%
National Australia Bank Limited	4.94%
Wesfarmers Limited	3.79%
Woolworths Group Limited	3.74%
Macquarie Group Limited	3.04%
Telstra Corporation Limited	2.93%
Transurban Group	2.23%
Sydney Airport	1.79%
Aristocrat Leisure Limited	1.49%
Goodman Group	1.49%
AGL Energy Limited	1.44%
Scentre Group	1.42%
Brambles Limited	1.30%
Aurizon Holdings Limited	1.29%
Qantas Limited	1.23%
Insurance Australia Group Limited	1.23%
QBE Insurance Group Limited	1.22%

SECTOR BREAKDOWN

As at 31 December 2019	
Commercial Banks	25.69%
Healthcare	12.67%
Industrials	11.10%
Financial Ex Banks	10.45%
Real Estate	9.18%
Consumer Discretionary	8.46%
Consumer Staple	7.72%
Communication Services	4.48%
Information Technology	3.51%
Materials	3.14%
Utilities	2.80%
Cash & Cash Equivalents	0.80%

Market Outlook

Australian and global economic conditions currently appear both mixed and uncertain.

Housing activity and some degree of employment growth are providing a level of support for the Australian consumer. This has been reflected in continued growth in the homewares, hardware, electrical goods and staples retail sectors.

In contrast there has been significant weakness in low and mid-market apparel, numerous restaurant closures and softness in other areas of discretionary spending.

These outcomes are likely to reflect:

(a) high levels of consumer caution resulting from excessive debt and house prices (the natural by-product of excessively low interest rates);

(b) a strengthening trend towards frugality, driven by low retiree incomes, an emerging consumer focus on climate risks and the associated importance of avoiding unnecessary consumption of goods and resources; and

(c) a continuing trend towards online shopping and away from marginal retailers with low competitive differentiation

Manufacturing and export industry activity has continued at moderate levels and continues to benefit from the low Australian dollar. Healthcare, government services and infrastructure activity also remain as positive contributors.

Australian economic conditions have also been affected by the combination of drought, fire and flood. The initial impact of these factors is both disruption and a loss of production in 2019 and early 2020. As the year progresses the benefits of recovery and remediation activity should become increasingly evident.

On the global front, a partial resolution of the US-China trade dispute was welcomed by investors during December. This Phase 1 "deal" however was preliminary and further progress will be needed for economies to return to a position of more open international trade.

Underlying activity in the US has remained particularly strong. Unemployment is exceptionally low and corporate profits have been firm.

Notwithstanding these positives, the spread of the Wuhan Coronavirus during January and February has rapidly become the dominant feature of the near-term economic outlook.

While the first order medical impact is significant (ease of transmission coupled with moderate severity rates and death rates), the secondary impacts from the global response to the threat are already influencing economic activity in a large way.

Heavy limitations on global travel and transport are already widespread.

While recent data suggests that containment measures have generally had some success and indicates that the virus growth rate has been steadily slowing, the risk of the virus flaring up in alternate locations will remain for some time.

The disruption that has occurred can be expected to influence the financial results of many companies and sectors across 2020. Investors and financial markets will have a preparedness to look through these short term impacts, but would become more concerned if the medium and longer term outlook was further impacted.

We would hope that by the time we report on Whitefield's full financial year end (which completes on 31 March 2020) some of these uncertainties will have been resolved.

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