

30 JUNE 2016

QUARTERLY REPORT REDPOINT INDUSTRIALS SMA

Model Portfolio performance as at 30 June 2016	1 month (%)	3 months (%)	6 months (%)	1 year (%)	Since Inception (%) ⁴
Model Portfolio return (net) ¹	-2.98	2.55	-2.15	0.14	-3.26
Benchmark return ²	-3.13	2.87	-1.10	2.18	-1.76
Active return ³	0.15	-0.32	-1.05	-2.04	-1.50

1. Redpoint Industrials Separately Managed Account (SMA) (Model Portfolio) – performance is before taxes and transaction costs, but after management fees (net return), as calculated by the MLC Investment Reporting Team.
2. S&P/ASX 100 Industrials Accumulation Index (Benchmark).
3. Active return is the difference between Model Portfolio net return and Benchmark return.
4. The Model Portfolio was established on 30 April 2015.

INVESTMENT OBJECTIVE

The Model Portfolio aims to provide a return in line with the S&P/ASX 100 Industrials Accumulation Index (Benchmark), after management fees, over rolling five-year periods. The Model Portfolio seeks to deliver the key income and growth characteristics of the Benchmark while holding less than half the companies in the Benchmark. The Model Portfolio is specifically built to capture these characteristics with low turnover.

Redpoint combines long horizon sustainable quality metrics and risk management expertise to exclude or underweight poorer rated companies. The Model Portfolio will usually hold 30 to 40 companies and aims to deliver a portfolio with low active risk relative to the Benchmark while being tilted towards companies with better quality characteristics.

PERFORMANCE COMMENTARY

For the three-month period ending 30 June 2016, the net return of the Model Portfolio was +2.55%. Over the same period, the total return of the Benchmark was +2.87%. The Model Portfolio underperformed the Benchmark by -0.32% (active return).

Over the same period, the best performing sectors in the Benchmark were Health Care (+11.32%), Utilities (+8.59%) and Consumer Discretionary (+7.05%), while the worst performing sectors were Consumer Staples (-4.03%) and Information Technology (-2.46%).

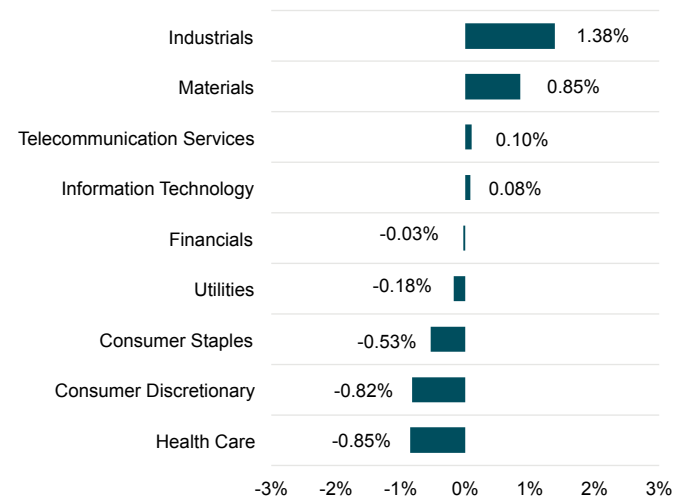
The June quarter delivered a cash yield of 1.14% for the Model Portfolio versus the Benchmark of 1.14% (on an ex-dividend basis). For the year ending 30 June 2016 (FY2016) the Model Portfolio delivered a cash yield of 5.18% versus the Benchmark of 5.06%. We estimate that an additional 1.6% of franking credits would have been earned by investors in the Model Portfolio during FY2016, resulting in a gross yield of approximately 6.8%.

“Brexit” was the quarter’s main news event as the UK population surprised most of the world (and itself) by voting to leave the European Union. The Model Portfolio performed well in the immediate aftermath of the vote, outperforming the Benchmark by +0.18% on Friday, 24 June. Value add was delivered by having no holdings in CYBG Plc, which fell by 17% on the day. Further value add was contributed via overweight positions in Navitas Ltd, Telstra Corporation Ltd and Aurizon Holdings Ltd and underweight positions in QBE Insurance Group Ltd and Westfield Corporation. These events set the Model Portfolio up to deliver a return above Benchmark in the month of June (+0.15%).

MODEL PORTFOLIO FACTS

Model Portfolio code	RISMA
Model Portfolio size (\$)	19,014,140
Number of holdings	41
Inception date	30 April 2015

SECTOR ACTIVE WEIGHTS



TOP 10 HOLDINGS

Company	Model Portfolio (%)	Benchmark (%)	Active (%)
Commonwealth Bank	12.32	11.62	0.69
Westpac Banking Corporation	9.18	8.94	0.24
Telstra Corporation Ltd	7.04	6.20	0.85
ANZ Banking Group Ltd	6.53	6.41	0.12
National Australia Bank Ltd	6.40	6.13	0.27
CSL Ltd	4.64	4.68	-0.03
Wesfarmers Ltd	4.40	4.11	0.29
Scentre Group Ltd	2.92	2.39	0.54
Woolworths Ltd	2.92	2.43	0.49
Macquarie Group Ltd	2.54	2.14	0.41

30 JUNE 2016

QUARTERLY REPORT

REDPOINT INDUSTRIALS SMA

SECTOR ATTRIBUTION

Sector	Model Portfolio Average Active Weight (%)	Sector Allocation (%)	Stock Selection (%)
Industrials	1.04	-0.03	0.14
Materials	0.72	0.00	0.10
Consumer Staples	-0.43	0.03	-0.02
Energy	0.00	0.00	0.00
Telecommunications	0.06	0.00	0.00
Information Technology	0.11	-0.01	-0.03
Utilities	-0.09	-0.01	-0.03
Health Care	-0.84	-0.06	-0.03
Financials	0.10	-0.05	-0.10
Consumer Discretionary	-0.67	-0.04	-0.18
Total	0.00	-0.17	-0.15

Note: Contributions shown here are to the active return of the Model Portfolio.
Period: 31 March 2016 to 30 June 2016.

ATTRIBUTION COMMENTARY

For the June quarter, stocks in the Benchmark held by the Model Portfolio contributed +0.71% to active return, whereas stocks in the Benchmark not held by the Model Portfolio detracted -1.03% from active return.

A returns-based attribution shows that active return is comprised of two (2) components: the sector allocations detracted -0.17% from active return, whereas stock selection within the sectors detracted -0.15% from active return.

From a sector allocation perspective, underweight positions in the Health Care and Consumer Discretionary sectors and overweight positions in the Industrials and Financials sectors detracted the most value (collectively -0.18%).

Stock selection in the Industrials and Materials sectors added the most value (+0.24% in aggregate), primarily due to overweight positions in Aurizon Holdings Ltd, CSR Ltd, Adelaide Brighton Ltd, Sydney Airport Corporation, Amcor Ltd and Transurban Group NPV and underweight positions in Orica Ltd and Seek Ltd (collectively representing +0.56% of active return).

Stock selection in the Consumer Discretionary and Financials sectors detracted the most value (-0.28% in aggregate). This was primarily caused by underweight positions in Aristocrat Leisure Ltd, Dexus Property Group, GPT Group, Vicinity Centres, Domino's Pizza Enterprises Ltd, Mirvac Group, Westfield Corporation, Iron Mountain Inc, Bendigo & Adelaide Bank Ltd, REA Group Ltd and Tabcorp Holdings Ltd (collectively representing -0.67% of active return).

Real estate investment trusts performed reasonably well over the June quarter. Being generally underweight this segment of the Financials sector was detrimental to performance.

LARGEST CONTRIBUTORS

Company	Model Portfolio Average Weight (%)	Benchmark Average Weight (%)	Contribution (%)
Aurizon Holdings Ltd	1.49	0.83	0.13
Stockland Corporation Ltd	1.93	0.97	0.12
CSR Ltd	0.76	0.16	0.12
Orica Ltd	0.00	0.47	0.09
Adelaide Brighton Ltd	1.18	0.21	0.09
Navitas Ltd	1.09	0.15	0.08
Goodman Group	2.01	1.00	0.08
Sonic Healthcare Ltd	1.25	0.76	0.06
Flight Centre Travel	0.00	0.19	0.06
Duet Group	0.92	0.44	0.06

LARGEST DETRACTORS

Company	Model Portfolio Average Weight (%)	Benchmark Average Weight (%)	Contribution (%)
Aristocrat Leisure Ltd	0.00	0.63	-0.19
Ramsay Health Care Ltd	0.00	0.79	-0.12
James Hardie Industries	0.00	0.79	-0.12
Dexus Property Group	0.00	0.75	-0.11
Cochlear Ltd	0.00	0.58	-0.10
Henderson Group Plc	0.69	0.27	-0.09
GPT Group	0.00	0.85	-0.08
Lend Lease Group	1.37	0.63	-0.08
Incitec Pivot	0.10	0.49	-0.07
Vicinity Centres	0.00	0.97	-0.07

Note: Contributions shown here are to the active return of the Model Portfolio.
Period: 31 March 2016 to 30 June 2016.

POSITION CHANGES

The Model Portfolio currently holds 41 of the 89 companies in the Benchmark universe.

Turnover for the Model Portfolio continues to be relatively low. There were no holdings changes to the Model Portfolio in May and June. However, there was a single rebalance of the Model Portfolio in April. As discussed in our April report, those trades included: taking up new positions in Cimic Group Ltd and CSR Ltd; increasing exposure to AGL Energy Ltd and Navitas Ltd; selling completely out of CYBG Plc (acquired from National Australia Bank Ltd demerger) and Incitec Pivot Ltd; and decreasing exposure to QBE Insurance Group Ltd and Westfield Corporation.

There will be additions/deletions to the Benchmark in September, which may prompt a rebalance of the Model Portfolio at that time.

30 JUNE 2016

QUARTERLY REPORT

REDPOINT INDUSTRIALS SMA

DIVIDEND INCOME

A key characteristic of the Model Portfolio is its focus on capturing the key income and growth drivers of the Benchmark over the longer term in a low turnover, risk managed portfolio. To deliver this outcome we utilise a combination of risk management and long horizon quality metrics to select a diversified set of companies that we wish to hold for the longer term.

Dividend income expectations for the Model Portfolio for FY2017 are currently estimated at 5.0% versus the Benchmark at 4.9%. A level of franking credits similar to FY2016 is expected to be attached to this income. Focusing more closely on the September quarter, the Model Portfolio is expected to deliver a cash dividend yield, based on current ex-dividend date forecasts, of about 1.3%.

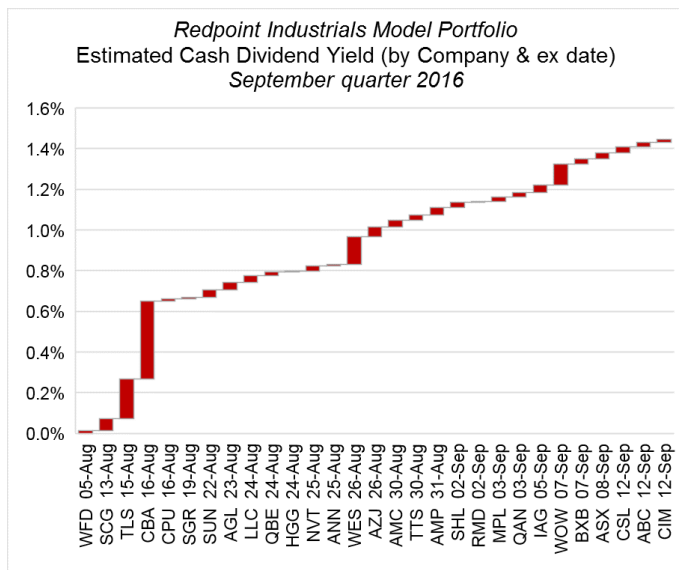
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Source: Redpoint, Bloomberg

It is expected that 29 of the Model Portfolio's current holdings will deliver dividends in the September quarter, with the largest dollar amounts coming from holdings in Telstra Corporation Ltd (15 August), Commonwealth Bank of Australia (16 August), Wesfarmers Ltd (26 August) and Woolworths Ltd (7 September). The ex-dividend dates are based on estimates derived from previous years and are subject to change depending on the exact timing of each company's results announcement. This information is shown graphically in the chart above.

The December quarter is expected to deliver a similar dividend yield driven mainly by dividends from the other major banks: ANZ Banking Group, Westpac Banking Corporation and National Australia Bank.

IMPORTANT NOTICE

Navigator Australia Ltd (ABN 45 006 302 987) (AFSL 236466) (NAL), the Responsible Entity of and the issuer of units in the Redpoint Industrials Separately Managed Account (SMA) (Model Portfolio), is a fully owned subsidiary within the National Australia Bank Limited (NAB) group of companies (NAB Group). An investment in the Model Portfolio does not represent a deposit with or a liability of NAB nor any of its related bodies corporate and is subject to investment risk including possible delays in repayment and loss of income and capital invested. None of NAB, NAL, or any other NAB Group company nor Redpoint Investment Management Pty Ltd (AFSL 411671) guarantees the capital value, payment of income or performance of the Model Portfolio. Neither NAB, NAL or any other NAB Group company is in any way responsible for and does not guarantee the quality or accuracy of any information provided by third parties. To the maximum extent permitted by law, neither NAB, NAL or any other NAB Group company will be liable to any party in contract, tort (including for negligence) or otherwise for any loss or damage arising either directly or indirectly from reliance on, the use of or inability to use any third party information. The SMA Product Disclosure Statement (PDS) for the Model Portfolio is available by calling the Client Services Team on 1300-738-355 or visit www.nabam.com.au. You should obtain a PDS for the Model Portfolio issued by NAL and consider it before making any decision about whether to acquire or continue to hold the product. Any information in this document is general advice and has been prepared without taking account of your personal objectives, financial situation or needs. Because of this you should, before acting on any information in this communication, consider whether it is appropriate to your personal objectives, financial situation and needs. We recommend investors obtain financial advice specific to their situation. Past performance is not a reliable indicator of future performance. Returns are not guaranteed and actual returns may vary from any target returns described in this document.