

Breaking Barriers

Last month saw markets break through key psychological barriers – with the ASX200 cracking the elusive 5,000 level for the first time since April 2010, and the US Dow Jones passing 14,000 for the first time since October 2007.

News flow was incrementally more positive in the past month:

- Labour statistics showed monthly job gains in the US running at 200,000 on average over the past 3 months;
- US manufacturing activity expanded for a second month in a row;
- European banks repaid some funds borrowed under the European Central Bank's Long Term Refinancing Operation (LTRO);
- Australia's employment figures were better than expected, with the unemployment rate steady at 5.4%;
- And reporting season in Australia was not as bad as feared.

Equities experienced a minor setback during the month after Italy's elections failed to deliver any clear winner, creating uncertainty over the path of policy reforms to address its fiscal position. In our view, while this may create some short-term headwinds, we believe that the European Central Bank's Outright Monetary Transactions program announced last year does provide a back stop and reduces the probability of a full blown crisis occurring.



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Market Performance

| | Feb-13 | Jan-13 | 1 MTH | YEAR TO DATE |
|----------------------|----------|----------|-------|--------------|
| ASX20 | 3,162 | 3,009 | 5.1% | 10.3% |
| ASX200 | 5,104 | 4,879 | 4.6% | 9.8% |
| ASX200 Accum | 41,067 | 38,974 | 5.4% | 10.6% |
| S&P500 | 1,515 | 1,498 | 1.1% | 6.2% |
| MSCI World - ex Aus | 1,405 | 1,407 | -0.1% | 4.8% |
| AUDUSD | 1.022 | 1.042 | -1.9% | -1.6% |
| Oil (WTI) | 91.76 | 97.38 | -5.8% | 0.0% |
| Spot Gold | 1,579.60 | 1,663.49 | -5.0% | -5.7% |
| AUS CASH RATE (%) | 3.00 | 3.00 | 0bp | 0bp |
| AUS 10Y BOND YLD (%) | 3.35 | 3.46 | -11bp | 8bp |
| US 10Y BOND YLD (%) | 1.89 | 1.98 | -10bp | 13bp |

Source: IRESS, MSWM Research. Closing prices as at 31 January 2013 and 28 February 2013

ASX20 Stock Performance – Top 5 and Bottom 5

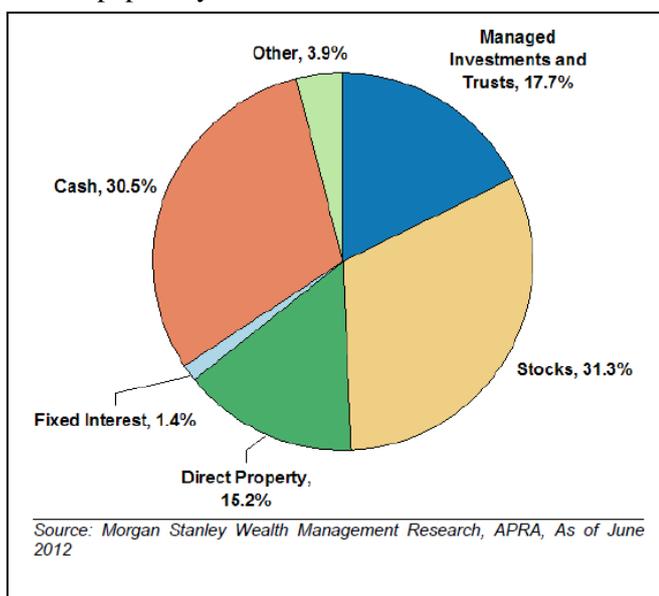
| | Close Price | Return (mth) | Close Price | Return (mth) |
|--------------|-------------|--------------|-----------------|----------------|
| Top 5 | | | Bottom 5 | |
| QBE | \$ 13.38 | 12.2% | NCM | \$ 22.66 -3.2% |
| STO | \$ 13.41 | 12.1% | MQG | \$ 37.72 -2.0% |
| WOW | \$ 34.93 | 11.8% | ORG | \$ 12.17 -1.4% |
| WES | \$ 41.03 | 11.2% | BHP | \$ 37.07 -1.1% |
| NAB | \$ 30.20 | 10.4% | RIO | \$ 67.05 1.0% |

Source: IRESS, MSWM Research. Prices as at 28 February 2013

SMSFs in Australia – Missing the boat?

Our research team recently looked into how SMSFs across Australia are currently invested and found a couple interesting points.

The amount of assets within self managed super funds over the last decade has risen significantly. Total SMSF assets are now 30% of total super assets. We note many reasons for their popularity.



The aggregate asset allocation of SMSFs is relatively overweight cash and underweight equities and fixed income. Industry funds prefer a greater weighting to alternatives and direct property while retail funds prefer fixed interest.

| Asset Class | SMSF | Industry | Retail | Total |
|------------------------------|------|----------|--------|-------|
| Equities | 43% | 53% | 53% | 53% |
| Fixed Interest | 3% | 12% | 20% | 14% |
| Cash | 32% | 5% | 14% | 9% |
| Direct Property/Alternatives | 22% | 29% | 13% | 24% |

Source: Morgan Stanley Wealth Management Research. As of June 2012

The implication here is that SMSF trustees (relative to professional fund managers or Superannuation funds) are either more risk averse than the average investor or they are overestimating the relative attractiveness of cash to other asset classes.

Fixed Income Activity

As many of you are aware, two new series of fixed income investments are about to come to the market, Westpac CPS (WBCPD) and National Bank CPS (NABPA) both Hybrids. For those that participated in previous floats of the listed notes last year (i.e. ANZ, Colonial, National Bank, AGL listed notes, etc.), might note that a number of them are trading ABOVE their issued price of \$100. What is interesting is that we would expect maybe \$1 or even \$1.50 premium, but not \$3 or \$4 dollars in some cases.

Although this does not really impact the majority of investors (as these are floating rate securities and over time adjust anyways to their fair value), it presented an interesting opportunity for those who participated in the float of these listed notes to ‘roll over’ into one or both of the recent issuance of Hybrids (also at placement pricing at \$100) as they were able to capture the unwarranted premium sitting there at the moment for themselves.

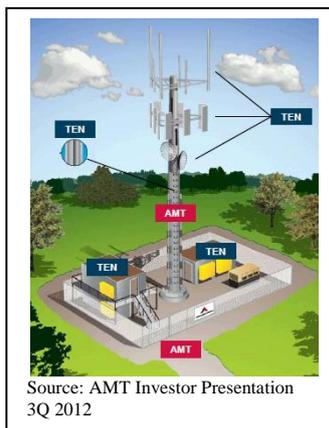
New Investments We Like

JPMorgan Chase (Citi Research Recommendation: Price Target: \$53, Market Cap: \$181 billion). Overall we see JPM as among the most attractively valued banks (globally) in its space given their industry leading franchises, strong management team, and underappreciated long-term earnings power.

With over 50% of US households with a (JPM) Chase relationship, 80% of Fortune 500 companies as clients and No.1 ranking in Global Investment Banking Fees, we think they are a clear way to play the “global economy recovery” theme which we are currently seeing.

American Tower (MS Research Recommendation: Price Target: \$85, Market Cap: \$30 billion)

One of the world’s leading independent owners of telecommunications infrastructure with approximately 98% of income generated from leasing of properties to the wireless communications network (i.e. AT&T, Sprint, Verizon, T-Mobile and EM companies). Management plans to double the business over the next five years. During the call, management discussed plans to build 2,000 to 3,000 sites per year. Internationally, Brazil is 2-5 years behind the US, while others such as Ghana and India are 6-10 years behind, driving sustained long-term growth.



We are tapping into the move from land line to wireless & like the EM exposure without the sovereign corporate risk.

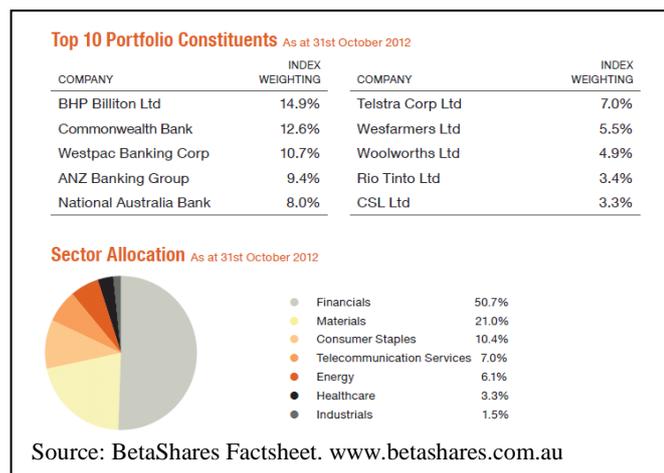
NewsCorp (MS Research Recommendation: Price Target: \$32; Market Cap: \$64 billion) A recent addition to Morgan Stanley's "Best Idea" list, we see a number of catalysts that could drive this stock further which include:

- Spinoff of less desirable "Newspaper" assets leaving a clean core business in well-positioned high margin cable TV assets globally.
- Strong cash flow and existing cash of \$14bn able to support further share buybacks (we estimate as much as 6% of shares which is effectively the yield to existing shareholders).
- Strong valuation of the company relative to lesser performing broadcasting peers simply re-affirms their valuation to us.

ASX20 Yield Maximiser: This ETF strategy aims to provide investors with exposure to the ASX20 (biggest 20 stocks on the market) which will provide the income and capital appreciation from the underlying basket in addition to generating additional income by utilising a conservative 'covered call' options strategy. This additional income can be generated by selling away (over short time periods, usually 1 month) some of the potential upside capital appreciation of the basket of the stocks. It is estimated for example (in normal market conditions) that the basket of stocks would need to appreciate more than 3-7% in a month before you begin to underperform the basket.

This strategy aims to outperform in a 'Down', 'Sideways' or modestly 'Up' market, and only underperform in a strong Bull or 'Up' market.

For those underweight banks, this is a great alternative in our view for yield and market performance.



New ASX200 Market Targets - 5500

Year-to-date the Australian market has rallied 9%, piercing the 5000 level, and reaching our index target for 2013 (see Scoop of December 12, 2012, "The 2013 Outlook: Rebound Continued")!

Looking ahead, positives for the market include attractive valuation, a further 50bps of RBA rate cuts, depressed sentiment, low equity issuance, multi-decade high cash weightings, an inflection point in earnings and the upcoming election.

- In our base case- moderate US growth and China continues to recover- we foresee a further 9% upside (13% total return).
- In the bear case where a US fiscal deadlock hits growth, further global liquidity injections and a more aggressive RBA limit downside to ~15%.
- The bull case- US growth accelerates in 2H13 and a strong China recovery- produces a 25% return. Weighting these scenarios, we see a 9% return (13% total return) pushing the ASX200 to ~5500.

Warm regards,

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STRATEGY CHANGES

| COMPANY | SECTOR | REASON | ACTION |
|----------------|----------------|--|--------|
| JPMorgan | Financials | International Equity Portfolio: A global bank (almost 2x the Market Cap of Commonwealth Bank). Attractive valuation, leverage to global recovery | Added |
| American Tower | Telco/REIT | International Equity Portfolio: A global wireless infrastructure provider. Leverage towards move away from fixed line services to wireless (both in US and Emerging Markets) | Added |
| YMAX | Financials/ETF | ASX20 Yield Maximiser Exchange Traded Fund: leverage towards rising equity markets with a conservative buy/write strategy overlay. | Added |
| NewsCorp | Media | Domestic Equity Portfolio: A first class paid TV provider with attractive short term catalysts. | Added |

OUR SELECTION PROCESS

- The stocks selected seek to be profitable today with high Return on Invested Capital (ROIC), high gross margins and low capital intensity.
- High profitability that seeks to be sustainable for the long term, with the support of powerful intangible assets such as strong brands, products or services with high barriers to entry.
- The companies must have high quality management teams committed to maintaining the high returns through focused investment and innovation with careful stewardship of capital.

OUR BENCHMARKS

- ASX200
- Morningstar Balanced
- MSCI Global

TEAM PROFILE

David Leon (Investment Adviser) is a Certified Portfolio Manager® from the School of Engineering and Applied Science from Columbia University, New York, USA. David primarily advises Family Offices, Medical Professionals and Corporate boards within the Aged Care Sector. David began his finance career working as an analyst for a boutique investment banking firm in Chicago that executed underwritings and placements for state and local government entities. While still working in Chicago, he was invited to join UBS as a private client adviser and financial planner. In early 2007, David and his Australian wife moved closer to her family in Australia. David was recruited by Goldman Sachs where he held the title of Director. David graduated with honours from Northwestern University in Chicago, has an Advanced Diploma of Financial Planning, is an ASIC Accredited Derivatives Adviser and is licensed to trade equities, globally. David is also a Governor of the American Chamber of Commerce.

Geoff Smith (Strategic Financial Planner) is a Certified Financial Planner® with over 25 years of experience in Financial Planning and Investment Advice. Prior to joining Morgan Stanley Wealth Management, Geoff was a leading Financial Adviser and principal of Adelaide based financial advisory firm Prescott Securities. In addition to this experience Geoff holds a Diploma of Financial Planning and a Diploma with the Australian Insurance Institute. Geoff specialises in providing quality strategic and investment advice and portfolio wealth management both to individuals and to tax exempt organisations.

Jawad Ahmad (Financial Planner) is a Certified Financial Planner® and has been in the financial service industry since 2006. He has a strong technical background and has vast experience in holistic financial advice. Prior to joining Morgan Stanley Wealth Management, Jawad worked as a Financial Planner and Para planner with Godfrey Pembroke based in Adelaide. He holds a Bachelor of Finance (University of Adelaide), is an ASIC accredited Derivatives planner and has a Graduate Diploma in Global Wealth Management (University of Adelaide) for which he was awarded the most distinguished graduate award in 2007.

Please contact your financial advisers to obtain a copy of the full research reports listed or refer to our website at www.morganstanley.com.au.

Research sourced from:

1. Private Wealth Manager, “SMSF Asset Allocation” – Morgan Stanley Research, 27 February 2013
2. American Tower Corp - Morgan Stanley Research – 26 February 2013
3. JP Morgan Chase & Co – CITI Research – 27 February 2013
4. NewsCorp – Morgan Stanley Research – 28 January 2013
5. Scoop, “The 2013 Outlook: Rally Extended” – Morgan Stanley Wealth Management Research, 26 February 2013

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