WEALTH
WEEKEND EDITION | Edited by Andrew Main

TIM BOREHAM
CRITERION

Knowing WES from WESN

Wesfarmers (WES) $42.94 **Wesfarmers part protected (WESN)** $43.18

WITH the local bourse again trying to push past the 5000-point level, it's worth keeping a weather eye on the interplay between the Wesfarmers head stock and its listed cousin, devised as a clumsy way of making the 2007 Coles takeover more palatable to Coles investors.

The WESNs, which account for 13 per cent of Wesfarmers' listed capital, must be converted to ordinary WES shares by November 7, 2015, with WESN holders receiving bonus WES shares if the WESes are trading below $43.11 at the time.

The bonus entitlement ranges from 0.25 WES shares (for every WESN share) if the WES shares are trading at $34.49 (on a two-month volume-weighted basis) to a mere 0.0026 shares if the WESes average out at $43. If the WES shares are above $43.11 the shares are simply exchanged on a one-for-one basis.

Just to complicate things, there's another mechanism by which the WESNs are automatically converted before the lapse date: that's if the shares trade above $23.11 for 20 consecutive sessions.

This week the WESes poked their head above this magic level, hitting an all-time high (adjusted for capital raisings).

If the market continues to head north and with 2½ years to go until D-day, there's a high chance this requirement will be met and WESN holders will be converted at no additional value. This is good for WES holders, as the company does not need to issue dilutive equity.

What if the market — and WESes — tank? That's where the original concept of WESNs as an insurance policy kicks in.

With reducing prospects of a bonus issue, the premium between WESN and WES shares has reduced from a mid-2012 peak of $1.70 to a couple of cents.

Given that, in our view it's worth choosing WESNs over WESes, bearing in mind that both share classes have the same attached dividend and voting rights. Just think of the WESNs as a Coles insurance offer without the naff red cars.

But for existing WES holders it's probably not worth the bother to switch, especially if capital gains are unleashed.

Alchemia (ACL) 42.5c

"UP to" is a valuable qualifier when it comes to company announcements, such as the biotech's disclosure of a big pharma collaboration deal worth "up to" $240 million.

The deal involves Astra Zenica using Alchemia's small-molecule platform (called VAST) to derive possible treatments for an omnibus of ailments including cancer, respiratory and cardiovascular ailments.

If the program is an astounding success the $240m trickles in across 10 years or so.

The much likelier scenario is that Alchemia receives modest milestone payments, with bigger ones back-ended to later years based on clinical trials and approvals.

The only certain payment is an unquantified upfront amount, believed to be in the six figures.

The news was enough to spike the battered Alchemia's shares by "up to" 7 per cent on Tuesday's announcement.

At the very least, the VAST platform has been a side play to Alchemia's advanced cancer program and its Fondaparinux drug-thinning drug.

In short, the tie-up may come to nothing but it hasn't cost anything and won't do any harm.

We retain the stock as a **spec buy** ahead of a cancer trial update later this year, but don't expect a reprise of the failed oncology spin-off — pulled last December — in a hurry.

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Investors hungry for agriculture

And Australian assets are looking tasty, says a BlackRock expert

ANDREW MAIN

STUART McEVOY

Desmond Cheung, who co-manages BlackRock's World Agriculture Fund, addresses the recent Global Food Forum in Melbourne

GLOBAL investors are circling to get involved in Australian agricultural assets, whether or not local institutions are there, says Desmond Cheung.

Mr Cheung should know: he and his colleague Richard Davis are the portfolio managers for BlackRock's London-based World Agriculture Fund, which is part of the BlackRock global natural resources fund, founded in 2007.

And it's worth noting a memorable quote from BlackRock founder Larry Fink, from a visit to Australia in 2011. He said agricultural and water investments would be the best performers over the next 10 years: "Go long agriculture and water and go to the beach," said Mr Fink, whose overall operation has more than $3.5 trillion under management.

Even with a mere $330 million to play with, the World Agriculture Fund is one of the biggest such investors in the world and Mr Cheung concluded it was worth coming to Melbourne last week to express his views at the Global Food Forum.

Mr Cheung made it clear that there are many options available to international investors to get set in Australia, besides buying farm freeholds outright, and that the prospect of global food inflation would see them all examined in the coming years.

"Over the last few years, what we have experienced from 2007, despite the financial crisis in between, is that there is no sign of interest in investing in agriculture globally subsiding," he said.

"The investors that we have encountered will be coming from the likes of sovereign wealth funds and very, very big-ticket investors, all the way down to a lot of individual investors."

He said they would be "not necessarily high net worth individuals, but also retail investors wanting to get exposure to agriculture".

Mr Cheung said there were two reasons for the scramble.

"First of all, they look at agricultural investment as a way to hedge against inflation and it is particularly important in a world when they see food price inflation as a key component in the debate about why inflation is something that they would worry about in the future," he said.

The second reason was what he and others call "a wall of money" looking for a home in agricultural investments worldwide. "People are generally understanding the fact that the world is under a lot of challenge in order to meet the growing demand for food around the world," he said. "So that's why there needs to be investment in the supply side in the agriculture sector."

His central point is that there must be a wide variety of ways for big-league capital to invest. "I've started to see more and more business models emerging in the agriculture sector, from very, very traditional businesses running a farm from the freehold title, all the way to giving exposure to the crop produce itself, to very innovative structures," he said.

"For example, now we have real estate investment trusts in the US that give investor exposure to a stream of rental income on the farm, and so on.

"So what we have witnessed over the last couple of years is that if the farming sector is willing to take a step forward and come up with innovative business models, there will be different investors looking at whether they want to have exposure to rental income, land price appreciation, the technology improvements in the farming sector, and so on.

"And the capital market is there to fund these developments.

"So I'm actually quite positive in the fact that a growing need for capital is going to be met as long as we have the right corporate sector to cope with it."

Mr Cheung said there was a strong counter-cyclical benefit to be had from investing in Australia. "What North American companies actually want or like about Australia is that, in terms of seasonality, it is counter-cyclical to what they have in their part of the world," he told a panel discussion at the food forum.

"And one very important component is the fact that Australia's proximity to the end market, which has growing demand, is something of very, very high attraction to a lot of the global companies. So I would say that, in terms of that advantage, Australia's definitely in the right place."

His fund has a benchmark of 1.1 per cent for Australasia, compared with 59.5 per cent for the US and Canada, and is currently significantly below its Australasian benchmark at 0.4 per cent.

In other words, it could almost triple its exposure to Australasia and not be overweight.

BlackRock fund's top stocks

AGRIUM	Fertiliser	US
ARCHER-DANIELS MIDLAND	Agribusiness	US
BUNGE	Agribusiness	US
JOHN DEERE	Agricultural equipment	US
INDOFOOD AGRI RESOURCES	Edible oil	Singapore
MONSANTO	Agricultural science	US
MOSAIC	Fertiliser	US
POTASH CORP	Fertiliser	Canada
SYNGENTA	Agricultural science	Switzerland
WILMAR INTERNATIONAL	Edible oil	Singapore

Source: BlackRock

Don't leave a mess for your children to squabble over

Simple strategies can go bad when your circumstances change

ROBERT MACLEAN

ESTATE planning is about the legacy you leave behind and who gets what but, very important and often forgotten, it is also about creating the last memory of you.

Often families are broken apart fighting over the estates of parents and the deceased's memory is forever tainted by the mess they left with the beneficiaries.

On the technical side, when you die you cease to exist legally and hence cannot own anything. Your will is the legal document to pass your assets to those you choose. For some this may be simple and they get it right and the process is smooth. For others, even with a simple life, they get this horribly wrong, leaving family to fight through lawyers, and sometimes the courts, to divide up a diminishing sum.

While there are a lot of technical facts with the way a will has to be drafted, witnessed and executed, what is not often understood is that the will deals only with assets you own in your own name.

In the case of complicated asset structures such as superannuation and family trusts, the legal owner of the assets is the trustee of the trust, not you personally.

Superannuation, along with the family home, is the main asset of many Australians. As the assets of the superannuation fund are legally owned by the trustee, your will cannot distribute the assets in your super fund.

On your death, unless you have made a legal Binding Death Benefit Nomination to the fund, the ultimate decision as to where the superannuation monies are paid is decided by the trustee.

This can be a good or bad thing. In most cases, trustees of large super funds tend to avoid controversy and will likely pay it to your estate for distribution. The problem is your estate is governed by your will, which can be easily challenged, and this may not be the outcome you or your loved ones want.

Likewise, if a couple owns a house jointly, the ownership can be done in several ways and the various ways are treated differently in your will. The default in NSW is Tenants in Common, which means each party owns half the property and on death this half is dealt with by the will. This may be what is desired.

However, if a couple wants to leave the house to each other and there is a challenge to the will, half the house is up for grabs.

The other common ownership method is Joint Tenancy, which passes the deceased person's interest to the surviving party, usually the spouse, bypassing the will. The same occurs for a joint bank account, where on the death of one party their interest in the bank account passes to the surviving party, usually the spouse.

While this all sounds relatively straightforward, it often isn't. The first mistake many people make is they never review their estate plan and it drifts from reasonably meeting their needs to being totally inadequate when life moves on. Kids come along, marriages sometimes move on, and we create assets, wealth and sometimes liabilities as well as complex family environments.

These simple strategies can go bad when circumstances change. Consider this scenario: A couple purchases a house in joint names. A few years later they divorce, but do not finalise their financials. One spouse dies. As a result, the total house transfers to the former spouse, potentially leaving nothing in the estate.

As blended families are more common, simple strategies may give you the wrong result.

For those with more complex affairs, such as self-managed super and family trusts, special care is needed because your will does not address the assets held in trust. And there are many complications that need investigation.

Often, people say they'll leave it to the kids to squabble over. This usually happens because it all becomes too complicated and they don't know how to manage it.

Estate planning is about determining what outcome you want, and what outcome you don't want. Can the outcome be reasonably executed? Is there someone who can or is likely to challenge the plan? As a result of this thinking, decide if you need to revisit what you're doing.

Remember, leaving your kids to squabble will leave a lasting memory that you left a mess. The beneficiary of a good plan is your loved ones and your legacy.

Robert MacLean is chief executive of Equitas Wealth, a privately owned boutique wealth management practice

PRODUCT WATCH

The Principal Global Credit Opportunities Fund

WHAT IT IS: It's a global fixed-income fund designed for Australian investors seeking access to a diversified, multi-sector portfolio designed to achieve a relatively high total return and to provide regular income.

WHAT IT DOES: It is actively managed by a US-based manager (Principal is a US-based organisation with offices in Sydney) that seeks the best sectors for investment opportunities and then within the sectors to the most attractive high-yielding securities to generate the potential for both income and capital appreciation. It uses active hedging to manage risks. Investments denominated in foreign currencies are hedged into Australian dollars.

WHAT IT COSTS: Management charges 0.80 per cent a year of the net asset value of the fund. It has a Minimum investment of $500,000.

WHAT WE LIKE: During last month, the fund outperformed the Barclays Global Aggregate Corporate Index, after fees. Fund performance was driven by positive sector allocation and security selection during the month. Duration positioning also contributed positively.

WHAT WE DISLIKE: The entire fixed-interest sector looks set to underperform this year versus global equities, but you have to be diversified. You should have some weighting in fixed-interest and this one is at least outperforming. Most mortals, meanwhile, can only get aboard via a platform.

ANDREW MAIN

THE COACH

QUESTION: In relation to the 45-day rule on franking credits, do you have to own the shares for 45 days before the ex-dividend date?

ANSWER: You are entitled to claim a franking tax offset on a dividend provided you own the shares for at least 45 days.

You must continuously own the shares for 45 days excluding the day of purchase or sale. The holding period begins on the day after purchase. The relevant date for dividends is the day after the ex-dividend date. The ex-dividend date is the last day you can acquire shares with a right to a dividend.

Even though a dividend statement will be issued to you noting an entitlement to a franking credit, if you don't satisfy the above test you are not entitled to use the franking credits.

Under small shareholder exemptions, this rule does not apply if your total franking credit entitlement is less than $5000. This is roughly equivalent to receiving a fully franked dividend of $11,666. Note this concession applies only to individuals. There is no exemption for self-managed super funds, companies or trusts

The ex-dividend date is the last day you can acquire shares with a right to a dividend

The ATO has provided a worked example on their website: Matthew acquired a single parcel of shares on March 1, 2012. On April 8, 2012, Matthew received fully franked dividends of $13,066 (which included franking credits of $5600) for the 2011-12 income year. On April 10, 2012, Matthew sold that parcel of shares. Because he had not held the shares for at least 45 days and did not qualify for the small shareholder exemption, he failed the holding period test and cannot obtain the benefit of the franking credits.

Matthew would show a dividend of $13,066 as a franked amount on his 2012 tax return, but would not show the amount of franking credits. He would not receive a franking tax offset in his assessment. That is, he is not entitled to any part of the $5600 franking credits.

ANDREW HEAVEN

ONLINE: Visit the Wealth section at www.theaustralian.com.au to send your questions, which will be answered by Andrew Heaven, an AMP financial planner at WealthPartners Financial Solutions
Follow Andrew on Twitter: @andrewheavenFP

Strong clinical results in cancer treatment give Sirtex confidence ahead of worldwide trial

ROGER MONTGOMERY

The chiefs of the healthcare firm have done a great job

SIRTEX Medical Limited (SRX) is an Australian-based oncology healthcare company that researches, manufactures and distributes a small particle liver-cancer treatment called SIR-Spheres.

SIR-Spheres have a shelf life of three days and their core advantage as a treatment is their capacity to apply a high dose of localised radiation to liver tumours without the side effects of most other treatments. The Spheres, which are one-third of the diameter of a strand of hair, are delivered to the liver via the hepatic artery.

Sirtex non-executive chairman Richard Hill and chief executive Gilman Wong have done a great job, and volumes of SIR-Spheres have grown for nine consecutive years. For the year to June this year, we expect 7250 doses to be sold at an average selling price of $13,800 per dose, giving Sirtex a revenue line of $100m. Gross margins exceed 80 per cent.

Over the 2010-2015 period, Sirtex will have invested $60m in clinical studies designed to deliver level-one clinical evidence. While four of the studies are less than 50 per cent penetrated in terms of study size recruitment, SIRFLOX patient recruitment has recently been completed.

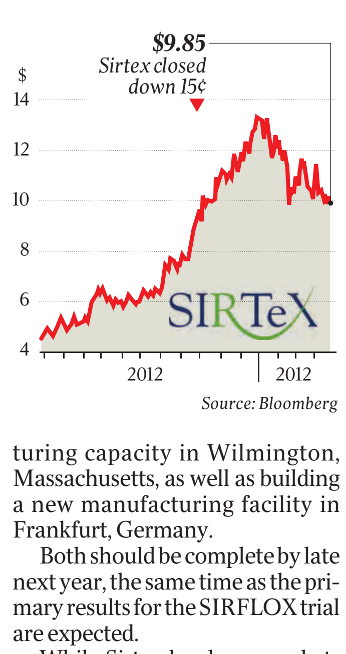
A randomised controlled trial of SIR-Spheres microspheres in patients with metastatic colorectal cancer (mCRC) is being conducted by SIRFLOX across 100 leading hospitals globally. The study aims to evaluate whether a first-line treatment strategy of using the current standard-of-care chemotherapy plus SIR-Spheres microspheres is more effective than chemotherapy alone in patients with inoperable liver metastases from primary colorectal (bowel) cancer.

In June last year, the results of a small, 20-patient study were published in the American Journal of Clinical Oncology.

The use of SIR-Spheres in combination with chemotherapy saw tumours that were 60 per cent smaller six to eight months after treatment, compared with patients who received chemotherapy only.

This must have given the board of directors enormous confidence.

They have committed to tripling the company's US manufacturing capacity in Wilmington, Massachusetts, as well as building a new manufacturing facility in Frankfurt, Germany.



Source: Bloomberg

Both should be complete by late next year, the same time as the primary results for the SIRFLOX trial are expected.

While Sirtex has been marketing SIR-Spheres microspheres for more than a decade, the crucial question now is whether the treatment, including selective internal radiation therapy (SIRT) will be elevated by clinicians from late-stage (so-called "salvage") patients to a first-line treatment option.

They have committed to tripling the company's US manufacturing capacity in Massachusetts

A very impressive piece of analysis from Craig Collie of Macquarie Equities Research, which surveyed about 10 per cent of radiation oncologists globally, is highly supportive of this concept. Collie confirmed that with 1 per cent of the secondary liver cancer treatment market, the opportunities for Sirtex appeared "very underpenetrated".

Last year saw the price of Sirtex Medical Limited nearly triple to $13 a share.

This year the share price has retreated to $10. With 55.8 million shares on issue, Sirtex has a market capitalisation of $558m and, with net cash on hand at December 31 last year of $51m, it has an enterprise value of $507m.

The medium to longer-term aspiration is that strong clinical outcomes from the various trials currently being conducted would lead to improved awareness and greater education among oncologists. If this transition is successful, it is conceivable that the growth and broader penetration of the company's treatments could eventually lead to a potential revenue line of $350m-$400m, maintenance of 80 per cent gross margins, and voila: a net profit of $100m.

There are, however, two parts to an attractive investment. The first is the quality of the business and its prospects. Tick.

The second is the price and, with consensus full-year 2013 net profit forecast at $18m and a prospective PE of 31 times, Sirtex looks far from cheap. Of course, if profits grow to $100m, the prospective PE is less than six times.

The Montgomery Fund is a shareholder of Sirtex Medical. Roger Montgomery is the founder of Montgomery Investment Management and the author of Value.able: How to Value the Best Stocks and Buy Them for Less Than They're Worth, available at www.rogermontgomery.com.