

# PERPETUAL INDUSTRIAL SHARE

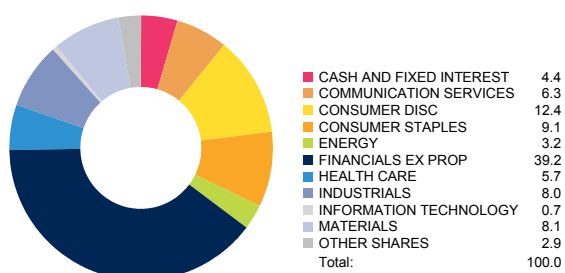
October 2018

## FUND FACTS

**Investment objective:** Aims to provide long-term capital growth and regular income through investment in quality industrial shares. The fund aims to outperform the S&P/ASX 300 Industrials Accumulation Index (before fees and taxes) over rolling three-year periods.

**Benchmark:** S&P/ASX 300 Industrial Accum. Index  
**Inception Date:** May 1995  
**Size of Portfolio:** \$600.73 million as at 30 Sep 2018  
**APIR:** PER0028AU  
**Management Fee:** 1.98%\*  
**Investment style:** Active, fundamental, bottom-up, value  
**Suggested minimum investment period:** Five years or longer

## PORTFOLIO SECTORS



## TOP 10 STOCK HOLDINGS

Stock Holding	% of Portfolio
Commonwealth Bank of Australia	10.2%
Woolworths Group Ltd	7.6%
Westpac Banking Corporation	6.5%
ANZ Banking Group Ltd.	5.3%
Suncorp Group Limited	5.3%
Tabcorp Holdings Limited	4.4%
Star Entertainment Group Limited	4.3%
National Australia Bank Limited	4.1%
Shire PLC	3.7%
Medibank Private Ltd.	3.4%

## NET PERFORMANCE - periods ending 31 October 2018

	Fund	Benchmark #	Excess
1 month	-4.79	-6.06	+1.27
3 months	-5.72	-5.95	+0.23
FYTD	-4.38	-4.42	+0.05
1 year	-2.27	0.22	-2.49
2 year p.a.	4.45	7.25	-2.80
3 year p.a.	3.36	6.41	-3.05
4 year p.a.	2.90	5.94	-3.05
5 year p.a.	3.75	6.62	-2.87
7 year p.a.	9.34	11.88	-2.54
10 year p.a.	8.47	9.93	-1.46

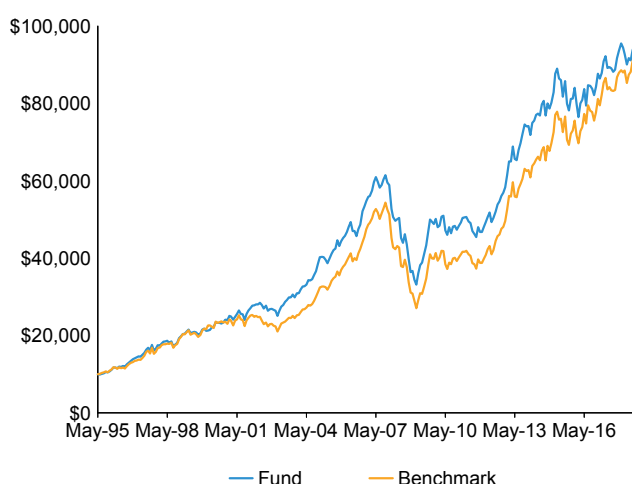
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

## PORTFOLIO FUNDAMENTALS

	Portfolio	Benchmark
Price / Earnings	13.7	15.3
Dividend Yield	5.5%	5.0%
Price / Book	1.2	1.8
Debt / Equity	38.6%	51.1%
Interest cover	8.0	8.8
Return on Equity	11.0%	12.2%

\* source Factset

## GROWTH OF \$10,000 SINCE INCEPTION



\*Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

## MARKET COMMENTARY

The Australian equity market, as measured by the S&P/ASX 300 Industrials Accumulation index, fell 6.1% over the month. The sell-off was in line with a broader decline across global markets as increasing interest rates and apprehension of a slowdown in global growth took its toll on equities. Prevailing trade tensions between the US and China further incited uncertainty as the Trump Government suggested imposing tariffs on all remaining Chinese import goods if a resolution was unable to be reached. The official interest rate in Australia was left on hold at 1.5%, as expected, though the Reserve Bank of Australia cited strengthening conditions as the unemployment rate fell sharply to 5.0% from 5.3%, while employment numbers increased by 5,600 positions (yet missing consensus of a +15,000 increase). Retail sales figures released in October saw a 0.3% rise in August, led by department stores and clothes/footwear sales. Business and consumer confidence were similarly reported as improving. The latest national accounts confirmed that the Australian economy grew strongly over the past year, with GDP increasing by 3.4%. Third-quarter headline CPI rose 0.4% quarter-on-quarter, falling just short of a +0.5% consensus, though still broadly in line with the Reserve Bank's year-on-year forecast. The Australian dollar fell in trade-weighted terms (down 0.5%), losing the most against the Japanese yen (-2.1%) and the US dollar (-2.1%).

The best performing sectors for the month, as measured from the S&P/ASX 300 Industrials Accumulation Index, were Real Estate (-3.8%), Utilities (-4.0%) and Consumer Staples (-4.9%). The worst performers were Information Technology (-11.4%), Consumer Discretionary (-8.3%), and Communication Services (-7.4%). As a whole, industrial stocks (-6.1%) outperformed resource stocks (-6.5%) and large cap stocks (-5.4%) outperformed small cap stocks (-9.6%). Value stocks (-5.6%) outperformed growth stocks (-5.7%) as measured from the MSCI Australia Value and MSCI Australia Growth indices, respectively.

## PORTFOLIO COMMENTARY

The Fund's largest overweight positions include diversified retailer Woolworths, casino operator Star Entertainment Group, and banking, insurance and superannuation provider Suncorp Group. The Fund's largest underweight positions include CSL, Wesfarmers (not held) and Macquarie Group (not held).

The overweight position in diversified retailer Woolworths (+1.2%) contributed to relative performance. The stock closed higher on anticipation that Woolworths were coming closer to offloading their non-core assets including their pubs and liquor, and petrol businesses. Market optimism of Woolworths' FY19 first-quarter trading results (to be released on November 1st) further assisted the stock in outperforming over the month.

The overweight position in biopharmaceutical company Shire Plc (+1.3%) contributed to relative performance. The stock climbed upon news that Takeda Pharmaceutical had received unconditional clearance from the Japan Fair Trade Commission for their proposed acquisition of Shire. Takeda has now received regulatory approval from authorities in the US, Brazil, and China for the proposed acquisition. The takeover, however, remains subject to shareholder approval from both companies as well as from EU regulators.

Not holding Transurban Group (+1.1%) detracted from relative performance. The stock outperformed on the back of the release of their September-quarter operational update, reporting a 3.3% increase in traffic, with growth across all markets. The finalisation of their acquisition in a 51% stake in the Sydney WestConnex project, funded via a \$4.8b equity raising, further assisted the stock over the month.

The overweight position in casino operator Star Entertainment Group (-8.7%) detracted from relative performance. The stock fell following a report that Star's proposed intention to develop a \$500m hotel and residential project in Sydney, under the Ritz Carlton brand, has been delayed by one year from its originally planned commencement date during 2021. The project has yet to be granted approval from the NSW planning commission. The fund continues to hold the stock as it is attractively valued with an experienced management team and solid cash-flow conversion.

## OUTLOOK

A period of historically low interest rates across the globe has led to a repricing of risk and a subsequent inflation of asset values across many markets. With trillions of dollars of bonds now trading at low yields, future shifts in official interest rates have the potential to heavily impact asset valuations which has left market participants to remain focused on central bank policy. In addition, ongoing shifts in the global political landscape continue to nourish uncertainty across markets and deliver periods of heightened volatility. The Australian share market remains challenging for investors; with only modest revenue growth forecasts and cost-out opportunities becoming exhausted. We remain cautious – particularly given where valuations are currently at, relative to history. However, there are always opportunities to own high-quality companies trading below fair value; we continue to actively and prudently seek these out.

# Benchmark prior to 1/4/2000 was the ASX All Industrials Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX 300 Industrials Accumulation Index.

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The PDS for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in that fund. The PDS can be obtained by calling 1800 022 033 or visiting our website [www.perpetual.com.au](http://www.perpetual.com.au) (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries).

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## MORE INFORMATION

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