

PERPETUAL SMALLER COMPANIES

September 2018

FUND FACTS

Investment objective: Aims to provide long-term capital growth and income through investment in quality Australian industrial and resource shares which, when first acquired, do not rank in the S&P/ASX 50 Index.

FUND BENEFITS

Provides investors with the potential to benefit from the growth of quality smaller or emerging companies, through active management by one of Australia's most experienced investment management teams.

Benchmark: S&P/ASX Small Ordinaries Accum. Index

Inception Date: May 1995

Size of Portfolio: \$392.27 million as at 30 Sep 2018

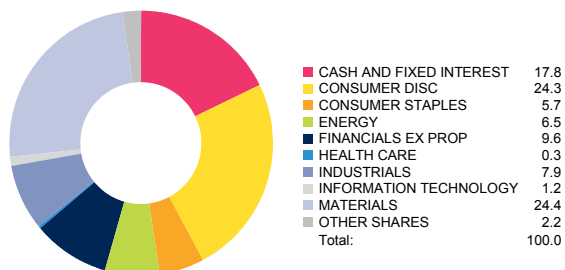
APIR: PER0039AU

Management Fee: 1.98%*

Investment style: Active, fundamental, bottom-up, value

Suggested minimum investment period: Five years or longer

PORTFOLIO SECTORS



TOP 5 STOCK HOLDINGS

Company	% of Portfolio
Brickworks Ltd	5.4%
Mineral Resources Limited	4.9%
HT&E Ltd	3.8%
Bega Cheese Limited	3.5%
New Hope Corporation Limited	3.4%

NET PERFORMANCE - periods ending 30 September 2018

	Fund	Benchmark #	Excess
1 month	-1.25	-0.35	-0.90
3 months	1.46	1.10	+0.35
FYTD	1.46	1.10	+0.35
1 year	7.91	20.32	-12.41
2 year p.a.	7.29	11.31	-4.02
3 year p.a.	11.25	16.97	-5.71
4 year p.a.	8.99	11.07	-2.08
5 year p.a.	8.20	8.75	-0.55
7 year p.a.	11.48	6.96	+4.52
10 year p.a.	9.17	4.78	+4.40

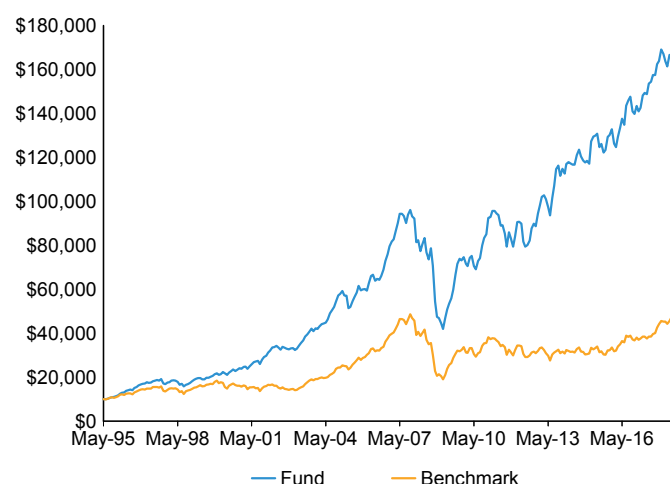
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS

	Portfolio	Benchmark
Price / Earnings	13.8	17.6
Dividend Yield	3.9%	3.5%
Price / Book	1.4	1.9
Debt / Equity	19.2%	27.9%
Interest cover	11.5	9.9
Return on Equity	9.7%	11.4%

* 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 S&P/ASX Small Ordinaries Accumulation Index rose 1.1% over the September quarter. Full-year corporate earnings were reported at the beginning of the quarter as internationally-focussed stocks stood out on the back of strengthening global economic conditions. Commodity prices were mixed over the quarter. Base metals struggled as the London Metals Exchange Index fell 6.5%. Iron ore, however, rallied 7.3% on rising Chinese steel prices. Crude oil continued to rise on supply concerns surrounding US sanctions against Iran and OPEC failing to loosen supply constraints. Coking coal was flat over the quarter (down 0.5%) as the introduction of unofficial restrictions on coal imports by China reversed earlier gains.

Malcolm Turnbull's loss of party support led to heightened risk sentiment although this was short lived as a leadership spill saw Scott Morrison being appointed Australia's 30th Prime Minister. Continued dry weather conditions and a broader realisation of the severity of the drought on the east coast further constrained agricultural stocks. The Reserve Bank of Australia kept the official cash rate on hold at its record low of 1.5%, maintaining a neutral stance on monetary policy with no change to forward guidance and remaining upbeat with respect to global and domestic economic conditions. Second-quarter GDP climbed 0.9%, and by 3.4% year-on-year, demonstrating the highest year-on-year growth since the third quarter of 2012. The greatest contributors to growth came from household consumption, government spending and net exports.

The best performing sectors for the month, as measured by the S&P/ASX Small Ordinaries Accumulation Index, were Energy (+18.3%), Information Technology (+16.8%) and Health Care (+7.9%). The worst performers were Materials (-15.6%), Consumer Staples (-6.7%) and Utilities (-2.2%). As a whole, small cap industrial stocks (+3.4%) outperformed small cap resource stocks (-6.7%), and value stocks (+2.2%) outperformed growth stocks (+0.9%) as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include building products manufacturer Brickworks Ltd., mining services company Mineral Resources Ltd., and Australia and New Zealand media and online publishing company HT&E Ltd. The Fund's largest underweight positions include WorleyParsons Ltd. (not held), Altium (not held) and Washington Soul Pattinson & Co.

The overweight position in coal miner New Hope Corporation (+32.1%) contributed to relative performance. The stock rallied on the back of its full-year financial result as the company reported statutory net profit after tax at the upper end of its guidance at A\$149.5m, and revenue of \$1.08b vs consensus of \$1.05b. The stock was further assisted by the purchase of an additional 40% interest in Wesfarmers' Bengalla thermal coal mine joint venture for A\$860m. The purchase brings New Hope's share in the mine to ~80%.

The overweight position in Australia and New Zealand media and online publishing company HT&E (+20.7%) contributed to relative performance. The stock rose following the release of strong half-year financial results, reporting revenue from continuing operations of \$137m (up 10%), group EBITDA up 28% to \$30.4m, and net profit after tax from continuing operations of \$13.5m (up from \$8.6m on the prior year). The stock price further benefitted during the quarter from the ACCC approval of oOh! Media's proposed acquisition of their Adshel business as well as JCDecaux's purchase of HT&E's APN Outdoor business.

The overweight position in integrated infrastructure and engineering company RCR Tomlinson (-52.4%) detracted from relative performance. The stock fell sharply upon release of a disappointing full-year financial result. Despite generating a 58% rise in revenue to \$2.0b, underlying EBIT was recorded at -\$4.2m and NPAT at -\$16.1m. The loss was mainly attributed to \$57m of impairment charges relating to cost overruns at RCR's Daydream and Hayman solar farms. A heavily discounted debt capital raising was also announced to overcome the write-down, which was further taken adversely by the market. The fund continues to hold the stock due to its current favourable valuation.

Not holding payment solutions developer Afterpay Touch Group Ltd. (+92.0%) detracted from relative performance. The stock rallied following a trading update by the company, reporting June quarter underlying sales of A\$736m, up 171% year-on-year and up 39% quarter-on-quarter. Full FY2018 sales were also reported as increasing 289% on FY2017 to A\$2.18b. The sales growth was largely attributed to the significant increase in retailers and service providers signing up to the Afterpay service.

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 have 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 Small Ordinaries Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX Small Ordinaries 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 (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries).

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