

# PERPETUAL SMALLER COMPANIES

December 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:** \$346.32 million as at 31 Dec 2018

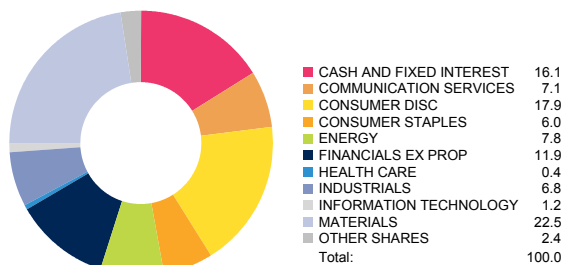
**APIR:** PER0039AU

**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

	% of Portfolio
Mineral Resources Limited	5.5%
Star Entertainment Group Limited	4.8%
Brickworks Ltd	4.3%
AUB Group Limited	4.2%
NIB Holdings Ltd	3.4%

## NET PERFORMANCE - periods ending 31 December 2018

	Fund	Benchmark #	Excess
1 month	-0.93	-4.18	+3.25
3 months	-10.29	-13.70	+3.41
FYTD	-8.98	-12.75	+3.76
1 year	-9.79	-8.67	-1.12
2 year p.a.	3.12	4.70	-1.58
3 year p.a.	4.72	7.45	-2.73
4 year p.a.	6.52	8.12	-1.60
5 year p.a.	5.84	5.62	+0.22
7 year p.a.	9.77	4.82	+4.95
10 year p.a.	12.51	6.87	+5.64

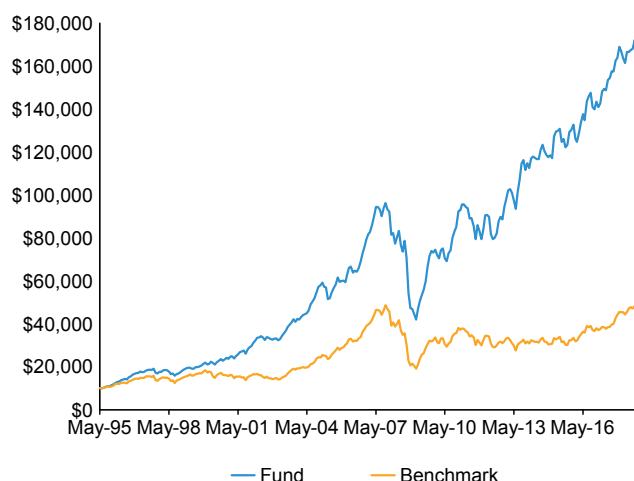
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

## PORTFOLIO FUNDAMENTALS

	Portfolio	Benchmark
Price / Earnings	12.7	15.1
Dividend Yield	4.5%	4.2%
Price / Book	1.3	1.6
Debt / Equity	22.8%	29.5%
Interest cover	11.0	9.6
Return on Equity	9.8%	11.5%

\* source Factset

## GROWTH OF \$10,000 SINCE INCEPTION



## MARKET COMMENTARY

The Australian equity market, as measured by the S&P/ASX Small Ordinaries Accumulation Index, fell 13.7% over the December quarter. The sell-off was in line with a broader decline across global markets as increasing interest rates and apprehension of a slowdown in economic growth took its toll on equities. Uncertainty of a Brexit deal, and ongoing US-China trade tensions further quelled market sentiment. Discretionary retail sales figures were stagnant and related stocks lost ground due to anticipation that Christmas sales will fail to meet expectations. Resource stocks were mixed over the quarter, energy stocks lost ground as oil prices slumped on concerns of reduced demand from a slowdown in global economic growth and from increased OPEC supply. This saw crude oil fall 40.6% from its peak reached in October. Base metals weakened as the London Metals Exchange index fell 6.5%, however iron ore gained 5.1% on rising Chinese steel prices. Gold miners witnessed a strong quarter as gold rallied 7.5% on the back of risk-off selling across equity markets.

In economic news, the latest national accounts confirmed that the Australian economy grew strongly over the past year, with GDP increasing by 3.4%, however the most recent employment figures showed a slight softening to a 5.1% unemployment rate. The Commonwealth Treasury's Mid-Year Economic and Fiscal Outlook provided an improved 2019/20 budget surplus forecast from A\$2.2b to A\$4.1b, along with net debt expected to decline from 18.2% as a percentage of GDP in 2018/19 to 1.5% in 2028/29. The best performing sectors for the quarter, as measured by the S&P/ASX Small Ordinaries Accumulation Index, were Real Estate (+1.7%), Materials (-6.1%), and Consumer Staples (-6.6%). The worst performers were Energy (-28.9%), Industrials (-23.6%) and Communication Services (-21.3%). As a whole, small cap industrial stocks (-13.4%) outperformed small cap resource stocks (-14.5%), and value stocks (-11.1%) outperformed growth stocks (-13.4%) as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

## PORTFOLIO COMMENTARY

The Fund's largest overweight positions include equity-based risk management, advice and solutions provider AUB Group, casino operator Star Entertainment Group, and diversified mining services and commodities producer Mineral Resources Ltd. The Fund's largest underweight positions include Washington H. Soul Pattinson & Co., Altium Ltd., and St. Barbara Ltd., all of which are not held in the fund.

The overweight position in gold mining company Evolution Mining (+39.2%) contributed to relative performance. The stock rallied as regulatory approval was received by Evolution to commence a new exploration project at their Cowal gold operation in New South Wales. The approval will also allow Evolution to perform further drilling at the recently discovered Dalwhinnie lode. The project is expected to lead to new discoveries and will expand the company's existing resource. Drilling is anticipated to commence during the March quarter of 2019.

The underweight position in engineering services provider WorleyParsons (-44.5%) contributed to relative performance. The stock fell on the back of the completion of a 1 for 1.47 accelerated non-renounceable pro-rata institutional entitlement offer to raise \$1.8b at \$15.56 per share. The capital raising will be used to fund part of their acquisition of the engineering, chemicals and resources division of Jacobs Engineering Group. The US\$3.3b acquisition will be financed from \$2.6b in cash and from \$700m in WorleyParsons ordinary shares.

The overweight position in engineering firm RCR Tomlinson (-100%) detracted from relative performance. The loss in value came as the company unexpectedly went into voluntary administration, as a result of failure to secure additional funding to complete their solar farm projects. This was despite a capital raising completed in August to address cost overruns and to provide additional working capital in excess of anticipated requirements.

Not holding gold mining company St. Barbara (+34.7%) detracted from relative performance. The stock strengthened upon release of the company's September-quarter activities report, showing consolidated gold production of 98,547oz. The consolidated all-in sustaining cost for the quarter was A\$919/oz, with an average realised gold price of A\$1,681/oz, leading to multiple analysts upgrading their outlook on the stock. Rising gold prices (gaining +7.5%) and a weakening Australian dollar further assisted the stock price.

## 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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## MORE INFORMATION

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