

Wholesale Funds

PERPETUAL WHOLESAL INDUSTRIAL SHARE FUND

November 2018

FUND FACTS

Investment objective: Aims to provide long-term capital growth and regular income through investment in quality industrial shares.

FUND BENEFITS

Provides investors with the potential for capital growth and consistent, tax effective income through the active management of quality industrial shares. Investors have been benefitting from this strategy since 1966.

Benchmark: S&P/ASX 300 Industrial Accum. Index

Inception Date: December 1996

Size of Portfolio: \$1,955.19 million as at 30 Sep 2018

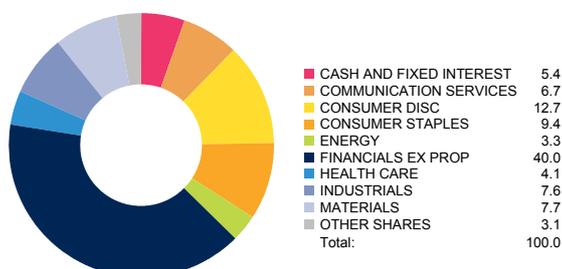
APIR: PER0046AU

Management Fee: 0.99%*

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	11.0%
Woolworths Group Ltd	8.0%
Westpac Banking Corporation	6.7%
ANZ Banking Group Ltd.	5.8%
Suncorp Group Limited	5.3%
Tabcorp Holdings Limited	4.2%
National Australia Bank Limited	4.2%
Star Entertainment Group Limited	4.2%
Medibank Private Ltd.	3.3%
Incitec Pivot Limited	2.9%

NET PERFORMANCE - periods ending 30 November 2018

	Fund	Benchmark #	Excess
1 month	-2.31	-1.07	-1.25
3 months	-8.40	-9.56	+1.16
FYTD	-6.26	-5.44	-0.82
1 year	-5.57	-2.19	-3.38
2 year p.a.	2.92	5.24	-2.32
3 year p.a.	3.56	5.61	-2.05
4 year p.a.	3.81	6.18	-2.37
5 year p.a.	4.52	6.58	-2.06
7 year p.a.	10.56	12.06	-1.50
10 year p.a.	10.29	10.71	-0.42
Since incep.	9.82	8.93	+0.89

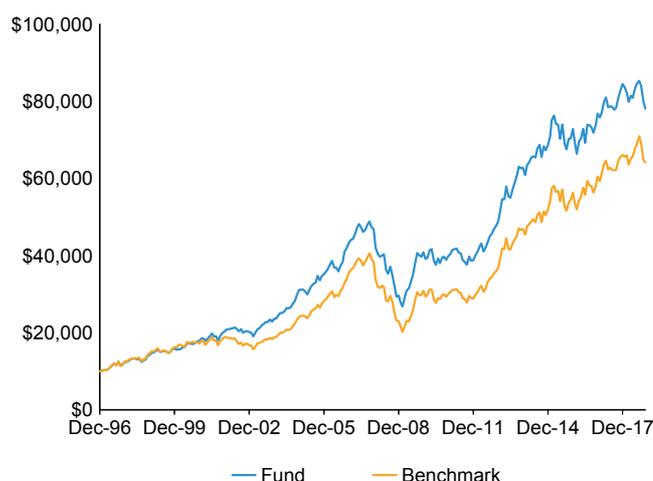
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS

	Portfolio	Benchmark
Price / Earnings	13.4	15.3
Dividend Yield	5.7%	5.0%
Price / Book	1.2	1.8
Debt / Equity	38.0%	52.7%
Interest cover	7.1	8.5
Return on Equity	10.7%	12.3%

* 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 300 Industrials Accumulation index continued its decline over November, ending 1.1% lower despite the release of mostly positive economic data during the month. Employment figures showed a 32,800 gain in positions over October while the participation rate also rose conservatively to maintain the unemployment rate at its six-year low of 5.0%. Consumer confidence rose, however business confidence fell slightly. The wage price index increased 0.6% over the September quarter spurred by a higher-than-expected minimum wage rate. Retail sales figures were stagnant, with clothing and footwear being the greatest drag, falling 1.2%, however cafes and restaurants (+0.5%), and food sales (+0.4%) strengthened over the month of September. National housing prices fell 0.7% in November, leading to a 4.1% year-on-year decline, with Sydney experiencing its greatest year-on-year drop since 1981 at -8.1%. Third-quarter construction work and private capital expenditure also fell 2.8% and 0.5% quarter-on-quarter, respectively. The Reserve Bank of Australia continued to maintain the official interest rate at 1.5%, signalling employment and inflation targets could be achieved sooner than expected as GDP Growth in 2018 and 2019 is now expected to reach 3.50%. The Australian dollar rallied against most of its major trading partners, gaining 3.3% against both the US dollar and the Euro and by 2.3% in trade-weighted terms.

The best performing sectors for the month, as measured from the S&P/ASX 300 Industrials Accumulation Index, were Financials (+1.4%), Information Technology (+1.0%) and Industrials (-0.6%). The worst performers were, Materials (-4.3%), Health Care (-4.0%) and Consumer Discretionary (-3.8%). As a whole, large cap industrial stocks (-1.3%) underperformed small cap industrial stocks (+0.8%) and value stocks (+0.3%) outperformed growth stocks 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 underweight position in biopharmaceutical company CSL (-5.6%) contributed to relative performance. The stock underperformed the benchmark on the back of a \$250m block sale trade, despite the absence of any trading updates by the company. Market apprehensions surrounding growth stocks and bearishness sentiment over the outlook of the stock further attributed to the sell-off over the month, despite the company recently reaffirmed guidance for FY2019 profit growth of between 10-14%.

Not holding property and infrastructure developer Lendlease Group (-28.1%) contributed to relative performance. The stock fell after the company announced that it is likely to report a \$350 after-tax write-down for the first-half of FY2019 resulting from financial underperformance across their Australian Engineering and Services Business. The underperformance was attributed to a decline in productivity for a small number of their projects, wet weather, access issues and from an increase in remedial work.

The overweight position in building materials manufacturer Fletcher Building (-19.7%) detracted from relative performance. The stock fell upon an earnings update at the company's AGM, downgrading first-half earnings due to emerging challenges in the Australian property market. FY19 Guidance was reported at NZ\$630-680m (missing consensus of NZ\$693.7m), attributed to an outage at their Golden Bay Cement plant, the slowdown in the residential housing market and from a reduction in land development earnings.

The overweight position in health insurer Medibank Private (-13.3%) detracted from relative performance. The stock sold off after the company advised that their tender for renewal of their Australian Defence Force (Garrison Health Services) contract was unsuccessful. The operating profit from the contract in FY18 was reported at approximately \$30m, and exit costs are expected to be in the order of \$5m over the second half of FY2019. We continue to hold Medibank based on its attractive balance sheet, defensive revenue stream and high barriers to entry.

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 (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries).

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MORE INFORMATION

Adviser Services 1800 062 725

Investor Services 1800 022 033

Email investments@perpetual.com.au

www.perpetual.com.au

