Wholesale Funds

PERPETUAL WHOLESALE CONCENTRATED EQUITY FUND

November 2018

FUND FACTS

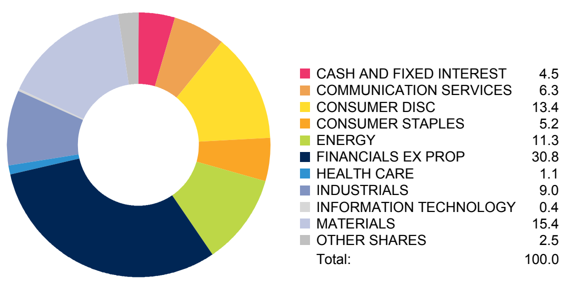
Investment objective: Aims to provide long-term capital growth and income through investment in quality industrial and resource shares.

FUND BENEFITS

Provides investors with higher potential returns, through the active management of a portfolio of fewer stocks but with higher conviction, than our core Australian equity funds. This concentration may lead to increased short term volatility.

Benchmark: S&P/ASX 300 Accum. Index
Inception Date: August 1999
Size of Portfolio: $927.16 million as at 30 Sep 2018
APIR: PER0102AU
Management Fee: 1.10%*
Investment style: Active, fundamental, bottom-up, value
Suggested minimum investment period: Five years or longer

PORTFOLIO SECTORS



TOP 10 STOCK HOLDINGS

	% of Portfolio
Commonwealth Bank of Australia	8.0%
Westpac Banking Corporation	6.5%
Tabcorp Holdings Limited	6.1%
Suncorp Group Limited	5.2%
ANZ Banking Group Ltd.	4.5%
Oil Search Limited	4.5%
Woolworths Group Ltd	4.3%
Viva Energy Group Ltd.	3.6%
Medibank Private Ltd.	3.5%
BHP Group Limited	3.4%

NET PERFORMANCE - periods ending 30 November 2018

	Fund	Benchmark #	Excess
1 month	-2.23	-2.18	-0.05
3 months	-8.62	-9.29	+0.68
FYTD	-6.28	-6.82	+0.54
1 year	-2.18	-1.03	-1.14
2 year p.a.	5.67	6.53	-0.86
3 year p.a.	6.01	7.69	-1.68
4 year p.a.	4.91	6.27	-1.36
5 year p.a.	5.11	5.82	-0.71
7 year p.a.	9.93	9.26	+0.67
10 year p.a.	10.58	8.92	+1.65
Since incep.	10.63	7.75	+2.88

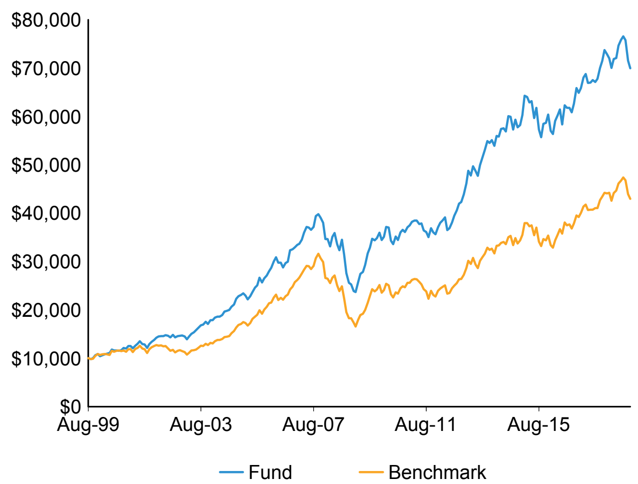
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS

	Portfolio	Benchmark
Price / Earnings	13.4	14.4
Dividend Yield	5.8%	5.1%
Price / Book	1.2	1.8
Debt / Equity	33.7%	35.8%
Interest cover	8.0	11.3
Return on Equity	10.7%	12.9%

* 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 Accumulation Index, continued its decline over November, ending 2.2% lower. The sell-off was driven largely by a decline in resource stocks, which struggled on the back of a slump in commodity prices. Both Brent and WTI crude declined over 20% due to a loosening of US sanctions on Iran, and increased production from OPEC and Russia, which saw an increase in global oil supplies. Coal prices also suffered, falling 3.3%, while iron ore dropped 13.4% on reduced demand from Chinese steelmakers. Base metals, however, ended higher with the London Metals Exchange Index gaining 1.9%.

In economic news, employment figures reported 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 Reserve Bank of Australia kept the official interest rate on hold at 1.5% yet signalled that employment and inflation targets may be reached sooner than expected. Retail sales figures were stagnant, with clothing and footwear being the greatest drag, falling 1.2%. 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 Accumulation Index, were Financials (+1.4%), Information Technology (+1.0%) and Industrials (-0.6%). The worst performers were Energy (-10.7%), Materials (-4.7%) and Health Care (-4.0%). As a whole, industrial stocks (-1.1%) outperformed resource stocks (-6.6%) and large cap stocks (-2.0%) underperformed small cap stocks (-0.4%). Value stocks (+0.3%) outperformed growth stocks (-4.8%) as measured from the MSCI Australia Value and MSCI Australia Growth indices, respectively.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include gaming services company Tabcorp Holdings, banking, insurance and superannuation provider Suncorp Group and oil and gas producer Oil Search Ltd. The Fund's largest underweight positions include CSL (not held), National Australia Bank and BHP Billiton.

The overweight position in transportation and infrastructure company Qube Holdings (+9.0%) contributed to relative performance. The stock finished higher following a positive earnings outlook presented at their AGM as management indicated expectations of a solid increase in NPATA and a return to EPS growth. The stock was further boosted on news that NSW Ports will be investing $120m into expanding their rail infrastructure at Port Botany, allowing for greater connection between Qube's Moorebank terminal and the port docks.

Not holding 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 companies recently reaffirmed guidance for FY2019 profit growth of between 10-14%.

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 plan, 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 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.

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

MORE INFORMATION

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