Wholesale Funds

PERPETUAL WHOLESALE GEARED AUSTRALIAN SHARE FUND

November 2018

FUND FACTS

Investment objective: Aims to enhance long-term capital growth through borrowing (gearing) to invest in quality industrial and resource shares.

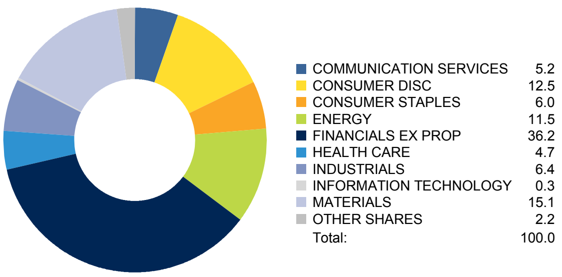
FUND BENEFITS

Offers investors broad market exposure with the potential for higher returns through the use of gearing (borrowing within the fund) and actively managed by one of Australia's most experienced investment management teams.

A geared fund has benefits over gearing into a fund because there are no margin calls, no credit checks, no need for collateral or assets as security.

Benchmark: S&P/ASX 300 Accum. Index
Inception Date: March 2003
Size of Portfolio: $596.47 million as at 30 Sep 2018
APIR: PER0071AU
Management Fee: 1.17%*
Investment style: Active, fundamental, bottom-up, value
Suggested minimum investment period: Seven years or longer

PORTFOLIO SECTORS



TOP 10 STOCK HOLDINGS

	% of Portfolio
Commonwealth Bank of Australia	10.5%
Westpac Banking Corporation	6.9%
Suncorp Group Limited	6.3%
Woolworths Group Ltd	5.1%
Tabcorp Holdings Limited	4.8%
Medibank Private Ltd.	4.5%
Telstra Corporation Limited	4.2%
BHP Group Limited	4.2%
Star Entertainment Group Limited	4.0%
Viva Energy Group Ltd.	4.0%

NET PERFORMANCE - periods ending 30 November 2018

	Fund	Benchmark #	Excess
1 month	-9.14	-2.18	-6.96
3 months	-22.35	-9.29	-13.05
FYTD	-16.17	-6.82	-9.35
1 year	-13.35	-1.03	-12.31
2 year p.a.	3.60	6.53	-2.92
3 year p.a.	4.90	7.69	-2.79
4 year p.a.	3.04	6.27	-3.23
5 year p.a.	2.23	5.82	-3.59
7 year p.a.	13.75	9.26	+4.49
10 year p.a.	14.41	8.92	+5.49
Since incep.	11.84	8.99	+2.85

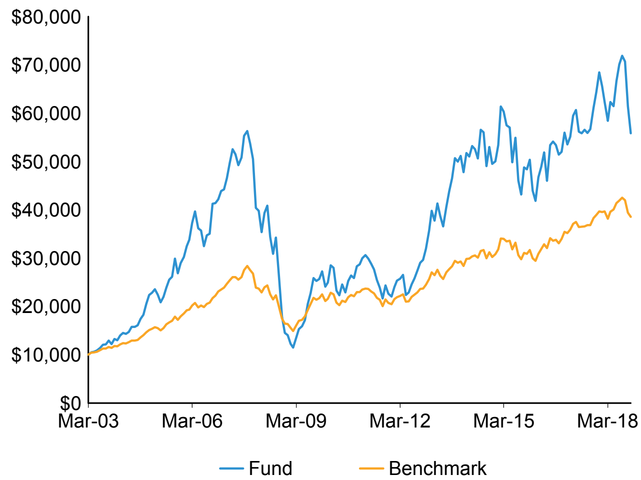
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS

	Portfolio	Benchmark
Price / Earnings	13.2	14.4
Dividend Yield	5.6%	5.1%
Price / Book	1.3	1.8
Debt / Equity	36.5%	35.8%
Interest cover	8.9	11.3
Return on Equity	11.6%	12.9%
Gearing Level	57.0%	

* 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 banking and financial services provider Commonwealth Bank of Australia, and banking, insurance and superannuation provider Suncorp Group, and wagering and gaming company Tabcorp Holdings. The Fund's largest underweight positions include CSL, Macquarie Group (not held), and Transurban Group (not held).

The overweight position in Commonwealth Bank of Australia (+2.9%) contributed to relative performance. The Stock gained ground over the month following a positive trading update, reporting revenue growth of +1% from the second half of FY2018, and cost growth 1% lower bringing pre-provision profit growth to 2%. Loan impairment expense fell 11%, and first quarter cash NPAT rose 3% to $2.50b.

The overweight position in diversified retailed Woolworths (+1.7%) contributed to relative performance. The stock climbed upon announcement that Woolworths had entered into a binding agreement to sell its 540 fuel convenience sites to British retail conglomerate EG Group for a $1.72b consideration. Terms of the sale incorporate a 15-year commercial agreement with EG that includes maintaining the existing 4-cents-a-litre fuel discounts, loyalty points scheme and supplying the petrol stations with wholesale food and groceries.

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 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.

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

Adviser Services 1800 062 725
Investor Services 1800 022 033
Email investments@perpetual.com.au
www.perpetual.com.au

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