

# PERPETUAL CONCENTRATED EQUITY

April 2019

## FUND FACTS

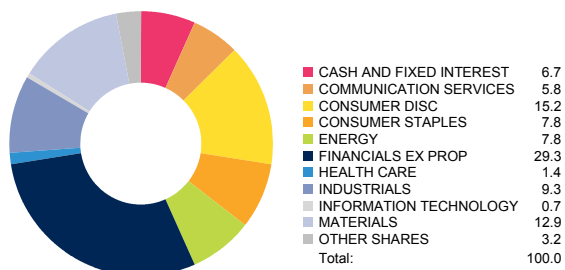
**Investment objective:** Aims to provide long-term capital growth and income through investment in quality industrial and resource shares.

## 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:** November 2003  
**Size of Portfolio:** \$5.82 million as at 31 Mar 2019  
**APIR:** PER0145AU  
**Management Fee:** 1.98%\*  
**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	7.5%
Westpac Banking Corporation	6.8%
Suncorp Group Limited	6.0%
Woolworths Group Ltd	5.6%
Tabcorp Holdings Limited	4.8%
Medibank Private Ltd.	4.1%
Crown Resorts Limited	4.0%
Fletcher Building Limited	3.7%
Viva Energy Group Ltd.	3.5%
Premier Investments Limited	3.3%

## NET PERFORMANCE - periods ending 30 April 2019

	Fund	Benchmark #	Excess
1 month	2.64	2.46	+0.18
3 months	7.78	9.41	-1.64
FYTD	3.30	5.66	-2.35
1 year	7.11	10.32	-3.22
2 year p.a.	6.04	7.99	-1.95
3 year p.a.	8.81	11.07	-2.26
4 year p.a.	5.60	6.91	-1.31
5 year p.a.	6.48	7.55	-1.07
7 year p.a.	10.55	9.96	+0.59
10 year p.a.	11.37	9.91	+1.46

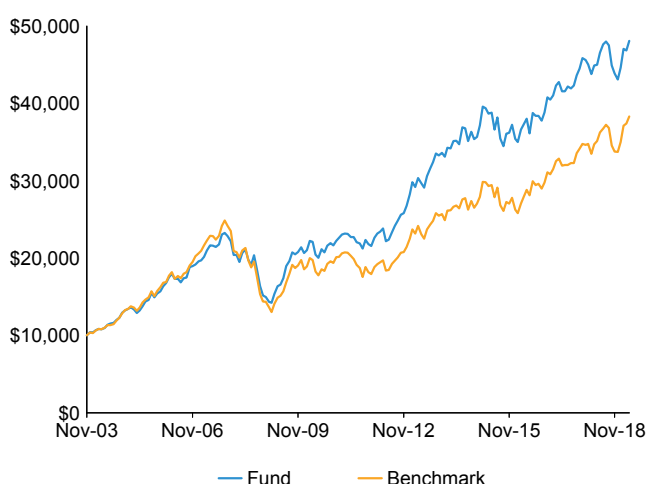
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

## PORTFOLIO FUNDAMENTALS

	Portfolio	Benchmark
Price / Earnings	14.8	15.7
Dividend Yield	5.5%	4.6%
Price / Book	1.2	1.9
Debt / Equity	35.2%	36.9%
Interest cover	8.5	11.0
Return on Equity	10.4%	13.4%

\* 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 Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, ended 2.5% higher over the month of April. The market finished stronger despite softer-than-expected economic data releases. Headline inflation was flat over the March quarter, while the annual inflation rate dropped from 1.8% in the December quarter to 1.3%, leading to heightened speculation of an interest rate cut by the Reserve Bank as soon as May. The equity market reacted positively to the speculation, while short-term Australian government bonds saw a sharp rise as yields fell by ~19-20 basis points. The jobs market added 25.7k positions in March, exceeding an expected 15k increase, however, the unemployment rate nudged slightly higher to an expected 5.0% from 4.9% in February. The Reserve Bank was cautious over the growth outlook, noting that downside risks to the global economy had increased. Market data also indicated a continuation of a housing market slowdown, while business conditions reached a multi-year low.

The Federal Budget released by the Morrison government unveiled a \$302b package of tax cuts to be rolled out over the next decade, with an expectation of achieving a budget surplus for the first time in 12 years. Commodities were mixed, with most metals selling off. Crude oil prices reached a six-month high after the US threatened to impose sanctions on nations that continue to buy oil from Iran, with Iran retaliating with threats to disrupt global oil supplies. Supply-side constraints and robust demand from Chinese steel manufacturers boosted iron ore prices by ~9.2% over the month.

The best performing sectors for the month, as measured by the S&P/ASX 300 Accumulation Index, were Information Technology (+7.4%), Consumer Staples (+7.3%) and Consumer Discretionary (+5.5%). The worst performers were Materials (-2.1%), Real Estate (-1.7%) and Utilities (-0.5%). As a whole, industrial stocks (+3.8%) outperformed resource stocks (-2.5%) and large-cap stocks (+2.1%) underperformed small-cap stocks (+4.1%). Value stocks (+1.8%) underperformed growth stocks (+2.5%) as measured by 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 casino operator Crown Resorts. The Fund's largest underweight positions include CSL (not held), BHP Group, and Macquarie Group (not held).

The overweight position in casino operator Crown Resorts (+15.5%) contributed to relative performance. The stock rallied following the announcement of a US\$7.1b non-binding preliminary takeover offer from Wynn Resorts for an implied value of \$14.75 per share in cash and shares. Despite Wynn later in the month terminating discussions concerning all transaction with Crown, the stock maintained a significant portion of its initial rally triggered by the deal.

The underweight position in diversified miner BHP Group (-2.8%) contributed to relative performance. A march-quarter trading update saw iron ore production guidance revised down by ~11Mt to between 265 and 270Mt, attributed to the combined impact of the November Pilbara train derailment and impacts from Tropical Cyclone Veronica. Coal sales were also noted as being impacted from slowing thermal sales to China.

The overweight position in petroleum producer Viva Energy Group (-9.8%) detracted from relative performance. The stock fell abruptly following a \$35m downgrade to the company's earnings on the back of the recent rise in global oil prices, which is likely to adversely impact retail fuel margins. Management stated that despite the current challenging trading environment, the company remains focussed on implementing strategies to improve retail price competitiveness and boosting sales volumes.

The overweight position in banking, insurance, and superannuation provider Suncorp Group (-3.1%) detracted from relative performance. Suncorp reduced their fixed-rate mortgages by 45 basis points to 3.49% in a move to compete with Commonwealth Bank and Westpac who recently cut fixed-term rates amidst a cooling housing market and an increasingly competitive landscape. The fund maintains its position in the stock as Suncorp continues to trade at an attractive valuation in comparison to its competitors.

## OUTLOOK

Market sentiment has moved from "synchronised global growth" to one of caution focused on the macroeconomic headwinds facing both the global and domestic economy. Globally, investors are concerned amongst other things by the slowing growth rates in China, geopolitical risks including the impact of trade wars and tightening central bank liquidity. Domestically, the economy and consumer are facing additional headwinds from falling property prices, a significant East Coast drought and ongoing elevated utility costs. These headwinds and potential risks have been very well telegraphed by the investment community and Australian media. The timing and severity of any potential downturn in the economy, if there is in fact one, is difficult to predict. Given that we are looking a little longer term than the next results we try to look through cycles when making investment decisions. What is important though is investing in companies with a robust balance sheet, strong market position and a dynamic management team with proper incentives which will put us in good stead.

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# 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.  
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## MORE INFORMATION

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