

PERPETUAL GEARED AUSTRALIAN

October 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: May 2004

Size of Portfolio: \$3.18 million as at 30 Sep 2018

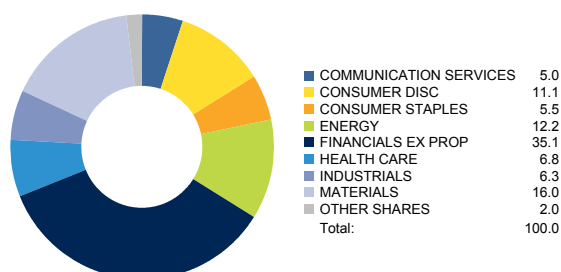
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Management Fee: 1.98%*

Investment style: Active, fundamental, bottom-up, value

Suggested minimum investment period: Seven years or longer

PORTFOLIO SECTORS



TOP 10 STOCK HOLDINGS

Stock Holding	% of Portfolio
Commonwealth Bank of Australia	9.3%
Westpac Banking Corporation	6.4%
Suncorp Group Limited	5.8%
Tabcorp Holdings Limited	4.8%
BHP Billiton Limited	4.7%
Medibank Private Ltd.	4.6%
Woolworths Group Ltd	4.6%
Incitec Pivot Limited	4.3%
Telstra Corporation Limited	3.9%
Viva Energy Group Ltd.	3.9%

NET PERFORMANCE - periods ending 31 October 2018

	Fund	Benchmark #	Excess
1 month	-12.74	-6.16	-6.58
3 months	-12.35	-5.98	-6.38
FYTD	-5.92	-4.75	-1.17
1 year	2.60	2.88	-0.28
2 year p.a.	11.24	9.20	+2.03
3 year p.a.	10.31	8.24	+2.07
4 year p.a.	6.39	5.98	+0.41
5 year p.a.	6.48	6.00	+0.48
7 year p.a.	16.66	9.06	+7.60
10 year p.a.	15.82	8.46	+7.36

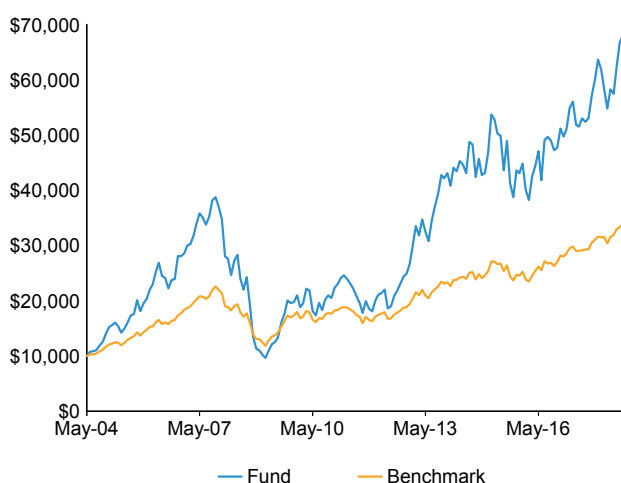
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS

	Portfolio	Benchmark
Price / Earnings	13.5	14.6
Dividend Yield	5.2%	4.9%
Price / Book	1.4	1.8
Debt / Equity	35.5%	34.3%
Interest cover	9.8	11.5
Return on Equity	11.9%	12.8%
Gearing Level	56.9%	

* source Factset

GROWTH OF \$10,000 SINCE INCEPTION



MARKET COMMENTARY

The Australian equity market, as measured by the S&P/ASX 300 Accumulation index, fell 6.2% over the month. The sell-off was in line with a broader decline across global markets as increasing interest rates and apprehension of a slowdown in global growth took its toll on equities. Prevailing trade tensions between the US and China further incited uncertainty as the Trump Government suggested imposing tariffs on all remaining Chinese import goods if a resolution was unable to be reached. The official interest rate in Australia was left on hold at 1.5%, as expected, though the Reserve Bank of Australia cited strengthening conditions as the unemployment rate fell sharply to 5.0% from 5.3%, while employment numbers increased by 5,600 positions (yet missing consensus of a +15,000 increase). Retail sales figures released in October saw a 0.3% rise in August, led by department stores and clothes/footwear sales. Business and consumer confidence were similarly reported as improving. The latest national accounts confirmed that the Australian economy grew strongly over the past year, with GDP increasing by 3.4%.

Resource stocks were mixed over the month as oil prices slumped on concerns of reduced demand from a slowdown in global economic growth. This saw Brent and WTI crude fall 8.8% and 10.6%, respectively. Base metals weakened again in October as the London Metals Exchange index fell 4.6%. Iron Ore was an exception, gaining 9.4% on rising Chinese steel prices which led to an increase in its production. Coking coal also rallied, though thermal coal dropped by 7.6%. The best performing sectors for the month, as measured from the S&P/ASX 300 Accumulation Index, were Real Estate (-3.8%), Utilities (-4.0%), and Consumer Staples (-4.9%). The worst performers were Information Technology (-11.4%), Energy (-10.3%) and Consumer Discretionary (-8.3%). As a whole, industrial stocks (-6.1%) outperformed resource stocks (-6.5%) and large cap stocks (-5.4%) outperformed small cap stocks (-9.6%). Value stocks (-5.6%) outperformed growth stocks (-5.7%) 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 Wesfarmers (not held), CSL, Macquarie Group (not held).

The overweight position in diversified retailer Woolworths (+1.2%) contributed to relative performance. The stock closed higher on anticipation that Woolworths were coming closer to offloading their non-core assets including their pubs and liquor, and petrol businesses. Market optimism of Woolworths' FY19 first-quarter trading results (to be released on November 1st) further assisted the stock in outperforming over the month.

The overweight position in biopharmaceutical company Shire Plc (+1.3%) contributed to relative performance. The stock climbed upon news that Takeda Pharmaceutical had received unconditional clearance from the Japan Fair Trade Commission for their proposed acquisition of Shire. Takeda has now received regulatory approval from authorities in the US, Brazil, and China for the proposed acquisition. The takeover, however, remains subject to shareholder approval from both companies as well as from EU regulators.

The overweight position in oil and gas producer Oil Search Ltd. (-14.0%) detracted from relative performance. Despite a positive third-quarter production update, with reported revenue climbing 81% to US\$474.9m, the stock fell as investors anticipated prolonged delays in gaining government approval for an expansion to their Exxon-led Papua New Guinea LNG gas-export facility joint venture. We continue to hold the stock as Oil Search represents a high quality, low-risk exposure to the energy sector.

The overweight position in banking services provider CYBG Plc (-18.0%) detracted from relative performance. The stock fell as lawyers behind the British class action against CYBG have announced the recruitment of up to 550 new claimants to the lawsuit in an attempt boost momentum into the long-running dispute. The class action relates to product disclosure issues involving ~8,300 fixed-rate business loans that were issued to CYBG customs between 2001 and 2012. Despite this headwind we believe the market is currently undervaluing the company, and as such, continue to hold the stock.

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.

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Adviser Services 1800 062 725

Investor Services 1800 022 033

Email investments@perpetual.com.au

www.perpetual.com.au

