

# PERPETUAL AUSTRALIAN SHARE

October 2018

## FUND FACTS

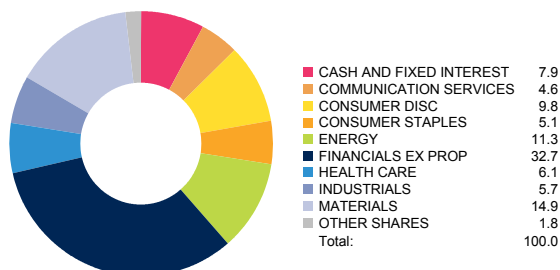
**Investment objective:** Aims to provide long-term capital growth and income through investment in quality shares.

## FUND BENEFITS

Provides investors with the potential for maximising capital growth and income, with broad market exposure, through active management by one of Australia's most experienced investment management teams.

<b>Benchmark:</b>	S&P/ASX 300 Accum. Index
<b>Inception Date:</b>	June 1995
<b>Size of Portfolio:</b>	\$116.21 million as at 30 Sep 2018
<b>APIR:</b>	PER0022AU
<b>Management Fee:</b>	1.98%*
<b>Investment style:</b>	Active, fundamental, bottom-up, value
<b>Suggested minimum investment period:</b>	Five years or longer

## PORTFOLIO SECTORS



## TOP 10 STOCK HOLDINGS

	% of Portfolio
Commonwealth Bank of Australia	8.7%
Westpac Banking Corporation	6.0%
Suncorp Group Limited	5.4%
BHP Billiton Limited	4.5%
Medibank Private Ltd.	4.3%
Woolworths Group Ltd	4.2%
Tabcorp Holdings Limited	4.2%
Incitec Pivot Limited	3.9%
Telstra Corporation Limited	3.7%
Viva Energy Group Ltd.	3.6%

## NET PERFORMANCE - periods ending 31 October 2018

	Fund	Benchmark #	Excess
1 month	-4.73	-6.16	+1.42
3 months	-4.32	-5.98	+1.66
FYTD	-1.94	-4.75	+2.81
1 year	2.37	2.88	-0.51
2 year p.a.	5.41	9.20	-3.80
3 year p.a.	5.25	8.24	-2.99
4 year p.a.	3.79	5.98	-2.19
5 year p.a.	3.98	6.00	-2.02
7 year p.a.	8.24	9.06	-0.82
10 year p.a.	8.81	8.46	+0.35

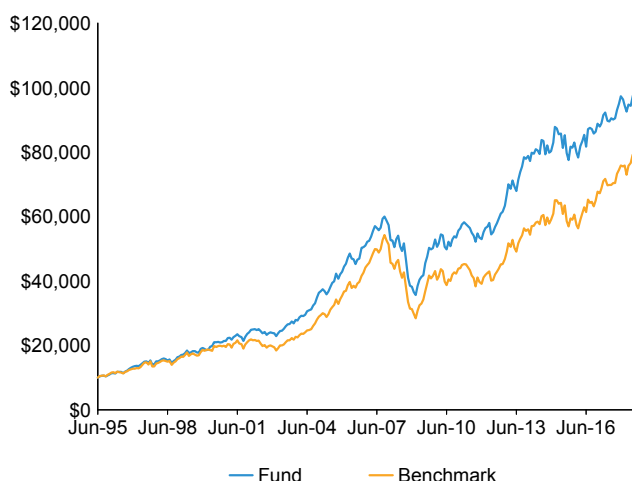
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

## PORTFOLIO FUNDAMENTALS

	Portfolio	Benchmark
Price / Earnings	13.5	14.6
Dividend Yield	5.3%	4.9%
Price / Book	1.4	1.8
Debt / Equity	35.6%	34.3%
Interest cover	9.8	11.5
Return on Equity	11.9%	12.8%

\* source Factset

## GROWTH OF \$10,000 SINCE INCEPTION



## MARKET COMMENTARY

The Australian equity market, as measured by the S&P/ASX 300 (Ex. ANZ, CBA, NAB & WBC) Accumulation Index, fell 6.3% 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%. Third-quarter headline CPI rose 0.4% quarter-on-quarter, falling just short of a +0.5% consensus, though still broadly in line with the Reserve Bank's year-on-year forecast.

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 (Ex. ANZ, CBA, NAB & WBC) 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 wagering and gaming 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, Wesfarmers and Macquarie Group, all of which are not held in the fund.

The overweight position in banking, insurance and superannuation provider Suncorp Group (-3.1%) contributed to relative performance. Despite ending the month in negative territory, the stock outperformed following reports of the commencement of a review into Suncorp's general insurance distribution division, Resilium. The review will assess all viable future options for the business, including potential joint ventures, partnerships, new investments, or the sale of the business. Reports suggest that a sale would proceed rapidly if an appropriate buyer were to be found.

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 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.

Not holding Transurban Group (+1.1%) detracted from relative performance. The stock outperformed on the back of the release of their September-quarter operational update, reporting a 3.3% increase in traffic, with growth across all markets. The finalisation of their acquisition in a 51% stake in the Sydney WestConnex project, funded via a \$4.8b equity raising, further assisted the stock over the month.

## 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.

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## MORE INFORMATION

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