WealthFocus Super

# PERPETUAL SHARE-PLUS LONG-SHORT

November 2018

## FUND FACTS

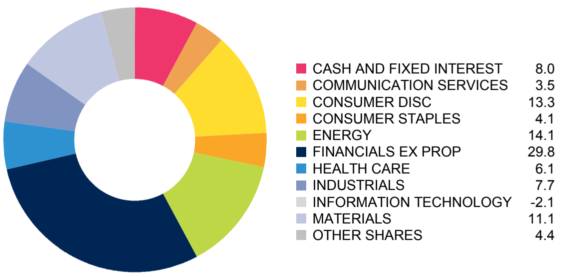
**Investment objective:** Aims to provide long-term capital growth and income through investment in quality shares and taking short positions in selected Australian shares.

## FUND BENEFITS

Offers broad market exposure with the potential for higher returns through the use of shorting (taking short positions) within a risk-controlled environment, and actively managed by one of Australia's most experienced investment management teams.

**Benchmark:** S&P/ASX 300 Accum. Index
**Inception Date:** November 2003
**Size of Portfolio:** $30.32 million as at 30 Sep 2018
**APIR:** PER0224AU
**Management Fee:** 1.98%*
**Investment style:** Active, fundamental, bottom-up, value
**Suggested minimum investment period:** Five years or longer

## PORTFOLIO SECTORS




## TOP 5 STOCK HOLDINGS

| | % of Portfolio |
|---|---|
| Commonwealth Bank of Australia | 10.5% |
| Tabcorp Holdings Limited | 6.3% |
| Woolworths Group Ltd | 6.1% |
| Oil Search Limited | 5.2% |
| Medibank Private Ltd. | 4.4% |

## MARKET EXPOSURE

| | % of Portfolio |
|---|---|
| Long | 111.7% |
| Short | -19.7% |
| Net | 92.0% |

## NET PERFORMANCE - periods ending 30 November 2018

| | Fund | Benchmark # | Excess |
|---|---|---|---|
| 1 month | -3.12 | -2.18 | -0.94 |
| 3 months | -7.50 | -9.29 | +1.79 |
| FYTD | -7.51 | -6.82 | -0.69 |
| 1 year | -3.91 | -1.03 | -2.88 |
| 2 year p.a. | 5.34 | 6.53 | -1.18 |
| 3 year p.a. | 4.56 | 7.69 | -3.13 |
| 4 year p.a. | 4.71 | 6.27 | -1.56 |
| 5 year p.a. | 5.60 | 5.82 | -0.22 |
| 7 year p.a. | 10.56 | 9.26 | +1.30 |
| 10 year p.a. | 10.97 | 8.92 | +2.05 |

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

## GEOGRAPHIC LOCATION

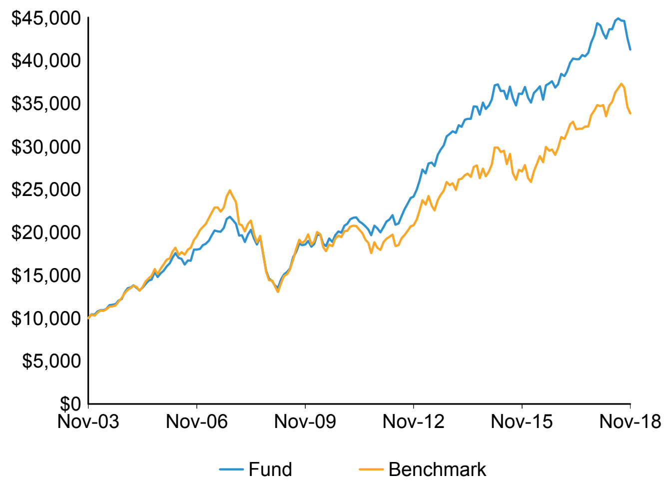
The underlying fund holds no single international asset representing more than 10% of the underlying fund's net asset value.

## PORTFOLIO FUNDAMENTALS

| | Portfolio | Benchmark |
|---|---|---|
| Price / Earnings | 14.0 | 14.4 |
| Dividend Yield | 4.8% | 5.1% |
| Price / Book | 1.5 | 1.8 |
| Debt / Equity | 41.2% | 35.8% |
| Interest cover | 6.2 | 11.3 |
| Return on Equity | 10.4% | 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 wagering and gaming company Tabcorp Holdings, oil and gas producer Oil Search Ltd, and coal miner New Hope Corporation. The Fund's largest underweight positions include BHP Billiton, CSL, and National Australia Bank. The largest short positions are in selected stocks within the Financials and Industrials sectors.

The overweight position in intellectual property services provider IPH (+4.8%) contributed to relative performance. The stock rose on the back of a trading update by the company for the four months to 31 October. Management reported a strong start reflecting a solid underlying "like-for-like" performance by the group. Total patent filings in the Australian market grew by 3.6% over the past comparative period, while their Asian business was reported as generating like-for-like double-digit revenue and EBITDA growth relative to the past comparative period.

Not holding oil and gas producer Woodside Petroleum (-10.9%) contributed to relative performance. Despite reporting a positive quarterly trading update during October, the stock price tumbled on falling oil prices. Increased global oil supply following a US decision to loosen sanctions on Iran oil imports for several countries, along with OPEC and Russia's decision to boost supply led to a decline in crude oil prices. Both Brent and WTI crude oil lost over 20% during the month.

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 performance fee is equal to 13.98% of daily outperformance over the hurdle rate of return. The current hurdle rate is the S&P/ASX 300 Accumulation Index + 2%pa. Performance fees are accrued daily however will only be paid in the event that the Fund's return over the performance fee calculation period is positive and the performance fee accrual is positive. For further information on the calculation of the performance fee please consult the Fund's PDS.

# 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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