

Wholesale Funds

PERPETUAL WHOLESAL SMALLER COMPANIES FUND

November 2018

FUND FACTS

Investment objective: Aims to provide long-term capital growth and income through investment in quality Australian industrial and resource shares which, when first acquired, do not rank in the S&P/ASX 50 Index.

FUND BENEFITS

Provides investors with the potential to benefit from the growth of quality smaller or emerging companies, through active management by one of Australia's most experienced investment management teams.

Benchmark: S&P/ASX Small Ordinaries Accum. Index

Inception Date: October 1996

Size of Portfolio: \$929.52 million as at 30 Sep 2018

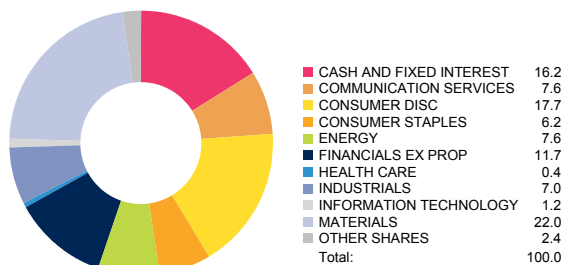
APIR: PER0048AU

Management Fee: 1.25%*

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

Suggested minimum investment period: Five years or longer

PORTFOLIO SECTORS



TOP 5 STOCK HOLDINGS

Stock Holding	% of Portfolio
Brickworks Ltd	5.3%
Mineral Resources Limited	5.3%
Star Entertainment Group Limited	4.2%
AUB Group Limited	4.0%
Bega Cheese Limited	4.0%

NET PERFORMANCE - periods ending 30 November 2018

	Fund	Benchmark #	Excess
1 month	-4.16	-0.37	-3.79
3 months	-10.42	-10.25	-0.16
FYTD	-7.84	-8.94	+1.10
1 year	-5.42	-1.63	-3.79
2 year p.a.	5.68	8.87	-3.19
3 year p.a.	6.49	10.39	-3.90
4 year p.a.	7.71	9.41	-1.69
5 year p.a.	7.41	7.07	+0.35
7 year p.a.	9.98	4.80	+5.17
10 year p.a.	13.31	7.77	+5.54
Since incep.	12.01	5.29	+6.72

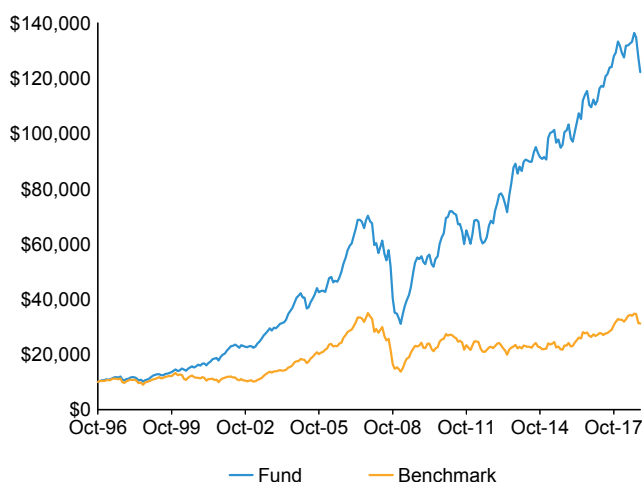
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS

	Portfolio	Benchmark
Price / Earnings	12.4	15.7
Dividend Yield	4.5%	4.0%
Price / Book	1.2	1.7
Debt / Equity	21.5%	28.4%
Interest cover	10.7	9.9
Return on Equity	9.7%	11.5%

* 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 S&P/ASX Small Ordinaries Accumulation Index continued its decline over November, ending 0.4% 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 Small Ordinaries Accumulation Index, were Information Technology (+8.4%), Consumer Staples (+3.7%) and Consumer Discretionary (+2.3%). The worst performers were Energy (-11.9%), Industrials (-4.7%) and Health Care (-2.4%). As a whole, small cap industrial stocks (+0.8%) outperformed small cap resource stocks (-4.1%), and small cap value stocks (-1.8%) underperformed small cap growth stocks (-0.4%) as measured from the MSCI Australia Value and MSCI Australia Growth indices, respectively.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include building products manufacturer Brickworks, equity-based risk management, advice and solutions provider AUB Group, and casino operator Star Entertainment Group. The Fund's largest underweight positions include WorleyParsons, Washington H. Soul Pattinson & Co. (not held), and Nine Entertainment Co. Holdings (not held).

The overweight position in mining company Mineral Resources (+7.0%) contributed to relative performance. The stock rallied following the company's AGM whereby management confirmed their FY19 EBITDA guidance at between \$280m to \$320m with Mining Services EBITDA of \$240m to \$260m. The company also announced during the month that they had entered into an agreement with Albemarle Corporation to sell a 50% stake in the Wodinga Lithium project with the intention of forming a joint venture to produce spodumene concentrate and lithium hydroxide with the corporation.

The overweight position in transportation and infrastructure company Qube Holdings (+9.0%) contributed to relative performance. The stock finished higher following a positive earnings outlook presented at their AGM as management indicated expectations of a solid increase in NPATA and a return to EPS growth. The stock was further boosted on news that NSW Ports will be investing \$120m into expanding their rail infrastructure at Port Botany, allowing for greater connection between Qube's Moorebank terminal and the port docks.

The overweight position in engineering firm RCR Tomlinson (-100%) detracted from relative performance. The loss in value came as the company unexpectedly went into voluntary administration, as a result of failure to secure additional funding to complete their solar farm projects. This was despite a capital raising completed in August to address cost overruns and to provide additional working capital in excess of anticipated requirements.

The overweight position in mining services group MACA Ltd. (-25.7%) detracted from relative performance. The stock fell during the month following a market update, reaffirming first-half FY 2019 revenue guidance of \$300m, though downgrading first-half NPAT to a range of \$7-9m, falling short of market expectations. The downgrade was cited as being attributed to margin pressures largely driven by higher labour costs, equipment operating expenses, and upcoming tender extension costs. The stock continues to trade at a significant discount to its peers and continues to be held in the fund.

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.

Benchmark prior to 1/4/2000 was the ASX Small Ordinaries Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX Small Ordinaries Accumulation Index.

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The PDS for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in that fund. The PDS can be obtained by calling 1800 022 033 or visiting our website www.perpetual.com.au (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries).

No company in the Perpetual Group guarantees the performance of any fund or the return of any investor's capital. Total return shown for the fund(s) have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for contribution or withdrawal fees or taxation (except in the case of superannuation funds). Past performance is not indicative of future performance.

MORE INFORMATION

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