

PERPETUAL SELECT CONSERVATIVE FUND

December 2018

FUND FACTS

Investment objective: Income and some long-term capital growth through investment in a diversified portfolio with an emphasis on fixed income and cash and enhanced cash investments.

Suggested length of investment: Three years or longer.

INVESTMENT APPROACH

Invests into a diverse mix of assets (see 'Investment guidelines' below). Tactical asset allocation strategies may be applied. This process involves the Fund adjusting its exposure to asset classes on a regular basis within the investment guidelines. Derivatives and exchange traded funds may be used in managing each asset class.

BENEFITS

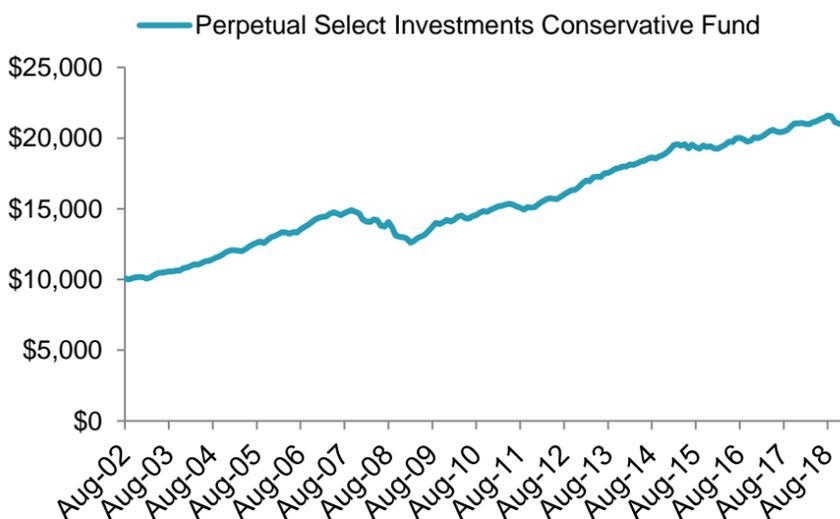
Provides investors with access to a diverse range of growth and income producing assets.

TOTAL RETURNS % (AFTER FEES) AS AT 31 DECEMBER 2018

	APIR CODE	1 MTH	3 MTHS	6 MTHS	1 YR PA	3 YRS PA	5 YRS PA
Perpetual Select Investments Conservative Fund	PER0247AU	-0.4	-2.7	-1.8	-0.4	2.6	3.1
Mercer Retail Trusts Multi-Sector Conservative - Median		-0.2	-2.3	-1.4	-0.3	3.1	3.7
Perpetual Select Super Conservative Fund	WDL0005AU	-0.4	-2.4	-1.5	-0.1	2.8	3.2
Mercer Personal Super Multi-Sector Conservative - Median		-0.3	-1.9	-1.1	0.1	2.5	3.1
Perpetual Select Pension Conservative Fund	WDL0015AU	-0.4	-2.6	-1.6	0.1	3.2	3.8
Mercer Allocated Pensions Multi-Sector Conservative - Median		-0.3	-1.7	-0.7	1.2	3.5	4.1

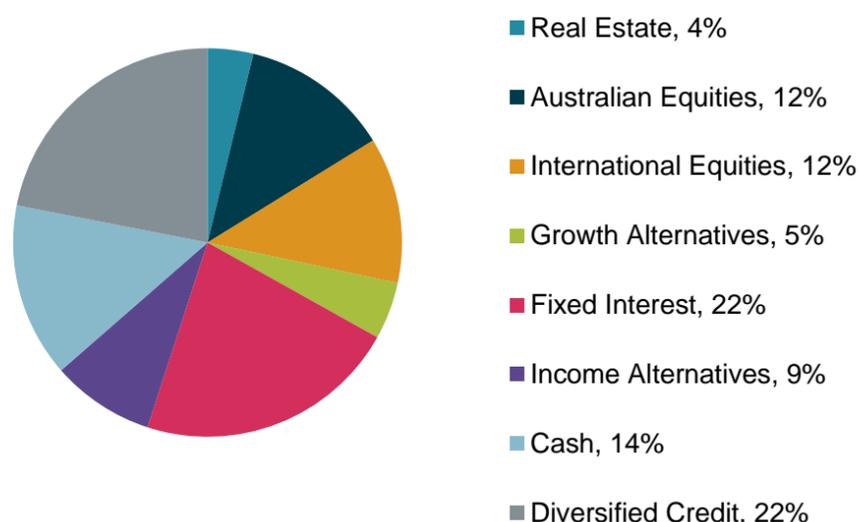
Past performance is not indicative of future performance

GROWTH OF \$10,000 SINCE INCEPTION*



*The Growth of \$10,000 chart includes reinvestment of dividends and capital gains, but does not reflect the effect of any applicable sales or redemption charges which would lower these figures.

PORTFOLIO EXPOSURES



INVESTMENT GUIDELINES

	BENCHMARK (%)	RANGE (%)
Cash	10	5 - 30
Fixed Interest	22.5	10 - 45
Diversified Credit	22.5	0 - 30
Income Alternatives	10	0 - 10
Australian Equities	13	5 - 20
Real Estate	4	0 - 10
International Equities	13	5 - 20
Growth Alternatives	5	0 - 15

PORTFOLIO COMMENTARY

The Perpetual Select Conservative Fund underperformed its composite benchmark over the December 2018 quarter.

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, fell by 8.41% over the quarter after last quarter's small gains. Australian equities outperformed global equities with the MSCI AC World Index falling 10.33% over the quarter. Domestically, all sectors generated negative returns over the quarter with Real Estate and Utilities the best performers; down 1.71% and 3.11% respectively. Heightened volatility during the quarter saw a general rotation into large cap liquid equities at the expense of small to mid-cap securities.

On the currency front the AUD depreciated over the quarter by falling 2.70% against the USD, continuing on from the September quarter's 2.07% depreciation. On the commodity and energy front, iron ore rallied by 15% YoY while crude oil was dramatically weaker with Brent crude falling by 34.96%. Copper fell by 5.71% over the quarter, while gold reversed course from last quarter and rallied by 7.11%.

On the economic front, the RBA continued to leave rates at 1.50% acknowledging the continued strength of global growth, low unemployment in developed economies and continued low inflation. The RBA did take note of the slowdown in Chinese growth along with the potential for continued trade tensions to adversely impact global growth.

The Australian economy is performing well with GDP growth expected to average around 3.5% until 2020 before slowing as resource export growth decreases. The labour market remains positive with unemployment at a 6 year low of 5% while inflation remains low and stable at 1.9% (CPI). Business conditions remain positive with non-mining investment expected to increase. Long term government spending on infrastructure and resource export growth continues to support the economy while household consumption remains a point of concern. House prices across capital cities have declined while household debt remains high and household income growth remains low.

All of the fund's sectors underperformed their respective benchmarks, in what were very challenging markets over the quarter, exhibited by a general flight to liquidity. The Perpetual Select Duration Fixed Income Fund and the Perpetual Defensive and Growth Alternatives Pooled Funds were the only sectors that produced positive absolute returns.

The Select Australian Share Fund underperformed its benchmark during the December quarter. All of the managers with the exception of Kaplan Funds Management underperformed their respective benchmarks. Kaplan's portfolio is overweight cash, property trusts and utilities, which were of the few sectors to outperform during the quarter. Small caps significantly underperformed the broader market index given the flight to liquidity. Consequently, the fund's exposure to Renaissance Asset Management and the Perpetual Investments Micro Cap Fund detracted from relative returns.

The Select International Share Fund underperformed its benchmark over the quarter. The relative performance of managers was mixed over the quarter, generally reversing over the previous quarter. Manager's with large cap biases tended to outperform those with mid to smaller cap biases. Sustainable Asset Management and the Perpetual Investments Global Share Fund outperformed in this respect. Those managers with overweight oil related exposures struggled, which was the case with Southern Sun Asset Management. Additionally, Southern Sun's and RWC Asset Management's mid to small cap biases also hurt their relative performance, whilst value as a style outperformed, exhibited through Barrow Hanley Mewhinney & Strauss.

The Select Real Estate Fund underperformed the benchmark over the quarter. Resolution Capital, the portfolio's sole exposure to Global REITs and Renaissance Asset Management, the portfolio's sole exposure to Australian REITs both underperformed their respective benchmarks. Both managers have mid cap biases and there was a rotation into large cap liquidity during the quarter, which drove underperformance.

The Perpetual Select Duration Fixed Income Fund underperformed its benchmark over the quarter, albeit the fund delivered a positive return. The Macquarie True Index Australian Fixed Index Fund performed in line with its benchmark, as is the nature of this fund. Australian Government bonds performed strongly during the equity market sell-off. The Legg Mason Western Asset Global Bond Fund and the PIMCO Global Bond Fund both produced positive returns but underperformed their benchmarks due to sector and duration positioning. The selloff in credit markets detracted from positive returns across sovereign bond exposures.

RETURNS BREAKDOWN (Investments)

	FY 2018	FY 2017	FY 2016
Growth Return %	2.9%	2.5%	0.6%
Distribution Return %	1.4%	1.2%	1.7%
Total Return %	4.3%	3.8%	2.3%

DISTRIBUTION BREAKDOWN

	FY 2018	FY 2017	FY 2016
Cents per unit	1.0900	0.9478	1.8810
Franking FSC %	15.7%	18.6%	23.0%
Income	66.6%	73.7%	93.8%
Capital	33.4%	26.3%	6.2%

PRODUCT FEATURES

	SUPER	PENSION	INVEST.
Inception date	Jul 92	Jul 92	May 02
Estimated Mgmt Cost	2.15%	2.17%	2.26%
Ongoing fee discount	Yes	Yes	Yes
Buy spread	0.16%	0.16%	0.16%
Sell spread	0.00%	0.00%	0.00%
Contribution fee	0.00%	0.00%	0.00%
Withdrawal fee	\$51.25	\$51.25	\$0.00
Monthly member fee	\$10.09	\$10.09	\$0.00
Min. initial contribution	\$3,000	\$3,000	\$5,000
Min. additional contribution	\$0	\$0	\$1,000
Savings plan	Yes	No	Yes
Withdrawal plan	No	Yes	No
Distribution frequency	N/A	N/A	Quarterly
Contact information	1800 003 001		

The Perpetual Select Credit Pooled fund underperformed its bank bill swap rate benchmark over the quarter. Credit markets both domestically and offshore sold off during the quarter.

Perpetual's Defensive Alternatives Pool Fund marginally underperformed its benchmark over the quarter, albeit the fund delivered a positive absolute return. The specialist credit allocation within the portfolio is currently yielding approximately 5.4% per annum (gross of fees). The fund's private market credit exposure continues to perform in line with expectations. Detracting from relative returns was the pullback in traded credit markets, in particularly the syndicated bank loan markets in the USA and Europe.

Perpetual's Growth Alternatives Pool Fund marginally underperformed its benchmark over the quarter, albeit the fund delivered a positive absolute return. Holding the fund back was its exposure to listed infrastructure, which sold off during the quarter. Traded credit markets were also volatile and generally negative over the quarter, which impacted the fund's special situations and debt restructuring strategies. Additionally, volatility in equity and commodity markets also impacted the fund's absolute return strategy exposures. The fund's private equity and opportunistic property exposures are performing in line with expectations as earlier vintage exposures continue to realise and return capital. The main exception across private markets was the fund's exposure to the Hastings Utility Trust of Australia where that fund's electricity assets were marked down on the back off regulatory changes.

OUTLOOK

We remain cautious on the global and domestic macroeconomic outlook. Divergence of global monetary and fiscal policies continues with the USA tipped to raise cash rates further. The timing of the USA Federal Reserve's expected interest rate rises over 2018 and 2019, the pace of growth across Europe and China, the 'Trade War' and medium-long term geopolitical risks will likely remain a key focus for the broader investment community and drive market volatility.

Domestically, the Australian economy remains stuck between a 'rock and a hard place'. The resource sector appears to have stabilised on the back of the bounce in commodity prices, however, the rest of the economy continues to struggle to pick up the slack. The current level of the Australian dollar is somewhat of a concern despite the recent pull back.

The portfolio continues to be well diversified and defensively positioned to outperform the market during periods of weakness and heightened volatility. This quarter however saw a flight to liquidity which impacted the relative performance of the fund's equity and credit based strategies. Our equity and credit portfolios are biased towards more inefficient and relatively less liquid parts of the market where we believe fundamental based research adds value over the longer term. This results in equity portfolios with a mid-capitalisation bias and credit portfolios with a relatively lower investment grade bias.

Perpetual Private advice and services are provided by Perpetual Trustee Company Limited (PTCo) ABN 42 000 001 007, AFSL 236643. This information has been prepared by PTCo, Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426 and Perpetual Superannuation Limited (PSL) ABN 84 008 416 831, AFSL 225246 RSE L0003315 and issued by PTCo. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. The PDS for the relevant funds, issued by PIML and PSL, should be considered before deciding whether to acquire or hold units in the fund. The PDS can be obtained by calling 1800 003 001 or visiting our website www.perpetual.com.au. No company in the Perpetual Group* guarantees the performance of any fund or the return of an 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 to taxation. Past performance is not indicative of future performance.*Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries. PSL is the issuer of Perpetual's Select Superannuation Fund ABN 51 068 260 563.

MORE INFORMATION

Adviser Services 1800 003 001
Email investments@perpetual.com.au
www.perpetual.com.au

