

Perpetual Pure Series Funds

PERPETUAL PURE EQUITY ALPHA FUND - CLASS A

October 2018

FUND FACTS

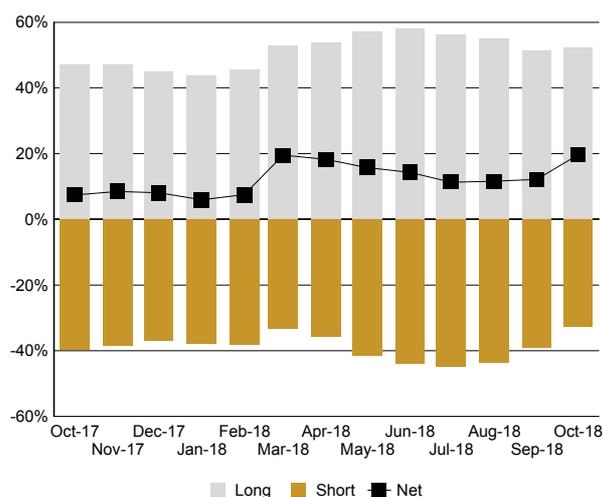
Investment objective: Aims to generate positive returns over a market cycle irrespective of market conditions by investing in both long and short positions of predominantly Australian shares.

FUND BENEFITS

The Fund aims to achieve performance objectives by adopting a bottom-up stock selection process for both long and short positions, combined with a top down approach to managing market exposure. Decisions to buy or sell are based mainly on fundamental stock analysis, complemented by the identification of special opportunities.

Benchmark:	RBA Cash Rate Index
Inception Date:	March 2012
Size of fund:	\$337.11 million as at 30 Sep 2018
APIR:	PERo668AU
Fund Managers:	Paul Skamvougeras & Anthony Aboud
Management Fee:	1.28%*
Performance Fee:	20.5% of outperformance*
Investment style:	Active, fundamental
Suggested minimum investment period:	Five Years or longer

HISTORICAL MARKET EXPOSURE



TOP 5 STOCK HOLDINGS (LONG)

	% of Portfolio
Tabcorp Holdings Limited	4.7%
Oil Search Limited	4.1%
Woolworths Group Ltd	4.1%
Select Harvests Limited	3.9%
Medibank Private Ltd.	3.4%

* Information on Management Costs (including estimated indirect costs) and a full description of the Fund's performance fee is set out in the Fund's PDS.

GEOGRAPHIC LOCATION OF MATERIAL ASSETS

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

NET PERFORMANCE- periods ending 31 October 2018

	Fund	Benchmark	Excess
1 month	1.60	0.13	+1.47
3 months	0.94	0.38	+0.56
FYTD	0.26	0.51	-0.25
1 year	8.08	1.51	+6.57
2 year p.a.	6.48	1.51	+4.97
3 year p.a.	5.11	1.62	+3.50
4 year p.a.	5.08	1.77	+3.31
5 year p.a.	6.41	1.92	+4.49
7 year p.a.	-	-	-
10 year p.a.	-	-	-
Since incep.	7.54	2.23	+5.31

PORTFOLIO SECTORS

	Long	Short	Net
Communication Services	3.4	-2.3	1.1
Consumer Discretionary	10.9	-7.5	3.3
Consumer Staples	10.2	-3.8	6.3
Energy	9.6	0.0	9.6
Financials ex Property Trusts	6.9	-3.7	3.2
Health Care	0.8	-4.4	-3.6
Industrials	4.9	-7.2	-2.3
Information Technology	0.0	-1.8	-1.8
Materials	5.8	0.0	5.8
Real Estate	0.0	-1.9	-1.9
Utilities	0.0	0.0	0.0
Total	52.4	-32.7	19.7

PORTFOLIO FUNDAMENTALS

	Portfolio
Price / Earnings	15.7
Dividend Yield	4.1%
Price / Book	1.4
Debt / Equity	30.5%
Interest cover	7.2
Return on Equity	9.1%

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%. 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. The Australian dollar fell in trade-weighted terms (down 0.5%), losing the most against the Japanese yen (-2.1%) and the US dollar (-2.1%).

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 long positions include natural health food processing company Select Harvests, wagering and gaming company Tabcorp Holdings, and oil and gas producer Oil Search Ltd. The Fund's largest short positions include selected stocks within the healthcare and industrials sector.

The long position in diversified retailer Woolworths (+1.2%) contributed to absolute 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 long position in grain distributor GrainCorp (+4.3%) contributed to absolute performance. The stock rallied over the month following the announcement of a A\$94m investment to expand their Scottish malting capacity due to sector growth and customer demand. The investment will add 79,000 tonnes of annual malting capacity to the UK-based business, bringing total production to 300,000 tonnes. The project is expected to be completed in 2021 and will be funded using existing debt facilities and equity.

The long position in oil and gas producer Oil Search Ltd. (-14.0%) detracted from absolute 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 long position in coal miner New Hope Corporation (-14.4%) detracted from absolute performance. The stock fell upon news that voluntary administrators have been appointed by two of New Hope's Subsidiaries (Northern Energy Corporation Ltd and Colton Coal Pty Ltd) who own the Colton open cut coal mine project which had been fully impaired by the company during September 2018. The fund continues to hold the stock as we believe it is currently trading at a discount to its fair value and will continue to deliver high-quality earnings into the future.

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 20.50% of daily outperformance over the hurdle rate of return. The current hurdle rate is the Reserve Bank of Australia cash rate. Performance fees are accrued daily and payable six monthly, 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.

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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

Adviser Services 1800 062 725

Investor Services 1800 022 033

Email investments@perpetual.com.au

www.perpetual.com.au

