

## Wholesale Funds

# PERPETUAL WHOLESAL E INCOME SHARE FUND

November 2018

### FUND FACTS

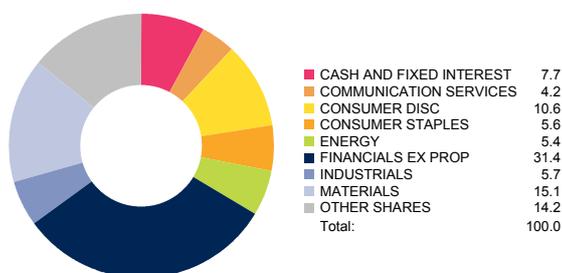
**Investment objective:** To provide investors with exposure to a diversified portfolio of tax-effective high income yielding Australian securities that are also expected to produce some long-term capital growth. To provide above market dividend yield as measured by the S&P/ASX 200 Accumulation Index and capital growth over the medium to long term through investment in quality shares.

### FUND BENEFITS

To provide investors with regular income through investment in quality securities.

<b>Benchmark:</b>	S&P/ASX 200 Accum. Index
<b>Inception Date:</b>	December 1995
<b>Size of Portfolio:</b>	\$159.30 million as at 30 Sep 2018
<b>APIR:</b>	PTC0002AU
<b>Management Fee:</b>	0.99%*
<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	9.0%
Westpac Banking Corporation	6.4%
Woolworths Group Ltd	5.6%
ANZ Banking Group Ltd.	4.7%
Star Entertainment Group Limited	4.4%
Suncorp Group Limited	3.4%
Mineral Resources Limited	3.4%
National Australia Bank Limited	3.3%
BHP Group Limited	3.1%
Telstra Corporation Limited	3.0%

### NET PERFORMANCE - periods ending 30 November 2018

	Fund	Benchmark	Excess
1 month	-2.07	-2.21	+0.14
3 months	-8.28	-9.28	+1.01
FYTD	-6.46	-6.72	+0.26
1 year	-8.25	-0.96	-7.29
2 year p.a.	3.02	6.54	-3.52
3 year p.a.	4.58	7.69	-3.11
4 year p.a.	6.10	6.21	-0.12
5 year p.a.	7.59	5.83	+1.76
7 year p.a.	10.85	9.42	+1.44
10 year p.a.	9.16	8.98	+0.18
Since incep.	8.76	8.74	+0.02

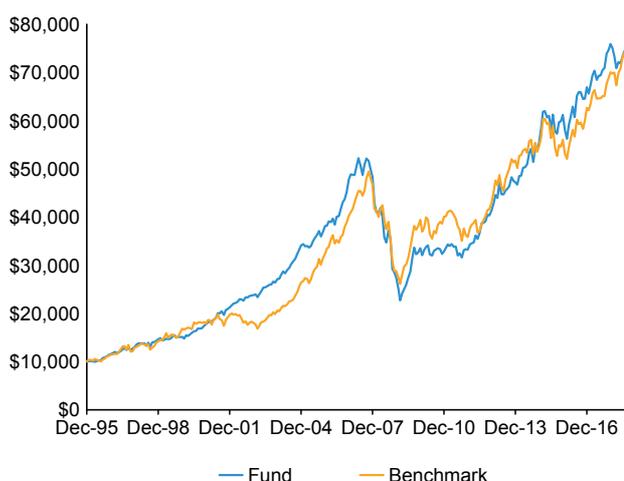
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

### PORTFOLIO FUNDAMENTALS

	Portfolio	Benchmark
Price / Earnings	12.5	14.4
Dividend Yield	6.6%	5.1%
Price / Book	1.0	1.8
Debt / Equity	30.7%	36.1%
Interest cover	10.8	11.4
Return on Equity	10.6%	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 200 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 200 Accumulation Index, were Financials (+1.4%), Information Technology (+1.0%) and Industrials (-0.6%). The worst performers were Energy (-10.3%), and Materials (-4.8%) and Consumer Discretionary (-4.3%). As a whole, industrial stocks (-1.1%) outperformed resource stocks (-6.6%) and large cap stock (-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 diversified retailer Woolworths, casino operator Star Entertainment Group, and commodity miner Mineral Resources Ltd. The Fund's largest underweight positions include CSL (not held), BHP Group, and Macquarie Group.

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 Wodonga Lithium project with the intention of forming a joint venture to produce spodumene concentrate and lithium hydroxide with the corporation.

Not holding biopharmaceutical company CSL (-5.6%) contributed to relative performance. The stock underperformed the benchmark on the back of a \$250m block sale trade, despite the absence of any trading updates by the company. Market apprehensions surrounding growth stocks and bearishness sentiment over the outlook of the stock further attributed to the sell-off over the month, despite the company recently reaffirmed guidance for FY2019 profit growth of between 10-14%.

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.

The overweight position in casino operator Donaco (-47.7%) detracted from relative performance. The stock fell following the announcement of a A\$124.5m statutory loss recorded over FY2018 (compared to a profit of \$31m during the previous year). The loss was primarily driven by the Board's decision to incur a non-cash impairment charge of \$143.9m from its Star Vegas casino license. Revenue fell 20% to A\$23.7 and EBITDA declined 62% to A\$5.2m. Management believe the factors which have impacted the results have been addressed and will have a reduced impact in future periods.

## 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.

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The Perpetual Wholesale Income Fund was known as the Trust Company Income Fund until 21 August 2016. Perpetual was appointed as Fund Manager effective 28 July 2014. The previous Fund Manager invested under a different investment strategy using a different investment approach. Therefore performance information before 28 July 2014 is not directly comparable. This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL No 234426. 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 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](http://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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