Wholesale Funds

PERPETUAL GLOBAL INNOVATION SHARE FUND — CLASS A

January 2019

FUND FACTS

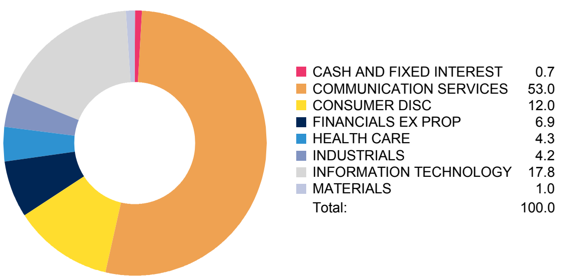
Investment objective: Aims to provide investors with long-term capital growth through investment in quality global shares that are benefiting from technological change and innovation.

FUND BENEFITS

Perpetual employs a bottom-up stock selection approach to investing, where the decision to buy or sell securities uses a fundamental process based on quality and value.

Benchmark: MSCI AC World Net Total Return Index (AUD)
Inception Date: June 2017
Size of Portfolio: $34.61 million as at 31 Dec 2018
APIR: PER1547AU
Management Fee: 1.25%*
Performance Fee: 20% of outperformance*
Investment style: Active, fundamental, bottom-up, value
Suggested minimum investment period: Seven years or longer

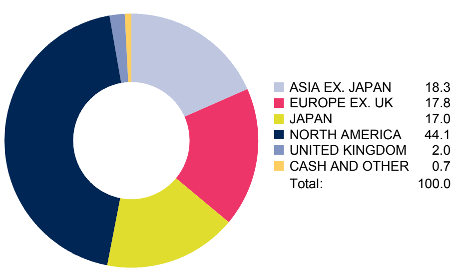
PORTFOLIO SECTORS



TOP 5 STOCK HOLDINGS

	% of Portfolio
Nintendo Co., Ltd.	9.9%
Facebook, Inc. Class A	6.9%
Activision Blizzard, Inc.	6.5%
Alibaba Group Holding Ltd. Sponsored ADR	5.6%
Vivendi SA	4.9%

PORTFOLIO REGIONS



NET PERFORMANCE - periods ending 31 January 2019

	Fund	Benchmark	Excess
1 month	6.39	4.17	+2.21
3 months	-0.55	-1.08	+0.54
FYTD	-4.79	-0.53	-4.26
1 year	5.39	2.75	+2.64
2 year p.a.	-	-	-
3 year p.a.	-	-	-
4 year p.a.	-	-	-
5 year p.a.	-	-	-
7 year p.a.	-	-	-
10 year p.a.	-	-	-
Since incep.	8.11	5.84	+2.27

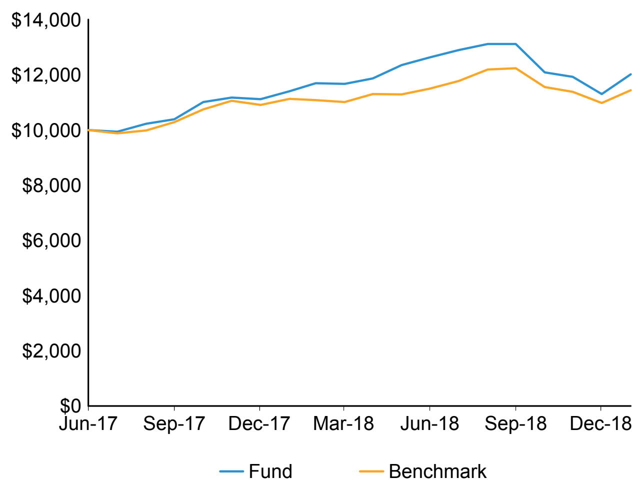
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS

	Portfolio	Benchmark
Price / Earnings	15.2	14.2
Dividend Yield	2.8%	3.2%
Price / Book	2.3	2.0
Debt / Equity	40.0%	51.1%
Interest cover	24.5	12.8
Return on Equity	15.3%	14.4%

* source Factset

GROWTH OF $10,000 SINCE INCEPTION



*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.

MARKET COMMENTARY

The MSCI All Country World Accumulation Index ended its three-month decline to finish 4.2% higher in Australian dollar terms over the month of January. Despite concerns of a slowdown in global economic growth, the resumption of high-level trade talks between the US and China, and an unsuccessful Brexit deal proposal in the UK, global markets as a whole, ended stronger. Fourth-quarter US Corporate earnings were well under way with earnings growth for the S&P 500 tracking to a 14.3% year-on-year increase, though earnings estimates for the next 12 months were reduced by 2.1% year-to-date. The 35-day partial federal government shutdown over President Trump's demand for border wall funding was also expected to affect economic data. Nevertheless, markets responded positively to a softening US Federal Reserve policy stance, allowing the S&P500 Index to close 4.2% higher. The British parliament voted down Prime Minister Theresa May's Brexit plan, rejecting it by a margin of 230 votes, leading to the UK FTSE 100 Index closing 3.6% higher over the month. Despite China reporting weaker industrial profits, and economic expansion languishing to its slowest pace since 1990 (exacerbated by the US trade wars), the MSCI China Price Index finished 7.2% stronger on the back of increased economic stimulus spending.

Global resource stocks were assisted over the month as most base metals ended higher with the London Metals Exchange Index gaining 5.2%. Crude oil rallied strongly on a fall in US stock piles and Venezuela sanctions, while iron ore prices reached their highest in almost a year following a dam disaster at a Vale-owned Brazilian mine. A brief 'flash crash' in the foreign exchange markets saw the Australian dollar dip to a ten-year low against the US dollar (reaching US$0.67) before recovering shortly after and finishing out the month higher at US$0.73.The best performing sectors for the month, as measured from the MSCI All Country World Accumulation Index, were Real Estate (+6.7%), Energy (+6.6%) and Consumer Discretionary (+5.9%). The worst performers were Consumer Staples (+1.4%), Health Care (+1.5%) and Utilities (+1.6%). As a whole, value stocks (+6.4%) underperformed growth stocks (+7.9%) as measured from the MSCI World Value and MSCI World Growth indices, respectively.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include home entertainment products developer Nintendo, video game developer Activision Blizzard, and social media company Facebook. The Fund's largest underweight positions include Amazon, Apple, and Johnson & Johnson, all of which are not held in the fund.

The overweight position in home entertainment developer Nintendo (+12.4%) contributed to relative performance. The stock finished the month higher as investor confidence strengthened from a lacklustre 2018 with reports emerging of possible price cuts to their Switch consoles (expecting to lead to improved sales), an improving software pipeline (including the release of a Pokémon sequel), as well as the upcoming launch of a new flagship mobile game.

The overweight position in social media company Facebook (+22.5%) contributed to relative performance. The stock rallied sharply upon release of a record-breaking December-quarter and full-year financial result. Facebook reported Q4 revenue of US$16.9b, ~3% above consensus and a 30.4% increase year-on-year. EPS of US$2.38 also exceeded consensus expectations of US$2.18 and grew 65% year-on-year, stimulated from growth in users of their WhatsApp and Instagram platforms.

The overweight position in wireless communication products and services provider Verizon Communications (-4.6%) detracted from relative performance. The stock finished the month lower following a mixed December-quarter earnings release. Verizon's revenue of US$34.3b slightly missed consensus expectations of US$34.4b, though EPS of US$1.12 exceeded a US$1.09 consensus. FY19's EPS guidance was similar to 2018's, at US$4.71, falling slightly below consensus of $4.73, attributed to higher operating expenditure. We continue to hold the stock due to the quality of its future earnings capabilities.

The overweight position in power generation systems producer Siemens AG (-1.9%) detracted from relative performance. The stock weakened following the release of the company's December-quarter financial results. Revenue of €20.12B and operating profit of €1.55B fell short of expectations with consensus at €20.40B and €1.65B, respectively. EPS was in line with consensus and their full-year EPS outlook was kept unchanged at €6.3-7.0 (vs consensus of €7.12). We continue to hold the stock due to the continued strong growth of their assets despite cyclical exposure.

OUTLOOK

Market sentiment has moved from "synchronised global growth" to one of caution focused on the macroeconomic headwinds facing the domestic and global economy. Investors are concerned amongst other things by the slowing growth rates in China, geopolitical risks including the impact of trade wars and tightening central bank liquidity. These headwinds and potential risks have been very well telegraphed by the investment community and the media. The timing and severity of any potential economic downturn, if there is in fact one, is difficult to predict. Given that we are looking a little longer term than the next results we try to look through cycles when making investment decisions. What is important though is investing in companies with a robust balance sheet, strong market position and a dynamic management team with proper incentives which will put us in good stead.

MORE INFORMATION

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