

Perpetual Investments

INVESTMENT INSIGHTS SERIES

AUSTRALIAN EQUITIES

Perpetual *P*



PRESENTERS



PAUL SKAMVOUGERAS

Head of Equities



VINCE PEZZULLO

Deputy Head of Equities



ANTHONY ABOUD

Portfolio Manager

AGENDA

- | Investment process
- | Market overview
- | 2018 reporting season insights
- | Value vs. growth investing
- | Portfolio positioning and performance
- | Questions

PERPETUAL: A PROVEN TRACK RECORD



Established in 1886, Perpetual is one of Australia's **most respected** fund managers, with a passion for **protecting** and **growing** our clients' wealth



Perpetual is an **active, value** manager, with a bottom-up investment process



One of the largest investment teams in Australia that conducts **more than 1,000 company meetings** each year



\$32.0bn funds under management (at 31 December 2017)



Perpetual Investments is part of Perpetual Limited (ASX:PPT)



Provider of **market-leading** equities, fixed income, cash and multi asset solutions

INVESTMENT PROCESS

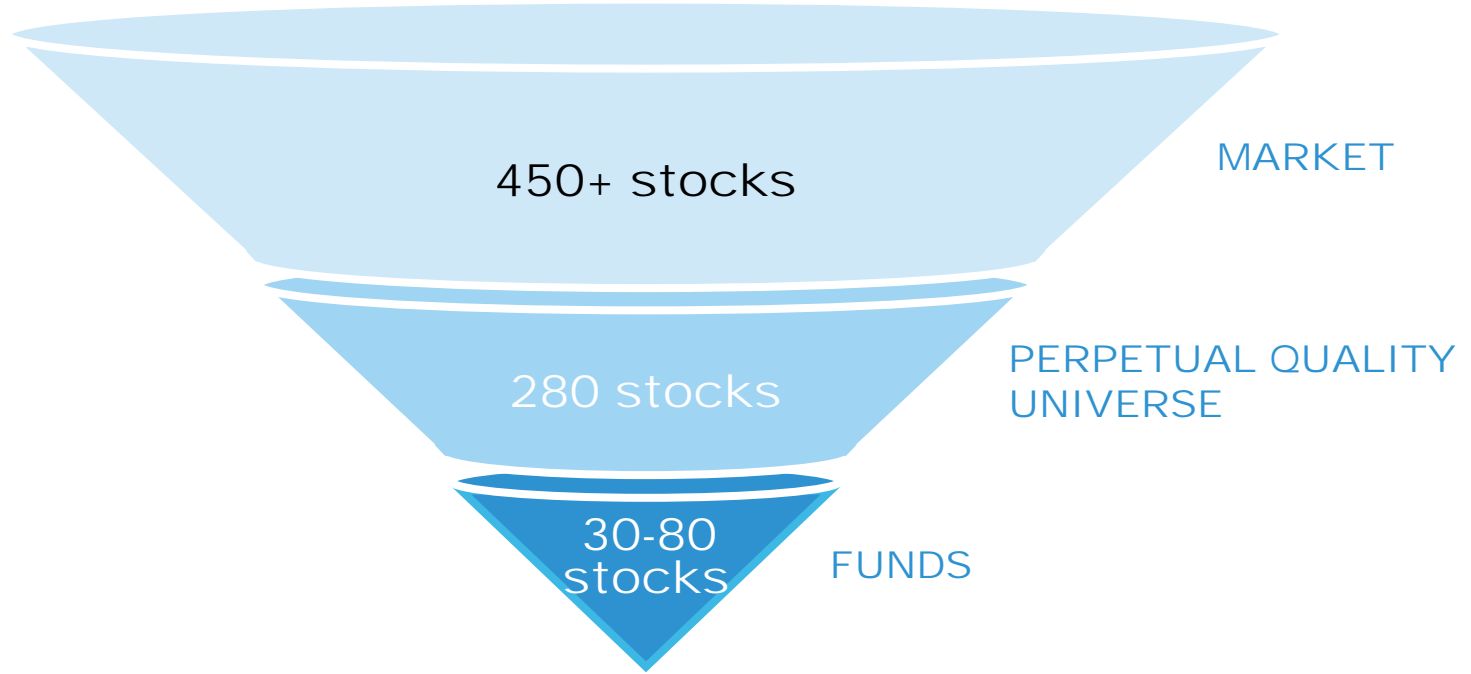


PERPETUAL QUALITY FILTERS

1 SOUND MANAGEMENT	2 CONSERVATIVE DEBT	3 QUALITY OF BUSINESS	4 RECURRING EARNINGS
<ul style="list-style-type: none">• track record of a company's management• use of shareholder capital• corporate governance practices	<ul style="list-style-type: none">• strong balance sheet to ensure the company is sustainable across various economic cycles• quantitative test:<ul style="list-style-type: none">debt to equity should be less than 50% (net debt / equity), but if not interest cover should be 3x or greater (5x for pre-production)	<ul style="list-style-type: none">• products or services the company offers• competitive landscape, positioning and market dynamics• barriers to entry, monopoly/duopoly, and sources of competitive advantage• operational efficiency• ESG risks and impacts	<ul style="list-style-type: none">• track record of generating earnings• sustainable businesses for the future

- A company must pass all of these filters all of the time to be included in the Perpetual Universe and considered for investment.
- Our focus on the quality of a company inherently encompasses the analysis of ESG and sustainable investing issues.

PERPETUAL EQUITY FUND PROCESS



Source: Perpetual

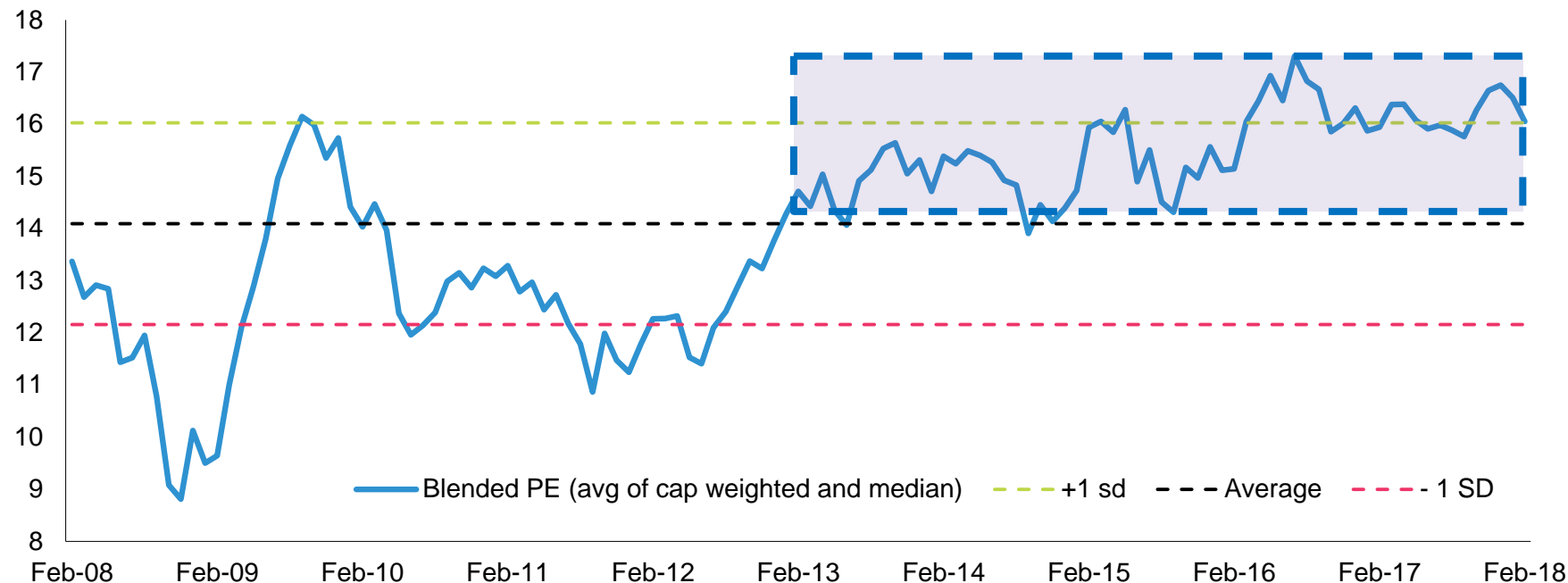
MARKET OVERVIEW



MARKET ENVIRONMENT: VALUATIONS HAVE BEEN ELEVATED

VALUE IS HARDER TO FIND

S&P/ASX 200 1YR FORWARD PRICE EARNINGS RATIO



Source: Credit Suisse, as at 28/02/2018

2018 REPORTING SEASON INSIGHTS



REPORTING SEASON OVERALL

STRONG RESOURCES EARNINGS BOUNCE TO NORMALISE, RESOURCE AND INDUSTRIAL P/ES ELEVATED

	Earnings growth			PER
	FY16A	FY17A	FY18E	12-month fwd
Market	-10.6%	18.3%	7.9%	15.4
Resources	-41.5%	94.0%	20.7%	14.0
Industrials ex banks	-0.3%	4.4%	4.2%	17.7
Banks	-3.4%	2.2%	1.4%	12.6

FY18 EPS growth is the bottom-up consensus estimate.
Source: MSCI, IBES, Citi Research

KEY REPORTING SEASON THEMES

- Market heavily rewarding upgrades and heavily selling downgrades
- Market's short term focus at expense of long term valuation
- Companies reporting normalised rather than actual earnings
- Need to be wary of bond proxies
- Starting to see some cost inflation (e.g. BHP Billiton, The Star Entertainment Group, Brambles, Amcor, South32)

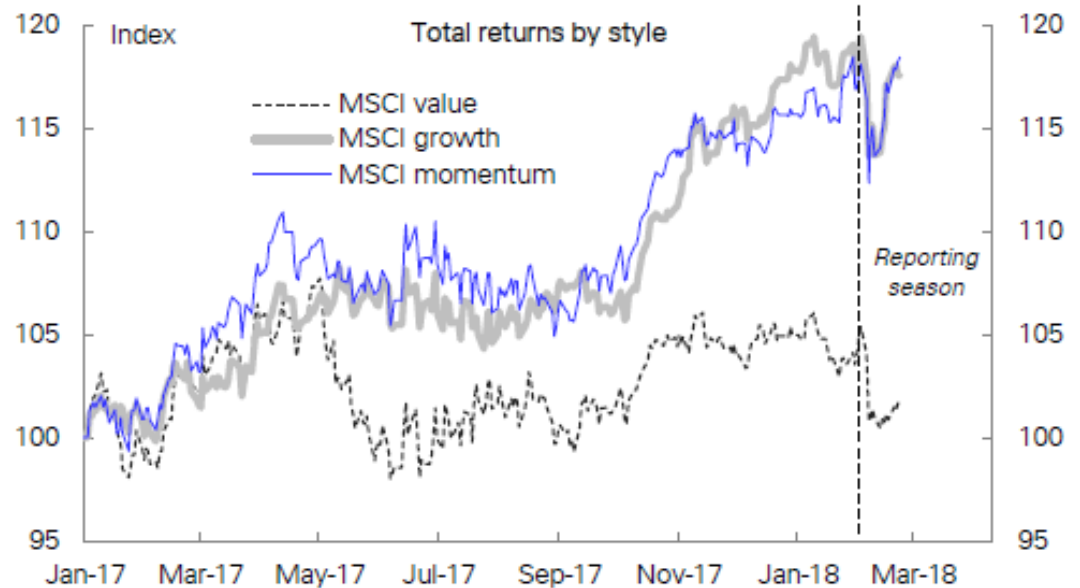
VALUE vs. GROWTH INVESTING



MARKET RETURNS DRIVEN BY EXUBERANCE

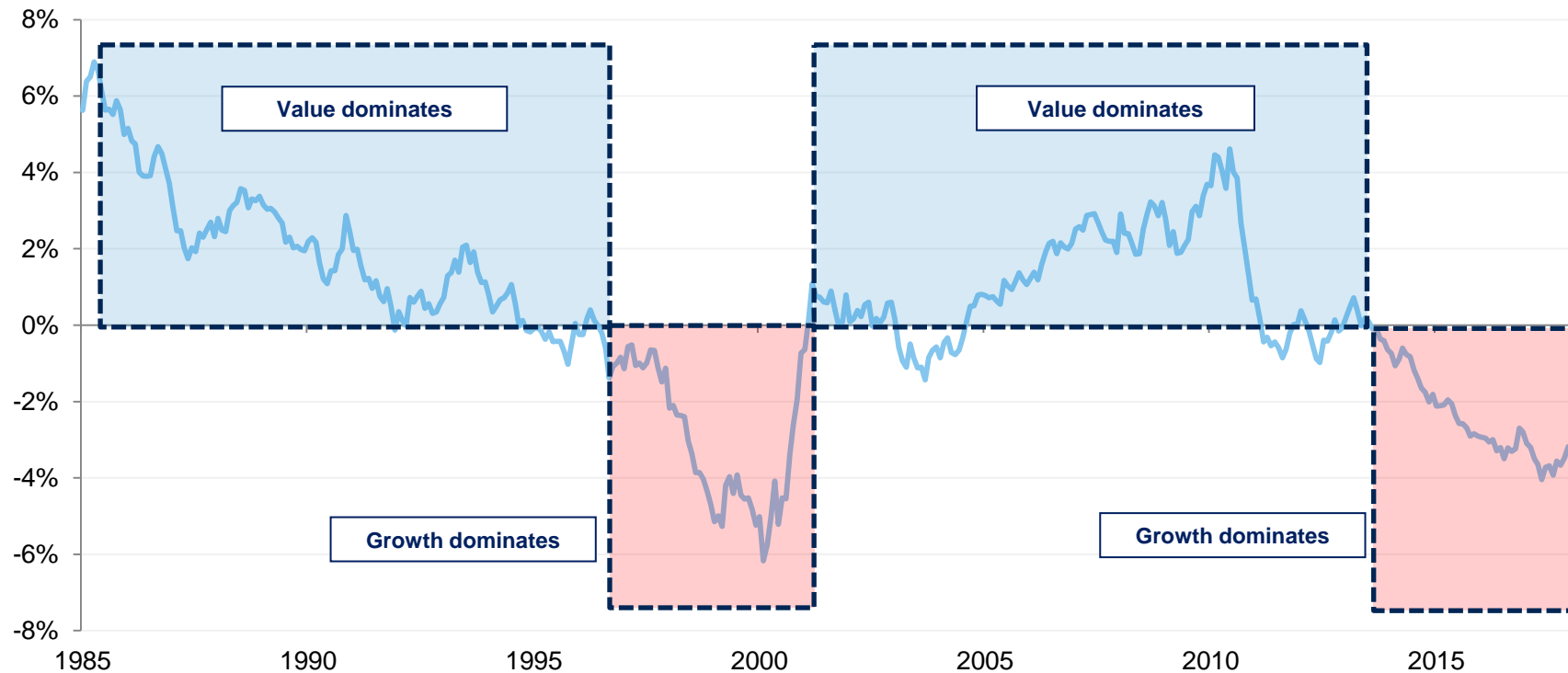
MARKETS DRIVEN BY MOMENTUM & GROWTH RATHER THAN VALUATION CONSIDERATIONS

- Growth and momentum stocks have recouped all their losses from the global sell-off, while value stocks have lagged.
- What happened on February 2 this year may prove to be the 'canary in the coal mine' warning for investors.



WHICH STYLE OUTPERFORMS?

WE ARE DUE A ROTATION BACK TO VALUE










PORTFOLIO POSITIONING AND PERFORMANCE



PORTFOLIO POSITIONING

STOCK STORIES

COMPANY	RATIONALE
	Dominates 'last mile' in retail, positive operating momentum, actively managing Big W losses, good balance sheet.
	Growth in assets with key casinos and hotels built with partners, ability to grow dividend over the next 5 years.
	Rare disease drug company, one of the leading Global Bioplasma Companies, significant free cash flow (FCF) generation.
	Leveraging data and scale to manage claims inflation & raise profit margins. Opportunities in vertical integration. All underpinned by a very solid net cash balance sheet.
	The merging of Tatts lottery assets with Tabcorp's wagering business creates diverse gaming with nearly \$1 billion in gross profit and synergies of around \$130m.
	Extremely well managed collection of retail brands. Stable low growth core brands are complemented by rapidly growing Smiggle and Peter Alexander businesses.
	Preferred insurer for participation in coming rate cycle; cheaper than peers and with a solid dividend yield.

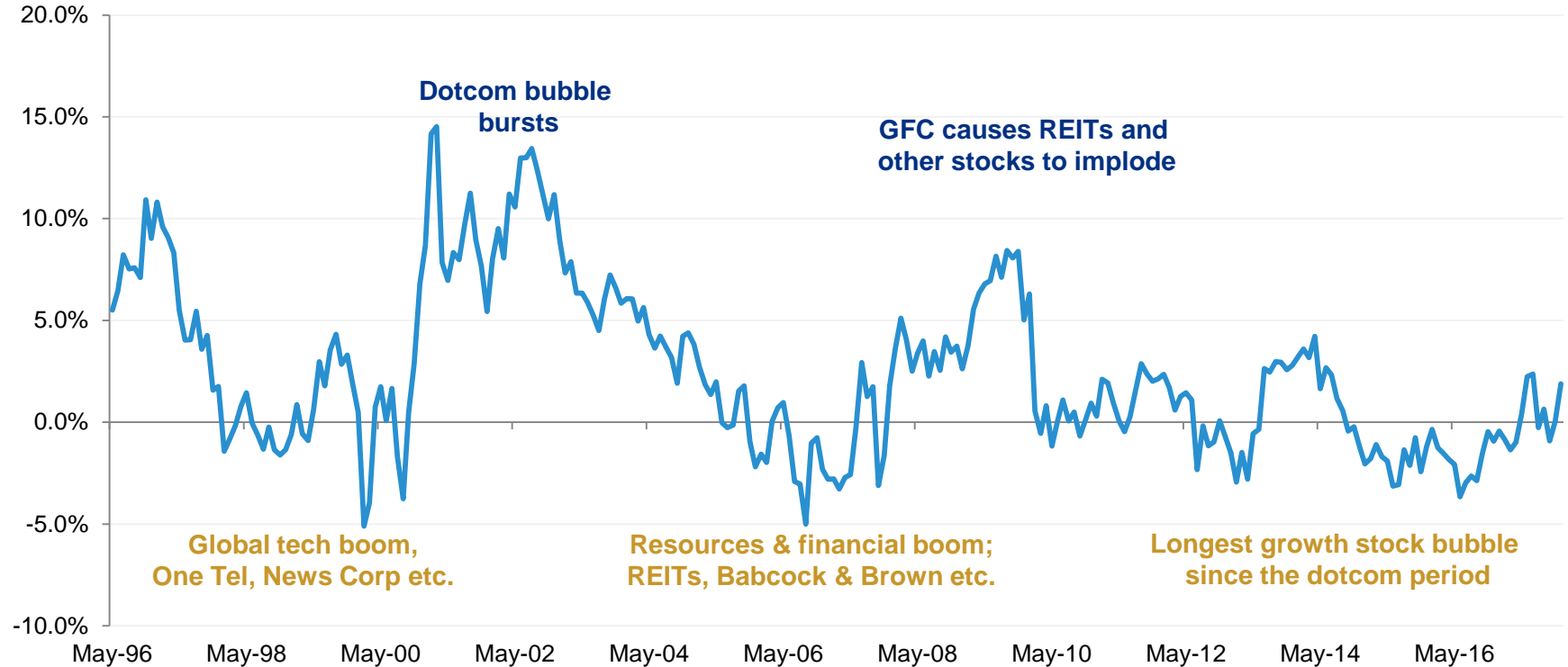
OUTPERFORMANCE IN DIFFERENT MARKETS

PERCENTAGE OF MARKETS OUTPERFORMED OVER 5 YEARS TO 28 FEBRUARY 2018

Fund	Up Markets (%)	Down Markets (%)	Overall (%)
Perpetual Wholesale Concentrated Fund	53	68	70
Perpetual Wholesale Australian Share Fund	42	68	62
Perpetual Wholesale Industrial Fund	30	70	54

TWO DECADES OF THE INDUSTRIAL SHARE FUND

AVOID BUBBLES, OUTPERFORM BUSTS 1 YEAR BEFORE FEES AND TAXES



SOLID LONG TERM RETURNS

Fund / index	1 year	2 year pa	3 year pa	5 year pa	7 year pa	10 year pa
Perpetual Wholesale Concentrated Fund	9.3	13.0	3.8	8.1	9.5	7.6
Perpetual Wholesale Australian Share Fund	6.8	10.9	2.6	6.6	7.8	6.2
Perpetual Wholesale Industrial Fund	6.7	11.3	3.1	8.5	10.3	7.4
<i>S&P/ASX300 Acc Index</i>	<i>10.3</i>	<i>16.0</i>	<i>5.2</i>	<i>7.9</i>	<i>7.7</i>	<i>5.3</i>

Source: Perpetual & FactSet. Performance figures shown for the Perpetual Wholesale Industrial Share Fund, Perpetual Wholesale Australian Share Fund and Perpetual Wholesale Concentrated Equity Fund are net of fees and pre-tax. Past performance is not indicative of future performance. Index used is the S&P/ASX 300 Accumulation Index. For periods prior to 30/03/2000 the ASX All Ordinaries Accum Index is used.

QUESTIONS?





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