Perpetual

AUSTRALIAN SHARE FUND

March 2018

TOTAL RETURNS % (AFTER FEES)

PERPETUAL	SIZE $M	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS PA	3 YRS PA	5 YRS PA	7 YRS PA
Wholesale Australian Share Fund	1,177.02	-2.29	-5.79	2.38	0.94	6.88	1.98	6.55	7.19
Benchmark*		-3.73	-3.78	3.67	2.86	11.21	3.92	7.62	7.06

* S&P/ASX 300 Accumulation Index

TOP 10 STOCKS

STOCK NAME	%
Commonwealth Bank of Australia	8.91
Westpac Banking Corporation	7.07
Woolworths Group Ltd	6.75
Shire PLC	6.06
BHP Billiton	4.88
ANZ Banking Group Ltd.	4.52
Medibank Private Ltd.	4.02
National Australia Bank Limited	4.01
Star Entertainment Group Limited	3.93
Suncorp Group Limited	3.68
TOTAL	**53.83**

MARKET COMMENTARY

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, fell 3.8% during the quarter. The market was pressured in March by escalating concerns of an impending trade war between the US and China, triggered by the Trump Government's proposed import tariffs of 25% on steel, 10% on aluminium as well as a 25% tariff on US$50 billion of Chinese imports. The market was further constrained after a sell-off in the banks following the commencement of the Hayne Royal Commission into the banking, superannuation and financial services industry. Australian companies reported their first-half financial results for FY2018 midway through the quarter. An overall positive sentiment was felt by investors as 98% of companies recorded a profit with 38% exceeding expectations and 35% falling short.

Retail sales figures released during March showed a 0.1% increase on January, further unwinding the spike seen in November and placed downward pressure on retail stocks. Material stocks reversed early-quarter gains as commodity prices slumped on fear of a global trade war. Base metals fell by 6.3% led by a decline in iron ore, dropping 11.8% on the back of falling Chinese steel prices. Energy stocks were also sluggish over the quarter as crude oil oversupply in the US pushed oil prices lower. The Reserve Bank of Australia continued to leave interest rates on hold at a record low of 1.5%, indicating that unemployment and inflation targets were progressing, however, acknowledged that further improvement was likely to be a gradual process. Global markets slumped, however, the MSCI World Net Total Return index increased 0.7% in Australian dollar terms on a weaker AUD. The decline was in part due to the impending US-China trade war and from the divestment in global tech stocks exacerbated by the Cambridge Analytical data leak scandal.

PORTFOLIO COMMENTARY

The Australian Share Fund significantly underperformed its benchmark during the quarter.

The Fund's largest overweight positions include diversified retailer Woolworths, casino operator Star Entertainment Group and biopharmaceutical company Shire PLC. The Fund's largest underweight positions include CSL (not held), Wesfarmers and Macquarie Group (not held).

Stock Contributors

The overweight position in biopharmaceutical company Shire Plc (-2.7%) contributed to relative performance. The stock price spiked upon the announcement by the Japanese-based global pharmaceutical company, Takeda Pharmaceutical Co., of its intentions to acquire Shire for the purpose of boosting its core therapeutic areas. Under current UK takeover laws, Takeda has until April 25 to decide whether to make a bid.

The overweight position in retail and investment holding company Premier Investments (+6.3%) contributed to relative performance. The stock rallied on the back of the company's first-half FY18 financial results, reporting total group revenue of $634m, up 6.88% on the prior year's first-half results and a net profit of $78.6m, rising 9.36% over the past comparative period. The company also declared an interim fully franked ordinary dividend of $0.29 per share, up 11.5% on the past comparative period. The results outperformed market expectations allowing the stock to trend higher over the quarter.

Stock Detractors

Not holding vaccine and biopharmaceutical company CSL (+10.7%) detracted from relative performance. The stock rallied over the quarter on the back of the company's first-half FY18 financial results. CSL reported a 35% rise in its net profit after tax to $1.1b and a 36% increase in earnings to $2.40 per share along with a rise in its full-year profit guidance. A half-year dividend increase from 64c to 79c per share was also announced. The company attributed the stronger performance to solid sales growth across its immunoglobin and seasonal flu vaccine products.

The overweight position in wagering and gaming company Tabcorp Holdings (-19.4%) detracted from relative performance. The stock underperformed over the quarter as the company reported a $24.6m statutory profit for the half year to December 31, 2017, down 58% from the previous year. The profit decline was mostly attributed to one-off costs incurred from the recent merger with Tatts Group. Adjusting for merger costs, profit fell 20% from the prior year to $82m, missing analyst expectations by ~$7m. The fund continues to hold the stock as we believe that it remains a quality investment and that the recent price decline was an overreaction to an otherwise reasonable set of results.

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 have 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.
