

## AUSTRALIAN SHARE FUND



June 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	1,198.25	3.53	5.90	-0.24	9.29	10.05	6.54	7.94	8.59
Benchmark*		3.19	8.36	4.27	13.24	13.53	9.14	9.99	8.97

\* S&P/ASX 300 Accumulation Index

### TOP 10 STOCKS

STOCK NAME	%
Commonwealth Bank of Australia	8.07
Woolworths Group Ltd	7.78
Westpac Banking Corporation	6.36
BHP Billiton	5.10
Suncorp Group Limited	4.54
Medibank Private Ltd.	4.28
Shire PLC	4.18
ANZ Banking Group Ltd.	4.05
Tabcorp Holdings Limited	3.60
Incitec Pivot Limited	3.45
<b>TOTAL</b>	<b>51.41</b>

### MARKET COMMENTARY

The Australian equity market finished higher over the June quarter, gaining 8.4%, as measured by the S&P/ASX 300 Accumulation Index. The market was supported by positive economic data, with the RBA holding interest rates steady over the quarter at 1.5% for a record 23 consecutive months. Real GDP increased 1.0% over the March quarter, mainly attributed to stronger exports. The ABS National House Price Index fell for the first time since September 2012 (declining 0.8%), while job figures were stronger than expected in May as the unemployment rate fell to 5.4%. Release of the Federal Budget highlighted the Government's intentions of increased infrastructure spending over 2018/19 and their anticipation of a return to fiscal surplus earlier than expected. The Government's proposed three-staged \$144b income tax cuts were passed through the Senate in June, with the first stage coming into effect on 1 July 2018.

Resource stocks rallied on stronger commodity prices. The S&P GSCI Commodities index returned 7.6% and iron ore climbed 9.3%. Energy stocks were the standout performers as Brent and WTI crude oil gained 12.2% and 14.3% respectively, boosted by supply-side concerns involving trade tensions and disruption in the Middle East as the US imposed tougher sanctions on Iran after pulling out of their nuclear deal. Coal similarly rallied, gaining 18.7%. Revelations unveiled from the Hayne Royal Commission into the banking, superannuation, and financial services industry resulted in a turbulent quarter for the sector, however the financials managed to finish in positive territory despite underperforming the market.

## PORTFOLIO COMMENTARY

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

The Fund's largest overweight positions include biopharmaceutical company Shire Plc, diversified retailer Woolworths, and health insurer Medibank Private. The Fund's largest underweight positions include CSL, Macquarie Group (not held) and Rio Tinto (not held).

### Stock Contributors

The overweight position in coal miner New Hope Corporation (+46.5%) contributed to relative performance. The stock rallied following a positive ruling handed down in the Queensland Supreme Court regarding the approval of the continuation of New Hope's New Acland Mine Stage 3 mining lease application. The ruling is to be referred to the Land Court for final consideration. New Hope stated that it welcomed the judgement and that they remain optimistic that a positive outcome will arise from the decision.

The overweight position in biopharmaceutical company Shire Plc (+16.7%) contributed to relative performance. The stock closed the quarter higher as the company reached a preliminary agreement with Japanese biopharmaceutical company Takeda Pharmaceutical Co. over the acquisition of Shire in its entirety at ~£49 per share for a cash and stock offer valued at ~£46b, Takeda management predict synergies from the merger to be in the range of US\$1.4b.

### Stock Detractors

The underweight position in vaccine and biopharmaceutical company CSL (+23.9%) detracted from relative performance. The stock rose after the company provided its full-year FY2018 earnings guidance, reporting net profit after tax of \$1.67-\$1.71b, an upgrade (at constant currency) on its prior guidance of \$1.55-\$1.60b, and exceeding consensus expectations of \$1.64b. The upgrade was based on a shift in CSL's sales mix to higher-margin products as well as better-than-expected sales of their Idelvion and Haegarda treatments.

The overweight position in wealth manager and life insurer AMP Ltd. (-28.7%) detracted from relative performance. The stock fell over the quarter as CEO, Craig Meller, chairwoman, Catherine Brenner, and several board members resigned from their positions amidst revelations surfacing from the banking royal commission alleging malpractice across their financial planning businesses, and subsequently misleading the regulator in regards to the scandal. The fund continues hold the stock as we believe the recent price decline represented an overreaction by the market and that the stock is now trading at an attractive valuation.

## 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.

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