Perpetual

AUSTRALIAN SHARE FUND

December 2017

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	1,301.92	2.81	8.67	9.56	10.31	8.89	7.10	9.65	8.81
Benchmark*		1.86	7.74	8.60	11.94	11.86	8.76	10.15	8.13

* S&P/ASX 300 Accumulation Index

TOP 10 STOCKS

STOCK NAME	%
Commonwealth Bank of Australia	8.94
Woolworths Group Ltd	7.15
Westpac Banking Corporation	6.80
BHP Billiton	5.37
ANZ Banking Group Ltd.	5.12
Shire PLC	4.57
Medibank Private Ltd.	4.45
Star Entertainment Group Limited	4.43
Tabcorp Holdings Limited	4.12
National Australia Bank Limited	3.65
TOTAL	**54.60**

MARKET COMMENTARY

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, rose +7.7% over the quarter, ending the year with an 11.9% gain. After much anticipation and a faulted start, the arrival of Amazon into the Australia market was considered largely underwhelming for consumers and competitors, alleviating initial fears of sales and margin squeezes by retailers. The finance sector was pressured during the quarter as the Federal Government ordered a Royal Commission into the banking, superannuation and financial services industry. Commodities finished stronger, particularly base metals and iron ore, rising 9.4% and 21.2%, respectively, despite steel production cuts in China, which provided a boost for the miners.

The Australian dollar was lower against most major currencies over the quarter and dipped against the US dollar, falling 0.3%. Synchronised economic growth across the globe allowed most equity markets to close the quarter higher, with the MSCI World Index gaining 5.8% in Australian dollar terms. The Japanese Nikkei was the standout market, reaching a 25-year high as foreign investors bought into the market. The US market rose as President Trump signed the Republican tax bill into law which will see the US corporate tax rate cut from 35% to 21%.

The best performing sectors for the quarter as measured by the S&P/ASX 300 Accumulation Index were Energy (+18.3%), Information Technology (+16.6%) and Materials (+13.0%). The worst performers were Utilities (+3.3%), Financials (+3.7%) and Industrials (+5.5%). As a whole, industrial stocks (+6.1%) underperformed resource stocks (+15.6%) and large cap stocks (+6.3%) underperformed small cap stocks (+13.7%).

PORTFOLIO COMMENTARY

The Australian Share Fund outperformed its benchmark during the quarter.

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

Stock Contributors

The overweight position in wagering and gaming company Tabcorp Holdings (+27.3%) contributed to relative performance. The stock rallied over the quarter following the Tatts shareholder approval and final court approval for the merger between Tabcorp and Tatts Group, effective 22 December 2017. Tabcorp announced that the merger has created a world-class, diversified gambling entertainment group, with a large national footprint and a diverse suite of product offerings across wagering, media, lotteries, Keno and gaming services.

The overweight position in coal miner New Hope Corporation (+33.5%) contributed to relative performance. First quarter earnings released by the company for the period ending 31 October showed an increase in NPAT to $52.3m from $10.5m and EBITDA increasing to $99.0m, up from $40.1m over the past comparative quarter. Total coal sales rose 16% to 2.15m ton for the quarter and oil output rose 60% to 92.4K barrels. The market reacted positively to the earnings release which exceeded analyst expectations. The stock was further assisted by rising commodity prices, with coking coal climbing 23.1% during December.

Stock Detractors

Not holding integrated energy company Origin Energy (+25.9%) detracted from relative performance. Rising energy prices over the quarter, resulting from shortages in the Australian domestic market, along with a positive first quarter FY18 trading update (exceeding analyst expectations) led to several analyst upgrades which assisted in allowing the stock to finish the quarter higher.

The overweight position in construction and building materials company Fletcher Building Ltd. (-6.5%) detracted from relative performance. The stock underperformed following an earnings update by the company, forecasting FY18 earnings of up to NZ$720M, however, noting an expected loss of up to NZ$160m from its buildings and interiors division resulting from cost blow-outs. The guidance was broadly in line with analyst expectations, however, continued uncertainty following the update led to a sell-off in the stock over the quarter. Despite these setbacks, the macroeconomic picture for the business remains strong and the fund continues to hold the stock.

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.