AUSTRALIAN SHARE FUND

December 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	961.54	-1.06	-9.74	-7.15	-7.37	1.08	3.17	2.99	8.57
Benchmark*		-0.23	-8.41	-7.03	-3.06	4.17	6.65	5.60	9.45

* S&P/ASX 300 Accumulation Index

TOP 10 STOCKS

STOCK NAME	%
Commonwealth Bank of Australia	9.95
Westpac Banking Corporation	6.17
Suncorp Group Limited	5.83
Woolworths Group Ltd	4.86
Medibank Private Ltd.	4.31
Tabcorp Holdings Limited	4.27
Star Entertainment Group Limited	4.02
Telstra Corporation Limited	3.87
Oil Search Limited	3.71
Viva Energy Group Ltd.	3.34
TOTAL	**50.33**

MARKET COMMENTARY

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, fell 8.4% over the December quarter. The sell-off was in line with a broader decline across global markets as increasing interest rates and apprehension of a slowdown in economic growth took its toll on equities. Uncertainty of a Brexit deal, and ongoing US-China trade tensions further quelled market sentiment. Discretionary retail sales figures were stagnant and related stocks lost ground due to anticipation that Christmas sales will fail to meet expectations. Resource stocks were mixed over the quarter, energy stocks lost ground as oil prices slumped on concerns of reduced demand from a slowdown in global economic growth and from increased OPEC supply. This saw crude oil fall 40.6% from its peak reached in October. Base metals weakened as the London Metals Exchange index fell 6.5%, however iron ore gained 5.1% on rising Chinese steel prices. Gold miners witnessed a strong quarter as gold rallied 7.5% on the back of risk-off selling across equity markets.

In economic news, the latest national accounts confirmed that the Australian economy grew strongly over the past year, with GDP increasing by 3.4%, however the most recent employment figures showed a slight softening to a 5.1% unemployment rate. The Commonwealth Treasury's Mid-Year Economic and Fiscal Outlook provided an improved 2019/20 budget surplus forecast from A$2.2b to A$4.1b, along with net debt expected to decline from 18.2% as a percentage of GDP in 2018/19 to 1.5% in 2028/29. The best performing sectors for the quarter, as measured by the S&P/ASX 300 Accumulation Index, were Utilities (-3.1%), Materials (-5.1%) and Real Estate (-5.3%). The worst performers were Energy (-21.6%), Communication Services (-14.9%) and Information Technology (-14.1%). As a whole, industrial stocks (-8.4%) outperformed resource stocks (-8.5%) and large cap stock (-6.8%) outperformed small cap stocks

(-13.7%). Value stocks (-11.1%) outperformed growth stocks (-13.4%) as measured from the MSCI Australia Value and MSCI Australia Growth indices, respectively.

PORTFOLIO COMMENTARY

The Australian Share Fund underperformed its benchmark during the quarter.

The Fund's largest overweight positions include banking, insurance and superannuation provider Suncorp Group, health insurer Medibank Private and casino operator Star Entertainment Group. The Fund's largest underweight positions include CSL, BHP Billiton and ANZ Bank.

Stock Contributors

The overweight position in diversified retailer Woolworths (+4.8%) contributed to relative performance. The stock climbed upon announcement that Woolworths had entered into a binding agreement to sell its 540 fuel convenience sites to British retail conglomerate EG Group for a $1.72b consideration. Terms of the sale incorporate a 15-year commercial agreement with EG that includes maintaining the existing 4-cents-a-litre fuel discounts, loyalty points scheme and supplying the petrol stations with wholesale food and groceries.

Not holding property and infrastructure developer Lendlease Group (-40.8%) contributed to relative performance. The stock fell after the company announced that it is likely to report a $350 after-tax write-down for the first-half of FY2019 resulting from financial underperformance across their Australian Engineering and Services Business. The underperformance was attributed to a decline in productivity for a small number of their projects, wet weather, access issues and from an increase in remedial work.

Stock Detractors

The overweight position in banking services provider CYBG Plc (-44.0%) detracted from relative performance. The stock fell as lawyers behind the British class action against CYBG announced the recruitment of up to 550 new claimants to the lawsuit in an attempt to boost momentum into the long-running dispute. The class action relates to product disclosure issues involving ~8,300 fixed-rate business loans that were issued to CYBG customs between 2001 and 2012. Despite this headwind we believe the market is currently undervaluing the company, and as such, continue to hold the stock.

The underweight position in diversified miner BHP Billiton (-1.2%) detracted from relative performance. The stock gained ground following the successful completion of a US$5.2b off-market share buyback and subsequent announcement of a fully-franked A$1.42 per share special dividend. The final buy-back price was set at A$27.62, equating to a 14% discount to the market price at the time of the announcement. The total buyback amounted to 8.3% of the equity issued by BHP.

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.