

Wholesale Funds

PERPETUAL WHOLESAL AUSTRALIAN SHARE FUND

June 2019

FUND FACTS

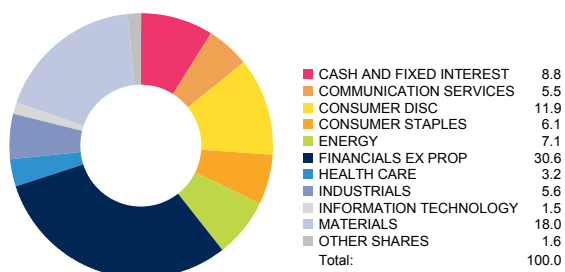
Investment objective: Aims to provide long-term capital growth and income through investment in quality shares.

FUND BENEFITS

Provides investors with the potential for maximising capital growth and income, with broad market exposure, through active management by one of Australia's most experienced investment management teams.

Benchmark: S&P/ASX 300 Accum. Index
Inception Date: February 1997
Size of Portfolio: \$983.43 million as at 30 Jun 2019
APIR: PER0049AU
Management Fee: 0.99%*
Investment style: Active, fundamental, bottom-up, value
Suggested minimum investment period: Five years or longer

PORTFOLIO SECTORS



TOP 10 STOCK HOLDINGS

	% of Portfolio
Commonwealth Bank of Australia	8.5%
Westpac Banking Corporation	6.3%
Suncorp Group Limited	5.6%
Telstra Corporation Limited	5.5%
Woolworths Group Ltd	4.7%
National Australia Bank Limited	4.3%
Medibank Private Ltd.	4.3%
Tabcorp Holdings Limited	3.4%
Ancor PLC	2.9%
Fletcher Building Limited	2.8%

NET PERFORMANCE - periods ending 30 June 2019

	Fund	Benchmark #	Excess
1 month	1.92	3.64	-1.73
3 months	5.95	8.05	-2.10
FYTD	5.81	11.42	-5.61
1 year	5.81	11.42	-5.61
2 year p.a.	7.54	12.33	-4.79
3 year p.a.	8.62	12.82	-4.20
4 year p.a.	6.36	9.71	-3.35
5 year p.a.	5.55	8.88	-3.33
7 year p.a.	10.13	11.83	-1.70
10 year p.a.	9.72	9.91	-0.19
Since incep.	10.24	8.89	+1.35

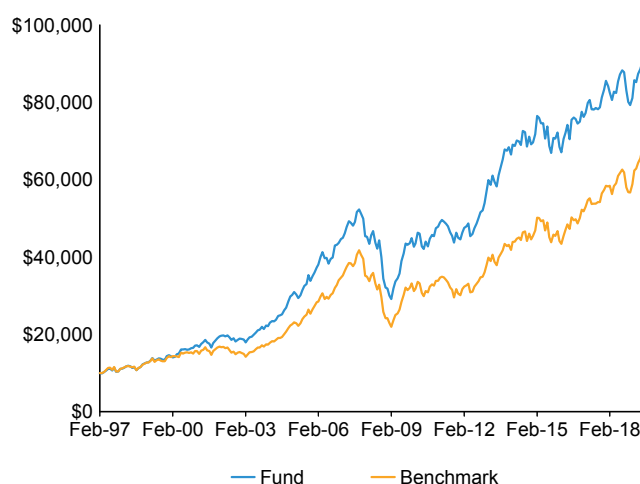
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS

	Portfolio	Benchmark
Price / Earnings	14.2	16.3
Dividend Yield	5.5%	4.4%
Price / Book	1.2	2.0
Debt / Equity	39.8%	36.1%
Interest cover	8.9	13.5
Return on Equity	11.2%	13.5%

* source Factset

GROWTH OF \$10,000 SINCE INCEPTION



*Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

MARKET COMMENTARY

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, ended 8.0% higher over the June quarter, boosted by positive political and economic-related developments. Market sentiment improved upon release of the Federal budget by the Morrison Government during May, unveiling a \$302b package of tax cuts to be rolled out over the next decade. The surprise Liberal Party victory in the Federal election provided further relief for equities on the grounds of the Party's pro-economic policy on capital gains tax, negative gearing, and franking credits. A 25-basis point cut in the official interest rate by the Reserve Bank to a record low of 1.25% (with expectations of additional cuts to come) also assisted the market over the quarter. March-quarter GDP gained +0.4% from the past quarter (up from +0.2%), though fell just shy of a +0.5% consensus growth rate.

Energy and mining stocks benefitted from gains in commodity prices as iron ore strengthened on Brazilian supply issues and increasing Chinese steel demand. Gold prices had a solid run on expectations of further US interest rate cuts amid slowing inflation and stalling global economic growth. Australian Coal, however, receded over the quarter on delays at customs in Chinese ports. Oil prices were volatile in response to heightened geopolitical tension between the US and Iran, though recovered later in the quarter. Property stocks were hampered as housing price data for the March-quarter showed a decline across all capital cities with Sydney being the worst performer (falling 3.9%).

The best performing sectors for the quarter, as measured from the S&P/ASX 300 Accumulation Index, were Communication Services (+12.2%), Health Care (+11.5%) and Financials (+10.8%). The worst performers were Energy (-0.2%), Utilities (+1.9%) and Real Estate (+4.1%). As a whole, industrial stocks (+8.9%) outperformed resource stocks (+5.0%) and large cap stocks (+9.2%) outperformed small cap stocks (+3.7%). Value stocks (+9.1%) outperformed growth stocks (+8.1%) as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include health insurer Medibank Private, financial services provider Suncorp Group, and communications provider Telstra Corporation. The Fund's largest underweight positions include CSL, BHP Group and ANZ Bank.

The overweight position in health insurer Medibank Private (+26.4%) contributed to relative performance. The stock surged on the unexpected Liberal Party victory in the Federal election, quelling expectations of a proposed 2%p.a. cap on private health insurance premium increases, that was proposed under a Labor Government. The stock was further supported on reports that APRA has ramped up its warnings of potential forced mergers of health insurers that are facing sustainability challenges due to decreasing affordability of health insurance policies.

The overweight position in home improvement products manufacturer Dulux Group (+31.8%) contributed to relative performance. The stock rose over the quarter as its \$3.8b takeover offer by Japan's Nippon Paint moved closer to completion following completion of an independent expert report carried out by Grant Samuel, indicated the acquisition is in the best interest of Dulux shareholders in the absence of a superior proposal. The \$9.80-a-share offer was considered to be towards the higher end of its valuation range of between \$8.53 and \$9.93.

The overweight position in petroleum producer Viva Energy Group (-13.9%) detracted from relative performance. The stock fell abruptly following a \$35m downgrade to the company's earnings on the back of the recent rally in global oil prices, which is likely to adversely impact retail fuel margins. Management stated that despite the current challenging trading environment, the company remains focussed on implementing strategies to improve retail price competitiveness and boosting sales volumes.

The overweight position in financial services provider Suncorp Group (-1.7%) detracted from relative performance. The stock fell over the quarter as Suncorp announced that Michael Cameron will step down from his role as Managing Director and CEO, with current CFO Steve Johnston being appointed as his replacement in an acting position. Suncorp confirmed that while the external operating environment remains challenging, its cash earnings for the financial year are in line with market expectations yet have reiterated that investment-market performance and unforeseen regulatory costs are likely to affect its financial results and outlook. The fund maintains its position in the stock as it continues to trade at an attractive valuation relative to its competitors.

OUTLOOK

Market sentiment has moved from "synchronised global growth" to one of caution focused on the macroeconomic headwinds facing both the global and domestic economy. Globally, investors are concerned amongst other things by the slowing growth rates in China, geopolitical risks including the impact of trade wars and tightening central bank liquidity. Domestically, the economy and consumer are facing additional headwinds from falling property prices, a significant East Coast drought and ongoing elevated utility costs. These headwinds and potential risks have been very well telegraphed by the investment community and Australian media. The timing and severity of any potential downturn in the economy, if there is in fact one, is difficult to predict. Given that we are looking a little longer term than the next results we try to look through cycles when making investment decisions. What is important though is investing in companies with a robust balance sheet, strong market position and a dynamic management team with proper incentives which will put us in good stead.

The Ordinaries benchmark prior to 1/4/2000 was the ASX All Ordinaries Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX 300 Accumulation Index.

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The PDS for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in that fund. The PDS can be obtained by calling 1800 022 033 or visiting our website www.perpetual.com.au (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries).

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