Wholesale Funds

PERPETUAL WHOLESALE INCOME SHARE FUND

June 2019

FUND FACTS

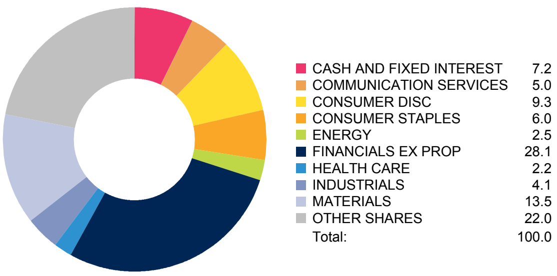
Investment objective: To provide investors with exposure to a diversified portfolio of tax-effective high income yielding Australian securities that are also expected to produce some long-term capital growth. To provide above market dividend yield as measured by the S&P/ASX 200 Accumulation Index and capital growth over the medium to long term through investment in quality shares.

FUND BENEFITS

To provide investors with regular income through investment in quality securities.

Benchmark: S&P/ASX 200 Accum. Index
Inception Date: December 1995
Size of Portfolio: $164.38 million as at 30 Jun 2019
APIR: PTC0002AU
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	8.4%
Woolworths Group Ltd	6.0%
Westpac Banking Corporation	5.9%
Telstra Corporation Limited	4.7%
Suncorp Group Limited	4.1%
Charter Hall Group	4.0%
BHP Group Ltd	3.8%
Unibail-Rodamco-Westfield SE Stapled Secs	3.5%
ANZ Banking Group Ltd.	3.3%
Aveo Group	3.3%

NET PERFORMANCE - periods ending 30 June 2019

	Fund	Benchmark	Excess
1 month	1.78	3.70	-1.92
3 months	5.98	7.97	-1.99
FYTD	5.58	11.55	-5.96
1 year	5.58	11.55	-5.96
2 year p.a.	5.60	12.28	-6.68
3 year p.a.	8.38	12.88	-4.50
4 year p.a.	7.39	9.66	-2.27
5 year p.a.	8.67	8.85	-0.18
7 year p.a.	11.26	11.95	-0.69
10 year p.a.	10.96	10.02	+0.94
Since incep.	9.10	9.34	-0.25

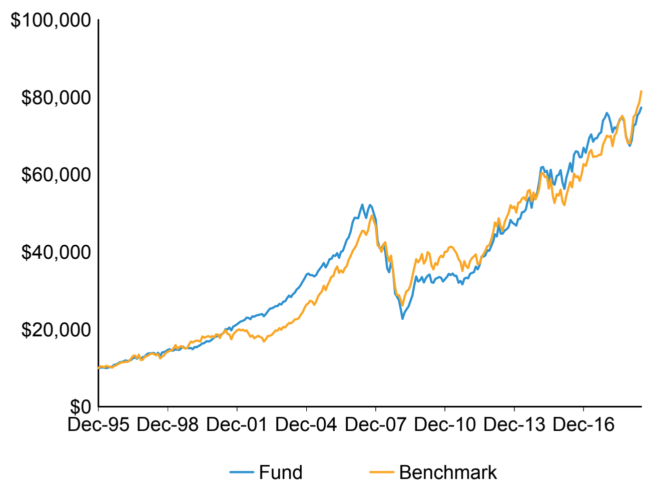
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS

	Portfolio	Benchmark
Price / Earnings	13.3	16.2
Dividend Yield	6.4%	4.4%
Price / Book	1.0	2.0
Debt / Equity	39.6%	36.2%
Interest cover	8.9	13.8
Return on Equity	9.8%	13.6%

* 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 200 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 by the S&P/ASX 200 Accumulation Index, were Communication Services (+12.7%), Financials (+10.9%) and Health Care (+10.7%). The worst performers were Energy (-0.3%), Utilities (+1.9%), and Information Technology (+3.9%). 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 real estate investment trust Charter Hall Group, diversified retailer Woolworths, and commercial real estate company Unibail-Rodamco-Westfield. The Fund's largest underweight positions include CSL (not held), BHP Group, and Wesfarmers (not held).

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.

Not holding diversified miner South32 Ltd (-14.7%) contributed to relative performance. The stock sold off following the company's March-quarter trading update, falling below market expectations with production volumes softer across the board. Alumina output fell by 13% quarter-on-quarter, met coal production by 37%, and alumina output by 13%. Payable nickel was also down 10%. The company, however, maintained its FY2019 operating unit cost guidance for all operations.

The overweight position in commercial real estate company Unibail-Rodamco-Westfield (-11.2%) detracted from to relative performance. The stock fell over the quarter following multiple broker revisions to the company, citing a more conservative growth outlook and the potential risk of declining shopping centre values accompanied by slowing rental income. The Fund continues to hold the stock on the grounds of its strong asset base (shopping malls in prime locations) and its potential for meaningful synergies yet to be realised from its acquisition of Westfield.

The overweight position in casino operator Star Entertainment Group (-1.4%) detracted to relative performance. The stock fell following an earnings downgrade by the company on the back of weaker domestic growth and falling demand from the Chinese VIP market. Star expects full-year FY2019 EBITDA to decline by up to $18m (~3%) on FY2018 as turnover from VIP customers fell 31.1% year-on-year for the six months to 8 June 2019.

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.

MORE INFORMATION

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