Perpetual Investments

INSTITUTIONAL UPDATE

November 2018

AUSTRALIAN EQUITIES STRATEGIES

The Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, continued its decline over November, ending 2.2% lower. The sell-off was driven largely by a decline in resource stocks, which struggled on the back of a slump in commodity prices. Both Brent and WTI crude declined over 20% due to a loosening of US sanctions on Iran, and increased production from OPEC and Russia, which saw an increase in global oil supplies. Coal prices also suffered, falling 3.3%, while iron ore dropped 13.4% on reduced demand from Chinese steelmakers. Base metals, however, ended higher with the London Metals Exchange Index gaining 1.9%.

In economic news, employment figures reported a 32,800 gain in positions over October while the participation rate also rose conservatively to maintain the unemployment rate at its six-year low of 5.0%. Consumer confidence rose, however business confidence fell slightly. The Reserve Bank of Australia kept the official interest rate on hold at 1.5% yet signalled that employment and inflation targets may be reached sooner than expected. Retail sales figures were stagnant, with clothing and footwear being the greatest drag, falling 1.2%. The Australian dollar rallied against most of its major trading partners, gaining 3.3% against both the US dollar and the Euro and by 2.3% in trade-weighted terms.

The best performing sectors for the month, as measured from the S&P/ASX 300 Accumulation Index, were Financials (+1.4%), Information Technology (+1.0%) and Industrials (-0.6%). The worst performers were Energy (-10.7%), Materials (-4.7%) and Health Care (-4.0%). As a whole, industrial stocks (-1.1%) outperformed resource stocks (-6.6%) and large cap stocks (-2.0%) underperformed small cap stocks (-0.4%). Value stocks (+0.3%) outperformed growth stocks (-4.8%) as measured from the MSCI Australia Value and MSCI Australia Growth indices, respectively.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Wholesale Australian Share Fund	-3.6	-9.0	-2.4	-2.8	4.3	5.3	4.4	9.6	10.6
S&P/ASX 300 Accumulation Index	-2.2	-9.3	-3.8	-1.0	6.5	7.7	5.8	9.3	8.9
Excess	-1.4	+0.3	+1.5	-1.8	-2.2	-2.4	-1.4	+0.3	+1.6
Perpetual Wholesale Concentrated Equity Fund	-2.1	-8.4	-2.4	-1.1	6.8	7.1	6.3	11.1	11.7
S&P/ASX 300 Accumulation Index	-2.2	-9.3	-3.8	-1.0	6.5	7.7	5.8	9.3	8.9
Excess	0.0	+0.9	+1.5	-0.1	+0.3	-0.5	+0.4	+1.8	+2.8
Perpetual Wholesale Smaller Companies Fund	-4.1	-10.1	-6.7	-4.2	7.0	7.8	8.8	11.3	14.7
S&P/ASX Small Ordinaries Accumulation Index	-0.4	-10.3	-8.0	-1.6	8.9	10.4	7.1	4.8	7.8
Excess	-3.7	+0.1	+1.2	-2.6	-1.9	-2.5	+1.7	+6.5	+6.9
Perpetual Wholesale Ethical SRI Fund	-3.9	-11.8	-7.2	-7.4	0.9	4.0	6.4	13.8	15.6
S&P/ASX 300 Accumulation Index	-2.2	-9.3	-3.8	-1.0	6.5	7.7	5.8	9.3	8.9
Excess	-1.7	-2.5	-3.3	-6.3	-5.7	-3.7	+0.6	+4.6	+6.7
Perpetual Wholesale SHARE-PLUS Long-Short Fund	-3.0	-7.7	-5.2	-2.9	7.4	6.5	7.8	13.5	13.7
S&P/ASX 300 Accumulation Index	-2.2	-9.3	-3.8	-1.0	6.5	7.7	5.8	9.3	8.9
Excess	-0.9	+1.6	-1.3	-1.9	+0.9	-1.2	+2.0	+4.2	+4.8
Perpetual Pure Equity Alpha Fund	-1.4	2.0	-0.1	6.8	8.1	7.0	8.5	-	-
RBA Cash Rate Index	0.1	0.4	0.8	1.5	1.5	1.6	1.9	-	-
Excess	-1.5	+1.7	-0.9	+5.3	+6.6	+5.4	+6.6	-	-

GLOBAL EQUITIES STRATEGIES

The MSCI World Accumulation Index recorded a 1.8% fall over November as measured in Australian dollar terms. The decline was due to a stronger exchange rate which rallied against most of its major trading partners, rising 3.3% against both the US dollar and the Euro, by 2.6% against the Chinese RMB, and by 2.3% in trade-weighted terms. Emerging markets (3.0%) outperformed developed markets (1.2%) for the first time since March. The Australian market was the worst performer of the developed markets, falling by 2.2% on the back of a heavy sell-off across commodities. European markets weakened following resistance in Brexit negotiations and on softer economic data which saw the UK FTSE 100 Index fall 2.1% and the EURO Stoxx 50 Index close 0.8% lower.

The US S&P500 gained 1.8% as mid-term elections saw the Republicans retain the Senate, though lose the House of Representatives to the Democrats, which instilled some confidence back into the market. Cooperative talks between the US and China to postpone plans of imposing more tariffs on Beijing, along with commentary from the Federal Reserve to suspend future interest rate rises, further boosted sentiment while also supporting a 4.2% rise of the MSCI China Price Index.

Global resource stocks struggled due to a difficult month for commodities. Both Brent and WTI crude declined over 20% due to a loosening of US sanctions on Iran, and increased production from OPEC and Russia which saw an increase in global oil supplies. Coal prices also suffered, falling 3.3%, while iron ore dropped 13.4% on reduced demand from Chinese steelmakers. Base metals, however, ended higher with the London Metals Exchange Index gaining 1.9%. The best performing sectors for the month, as measured from the MSCI

World Accumulation Index in Australian dollar terms, were Health Care (+2.3%), Real Estate (+1.5%) and Telecommunication Services (+0.9%). The worst performers were Energy (-6.4%), Information Technology (-4.8%) and Materials (-3.8%). As a whole, value stocks (+1.4%) outperformed growth stocks (+0.6%) as measured from the MSCI World Value and MSCI World Growth indices, respectively.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Wholesale Global Share Fund Class A	-0.4	-7.5	-1.3	2.4	12.6	8.2	13.7	18.8	-
MSCI World Total Return A$	-1.8	-6.7	1.9	4.1	11.9	8.2	11.6	15.8	-
Excess	+1.5	-0.8	-3.2	-1.7	+0.6	0.0	+2.1	+3.0	-

CASH & FIXED INCOME STRATEGIES

November was a volatile month for risk assets. Fears of potential policy error by the US Federal Reserve, geopolitical uncertainties and negatively biased idiosyncratic events underpinned fragile investor sentiment. Although having appeared resilient early in the month, spreads of domestic cash bonds pushed wider as time progressed, following the trend observed in offshore equivalents earlier in the period.

Broadly positive employment and economic data announcements early in the month were tempered by a variety of headwinds. Continued US-Sino trade tensions remained in focus, while political uncertainty associated with the midterm elections in the US occupied investors minds. Markets grappled with ongoing concerns over the global economic growth outlook, Italy's budget clash with the European Commission and Brexit related risk. Concerns around the volume of lower quality corporate bonds outstanding (primarily in the US) also served to compound nervousness.

While offshore cash bonds succumbed to widening pressures early in the month, domestic spreads were initially relatively resilient. This was in part attributable to diminished volumes of local market new issuance holding spreads firm. However, as primary market activity increased, lacklustre demand for the significant volumes of supply resulted in significant new issuance concessions relative to where comparable secondary market equivalents were pricing. The proposed change by the Australian Prudential Regulation Authority (APRA) for tier two to form a substantial part of the major banks Total Loss Absorbing Capacity (TLAC) requirements also prompted spreads of major bank sub-debt to shift significantly wider following the proposal.

Although domestic employment data was robust and Australia's terms of trade higher, evidence of less favourable dynamics in the housing market served to temper sentiment regarding domestic economic conditions. This prompted the Reserve Bank of Australia (RBA) to maintain their ongoing dovish tone, leaving interest rates at 1.5% while indicating that current monetary conditions are appropriate for the growth objectives of the domestic economy.
A$13.8bn printed across both corporate and SSA issuers. Westpac printed a multi-tranche A$4.25bn deal, the five year FRN component pricing at three month BBSW +95bps. JPMorgan Chase were also active with their A$450m dual-tranche callable deal, while Toyota Australia were in the market with a dual tranche A$575m deal. Activity in the domestic securitised market saw seven primary deals, which included Bank of Queensland pricing its dual tranche A$1bn 'REDS EHP 2018-1' ABS transaction and Bluestone launching its 'Sapphire 2018-3' RMBS deal. Domestic cash bonds outperformed their synthetic iTraxx equivalents, which were more volatile as a result of dynamics in broader risk assets generally.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual High Grade Treasury Fund	0.2	0.7	1.4	2.8	3.2	3.3	3.5	4.3	4.9
Bloomberg AusBond Bank Bill Index	0.2	0.5	1.0	1.9	1.8	1.9	2.2	2.5	3.1
Excess	0.0	+0.2	+0.4	+0.9	+1.3	+1.4	+1.4	+1.7	+1.8
Perpetual Credit Income Fund	-0.1	0.4	1.2	2.9	4.3	4.5	4.4	5.4	5.9
Bloomberg AusBond Bank Bill Index	0.2	0.5	1.0	1.9	1.8	1.9	2.2	2.5	3.1
Excess	-0.3	-0.1	+0.2	+0.9	+2.5	+2.6	+2.3	+2.8	+2.8
Perpetual Active Fixed Interest Fund	0.2	0.2	1.8	2.7	4.2	4.5	5.4	6.0	6.6
Bloomberg AusBond Composite Index	0.2	0.3	1.8	2.5	3.2	3.3	4.5	4.6	5.2
Excess	-0.1	-0.1	+0.1	+0.3	+1.0	+1.2	+0.9	+1.4	+1.4
Perpetual Pure Credit Alpha Fund W Class	0.1	1.0	2.1	4.4	5.9	6.4	6.7	-	-
RBA Cash Rate Index	0.1	0.4	0.8	1.5	1.5	1.6	1.9	-	-
Excess	0.0	+0.6	+1.3	+2.9	+4.4	+4.8	+4.8	-	-
Perpetual Ethical SRI Credit Fund	0.0	0.6	1.2	-	-	-	-	-	-
Bloomberg AusBond Bank Bill Index	0.2	0.5	1.0	-	-	-	-	-	-
Excess	-0.1	+0.1	+0.2	-	-	-	-	-	-

MULTI-ASSET STRATEGIES

The backdrop for global equity markets continues to be challenging.

- Global growth is slowing (although it is still expected to remain above trend next year) and there are question marks over the outlook for the two big engines of growth – the US and China. In the US, the boost to growth from easy fiscal policy (US President Trump's tax cuts) will dissipate next year at a time when the lagged impact of a long monetary policy tightening cycle may start to bite. While in China, growth has already slowed significantly in response to a crackdown on the shadow banking system last year and the various measures undertaken by the authorities to ease macro policy settings are yet to have a measurable impact on the economy.
- The outlook for global profit growth is also deteriorating, in part due to slowing global growth, but also as the one-off effect of the corporate tax cuts in the US drop out of the calculation. Global profits were growing at close to 20% recently, but next year growth is likely to be low single digits.
- The outlook for monetary policy is also a challenge for equities and other risk assets. In particular, 'quantitative tightening' by global central banks continues. We think this is making a significant contribution to the indifferent performance of all assets this year (following a stellar 2017 when all asset performed strongly at the same time as quantitative easing was in place). The US Federal Reserve (the Fed) is

also expected to continue to raise short term interest rates in December and further increases are likely in 2019 (although the Chairman of the Fed, Jerome Powell, indicated last month that these will be data dependent).
- The outlook for Europe remains troubled by an array of risks including Brexit, the budget woes of Italy, the weakness of the Chinese economy and a banking system which remains under significant duress.
- Finally, the broader geo-political backdrop remains fraught with the trade war and growing strategic rivalry between the US and China being the most important of many issues.

Emerging economies have stopped being the focal point of this sell-off for the time being. There have been two major concerns in emerging markets. First, the Turkish Lira, Argentinian Peso and, to a lesser extent, the Brazilian Real have been extremely weak this year, but have stabilised in the past two months. Secondly, emerging market equities (which are dominated by China, Korea, Taiwan and India) have under-performed significantly this year, but that also stopped in the past month. It is difficult to say if this is a temporary reprieve or something more sustainable.

Australia is a special case with the outlook determined not only by the above factors (particularly the performance of the Chinese economy), but also the housing sector where prices continue to weaken amid a tightening of credit provision by banks. The incredible longevity of the economic expansion in Australia is under threat again in 2019. The risk is that should the weakness in house prices cause the savings rate to increase, this would, in an environment of very weak wages growth, leave the consumer particularly exposed. It remains central case that the economy muddles through yet again, but some tail risk hedges are still very desirable in our judgement (in particular, Australian dollar put options and protection against a reassessment of Australian sovereign credit risk).

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Wholesale Diversified Growth Fund	-1.1	-3.0	0.8	1.5	5.6	5.2	5.8	8.5	7.8
Moderate Growth Index	-0.5	-3.4	0.2	1.9	6.0	5.7	6.2	7.7	6.9
Excess	-0.7	+0.4	+0.6	-0.5	-0.5	-0.5	-0.4	+0.8	+1.0
Perpetual Wholesale Balanced Growth Fund	-1.5	-4.2	0.4	0.9	6.3	5.9	6.4	9.8	8.7
Balanced Growth Index	-0.7	-5.0	-0.4	1.7	7.0	6.6	7.0	9.0	7.8
Excess	-0.8	+0.7	+0.8	-0.8	-0.7	-0.7	-0.6	+0.8	+0.9
Perpetual Diversified Real Return Fund - Class W	-1.0	-2.3	0.4	0.7	4.7	4.7	5.4	7.6	-
Australian CPI +5% (Target Objective)							7.0	7.1	

MORE INFORMATION

Matthew Cahill
Head of Institutional Business

P: +61 (0)3 8628 0416 M: 0418 146 624
Matthew.Cahill@perpetual.com.au

George Moromalos
Head of Research and Consultant Relationships
P: +61 (0)2 9229 3981 M: 0412 625 771
George.Moromalos@perpetual.com.au

Total returns shown have been calculated using gross performance and assuming reinvestment of distributions. No allowance has been made for fees or taxation. Past performance is not indicative of future performance.

* Due to CPI data being released by the Australian Bureau of Statistics later in the month after quarter end, CPI figures reported are lagged by one month.

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