Perpetual Investments

THE CASE FOR GLOBAL SHARES

If your portfolio is mainly comprised of Australian investments, you're not alone. Most Australians tend to invest 'at home'. Markets and companies are familiar, dividend imputations are attractive and currency risk feels like a hassle. But is this strategy appropriate through all economic cycles and are there opportunities you might be missing elsewhere?

AUSTRALIA IS A DROP IN THE OCEAN OF INVESTMENT OPPORTUNITY

The combined value of all shares around the globe is well over $US74.5 trillion.[1] Australia is but a drop in this ocean, representing only around 1.7% of the total world sharemarket.[1]

THE AUSTRALIAN SHAREMARKET IS HIGHLY CONCENTRATED BY SECURITY AND INDUSTRY

The financial services and resources sectors, combined, represent over 51% of the Australian market,[2] while the top ten companies represent approximately 44% of the market. Why is this problematic? Simply put, because our overall market performance tends to be driven by the performance of two dominant industries.

When those dominant industries and companies are performing well, this is not an issue. But if they are facing headwinds, Australian sharemarket investors are likely to be vulnerable to poor performance.

Over 2014, for example, we saw how weak performance from the metals and mining sector constrained the gains of the broader sharemarket.

GLOBAL SHARE INVESTING OFFERS EXPOSURE TO COMPANIES IN DIFFERENT INDUSTRIES

Healthcare and information technology represent 27%[3] of the global sharemarket. In Australia, they represent just 8.8% and 2.2%,[2] respectively.

By gaining exposure to industries in global markets that are under-represented in Australia, you could potentially enhance the risk and return characteristics of your portfolio.

1 Source: World Federation of Exchanges members, affiliates, correspondents and non-members. As at 31 December 2018.
2 As represented by the S&P/ASX 300 Index. As at 31 December 2018.
3 As represented by the MSCI World Index. As at 31 December 2018.

CHART 1: INDUSTRY REPRESENTATION IN AUSTRALIAN VERSUS GLOBAL SHARE MARKETS

Index sector weights as at 31 December 2018

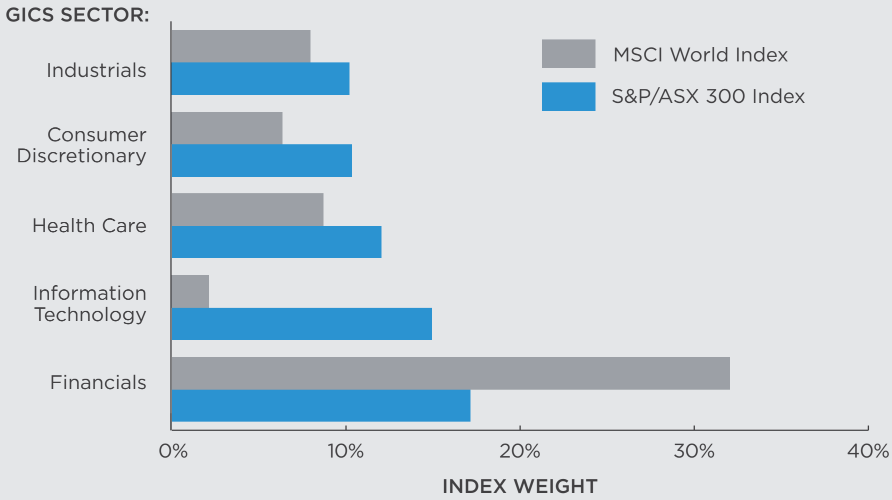

Chart 1 shows the top five industries in the MSCI World Index against the corresponding weight in the S&P/ASX 300 Index.

As you can see, Australia misses out on some of the world's strong growth industries.

A global share fund provides you with the opportunity to gain exposure to these companies or industries.

DIVERSIFICATION IMPROVES RISK AND RETURN POTENTIAL

Investing in global shares provides geographical and industry diversification, which may improve a portfolio's risk and return potential.

In accessing companies that operate in a different environment from Australia, you can potentially benefit from broader opportunities.

Country-specific drivers of share performance, such as economic growth, politics and regulatory issues have the potential to create wide variations in share performance over differing timeframes. This creates abundant opportunities for active investors who are continually seeking high-quality companies and are not limited to investing in a single country or region.

GLOBAL SHARES OFFER GREATER OPPORTUNITIES AND ACCESS TO FAMILIAR BRAND NAMES

Investing in global shares provides access to specific regional opportunities such as Royal Philips NV, and to well-known global companies such as NASDAQ, Oracle and Johnson & Johnson.

By investing overseas, you can also capture the growth potential of global giants such as Microsoft, Amazon, Alphabet Inc, and other market leading companies with broad geographical reach.

In addition to the giants, you can also tap into the next generation of Apples and Samsungs.

A LONG-TERM INVESTMENT

Global shares are not for the short-sighted. Share investors – global and Australian – require long-term focus. Investors should expect to hold their investments for several years. If your investment timeframe is short-term, an investment in global shares is unlikely to be suitable.

HOW DO GLOBAL SHARES FIT INTO A BALANCED PORTFOLIO?

Every investor has different needs for income and growth, a unique tax situation and a personal risk tolerance. You need to consider all these four factors when making investment decisions.

TABLE 1: TOP TEN COMPANIES IN THE MSCI WORLD INDEX BY MARKET CAPITALISATION AS AT 31 DECEMBER 2018

TOP 10 COMPANIES	
1	Apple
2	Microsoft Corp
3	Amazon.com
9	Johnson & Johnson
5	JPMorgan Chase & Co
6	Alphabet C*
4	Facebook A
8	Alphabet A*
7	Exxon Mobil Corp
10	Berkshire Hathaway B

Source: FactSet

*Alphabet Inc. Class A shares are held by regular investors with regular voting rights, while Class C shares investors have no voting rights (often held by employees and Class A stockholders).

UNIQUE OPPORTUNITIES HELD BY PERPETUAL

NASDAQ OMX	Nasdaq is a leading equities and derivatives exchange in North America and Scandinavia. It is also a global leader in market technology and generates a high degree of recurring revenue from selling market data, listing services and corporate solutions. At Perpetual, we have held the stock since 2011, where earnings per share (EPS) has grown from US$2.50 per share to over US$4 per share and the share price has appreciated from US$23 to US$91. We like the company as its operations have high barriers to entry, generate strong free cashflow and have a predictable recurring earnings stream.
Alphabet	Alphabet Inc. owns the leading search engine globally, Google, as well as a number of leading internet businesses such as Youtube, Android, Chrome, Gmail and Maps. Each of these core businesses have over one billion monthly active users. The founders, Larry Page, Sergey Brin and Eric Smidt still control the company and have done an exceptional job in building out a technology powerhouse. We like the business due to the structural tailwinds of growing internet advertising expenditure on their search engine, the net cash balance sheet and strong free cashflow that the business generates and the management team's ability to build out leading businesses over time. At Perpetual, we have been invested in Alphabet/Google since 2011.
Julius Bär	Julius Bär is a Swiss private bank which was established by Julius Bär in 1901. It has grown over the past century into the world's largest pure private banking group focusing on managing funds for their clients with CHF 355 billion of assets under management. The management team have grown net inflows by 4–6% per annum over the past decade by building out an extensive network of relationship managers in 50 locations around the world. At Perpetual, we have held the company since July 2014.
BRITVIC	Britvic is a leading manufacturer and distributor of carbonated and non-carbonated drinks, predominantly in Europe. The company was founded in 1938 and is successfully growing with the transition away from drinks with high sugar content to more healthy options. Their brands include Robinsons and Fruit Shoot, and Britvic are the bottler for Pepsi in the UK and Ireland. Most impressively, Britvic has grown Pepsi Max's market share consistently in the UK over the past decade. The business is led by a strong management team and we expect them to continue to deliver good earnings growth into the foreseeable future.
ORACLE	Oracle is the leader in database software management, with over 40% market share globally. The business was founded by Lawrence Ellison in 1977 and he has done an exceptional job in growing the business over the years and continues to be the chairman and largest shareholder. Oracle has built out a suite of cloud applications over the past decade and is well-positioned to grow as companies shift their databases and applications into the cloud. At Perpetual, we have held the stock since July 2013. As with most of our investments, the company has a strong balance sheet and generates strong free cashflow, and we expect it to do well over the medium term.

WHAT ABOUT CURRENCY RISK?

An investment in global equities means that assets are being held in a foreign currency and movements in foreign currencies can impact investment returns. At Perpetual, we offer a suite of global investments funds. Investors can choose between the Perpetual Global Share Fund (where we may at our discretion, from time to time, conduct currency hedging to protect our assets) or the Perpetual Global Share Fund Hedged, which will hedge foreign currency exposure and minimise the impact of movements in the Australian dollar on investment returns.

GLOBAL SHARES PROVIDE INCREASED DIVERSIFICATION TO A BALANCED PORTFOLIO, AND CAN HELP REDUCE PORTFOLIO VOLATILITY AND RISK WHEN COMBINED WITH AUSTRALIAN ASSETS.

MORE INFORMATION

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