

DIRECT EQUITY ALPHA

August 2017

The Direct Equity Alpha strategy delivered positive returns in August in excess of the S&P/ASX300.

Direct Equity Alpha is also ahead of the market on a financial year to date basis. It has strongly outperformed the market since inception.

The strategy is benchmark agnostic and seeks alpha across the market cap spectrum.

PERPETUAL DIRECT EQUITY ALPHA PORTFOLIO GROSS PERFORMANCE (UNAUDITED)

As at 31 August 2017

	PORTFOLIO	INDEX	EXCESS
Financial year to date	1.3%	0.8%	+0.5%
3 months	1.3%	1.0%	+0.3%
1 year	7.4%	9.5%	-2.2%
2 year p.a.	8.8%	9.6%	-0.8%
3 years p.a.	7.3%	5.2%	+2.1%
4 years p.a.	9.9%	7.3%	+2.5%
5 years p.a.	15.1%	10.4%	+4.7%
7 years p.a.	14.3%	8.4%	+5.9%
Since inception* p.a.	11.7%	5.1%	+6.6%

Source: Perpetual and RBC. * Inception date is 23 January 2008. Numbers may not be whole due to rounding. Index used is the S&P/ASX 300 Accumulation Index. Past performance is not indicative of future performance. Past performance information provided reflects the performance of the Portfolio and not any individual portfolio managed through an SMA provider. Returns will differ for an individual portfolio compared to the Portfolio depending on matters such as inception date, fees and brokerage costs payable, adherence to model portfolio weights, portfolio implementation timing and the fees payable to an SMA provider or financial advisor. The past performance information does not take into account any taxes that may be payable in connection with any returns or gains made from the Portfolio. Past performance is not indicative of future performance.

KEY POSITIONS OF NOTE DURING THE MONTH:

Fletcher Building: Has many of the classic characteristics we look for; a dominant market position in New Zealand, with solid macroeconomic tailwinds, a sound balance sheet and trading at a discount to underlying valuation. We took advantage of the sell-off in the stock in July to build a position. These purchases were at the very bottom of the 52 week trading range. The sell-off in July was due to a further earnings downgrade which saw the departure of the CEO. We see an opportunity for the incoming CEO to divestment assets where the company has a relatively weak market position. This would simplify the business model and increase exposure to higher valued assets.

Medibank: Is a one of Australia's largest private health insurers, with a current market share of approximately 27%. The portfolio built a position in the second half of 2016 when concerns about rising claims costs and management change resulted in valuations the manager believes were attractive. We took the view that through scale and investment in technology, Medibank would be able to keep claims inflation to manageable levels. By leveraging data, Medibank have improved hospital contracting and lowered levels of fraudulent and excessive claims. As a result, margins have proven to be more resilient than was feared at the time. We believe further opportunities exist from initiatives such as vertical integration into rehabilitation, where significant savings are possible without impacting clinical outcomes. Medibank has the flexibility to pursue such opportunities due to their net cash balance sheet and strong capital position. In recent years Medibank has given up some market share to competitors, and turning this around is a priority for management. The focus has been on improving customer service levels and enhancing policyholder benefits. The manager sees positive signs in Medibank's FY17 result and believes they support the view that Medibank's turnaround is on track.

GROWTH OF \$10,000 SINCE INCEPTION



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Vince Pezzullo
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Perpetual Investments

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