Fund Update

31 August 2017

PLATYPUS ASSET MANAGEMENT

Platypus Australian Equities Fund

Platypus Asset Management (Platypus) is a leading growth-oriented, Australian equity investment manager. The Platypus Australian Equities Fund's (Fund) invests in a concentrated Australian equity portfolio. It aims to deliver strong returns over the medium to long term by identifying high quality Australian companies with strong future growth prospects.

Performance as at 31 August 2017

	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Since inception[1] % p.a.
Total Return on Retail Units	**2.19**	**1.92**	**2.06**	**7.06**	**11.97**	**9.12**	**4.15**	**6.38**
S&P/ASX 300 Accumulation Index	0.75	0.99	9.54	5.16	10.41	8.40	3.50	5.19
Active Return	1.44	0.93	-7.48	1.90	1.56	0.72	0.65	1.19
Total Return on Wholesale Units	**2.24**	**1.95**	**2.57**	**7.66**	**12.64**	**9.71**	**4.69**	**6.89**
S&P/ASX 300 Accumulation Index	0.75	0.99	9.54	5.16	10.41	8.40	3.50	5.19
Active Return	1.49	0.96	-6.97	2.51	2.22	1.31	1.19	1.70

Total Returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.

[1]Inception date for performance calculations is 30 April 2006. Retail Units are closed to new investors.

How the Australian equity market performed

The S&P/ASX 300 index generated a healthy return of +0.75% in August. Macroeconomic data from the major economies maintained its recent strong momentum. Central bankers did not give much away at the Jackson Hole Symposium, despite anticipation of major announcements that have historically occurred at the conference. Geopolitical tensions out of North Korea and natural disasters like Hurricane Harvey failed to have much of an impact on the markets. Base metals, gold and bulk commodities rallied strongly in response to the strong data and a weaker US dollar. While crude prices finished relatively flat, the prices of refined petroleum products firmed in response to the Texan refinery 'shut ins' caused by the Hurricane.

Domestically, the financial year 2017 reporting season was the area of focus for investors, which was a welcome change for bottom up stock pickers like us. Generally market participants will return to watching macroeconomic and geopolitical headlines until the AGM season in October and then February next year, when we expect stock specific news to once again drive the performance of individual stocks.

We discuss a few notable observations from the reporting season below.

The start of the reporting season was particularly poor with a number of prominent industrials disappointing versus expectations. As the reporting season progressed, more results met or exceeded market expectations, but it would be fair to say that the overall reporting season was lacklustre.

Retailers with strong franchises delivered good results but did not rally despite the sector correcting materially leading into the reporting season. Higher quality companies provided positive trading updates, but overall outlook statements were conservative and resulted in downward revisions to FY18 earnings expectations for the sector. Both earnings results and outlook commentary across this sector were very inconsistent and therefore companies with stronger business models fared better. One of the themes that emerged this reporting season was a lack of organic growth across weaker consumer franchises and their reliance on acquisitions and further store roll out to support future earnings growth. Bottom up stock picking is particularly relevant in this sector, as we believe investors will reward strong franchises that resonate well with the consumer and still deliver strong organic growth.

Bank trading updates and CBA's result were generally positive. Stable to improving NIM across the sector indicated less competitive environment in the last quarter/half and benign asset quality did not point to any looming stress in the economy. This, coupled with reduced regulatory pressure provides a more positive outlook for the sector. However, CBA is in a more challenged position relative to the other three commercial banks with the uncertainty regarding the AUSTRAC civil proceedings and further legal risks surrounding this issue. The stock has been de-rated on the back of this news and is no longer trading at a significant premium to the sector.

Resources companies reported strong results, generating a lot of cash flow driven by stronger commodity prices and reduction in cost base.

Contact Details

Address
Australian Unity Wealth
114 Albert Road
South Melbourne VIC 3205

Website
australianunity.com.au/wealth

Email
investments@australianunity.com.au

Investor Services
T 13 29 39 F 03 8682 5057

Adviser Services
T 1800 649 033 F 03 8682 5057

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This combined with asset sales has allowed the balance sheets across the sector to deleverage and for the shareholders to be rewarded with cash returns.

A few high profile and well-held stocks delivered particularly disappointing results and/or outlook statements and avoiding those contributed to performance in the month. Namely, Telstra, Healthscope, BlueScope Steel, Domino's Pizza Enterprises, GBST were severely de-rated by the market on the back of weaker results and future earnings' outlook.

Share buybacks were a source of surprise this reporting season with some unexpected buyback announcements from growth companies like Domino's Pizza Enterprises and Treasury Wines and some unexpected suspensions of existing programs like those announced by AMP and AGL.

From a sector perspective, Energy (+5.18%), Consumer Staples (+5.17%) and Industrials (+4.57%) led the market higher whereas Telecommunication Services (-7.2%), Financials (-2.12%) and Consumer Discretionary (-1.54%) finished the month with losses.

How the Fund performed

The Platypus portfolio performed well in August producing a +2.19% return against a +0.75% result from S&P/ASX 300. At the stock level, contributions came from Treasury Wine Estates (+0.54%), Northern Star Resources (+0.46%), Updater Inc. (+0.34%) and Origin Energy (+0.29%). A nil weight in Telstra (+0.23%) was also a notable contributor. Amongst the detractors were nil weights in BHP Billiton (-0.28%) and Wesfarmers (-0.20%) as well as stocks held in the portfolio such as Ramsay Health Care (-0.18%), James Hardie (-0.16%) and Eclipx Group (-0.12%).

At the sector level, Consumer Staples (+0.42%), Information Technology (+0.34%) and Telecommunication Services (+0.29%) added value whereas Utilities (-0.05%) and Industrials (-0.05%) detracted. Interestingly, the portfolio is underweight or nil weight in all of these five sectors, which suggests that bottom up stock performance, was more dominant in driving performance during the month.

There were no divestments or new additions to the portfolio during the month although we added to existing positions in Super Retail Group, IDP Education and Corporate Travel Management and monetised part of the gains in ResMed, Ramsay Health Care, Treasury Wine Estates, Oz Minerals and Updater Inc.

Outlook

From a top down perspective, the macroeconomic recovery that was triggered by the Chinese stimulus of late 2015 broadened in 2016 and appears to be holding up well this year, driven by Europe and the United States. A supportive global macro environment and early signs that the Australian economy may be recovering (led by recovery in capital expenditure surveys, employment data and better commodity price environment) gives us reason to remain constructive on the earnings outlook for FY2018 and the market itself.

From a bottom-up perspective, this August reporting season, much like last year's, triggered an upward albeit smaller revision to earnings expectations driven by Energy, Materials and Consumer Staples. From the start of the reporting season to now, FY18 estimated EPS growth has increased from 5.1% to 5.4%. Therefore, despite conservative outlook guidance from a number of companies, the earnings expectations have held up and could provide support for the market to push to new highs in late 2017 and into the New Year.

Commentary courtesy of Platypus Asset Management Pty Limited
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Asset allocation[2]

Asset class	Portfolio Average Weight %
Australian Shares	98.90
Cash	1.10
Total	100.00

Sector allocation[3]

Sector	Portfolio Average Weight %
Financials	33.38
Healthcare	19.83
Materials	15.46
Consumer discretionary	11.21
Energy	9.71
Consumer staples	4.72
Industrials	3.78
Information technology	0.81
Telecommunication Services	0.00
Real Estate	0.00
Utilities	0.00
Cash	1.09

[2 3]Asset and Sector allocations are calculated on the average holdings of the portfolio for the month

Top 5 holdings

Company	Portfolio Holding %
Commonwealth Bank of Australia	9.15
Westpac Banking Corporation	7.61
Rio Tinto Limited	6.82
CSL Limited	5.59
Macquarie Group Limited	5.47

Index weightings – end of month

Index	Portfolio Weight %
Cash	2.85%
Top 50	55.94%
Mid 50	15.91%
Ex 100	21.59%
Non Benchmark	3.71%

Fund snapshot

	Retail Units[4]	Wholesale Units
APIR Code	AUS0029AU	AUS0030AU
Inception date	30 April 2006	
Fund size (net asset value)	$ 3.20m	$ 86.19m
Minimum initial investment	N/A[5]	$5,000
Management Fees	1.5176% p.a.	0.9569% p.a.
Estimated Recoverable Expenses	0.1045% of net asset value of the Fund for each financial year ending 30 June.	
Performance Fee	15.375% of the excess performance over the relevant Index[6]	
Buy/Sell spread	0.20%/0.20%	
Distributions	Half yearly	
Advice fee	Available	

[4, 5] Retail Units are closed to new investors.

[6] Refer to the PDS for more information about the Performance Fee.