Fund Update

31 December 2018

Platypus Australian Equities Fund

Platypus Asset Management (Platypus) is a leading growth-oriented Australian equity investment manager. The Platypus Australian Equities 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 December 2018

Performance (annualised)	1 mth	3 mths	1 yr	3 yrs	5 yrs	7 yrs	10 yrs	Since inception[1] % p.a.
Total Return on Retail Units	**-0.15**	**-12.02**	**1.14**	**6.46**	**8.18**	**11.67**	**10.60**	**6.66**
S&P/ASX 300 Accumulation Index	-0.23	-8.41	-3.06	6.65	5.60	9.45	8.91	4.99
Active Return	0.08	-3.61	4.20	-0.19	2.58	2.22	1.69	1.67
Total Return on Wholesale Units	**-0.11**	**-11.87**	**1.66**	**7.02**	**8.78**	**12.30**	**11.18**	**7.18**
S&P/ASX 300 Accumulation Index	-0.23	-8.41	-3.06	6.65	5.60	9.45	8.91	4.99
Active Return	0.12	-3.46	4.72	0.37	3.18	2.85	2.27	2.19

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.

Quarter in Review

The portfolio contracted -12.02 percent in the December quarter, underperforming the benchmark by 3.61 percent. Notable contributors to relative performance were ResMed (+0.42%), Woolworths Group (+0.38%) and Costa Group (+0.31%), whereas Pinnacle Investment Management (-1.01%), Corporate Travel Management (-0.84%) and our nil weight in Commonwealth Bank of Australia (-0.79%) detracted.

At the sector level contributors were our overweight positioning in Consumer Staples (+0.98%) and Healthcare (+0.45%), and our underweight in Communication Services (+0.28%). Underweight positions in Financials (-1.77%) and Industrials (-1.00%) and our overweight position in Consumer Discretionary (-1.34%) detracted from the performance.

Notable transactions included a number of divestments. We exited Metals X and Gascoyne Resources as both companies ran into execution difficulties on their flagship projects that could materially affect output and valuations of those companies. We took profits and exited Gold Road Resources, as project-commissioning risk on its flagship project accentuates. During the quarter, we also exited our positions in Afterpay Touch and Netwealth Group due to valuation concerns, and WorleyParsons on concerns around a large acquisitions and capital raising in a deteriorating commodity environment.

We initiated three new positions in the quarter. Insurance Australia Group was introduced to the portfolio on a better outlook in the Australia and New Zealand insurance market. Major participants are focused on improving margins, and the latest industry data shows Gross Written Premium (GWP) growth in mid-single digits across most classes of business. The company is targeting a cost saving of $100m by year-end with further savings to come in the following year. Recent hailstorm events in Sydney are within current natural peril allowance and the company has not had to downgrade the full year outlook despite the events. We reintroduced REA Group and Northern Star into the portfolio. REA Group has demonstrated its pricing power and resilience even in weaker operating environment, underpinning future earnings growth, and is now trading at an attractive valuation. Northern Star acquired an asset at a very attractive valuation, which provided a material uplift to our pervious price target.

The remainder of our activity included partial profit taking in Rio Tinto, Macquarie Group and Cochlear, and opportunistically topping up our positions in Aristocrat, a2 Milk, Bingo Industries, Corporate Travel Management, Costa Group, CSL, Oil Search, Pendal Group, Pinnacle Investment Management and Treasury Wine Estates.

Sector in Review

The December quarter was tough for equities investors in Australia and abroad. The S&P/ASX300 declined 8.41 percent, with the biggest drag coming from the Energy (-21.62%), Consumer Discretionary (-15.86%) and Communication Services (-14.88%) sectors. Top contributors to the benchmark's result were Utilities (-3.11%), Materials (-5.05%) and Real Estate (-5.30%). No sector posted positive performance for the quarter.

The majority of the correction occurred in October, when the S&P/ASX300 index declined 6.16 percent. Investors rotated out of higher valuation, growth stocks into more defensive sectors, which was similar to observations from abroad. While macroeconomic data out of the US remained strong for most of the year, both manufacturing and services PMIs declined in December. The most recent US reporting season (third quarter of 2018) exceeded on earnings expectations; however, investors focused on a cautious 2019 outlook instead, as the maturing economic cycle and inflationary cost pressures pose a threat to future earnings. The latest macroeconomic data and surveys from other regions have been pointing to slower growth for a little while. The most concerning is the slowdown is in China, which could have negative implications for broader global growth, if it is not addressed with an adequate and timely policy response. While, at the 2018 annual Central Economic Work Conference held in late December, Chinese top policymakers reiterated their commitment to supply-side structural reform and the balance between stable growth, restructure, social welfare and risk prevention, they also emphasized that macro-policy should be counter cyclical to ensure that economic growth is "within reasonable range". However, as we write this report, both official and Caixin Chinese PMI missed consensus numbers in December, with Caixin PMI posting first contraction since May 2017, and the official PMI since July 2016. Apple Inc. downgraded its 2019 outlook in January, calling out a slowdown in China as the main driver of this.

Trade tariff developments between the US and China were closely watched during the quarter. Economic impact from trade tensions to date has been limited; however, uncertainty surrounding further developments has had a negative impact on investor confidence. The announcement in early December that the US and China have agreed to 90 day truce at the G20 meeting (to allow China to prepare for further trade negotiations) was well received by the markets, and as we approached the year end Donald Trump informed the public that negotiations to date have been constructive.

In December, as widely expected, the US Fed Reserve (Fed) increased the target Fed Funds rate by a further 0.25 percent to 2.25 percent / 2.5 percent. In light of slowing economic conditions, the Fed participants have downgraded their outlook from three to two further interest rate increases during 2019, specifically calling out further tightening of financial conditions and slowing growth outside of the US. The keenly watched US 10 year bond yield rose to 3.14 percent, up 8 basis points in October, then corrected through the remainder of the quarter to finish the year just below 2.7 percent, suggesting that the market expects no further hikes from the Fed in the year ahead.

Domestically, the Reserve Bank of Australia continued to hold the cash rate steady at 1.5 percent. The Reserve Bank Governor stated that despite the fact that the Australian economy continues to perform well, the outlook for household consumption continues to be a source of uncertainty due to the high level of household debt, low growth of household incomes and more recently, house price corrections driven by tighter home lending conditions.

Commodities were under pressure this quarter, with the CRB Index correcting 14.1 percent. Crude was the stand out underperformer with WTI Crude down 39.8 percent in the quarter, settling in the US$40-60 range. Iron ore was volatile and finished the quarter 5.4 percent higher; however, the price declined sharply in November then recovered into year-end as Chinese HRC prices climbed.

The Australian dollar corrected 2.7 percent against its US counterpart, with the appreciation in the first half of the quarter followed by a decline into year-end. As we write this report, the Australian dollar continues to correct further against the US dollar, currently below 70 cents, the lowest level in three years.

A number of geopolitical events occurred in the quarter, although most had a limited impact on market performance. These included the US Midterm elections, the second rejection of the Italian budget, the Brazilian elections, German provincial elections, the Khashoggi tragedy and the ongoing failing to reach a Brexit deal.

Domestically, the bank-reporting season and the annual general meeting (AGM) season provided some relief from macro pressures on the market, with the AGM trading updates having material impact on stock performance. Australia's 'Commonwealth Treasury' released the Mid-Year Economic and Fiscal Outlook in December indicating that current cash balance is ahead of forecast. Third quarter gross domestic product (GDP) growth was sluggish. The other notable domestic development was the announcement of the removal of the 30 percent supervisory benchmark on interest only lending, by the Australian Prudential Regulation Authority in December. The benchmark initially imposed in March 2017.

Outlook

This time last year, synchronised growth in economic activity was driving positive sentiment despite a general acknowledgement that the current expansion was mature. Fast forward twelve months and we have a less synchronised picture on growth with a strong US economy and softness elsewhere. Monetary policy has become less accommodative, and investors are becoming increasingly concerned that a policy error could lead to over tightening and crush economic growth. Adding to these macroeconomic concerns are a raft of geopolitical stresses that have made headlines throughout 2018. Increased volatility and general souring of risk appetite seen during the last quarter of 2018 is congruent with this macroeconomic and geopolitical context.

We expect volatility to continue in early 2019 as investors consider how global economies evolve and assess the actions of those in charge of monetary and fiscal policies. Taking the US as an example, neither the market nor the White House has been able to force the Fed to reverse course on gradual policy normalisation. Likewise, in China the slowing of the economy and increased trade tensions with the US have not forced Beijing to abandon the deleveraging program and announce large stimulus measures either. As 2019 progresses, things could unfold in two ways. A major policy mistake could create an earnings recession and further falls in equities ahead of an eventual macroeconomic recession in 2020. On the other hand, economic expansion could prove to be more resilient than the market's current expectations or in its absence; a supportive policy response could come early in 2019, which would make the bull market in equities more enduring. It is very difficult to predict which of the two scenarios look more probable as we stand here today.

Whilst we monitor the macroeconomic and geopolitical developments heading into 2019, our focus remains on bottom up stock picking. There are plenty of opportunities to buy quality businesses with good long-term growth prospects at sensible prices, and we will look to take those opportunities in 2019 and beyond.

Commentary courtesy of Platypus Asset Management Pty Limited
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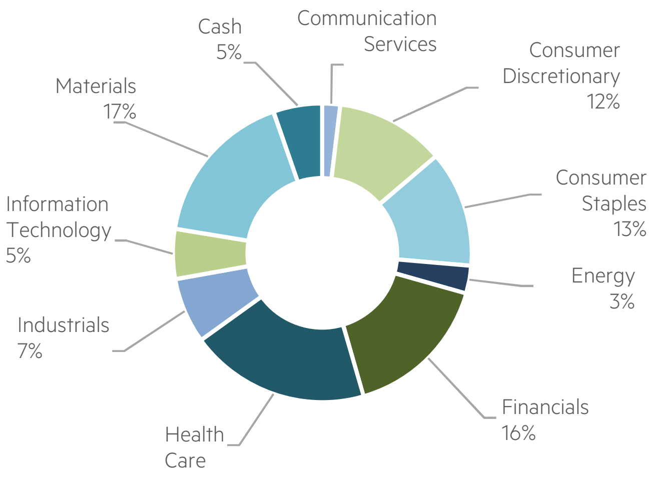
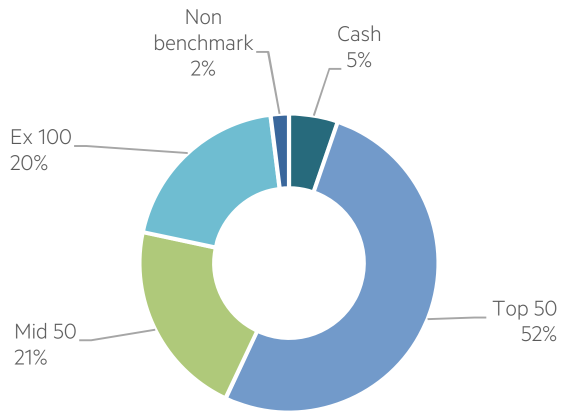
Sector Allocation



Market Capitalisation



GICS Sector	Portfolio%	Benchmark%	Active%
Communication Services	1.95	3.52	-1.57
Consumer Discretionary	11.83	4.04	7.79
Consumer Staples	12.60	8.15	4.46
Energy	3.00	5.40	-2.40
Financials	16.15	32.15	-16.00
Health Care	19.52	8.78	10.74
Industrials	7.11	8.00	-0.89
Information Technology	5.43	2.21	3.22
Materials	17.12	18.12	-1.00
Real Estate	0.00	7.64	-7.64
Utilities	0.00	1.99	-1.99
Cash	5.29	0.00	5.29

Market Cap Band	Portfolio%	Benchmark%	Active%
Cash	5.29	0.00	5.29
Top 50	51.68	76.66	-24.97
Mid 50	21.35	12.67	8.68
Ex 100	19.69	10.67	9.01
Non benchmark	1.99	0.00	1.99

Asset Allocation

Asset class	Portfolio%
Australian Shares	94.71
Cash	5.29
Total	100.00

Top 5 Holdings

Company	Portfolio%	Benchmark%	Active%
CSL Limited	10.17	5.43	4.74
Macquarie Group Limited	9.79	2.23	7.56
BHP Group Limited	9.70	6.53	3.17
Aristocrat Leisure Limited	5.87	0.90	4.97
Woolworths Group Limited	5.05	2.50	2.55

Fund Snapshot

	Retail Units[2]	Wholesale Units
APIR Code	AUS0029AU	AUS0030AU
Inception date	30 April 2006	
Fund size (net asset value)	$ 3.17 m	$ 92.79 m
Minimum initial investment	N/A[3]	$5,000
Management Fees	1.5176% p.a.	0.9569% p.a.
Estimated Recoverable Expenses	0.12% of net asset value of the Fund for each financial year ending 30 June.	
Performance Fees	15.375% of the excess performance over the relevant Index[4]	
Buy/Sell spread	0.20%/0.20%	
Distributions	Half yearly	
Advice fee	Available	

[2,3] Retail Units are closed to new investors.

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