Fund Update

31 May 2017

Platypus Australian Equities Fund

Platypus Asset Management (Platypus) is a leading growth-orientated, Australian equity investment manager. The Platypus Australian Equities Fund (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 May 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	1.16	4.73	2.73	6.96	12.49	8.84	3.88	6.34
S&P/ASX 300 Accumulation Index	-2.74	1.43	10.80	6.04	11.70	8.34	3.40	5.22
Active Return	3.91	3.30	-8.06	0.92	0.79	0.51	0.48	1.12
Total Return on Wholesale Units	1.22	4.89	3.36	7.61	13.19	9.44	4.41	6.86
S&P/ASX 300 Accumulation Index	-2.74	1.43	10.80	6.04	11.70	8.34	3.40	5.22
Active Return	3.96	3.46	-7.44	1.57	1.50	1.10	1.00	1.65

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 returned -2.74% in the May underperforming global benchmarks. The month kicked off with the 2017 Australian Federal Budget. Large Australian banks were the main losers from the budget this year as the government announced a new 6 bps Bank Levy to be applied on banks' liabilities (excluding deposits of $250k or less). The Levy is to be introduced from 1 July and aims to raise $6.2b over the next year. Early estimates by analysts indicate it will have a negative impact of between 3-5% on the banks' net profits. In addition to this, the banks face further regulatory uncertainty as APRA is yet to announce its final capital requirements. We expect this announcement to come in June with the ultimate prudential objective to get capital levels that make banks "unquestionably strong".

A few other sectors enjoyed some relief from the Budget this year. Namely, Healthcare, a usual target for funding cuts, should benefit from the removal of the freeze on the indexation of the Medicare Benefits Schedule and the reintroduction of the bulk billing incentive for diagnostic imaging and pathology services. The government also demonstrated its support for infrastructure investments is not diminishing and outlined commitment for a number of large infrastructure projects in this year's budget such as Western Sydney Airport.

The news out of the US this month was dominated by a lack of progress on tax cuts. Much like the unwind of 'Obamacare' tax cuts are proving hard to implement by the Trump government with the Republican party failing to reach consensus on what the plan should look like – if it should be revenue neutral or not.

OPEC & non-OPEC producers extended the so-called 'Algiers Accord' by nine months but that did little to support the crude markets. Iron ore correction gathered further momentum with benchmark prices going below the $60/t level on concerns that tighter property policy was being implemented more broadly in China.

From a sector perspective, Financials (-7.7%) led the market down followed by Health Care (-2.38%) whereas Industrials (+4.69%) and Telecommunication Services (+3.38%) provided the market with some support.

How the Fund performed

(Performance numbers in this section are returns relative to the Benchmark unless otherwise stated.)

The portfolio returned +1.16% in May and outperformed the S&P/ASX 300 benchmark by 3.91%. In terms of individual stock level performance, Aristocrat Leisure (+0.99%), Corporate Travel Management (+0.49%) and Fisher & Paykel Healthcare (+0.42%) made strong contributions. Not holding Australia & New Zealand Banking Group and Westpac Banking Corporation added 0.58% each to relative performance. Notable detractors included Beach Energy (-0.27%), Domino's Pizza (-0.12%) and nil weight in index heavies like Telstra (-0.23%) and BHP Billiton (-0.17%).

At sector level, we found that underweight stance in Financials (mainly banks) contributed +2.10% to relative performance, followed by Consumer Discretionary (+1.36%), but Industrials (-0.34%) and Telecommunication Services (-0.23%) were a drag.

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Platypus Australian Equities Fund

We initiated a position in James Hardie Industries following its full year result. The company has experienced ongoing operational weakness consistent with our expectations. Our medium term outlook for the company is much more positive and we expect its earnings momentum to be restored once the operational issues are resolved. In addition, we also reintroduced BT Investment Management into the portfolio. The stock has reported a strong 1H17 results and WBC sell down offered an attractive entry price. In other changes, we took small profits in Corporate Travel Management, Macquarie Group, Freedom Foods Group, Domino's Pizza Enterprises and Fisher & Paykel Healthcare and topped up our positions in Origin Energy, Eclipx Group and Autosports Group. We also switched our Fortescue Metals Group weighting into Rio Tinto on concern that discounts for low-grade iron ores that have widened to unprecedented levels may not narrow as quickly as expected.

Outlook

Absolute performance of our equities market will be affected by short-term headwinds facing our two large sectors – banks and materials. The banks reported lacklustre results, in line with our expectations. This combined with an unexpected budget levy and the uncertainty on capital requirements has soured the sentiment on the sector. However, one could argue that the banks were expensive at the start of the month and now are closer to fair valuation.

In addition, having seen the Chinese government reach its objectives to stabilising growth, we believe the focus has shifted to reform objectives, which is unlikely to provide stimulatory support needed for the Materials sector to outperform in the near term.

With banks and materials capped in the near term and a seasonally weak period for risk assets generally, we would expect our market to remain range bound until the August reporting season. We remain constructive on markets beyond this seasonal and short-term softness.

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

Asset Class	Portfolio average weight %
Australian Shares	97.21
Cash	2.79
Total	**100.00**

Sector allocation[3]

Sector	Portfolio average weight %
Healthcare	21.40
Financials	21.00
Consumer discretionary	17.33
Materials	16.95
Energy	9.52
Consumer staples	6.22
Industrials	3.56
Information technology	0.00
Telecommunication Services	0.00
Real Estate	0.00
Utilities	0.00
Cash	2.80

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

Top 5 stocks

Company	Fund %
Macquarie Group	9.40
Aristocrat Leisure	8.46
CSL	8.38
Ramsay Health Care	5.89
Rio Tinto	5.84

Platypus Australian Equities Fund

Fund snapshot

	Retail Units[4]	Wholesale Units
APIR Code	AUS0029AU	AUS0030AU
Inception date	30 April 2006	
Fund size (net asset value)	$3.40m	$101.69m
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 performance hurdle[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.