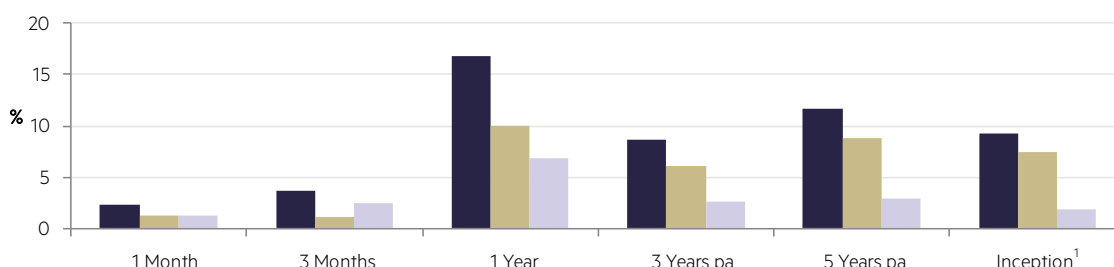


## Platypus Systematic Growth Fund

Platypus Asset Management (Platypus) is a leading Australian equity investment manager. The Platypus Systematic Growth Fund's (Fund) objective is to outperform the S&P/ASX 300 Accumulation Index (Benchmark) over an investment cycle with less downside risk over a three-year period.

### Performance as at 30 June 2018



	1 Month	3 Months	1 Year	3 Years pa	5 Years pa	Inception <sup>1</sup>
<b>Total Return</b>	<b>2.90</b>	<b>10.25</b>	<b>20.30</b>	<b>11.91</b>	<b>12.60</b>	<b>9.56</b>
S&P/ASX 300 Acc Index	3.19	8.36	13.24	9.14	9.99	7.72
Active Return	-0.29	1.89	7.06	2.77	2.61	1.84

Total returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.  
<sup>1</sup>Inception date for performance calculations is 26 November 2009.

### Quarter in Review

The Platypus Systematic Fund increased by 10.25 percent during the quarter, outperforming the ASX/S&P300 Index by 1.89 percent

Contributors to performance included nil positions in Commonwealth Bank (+0.59%), Telstra (+0.55%) and National Australia Bank (+0.40%). The largest detractors for the month came from positions in Boral (-0.33%), Wesfarmers (-0.27%) and NIB Holdings (-0.21%).

At the sector level, Financials (+1.34%), Telecommunication Services (+0.59%) and Health Care (+0.36%) contributed strongly to performance. Detractors included Consumer Staples (-0.48%) and Real Estate (-0.34%).

### Sector in Review

The June quarter was strong for equity investors, despite geopolitical news flow. Macroeconomic data remains broadly supportive of the synchronised growth thematic, although Europe has come off the breakneck speed off late 2017. The labour markets continue to tighten across all major economies and inflation remains benign in most markets, with the exception of the US economy, where headline inflation has moved to the 2 percent target, being the most progressed in the economic recovery.

The S&P/ASX300 returned 8.36 percent in this quarter. From a sector perspective, Energy (+19.49%), Health Care (15.86%) and

Consumer Staples (+12.02%) were the largest contributors, while Telecommunication Services (-13.34%) was the largest detractor.

The US reporting season has been stellar with a bigger proportion of companies exceeding consensus expectations (vs. history), and encouraging trends for top line outcomes.

However, management commentary in some instances (Caterpillar as an example) was a bit more circumspect, with rising costs cited as a handbrake on earnings for the remainder of 2018. Nevertheless, 2018 earnings expectations for the S&P 500 companies have been revised up meaningfully following the Q1 reporting season (even excluding the tax benefit), providing further support to the synchronised growth theme.

Central bankers remain accommodative, however the tone from the US and European Central Bank ('ECB') has somewhat changed throughout this quarter. The Federal Reserve increased the target federal funds rate to 1.75-2.00 percent on 13 June, in line with expectation, but noted that labour market continues to tighten and household expenditure and business investment have grown strongly. With all three trends resulting in inflationary pressures, the consensus expectation moved to four instead of three 'fed fund' rate increases for this calendar year.

The ECB has stated that the key interest rate in the region will be held at the current level until at least mid-2019, however it also

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noted that monthly net asset purchases would reduce from €30 billion to €15 billion in September 2018, and fully cease at the end of the year. Both central banks explicitly committed to accommodating monetary policies into the foreseeable future, with the ECB stating that the principal payments from maturing securities purchased under the asset purchase programme will be reinvested for “as long as necessary”. The Peoples Bank of China cut the reserve requirement ratio by 50bps in the quarter and committed to a further cut in second half, and more flexible monetary policy. The Bank of Japan and our own Reserve Bank held monetary policy steady at accommodative levels. The RBA noted that APRA’s supervisory measures have been successful in capping the build-up of risk from household debt, therefore alluding that additional stringent lending rules may not be needed. Locally, news flow from the Royal Commission into Financial Services dominated, with a significant negative impact on the performance of the Financials sector for most of the quarter. Fears that much tighter lending rules would materially impede the potential for future earnings growth in this sector saw multiples de-rate until the last two weeks of the quarter when banks recovered back into their old trading range on no major news.

In Australia, the Federal Budget was in the news early in the quarter but had a relatively limited impact on our market given that the main news was the Treasurers projection that the budget would return to surplus from FY20, and therefore proposed modest tax cuts to lower income earners in future years.

Geopolitical developments have not been constructive with the US-China trade tensions broadening into US disputes with NAFTA countries and EU. The markets have largely ignored the developments to date with consensus view being that broader trade war is unlikely to develop, although the market are more sensitive to the issue as the rhetoric ratchets higher. European political developments were watched closely with a coalition of Euro-sceptic parties forming government in Italy and the Spanish PM losing confidence of his Parliament. Concerns that Italy may push for a Brexit-type situation eased later in the quarter, when the new minister of finance confirmed that Italy had no intention to leave the Eurozone, and was committed to reducing its debt levels. The most positive geopolitical development in the quarter concerned the Korean peninsula, following a meeting between the US and North Korean leaders. The meeting ended with a commitment to a peaceful denuclearization of the peninsula, but this is yet to play out.

US Government bonds sold off early in the quarter with the yields on the 10 Year bond reaching 3.1 percent intra-month, before peeling back below 3.0 percent. The USD rallied during the quarter reflecting diverging US monetary policy vs. other economies; this strength put further pressure on sentiment towards Emerging Markets.

Crude oil was the best performing commodity over the quarter. Concerns around Iranian supply later this calendar year on the back of US decision to withdraw from the nuclear accord, along with sharply deteriorating Venezuelan production, sent crude prices higher in the early part of the quarter. News flow regarding concerns that OPEC and non-OPEC allies may agree to an increase of production as high as 1.5mbpd saw the commodity price correct later in the quarter. However, those concerns eased once the meeting concluded with a commitment to limit an increase of production to 1mbpd and analysts noting that production constraints would cap the actual increase well below that level.

US sanctions on Russian business interests saw increased volatility in the prices of alumina and nickel. The firmer USD was also a head wind for the gold price and the AUD appears to have broken down decisively.

### Factor Analysis

Momentum was the only factor that outperformed the broader market for the second quarter of 2018.

Factor returns (Q2 2018)

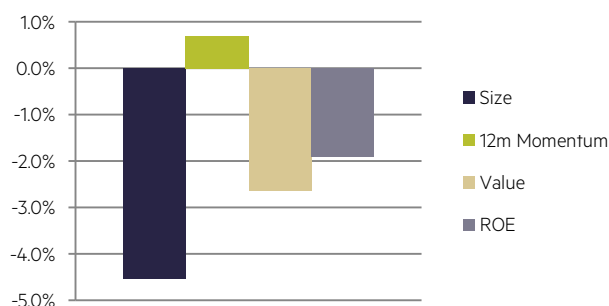


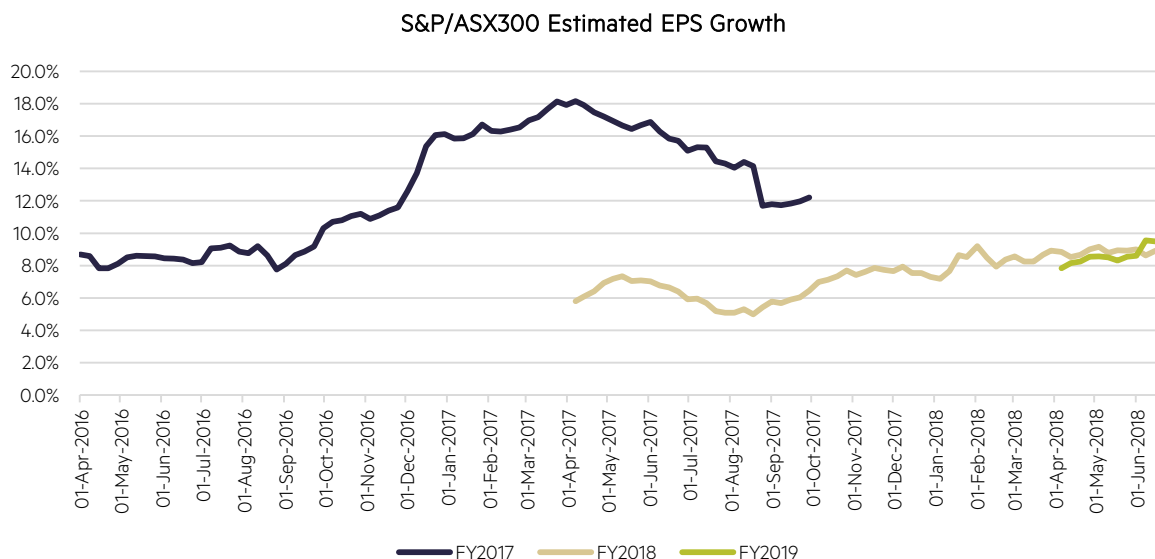
Chart 1: Top quartile factor alphas for the quarter. This is the average return obtained from the top 75 stocks in the ASX 300, sorted by size, momentum, value and ROE respectively, compared to the index performance.

Over the quarter, the portfolio added 2.09 percent to the index returns of 8.36 percent. Momentum was the main reason for this outperformance, although the portfolio construction process, including the risk model aided returns as well. The portfolio makes systematic factor bets, and does not select stocks based on a deep dive into the fundamentals of their business. However, not owning one stock (over this quarter, Telstra) can make a difference, due partly to the nature of the Australian equity index. As at the end of June the largest 14 stocks had a combined index weight of 50.79 percent - the index is reasonably concentrated, and this concentration enables diversified funds that move away from index weights to produce alpha over time.

The portfolio trades at a premium to the market-cap benchmark as measured by price-to-book (2.68x vs 2.12x) and as measured by forward price-to-earnings (17.29x vs 15.74x).

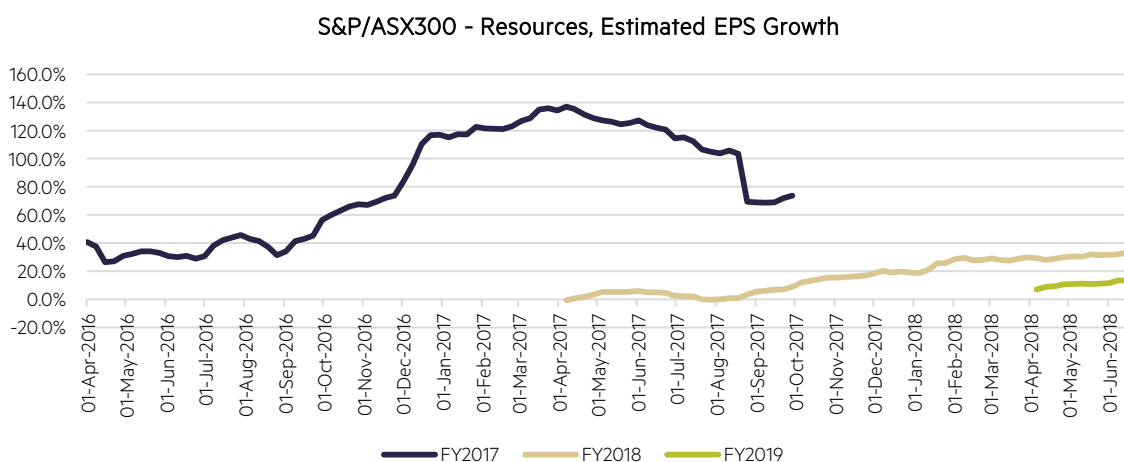
### Outlook

The earnings picture in Australia has remained healthy with the estimated earnings ‘growth worm’ for FY18 remaining in the uptrend, unlike the estimates of previous years, which have slithered down as the years progressed. While early days, the expectations for FY19 are looking sprightlier than we saw in FY15 and FY16:

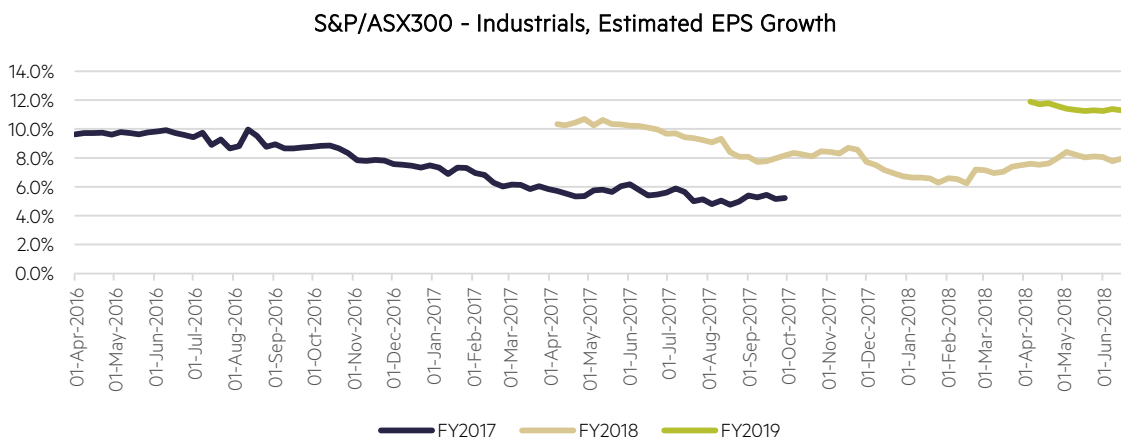


Source: FactSet, Platypus  
 Note: FY19 data excludes TLS estimates

As can be seen in the charts below, Resources (Metals & Energy) have been a material source of earnings support for the market with underlying commodity prices recovering from the wreckage of 2015. However, it is also worth noting that the broad Industrials (Market ex-Banks, Resources & REITs) have held up well for a number of years now (as seen in chart lower down,) reflecting a recovery in the economic conditions following the 2008 crisis and the problems stemming out of Europe that followed:

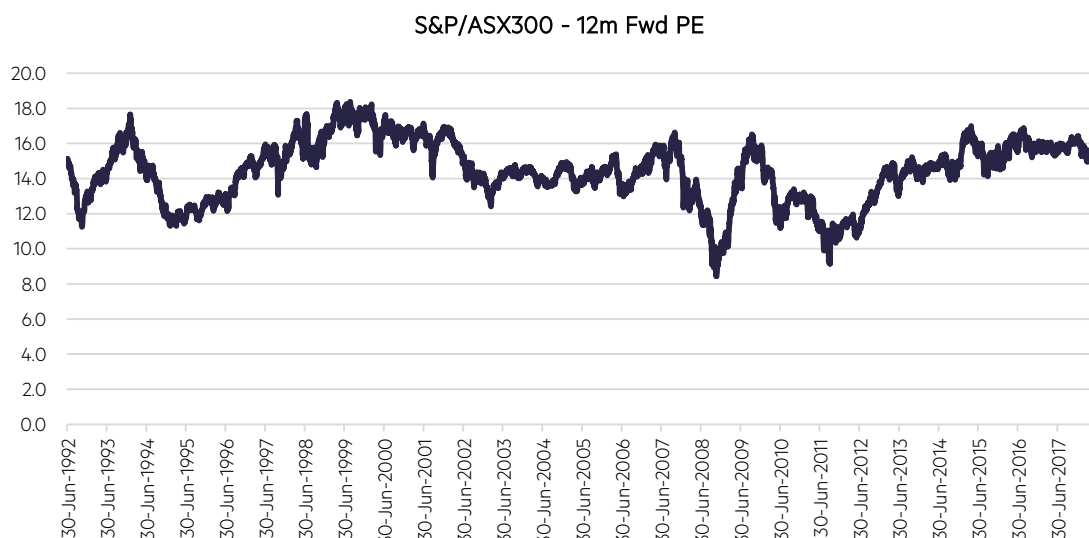


Source: FactSet, Platypus



Source: FactSet, Platypus  
 Note: FY19 data excludes TLS estimates

If we accept the consensus view that the global economic backdrop remains healthy for a further 12-18 months, driven by the strength in the US, steady Chinese economy and continued recovery in Europe and Japan, it is very likely that the earnings environment will remain robust. With that in mind, at 15.7x 12-month forward PE the overall market is not expensive in the historical context (see chart below), and so we have a positive view on the performance of equities in the near future:

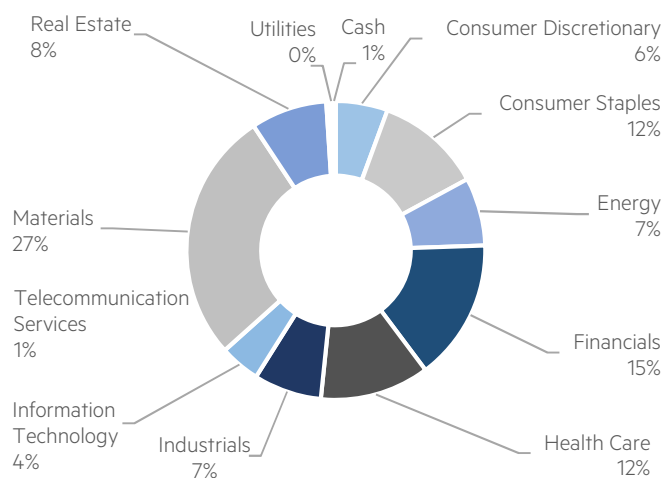


Source: FactSet, Platypus

There are several possible risks to the economic outlook – macroeconomic, with the current expansion in a mature phase - and geopolitical, with further deterioration in the US - China trade relationship possibly affecting the earnings outlook negatively. Likewise, there are pockets in the market where valuations appear stretched, where caution should be exercised when assessing their future earnings potential. On balance, we remain optimistic on the outcomes in markets and opportunities for stock pickers to add value for investors over the remainder of 2018.

*Commentary courtesy of Platypus Asset Management Pty Limited  
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## Sector Allocation



GICS Sector	Portfolio%	Benchmark%	Active%
Consumer Discretionary	5.61	4.95	0.66
Consumer Staples	11.48	8.12	3.35
Energy	7.38	5.75	1.63
Financials	15.31	32.58	-17.28
Health Care	11.84	8.43	3.40
Industrials	7.38	7.23	0.15
Information Technology	4.36	2.51	1.85
Materials	27.37	18.49	8.88
Real Estate	8.27	7.71	0.56
Telecommunication Services	0.45	2.23	-1.79
Utilities	0.16	1.99	-1.84
Cash	0.42	0.00	0.42

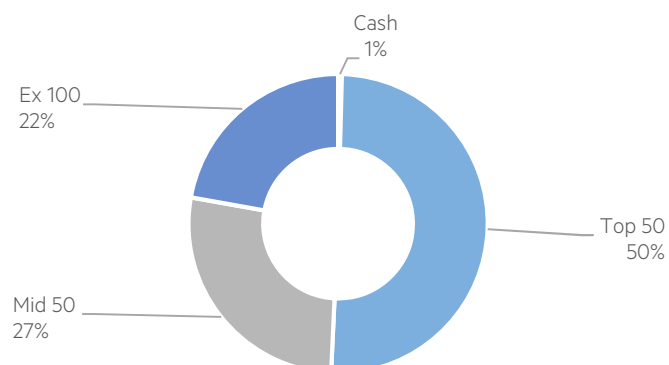
## Asset Allocation

Asset class	Portfolio%
Australian Shares	99.58
Cash	0.42
Total	100.00

## Top 5 Holdings

Company	Portfolio%	Benchmark%	Active%
BHP Billiton Limited	7.63	6.39	1.24
CSL Limited	7.13	5.12	2.01
Macquarie Group Limited	4.21	2.30	1.91
Woolworths Group Limited	4.12	2.35	1.77
Rio Tinto Limited	3.31	2.02	1.29

## Market Capitalisation



Market Cap Band	Portfolio%	Benchmark%	Active%
Cash	0.42	0.00	0.42
Top 50	50.34	76.44	-26.10
Mid 50	27.06	12.62	14.44
Ex 100	22.17	10.93	11.24
Non benchmark	0.00	0.00	0.00

## Fund Snapshot

APIR Code	AUS0036AU
Inception date	24 November 2009
Fund size (net asset value)	\$ 29.21 m
Minimum initial investment	\$5,000
Management Fees	0.4124% 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 <sup>2</sup>
Buy/Sell spread	0.20%/0.20%
Distributions	Half yearly
Advice fee	Available

<sup>2</sup> Refer to the PDS for more information about the Performance Fee.

## Important Information

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