

PERPETUAL PURE MICROCAP FUND - CLASS A

September 2017



Our fund only invests in profitable, well capitalised and well managed businesses. By conducting our own in depth, bottom up analysis we seek the best opportunities for our investors. Many of these companies often have little or no research published on them which leads to them being overlooked and/or mispriced. As investors, we look to capitalise on these market inefficiencies. It is worth noting that our fund will not speculate in unprofitable businesses.

PERFORMANCE SUMMARY (AFTER FEES) AS AT 31 AUGUST 2017

	1 MTH %	3 MTHS %	6 MTHS %	1 YR %	2 YR %	3 YR %	SINCE INCEPTION % PA*
Perpetual Pure Microcap Fund - Class A	4.9%	8.5%	10.6%	9.2%	34.7%	24.7%	30.1%
S&P/ASX Small Ordinaries Accumulation Index	2.7%	5.1%	5.4%	3.2%	14.3%	5.7%	5.7%

*Inception date: 2 September 2013

Pacific Current Group (PAC) is a multi-boutique asset management firm with investments in 16 managers globally with a combined FUM of \$62bn as at June 2017. The business was formed via the merger of Australian-based, ASX-listed Treasury Group and US-based Northern Lights Capital Group. Whilst both Treasury Group and Northern Lights have had a strong history of making solid, profitable investments, some investment managers underperformed during 2015/16 which resulted in large FUM losses, impacting both the earnings and the share price performance of PAC.

We have written recently about management's actions to reduce costs significantly at the corporate level, restructure the portfolio by divesting underperforming boutiques and to recycle capital into higher growth alternative strategies. This was evident in the recent FY17 result which saw underlying NPATA increase 40% year on year, a significant reduction in net debt and a resumption of dividend payments. We were pleased with the strong earnings contributions from core boutiques as well as the lower employee and interest expenses.

This result was even more encouraging as it did not include a meaningful contribution from GQG Partners (GQG), which has grown FUM to over \$7bn presently from a standing start in June 2016. PAC invested only US\$4m to help create this new long-only equity firm run by former Vontobel Asset Management Chief Investment Officer (CIO), Rajiv Jain, and it continues to attract solid inflows. Mr. Jain worked at Vontobel for more than 20 years and led the team managing roughly US\$48 billion, primarily in emerging markets, global, and international equity strategies. These strategies outperformed relevant indices over most annualized periods.

PAC remains one of our largest positions, and despite having exceeded the \$250m market capitalisation limit for the Perpetual Micro Cap Fund we will continue to hold given the attractive valuation at current levels and meaningful earnings growth to come.

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MORE INFORMATION

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