

Wholesale Funds

PERPETUAL WHOLESAL INDUSTRIAL SHARE FUND

July 2022

FUND FACTS

Investment objective: Aims to provide long-term capital growth and regular income through investment predominantly in quality Australian industrial shares.

FUND BENEFITS

Provides investors with the potential for capital growth and consistent, tax effective income through the active management of quality industrial shares. Investors have been benefitting from this strategy since 1966.

FUND RISKS

All investments carry risk and different strategies may carry different levels of risk. The relevant product disclosure statement or offer document for a fund should be considered before deciding whether to acquire or hold units in that fund. Your financial adviser can assist you in determining whether a fund is suited to your financial needs.

Benchmark: S&P/ASX 300 Industrial Accum. Index

Inception Date: December 1996

Size of Portfolio: \$972.14 million as at 30 Jun 2022

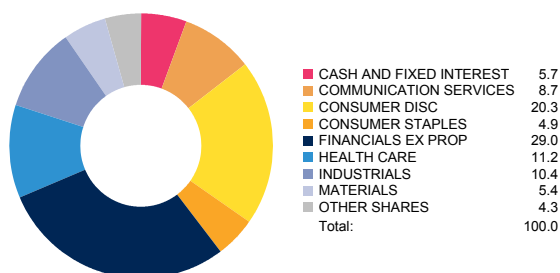
APIR: PER0046AU

Management Fee: 0.99%*

Investment style: Active, fundamental, bottom-up, value

Suggested minimum investment period: Five years or longer

PORTFOLIO SECTORS



TOP 10 STOCK HOLDINGS

Stock Holding	% of Portfolio
National Australia Bank Limited	9.2%
Commonwealth Bank of Australia	8.3%
CSL Limited	8.3%
Incitec Pivot Limited	5.4%
Suncorp Group Limited	4.6%
Flutter Entertainment Plc	4.5%
Qantas Airways Limited	3.9%
Event Hospitality & Entertainment Ltd.	3.4%
Telstra Corporation Limited	3.4%
La Francaise des Jeux SA	3.2%

NET PERFORMANCE - periods ending 31 July 2022

	Fund	Benchmark #	Excess
1 month	5.91	8.33	-2.42
3 months	-5.24	-4.32	-0.92
FYTD	5.91	8.33	-2.42
1 year	-1.05	-1.75	+0.71
2 year p.a.	14.17	12.18	+1.99
3 year p.a.	3.80	3.79	+0.01
4 year p.a.	4.25	5.90	-1.65
5 year p.a.	4.96	6.87	-1.91
7 year p.a.	4.40	6.14	-1.75
10 year p.a.	8.70	10.09	-1.39
Since incep.	9.41	8.88	+0.53

Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

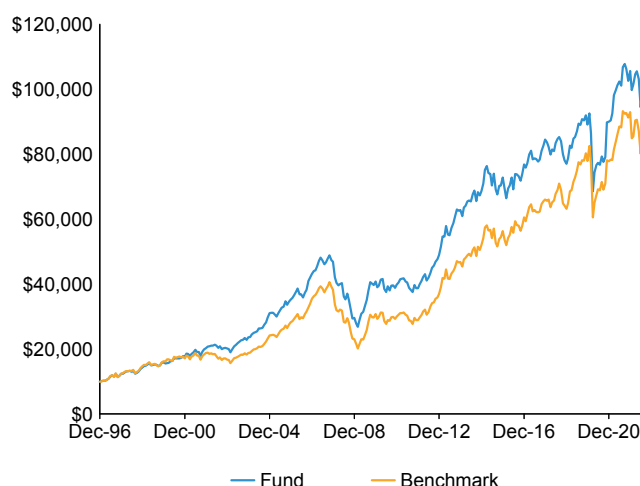
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	15.6	18.6
Dividend Yield*	3.9%	3.8%
Price / Book	2.0	2.0
Debt / Equity	48.4%	50.3%
Return on Equity*	13.1%	11.4%

[^] Portfolio Fundamentals are compiled using our methodology and provided only for the purpose of illustrating the Fund's investment style in action. These figures are forecast estimates, calculated based on consensus broker estimates where available, and should not be relied upon. Dividend Yield is a dividend forecast of underlying securities for the portfolio and does not reflect the distributions to be determined for the fund.

* Forward looking 12-month estimate.

GROWTH OF \$10,000 SINCE INCEPTION



MARKET COMMENTARY

The Australian equity market broke its consecutive three-month downward trend to end July higher, as a rebound in recent laggards - including tech stocks, REITs, and the banks - assisted the ASX. An expected 50 basis point hike in the cash rate to 1.35% at the beginning of the month did little to quell investor sentiment. There was no substantive change to policy guidance, with the Reserve Bank flagging more tightening in the period ahead. However, the RBA also suggested that inflation is expected to peak later in 2022 and that its medium-term view is that inflation expectations remain well anchored. Markets subsequently dialled back terminal interest rate forecasts amid thoughts that plateauing inflation and a softening economy may prompt central banks to slow the pace of tightening.

This notion was supported by the June-quarter headline inflation print, which fell below expectations and reduced the likelihood of a 75-basis point interest rate hike in August. Trimmed mean inflation, however, hit a record high, spurred predominantly by the increase in fuel costs. Pricing pressures were also evident in clothing, housing, household equipment, and several food categories. Elevated freight costs, supply constraints, rising construction costs, and strong demand continued to drive up inflation and a rebound in rents. This, combined with softening macro data, the potential for a Russian gas shutoff to Europe, risks to US earnings and China, Covid uncertainty remain overhangs on risk sentiment.

Mining producers constrained the market's advance, underpinned by heavy losses across commodity prices over the month as concerns from demand destruction in a recessionary environment continue to mount. Significant iron ore weakness was further attributed to heightened frictions from China's real estate developers. This fragility was offset by solid performance across the Financials, benefitting from improved sentiment due to increased M&A activity and its low interest-rate sensitivity after the big banks moved quickly to raise their variable home loan rates by 50 basis points.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Incitec Pivot Limited, Flutter Entertainment Plc, and Suncorp Group Limited. The Fund's largest underweight positions include Westpac Banking Corporation, Macquarie Group Limited, and Woolworths Group Ltd, all of which are not held in the Fund.

The overweight position in automotive dealership manager Eagers Automotive (+28.9%) contributed to relative performance. The stock rallied hard from a first-half market update released during the month, highlighting that it now expects to report an underlying operating PBT of ~\$195M (vs its previous guidance of \$183-189M) and statutory net PBT ~\$246M (exceeding prior guidance of \$225-240M). Management noted that its improved outlook comes despite continuing supply constraints on new car deliveries and reflects the strength of its ongoing business and productivity, the growth of its new car order bank, and its cost-out programs.

Not holding insurance provider QBE Insurance Group (-5.1%) contributed to relative performance. The stock fell on the announcement that it will be recording a US\$75M provision in its FY2022 first half financial results to account for expected customer remediation, interest payable, and administration costs, following the results of an ongoing review of policy pricing promises that date back several years.

The overweight position in property and investment company Home Consortium (+18.6%) contributed to relative performance. The stock price continued to climb throughout July after releasing details of the launch of its new unlisted open-ended Fund, the Capital Partners Fund. The Fund is reported to have a target size of \$500m to \$1.5b, with HMC's co-investment capped at \$150M. HMC will be entitled to a management fee of 1% pa of net asset value, as well as a performance fee of 20% of returns in excess of a hurdle return of 7% pa of NAV, subject to a high watermark. The Fund will target a return of 15% plus net IRR pa measured over a 3-to-5-year holding period, with a distribution yield of 2-4% pa post the second anniversary of the first close.

The overweight position in online betting and gaming provider Flutter Entertainment Plc (-1.4%) detracted from relative performance. The stock ended the month lower despite EU regulators approving Flutter's proposed acquisition of Italian online gaming operator Sisal. Flutter announced the acquisition from CVC Capital Partners Fund VI in December for a cash consideration of €1.913B. Management described the purchase as fully aligning with the group's strategy of investing to build global leadership positions in regulated markets and is expected to be accretive to adjusted earnings in the first 12 months post completion.

The overweight position in healthcare services and hospital operator Ramsay Health Care (-4.2%) detracted from relative performance. The stock ended lower after reports suggested that the A\$88 per share cash bid to acquire the firm by private equity firm KKR (announced in April) was increasingly unlikely to proceed. The report suggested several items impacting the bid, including market conditions, issues around due diligence materials and potential French competition approvals for Ramsay Sante, shifting property valuations impacting a potential real estate asset spinoff, and others as weighing on market confidence that the deal can get over the line.

OUTLOOK

We have long believed that markets are poised for further rotation to a more value-oriented investment environment as Covid disruptions, waning stimulus, and war combine to keep consumer price inflation at high levels. Until June this year, equity markets were resilient in the face of the rate hikes, but bond markets have priced in tighter monetary policy much more aggressively. Historically, when the bond market and equity market disagreed, the bond market was usually correct. In our view, rising bond yields will eventually lead overpriced growth stocks into a more sustained and overdue correction, challenging investors with large growth exposures. We think, in the years ahead, markets will need to become accustomed to more inflation than previously experienced. This distinct shift in the macro backdrop is already playing out across asset classes. In these conditions, our focus on value style investing, buying quality companies with strong balance sheets trading at reasonable valuations, should continue to do well and offer attractive opportunities for investors.

Benchmark prior to 1/4/2000 was the ASX All Industrials Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX 300 Industrials Accumulation Index.

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