

Wholesale Funds

PERPETUAL WHOLESAL INDUSTRIAL SHARE FUND

August 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

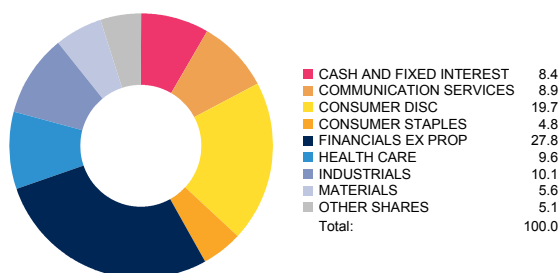
APIR: PER0046AU

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
Commonwealth Bank of Australia	8.6%
National Australia Bank Limited	7.2%
CSL Limited	6.6%
Incitec Pivot Limited	5.6%
Flutter Entertainment Plc	5.6%
Qantas Airways Limited	4.4%
Suncorp Group Limited	4.3%
Event Hospitality & Entertainment Ltd.	3.5%
Telstra Corporation Limited	3.4%
Ramsay Health Care Limited	2.9%

NET PERFORMANCE - periods ending 31 August 2022

	Fund	Benchmark #	Excess
1 month	3.78	-0.45	+4.23
3 months	0.62	-0.97	+1.59
FYTD	9.91	7.84	+2.06
1 year	-2.79	-7.39	+4.60
2 year p.a.	14.39	9.95	+4.44
3 year p.a.	5.27	3.97	+1.30
4 year p.a.	5.02	5.03	-0.01
5 year p.a.	5.95	6.81	-0.87
7 year p.a.	5.99	7.31	-1.32
10 year p.a.	8.71	9.73	-1.02
Since incep.	9.53	8.83	+0.70

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

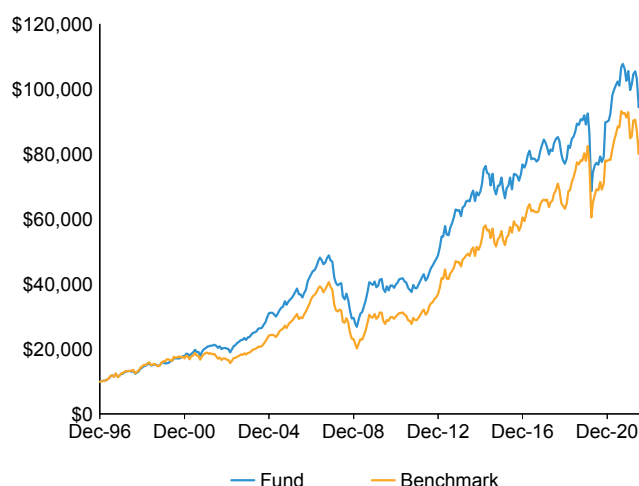
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	15.1	18.3
Dividend Yield*	3.9%	3.9%
Price / Book	2.0	2.0
Debt / Equity	41.7%	50.4%
Return on Equity*	13.4%	11.3%

[^] 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 finished higher for the second month in a row as FY2022 corporate earnings were reported. The Resources sector outperformed on stronger-than-expected results, spurred by M&A activity and a recovery in commodity prices and record cash flows over the past year. The Energy sector rallied amid the prospect of OPEC+ announcing more production cuts, while mining producers impressed despite underlining concerns about the outlook for steel demand. Rate-sensitive pockets, however, weakened amid the increase in bond yields, with Real Estate and Tech stocks among those falling. Underwhelming earnings adversely impacted the Financials as interest rate increases led to a slowdown in housing credit growth and rising term deposit rates pressured profit margins. The Consumer Staples sector bore the brunt of the selling after results from food and grocery stocks confirmed headwinds from inflation, while M&A activity underpinned strengthening Telco performance during August.

Market sentiment was supported by an unexpected rebound in business confidence and conditions in July, indicating that demand remained resilient in the face of economic headwinds. However, the more significant market issue remains the outlook for monetary policy after central bankers emphasised that they are a long way from a policy pivot. The RBA upgraded its inflation forecasts, with headline CPI projected to hit 7.75% by end-2022 without falling back to the 2-3% target band until at least the end of 2024, when supply chain constraints ease and commodities stabilise. At the same time, the global economy continues to face headwinds from restrictive monetary policy and a northern hemisphere energy crunch. GDP growth was forecast to slow next year as cost pressures weighed on household consumption, however, the near-term outlook for employment was revised upwards. The sales, profitability and employment sub-indexes all strengthened, yet inflation pressures were evident with purchase costs and capacity utilisation hitting record highs and retail sales prices increasing.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Incitec Pivot Limited, Flutter Entertainment Plc, and Qantas Airways Limited. The Fund's largest underweight positions include Westpac Banking Corporation, Macquarie Group Limited (not held), and Woolworths Group Ltd (not held).

The overweight position in online betting and gaming provider Flutter Entertainment Plc (+27.3%) contributed to relative performance. The stock rallied upon release of a stronger-than-expected half year result. Flutter saw an 11% rise in revenue compared to the first half of 2021, however, adjusted EBITDA fell 19%. Positive revenue momentum was driven by recreational player growth, with average monthly players up 14% at the group level. In the US, its sports betting market share accelerated to 51% in the June quarter, driven by FanDuel's efficient customer acquisition and strong operational execution. However, its UK & Ireland June-half performance reflected safer gambling initiatives.

The overweight position in air transportation services provider Qantas (+16.7%) contributed to relative performance. Qantas printed an FY22 result that saw underlying profit before tax fall broadly in line with consensus forecasts, while top-line sales came in ahead of estimates by ~5%. While no dividend was declared for the year, a \$400M share buyback was announced. Analysts pointed to the international segment as the strongest contributor to the result, with freight growth from its e-commerce expansion acting as a hedge against other pressures. Management also provided FY23 EBIT guidance of \$425-450M, which would see the airline return to a level of profitability for the first time since the beginning of the pandemic.

The overweight position in dairy producer A2 Milk Company (+22.2%) contributed to relative performance. During the month, the company reported a 19.8% increase in its full-year FY2022 revenue to NZ\$1.446.2M, leading to a 42.3% jump in net profit after tax to NZ\$114.7M and beating the market consensus estimate of NZ\$113.9M. This was driven mainly by double-digit infant formula sales growth from both its China and English label products, reflecting A2's significant increase in marketing investment, which prompted further gains in brand health metrics and record market shares. Investors were further pleased with the announcement of a NZ\$150M on-market share buyback.

The overweight position in French lottery and sports betting operator La Francaise Des Jeux SA (-6.8%) detracted from relative performance. Despite the absence of any company-specific news impacting the stock over the month, it sold off broadly in line with the French CAC 40 total return index, which declined 5.0% over August on the back of continued recessionary concerns.

Not holding logistics software provider WiseTech Global (+17.3%) detracted from relative performance. The stock rose sharply after reporting full-year FY22 revenue growth, driven mainly by increased market penetration. This came primarily from Large Global Freight Forwarder rollouts, increased customer usage, the adoption of its technology, and price increases to offset the impacts of inflation. Compared with its full-year FY2021 results, revenue increased 25%, Operating profit increased 70%, NPAT rose 80%, and earnings per share gained 79%.

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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