

## Wholesale Funds

# PERPETUAL WHOLESAL INDUSTRIAL SHARE FUND

June 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

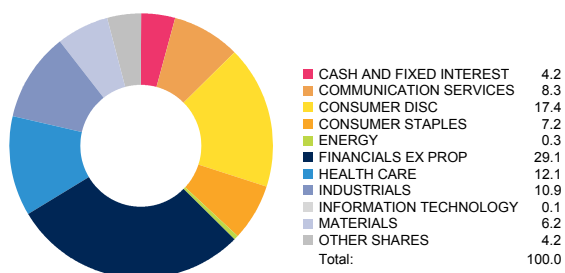
**APIR:** PER0046AU

**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	8.5%
CSL Limited	8.4%
Commonwealth Bank of Australia	7.7%
Incitec Pivot Limited	5.0%
Suncorp Group Limited	4.9%
Flutter Entertainment Plc	4.6%
Telstra Corporation Limited	3.9%
Qantas Airways Limited	3.9%
Event Hospitality & Entertainment Ltd.	3.2%
Ramsay Health Care Limited	3.1%

### NET PERFORMANCE - periods ending 30 June 2022

	Fund	Benchmark #	Excess
1 month	-8.45	-8.17	-0.28
3 months	-9.72	-11.43	+1.71
FYTD	-7.76	-9.56	+1.79
1 year	-7.76	-9.56	+1.79
2 year p.a.	10.49	7.56	+2.93
3 year p.a.	2.75	2.20	+0.56
4 year p.a.	3.16	4.22	-1.06
5 year p.a.	3.71	4.98	-1.27
7 year p.a.	4.30	5.74	-1.44
10 year p.a.	8.44	9.83	-1.39
Since incep.	9.19	8.57	+0.62

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

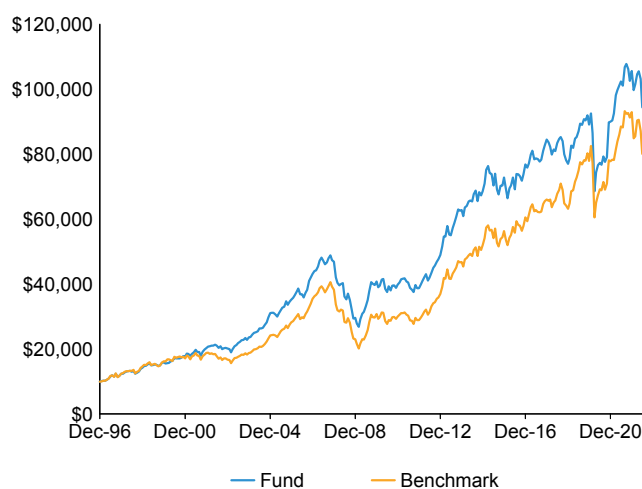
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	14.5	17.3
Dividend Yield*	4.2%	4.1%
Price / Book	1.8	1.9
Debt / Equity	43.2%	51.8%
Return on Equity*	13.0%	11.5%

<sup>^</sup> 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 declined over the June quarter as inflation and interest rate news dominated headlines. The market retreated following the consecutive interest rate rises in May and June, which saw the cash rate climb a total of 75 basis points to 0.85%, prompted by a significant increase in inflation and expectations of its continued upward trajectory.

Equities started the quarter on a positive note, with performance underpinned by continued strength in mining and energy stocks as commodity prices remained elevated by the fallout from Russia's invasion. Rising volatility, however, saw the market hand back its earlier gains. The spike in gas and electricity prices contributed to near-term inflation expectations. At the same time, consumer confidence fell to its lowest level since Sep-2020 amid concerns over the Ukrainian war, east coast flooding, and cost pressures. Fuel and food prices compounded inflationary pressures from supply and labour shortages and strong consumer demand. Consumer Discretionary stocks, however, were adversely affected as the aggressive RBA tightening cycle clouded corporate earnings outlooks. Confidence deteriorated with indebted Australians facing cost-of-living headwinds, which prompted warnings of a pullback in discretionary spending. Consumer staples similarly lost ground amid concerns of cost inflation and pervasive supply chain constraints.

The latest bond yield backup coincided with steep falls in high-growth pockets of the market, particularly across tech stocks, which took a beating over the quarter. Commodity producers also sustained significant losses following the reimposition of Covid restrictions in China. The banks took a steep dive later in the quarter after executives and regulatory officials flagged challenges related to the housing market / construction sector and warned of likely stresses on borrowers from rising rates. The Energy sector, however, finished ahead, supported by rallying crude oil prices. Market sentiment, nevertheless, remained fraught as the increasingly hawkish central bank policy pivot continued to drive concerns of an economic hard landing.

## 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 Transurban Group Ltd, all of which are not held in the Fund.

The overweight position in grain distributor GrainCorp (+11.9%) contributed to relative performance. GNC surprised the market by upgrading its FY2022 guidance with Underlying EBITDA increasing to \$590-670M (vs prior \$480-540M), representing a ~24% forecasted increase in underlying profits. The upgrade follows tailwinds from continued La Niña weather patterns that have provided beneficial planting conditions for the 2022 winter crop and rising global prices from shortages resulting from the Ukraine conflict. As a result, the company expects to see total exports of 8.5Mmt to 9.5Mmt vs 7.9Mmt from last year.

The overweight position in healthcare services and hospital operator Ramsay Health Care (+12.4%) contributed to relative performance. The company confirmed during the quarter that it had received a conditional, non-binding, indicative proposal from KKR consortium to acquire the company. Under the proposal, Ramsay shareholders would be entitled to receive \$88.00 per share cash, less any ordinary or special dividends paid after the date of the proposal. The Ramsay board has determined it appropriate to provide the Consortium with due diligence on a non-exclusive basis.

Not holding global financial services technology provider Block, Inc. (Chess Depository Interests) (-51.2%) contributed to relative performance. The stock suffered over the quarter on the back of the recent crypto-market decline and the broader US tech sell-off, driven by increasing inflation and aggressive interest rate tightening by the Federal Reserve that has escalated recessionary concerns. This came as the company reported a 22% fall in its March-quarter revenue, resulting from softer cryptocurrency demand.

Not holding toll road operator Transurban Group (+8.0%) detracted from relative performance. The company released its March quarter 2022 update, reporting an Average Daily Traffic increase of 0.4% over the March quarter compared to its 2021 March quarter. Management noted that the March quarter again demonstrated traffic recovery in line with the progressive easing of government restrictions and increased economic activity. NSW and QLD traffic also recovered rapidly as weather patterns normalised following the severe rainfall events in late February and early March.

The overweight position in property and investment company Home Consortium (-34.6%) detracted from relative performance over the quarter. Despite the absence of any negative stock-specific news impacting the company, the stock fell along with the broader real estate sector following the 25-basis point increase in the cash rate. The RBA noted that cash rates could rise to a more normal level of 2.5% after upgrading its CPI forecasts and projected that headline and underlying inflation could rise to around 6% and 4.75%, respectively, for 2022 before moderating to around 3% by mid-2024.

## 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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## MORE INFORMATION

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