

Wholesale Funds

PERPETUAL WHOLESAL CONCENTRATED EQUITY FUND

August 2022

FUND FACTS

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

FUND BENEFITS

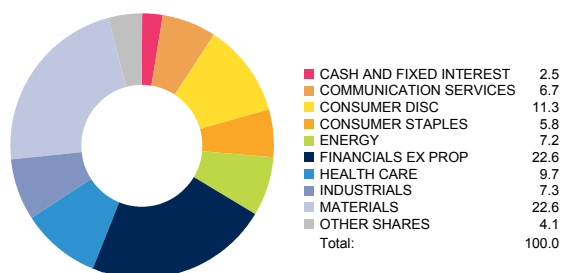
Provides investors with higher potential returns, through the active management of a portfolio of fewer stocks but with higher conviction, than our core Australian equity funds. This concentration may lead to increased short term volatility.

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 Accum. Index
Inception Date:	August 1999
Size of Portfolio:	\$395.93 million as at 30 Jun 2022
APIR:	PER0102AU
Management Fee:	1.10%*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Five years or longer

PORTFOLIO SECTORS



TOP 10 STOCK HOLDINGS

	% of Portfolio
Insurance Australia Group Limited	8.3%
Santos Limited	5.7%
BHP Group Ltd	4.8%
Wesfarmers Limited	4.6%
Orica Limited	4.5%
Iluka Resources Limited	4.5%
National Australia Bank Limited	4.4%
Brambles Limited	4.4%
Commonwealth Bank of Australia	4.4%
Westpac Banking Corporation	4.3%

NET PERFORMANCE - periods ending 31 August 2022

	Fund	Benchmark #	Excess
1 month	3.37	1.18	+2.20
3 months	-1.01	-2.41	+1.40
FYTD	7.29	7.20	+0.09
1 year	4.60	-3.67	+8.26
2 year p.a.	20.13	11.30	+8.84
3 year p.a.	8.36	5.64	+2.72
4 year p.a.	6.39	6.51	-0.11
5 year p.a.	7.88	8.24	-0.36
7 year p.a.	7.98	8.63	-0.65
10 year p.a.	9.53	9.32	+0.21
Since incep.	10.43	8.08	+2.35

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

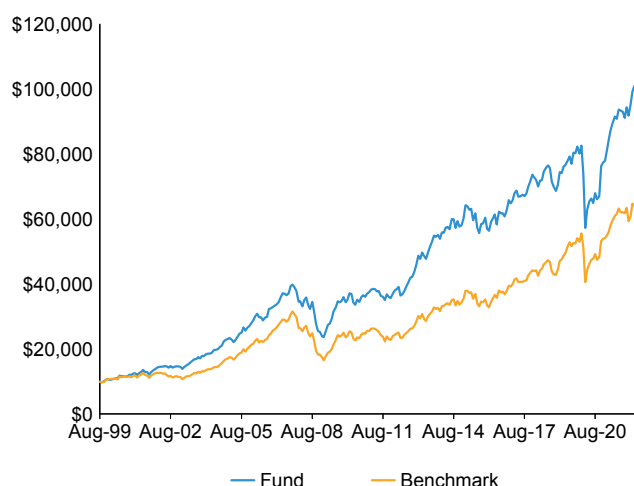
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	14.7	14.1
Dividend Yield*	4.0%	4.6%
Price / Book	1.9	1.9
Debt / Equity	36.9%	31.2%
Return on Equity*	13.5%	14.1%

[^] 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 Santos Limited, Insurance Australia Group Limited, and Iluka Resources Limited. Conversely, the Fund's largest underweight positions include BHP Group Ltd, Commonwealth Bank of Australia, and CSL Limited.

The overweight position in oil and gas producer Santos (+9.7%) contributed to relative performance. Santos reported revenues of US\$3.77B, an 85% leap over the prior corresponding period. Underlying net profit after tax (NPAT) jumped 300% to US\$1.27B with management declaring an interim dividend of 7.6 US cents, up 38% from the same period last year. This was driven by record production, a significant increase in the price of oil and LNG, and from its merger with Oil Search. Management also advised that it had increased its previously announced on-market share buyback from US\$250 million to US\$350 million.

The overweight position in mineral sands miner Iluka Resources (+10.0%) contributed to relative performance. Iluka Resources reported an H1 NPAT of \$368.5M (up from \$129.0M last year). NPAT soared 185.7% on H121 to \$368.5M, and underlying group EBITDA lifted 70.5% to \$525.5M. The interim fully franked dividend more than doubled to 25 cents per share from H1 2021. The company said the revenue boost reflected high prices spanning all of its products as Zircon prices lifted 40%, and rutile prices rose 23%, while the lower US dollar also positively impacted its revenue.

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 explosives and blasting systems manufacturer Orica Ltd. (-7.8%) detracted from relative performance. The stock fell during the month following its successful \$650M equity capital raise to partly fund the acquisition of geospatial tools manufacturer Axis Mining Technology in a deal worth up to \$350M for an up-front cash consideration of \$260M. The excess capital raised will be used to fund incremental trade working capital requirements arising from global supply chain dislocations and to help strengthen its balance sheet.

Not holding oil and gas producer Woodside Petroleum (+7.1%) detracted from relative performance. Investors were impressed after the company announced that it had tripled its interim dividend to US\$1.09 per share in the June half from 30 US cents for the past comparative period (PCP). NPAT rose 417% from pcp, underlying NPAT rose 414% from pcp, EBITDA gained 165% from pcp, and Free Cash Flow spiked 688% from pcp. Management noted its half-year profit surge reflected "strong operational performance, higher realised prices, and contribution from the BHPP assets."

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.

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

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