

Wholesale Funds

PERPETUAL WHOLESAL GEARED AUSTRALIAN SHARE FUND

May 2022

FUND FACTS

Investment objective: Aims to enhance long-term capital growth through borrowing (gearing) to invest predominantly in quality Australian industrial and resource shares.

FUND BENEFITS

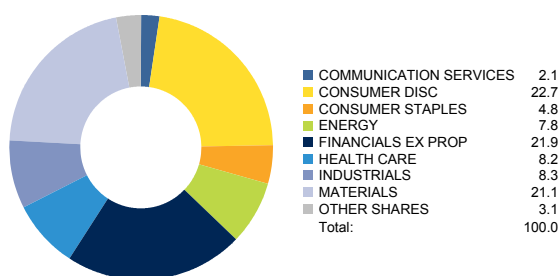
Offers investors broad market exposure with the potential for higher returns through the use of gearing (borrowing within the fund) and actively managed by one of Australia's most experienced investment management teams. A geared fund has benefits over gearing into a fund because there are no margin calls, no credit checks, no need for collateral or assets as security.

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:	March 2003
Size of Portfolio:	\$538.99 million as at 31 Mar 2022
APIR:	PER0071AU
Management Fee:	1.17%*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Seven years or longer

PORTFOLIO SECTORS



TOP 10 STOCK HOLDINGS

	% of Portfolio
BHP Group Ltd	6.6%
Santos Limited	6.1%
Insurance Australia Group Limited	5.3%
Westpac Banking Corporation	4.7%
Iluka Resources Limited	4.4%
Ramsay Health Care Limited	4.3%
Brambles Limited	4.2%
La Francaise des Jeux SA	4.1%
CSL Limited	3.9%
Flutter Entertainment Plc	3.8%

NET PERFORMANCE - periods ending 31 May 2022

	Fund	Benchmark #	Excess
1 month	-2.69	-2.76	+0.07
3 months	5.07	3.08	+1.99
FYTD	10.30	2.41	+7.89
1 year	16.05	4.71	+11.34
2 year p.a.	49.46	16.10	+33.36
3 year p.a.	12.08	8.01	+4.08
4 year p.a.	12.38	8.73	+3.65
5 year p.a.	11.77	8.98	+2.79
7 year p.a.	8.04	7.58	+0.46
10 year p.a.	15.92	10.33	+5.59
Since incep.	12.81	9.67	+3.14

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

Please note: From July 2021 we corrected a minor discrepancy in the previously published 'since inception' returns for the benchmark. If you wish to receive historical 'since inception' data, please contact us. There has been no impact to any other performance period data in the table.

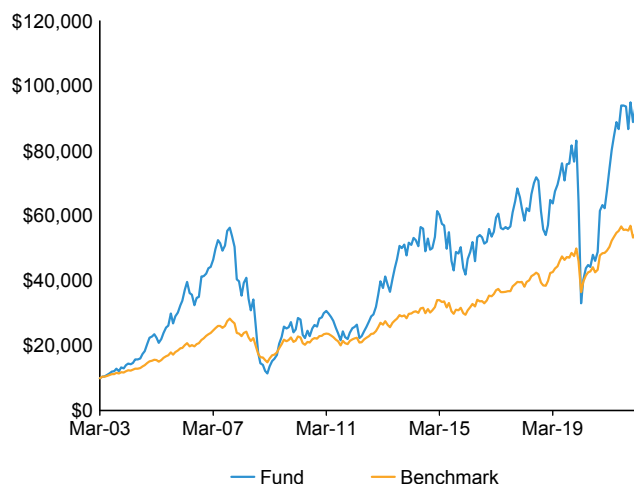
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	15.0	14.3
Dividend Yield*	3.9%	4.7%
Price / Book	2.2	2.0
Debt / Equity	38.6%	33.5%
Return on Equity*	15.0%	14.6%
Gearing Level	57.0%	

[^] Portfolio Fundamentals are compiled using our methodology and provided only for the purpose of illustrating Perpetual'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



*Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

MARKET COMMENTARY

The Australian equity market ended May lower, with most of its decline occurring during the first week, as the RBA lifted the cash rate by 25 basis points to 0.35%. This exceeded expectations of a 15bp increase, with the reserve bank citing a faster and higher-than-expected pickup in inflation and intense upward pressure on labour costs that is likely to continue.

Consumer confidence also fell to its lowest level since Victoria's second Covid wave in August 2020 and saw its largest weekly drop since early January during the height of the Omicron wave, amid concerns over inflation and further rate hikes. Risk aversion also heightened as concerns that increasingly hawkish central bank policy could spur an economic slowdown. Real estate, tech and other high-growth stocks were among the underperformers. Mining producers came under pressure as China's export data highlighted the pressure on its trade sector from lockdowns and concerns of an economic slowdown. This contributed to a pullback in commodities following its rally built primarily on supply shortages due to the war in Ukraine. Discretionary goods retailers were another drag on the market as cost-of-living pressures increased the risk of a spending pullback.

After recouping more than half of its first-week losses during the second week of May, the market came off its worst levels and continued to edge higher during the third and fourth weeks. However, questions remained about the market's durability given the prevalent headwinds from rising rates, stagflation risks, and uncertainty surrounding the economic fallout from the Russian invasion and China's lockdowns. The muted market reaction to the Federal Election was partly attributed to Labor's relatively modest policy agenda, which was not considered a material risk to economic forecasts. Energy outperformed over the month's final week as crude approached its highest level in two months. However, consumer staples extended recent underperformance amid ongoing concerns surrounding cost inflation and pervasive supply chain constraints. Banks were also a drag on the ASX after regulatory officials warned of likely stresses on borrowers from rising rates.

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 Macquarie Group Limited, Rio Tinto Limited, and Transurban Group Ltd., all of which are not held in the Fund.

The overweight position in online betting and gaming provider Flutter Entertainment Plc (+19.0%) contributed to relative performance. The stock price was assisted by its first-quarter trading update released early in the month. Revenue growth of 6% was reported, driven by continued strong recreational player momentum with the average number of monthly players up 15%. Revenue from its US business grew by 45% to \$574M, assisted by the launch of its FanDuel sportsbook in New York and Louisiana during January and its expansion into Ontario in April. Group revenue ex-US declined by 3% despite solid performances in Australia, Canada, Brazil and India.

The overweight position in oil and gas producer Santos (+2.5%) contributed to relative performance. The stock reached a 52-week high during the month, spurred by a rally in oil prices, with WTI crude rising 9.6% and Brent crude gaining 13.4% after EU leaders agreed to cut 90% of oil imports from Russia. The stock further benefitted from an upgrade by Morgans, who sees a 24% upside for the share price supported by its positive growth outlook and a diversified earnings base.

The overweight position in supply chain services provider Brambles (+3.1%) contributed to relative performance. The stock rose sharply after Brambles confirmed media reports that it was engaging with private equity suitor Capital Partners regarding an unsolicited acquisition proposal for the company. The stock, however, handed back much of this gain later in the month after CVC advised that it would not be putting forward a proposal nor seeking to conduct detailed due diligence at this time due to the current external market volatility. The Brambles board indicated that it is considering other strategic options for the company that maximise shareholder value.

The overweight position in motor vehicle equipment, parts, and servicing supplier Bapcor Ltd (-9.4%) detracted from relative performance. The company issued a trading update during the month, posting FY2022 YTD group sales growth of 3%, led by softer Retail and NZ business, and partly offset by more resilient Trade and Specialist wholesale business. Bapcor further re-affirmed its guidance to deliver "pro-forma earnings at or above its FY21 levels". In addition, management highlighted its new approach to leadership, with a more bottom-up structure aiming to empower front-line employees to better serve its customers. Investors, however, reacted adversely to the news, while UBS and Citi cut their target price on the stock following the update, as did Jefferies later in the month.

The overweight position in retail outlet investment company Premier Investments Ltd (-11.9%) detracted from relative performance. The stock sold off with the broader discretionary retail sector on rising interest rates and inflationary concerns. CLSA upgraded the stock to outperform from underperform. However, it decreased its target price to \$25.75 from \$28.25. Citi also upgraded Premier to a 'buy' from 'neutral,' though decreased its target price to \$29 from \$30.80. This came as US retail giants Target and Walmart released disappointing quarterly earnings during the month, further dampening sentiment for local retail stocks.

OUTLOOK

After a few months of volatile market moves dominated by macroeconomic concerns, we are beginning to move forward. However, operating conditions for many companies remain challenging despite generally solid demand conditions. Pressures surrounding supply chains and rising interest rates, managing inflationary pressures, and weather, will all be in focus. Our view in times like these is that strong business models, healthy balance sheets, and good management teams excel. As always, we will focus our attention on earnings quality and look for opportunities where the market is overly focussed on short-term earnings drivers. We feel that this shift in narrative towards increasing inflation and interest rates should continue for most of the year. This should prove to be a challenging environment for both bonds and equities but, more specifically, long-duration equities like non-earnings-generating tech companies. However, we will keep an open mind. Therefore, one needs to be careful about consensus macro views. We will need to keep on top of this from a portfolio risk management perspective. However, for the time being, we are seeing some great opportunities.

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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