Wholesale Funds

PERPETUAL WHOLESALE GEARED AUSTRALIAN SHARE FUND

July 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

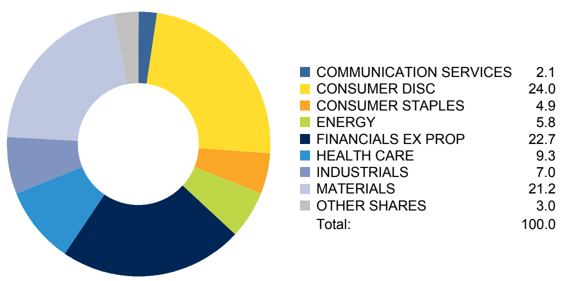
Offers investors broad market exposure with the potential for higher returns through the use of gearing (borrowing within the fund) and actively managed by one of Australia's most experienced investment management teams. A geared fund has benefits over gearing into a fund because there are no margin 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:	$357.93 million as at 30 Jun 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	7.6%
Insurance Australia Group Limited	5.9%
Santos Limited	5.8%
La Francaise des Jeux SA	5.7%
Brambles Limited	5.0%
Flutter Entertainment Plc	4.6%
Bapcor Ltd	4.4%
Iluka Resources Limited	4.3%
Orica Limited	4.3%
Westpac Banking Corporation	4.2%

NET PERFORMANCE - periods ending 31 July 2022

	Fund	Benchmark #	Excess
1 month	7.74	5.95	+1.79
3 months	-15.23	-6.21	-9.02
FYTD	7.74	5.95	+1.79
1 year	-1.55	-2.31	+0.76
2 year p.a.	39.00	12.32	+26.68
3 year p.a.	3.90	4.43	-0.53
4 year p.a.	5.05	6.56	-1.51
5 year p.a.	8.59	8.15	+0.44
7 year p.a.	6.50	7.21	-0.72
10 year p.a.	13.28	9.42	+3.86
Since incep.	11.90	9.38	+2.51

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.

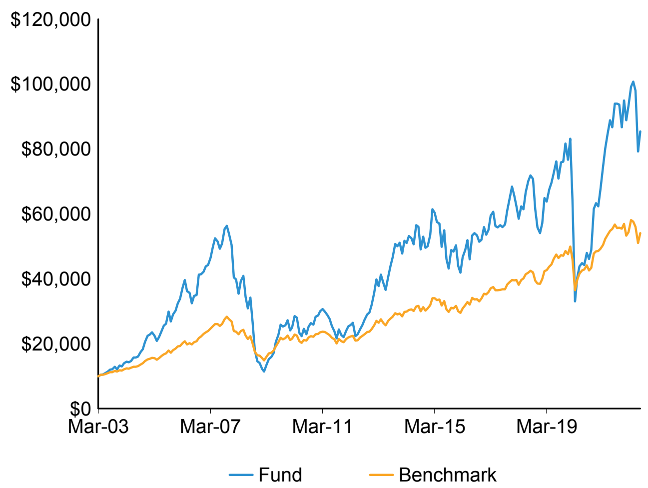
PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	14.2	13.9
Dividend Yield*	4.2%	4.8%
Price / Book	2.0	1.9
Debt / Equity	38.2%	31.3%
Return on Equity*	14.9%	14.3%
Gearing Level	53.8%	

^ 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 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, Santos Limited, Insurance Australia Group Limited, and La Francaise des Jeux SA. Conversely, the Fund's largest underweight positions include Woodside Petroleum Ltd, Macquarie Group Limited, and Woolworths Group Ltd, all of which are not held in the Fund.

The overweight position in motor vehicle equipment, parts, and servicing supplier Bapcor Ltd (+9.4%) contributed to relative performance. The stock advanced following a broker note out of Citi indicating that it is bullish on the stock due to new car shortages in Australia potentially taking longer than expected to resolve. The analyst said Bapcor is Citi's top pick across the small-cap automotive sector, citing its relatively non-discretionary product offering and strong balance sheet. Citi also noted that it likes ARB but ranks it behind Bapcor given its supply issues and downside risk to demand over FY 2023.

The overweight positions in both NAB (+11.7%) and Westpac Bank (+10.3%) contributed to relative performance. The stocks gained ground following the RBA's interest rate hike. Despite the economic backdrop, the banks are believed to have sufficient equity buffers in place with an average CET1 ratio of ~11%. While several banks have active buyback programs, Morgan Stanley commented that it does not expect any new programs to be announced. Dividend growth is anticipated to be in the low single digits; however, the payout ratio will likely edge higher. May banking statistics showed an $8.5B or +0.6% increase in owner-occupied loans and a $3.3B (+0.5%) month-on-month increase in investment housing lending, whereas cash and deposits decreased by $14.7B (-3.2%) month-on-month.

Not holding iron ore miner Rio Tinto (-4.7%) contributed to relative performance. The stock similarly declined over the month along with the broader mining sector, driven predominantly by the correction in commodity prices, particularly iron ore, which sold off on the back of demand concerns out of China.

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.

The overweight position in oil and gas producer Santos (-1.6%) detracted from relative performance. The stock finished the month lower, dragged down by the fall in oil prices as well as its first-half financial results, which missed market expectations despite posting a record half-year sales revenue of US$3.8 billion and record free cash flow of US$1.7 billion. This was up 85% and 199%, respectively, over the prior corresponding period.

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.

MORE INFORMATION

Adviser Services 1800 062 725
Investor Services 1800 022 033
Email investments@perpetual.com.au
www.perpetual.com.au

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