

## Wholesale Funds

# PERPETUAL WHOLESAL CONCENTRATED EQUITY FUND

November 2020

### 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

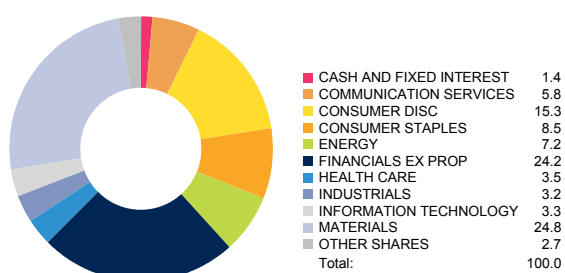
Provides investors with higher potential returns, through the active management of a portfolio of fewer stocks but with higher conviction, than our core Australian equity funds. This concentration may lead to increased short term volatility.

### 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.

<b>Benchmark:</b>	S&P/ASX 300 Accum. Index
<b>Investment Manager:</b>	Paul Skamvougeras
<b>Inception Date:</b>	August 1999
<b>Size of Portfolio:</b>	\$518.76 million as at 30 Sep 2020
<b>APIR:</b>	PER0102AU
<b>Management Fee:</b>	1.10%*
<b>Investment style:</b>	Active, fundamental, bottom-up, value
<b>Suggested minimum investment period:</b>	Five years or longer

### PORTFOLIO SECTORS



### TOP 10 STOCK HOLDINGS

	% of Portfolio
Crown Resorts Limited	6.7%
National Australia Bank Limited	4.2%
Iluka Resources Limited	4.2%
Fletcher Building Limited	4.2%
Medibank Private Ltd.	4.0%
Westpac Banking Corporation	3.9%
Deterra Royalties Ltd	3.7%
Woolworths Group Ltd	3.5%
Suncorp Group Limited	3.5%
Premier Investments Limited	3.5%

### NET PERFORMANCE - periods ending 30 November 2020

	Fund	Benchmark #	Excess
1 month	13.99	10.23	+3.77
3 months	12.43	8.27	+4.15
FYTD	15.09	12.25	+2.85
1 year	-7.19	-1.62	-5.57
2 year p.a.	4.51	11.35	-6.84
3 year p.a.	2.23	7.06	-4.83
4 year p.a.	5.09	8.91	-3.83
5 year p.a.	5.41	9.14	-3.73
7 year p.a.	4.94	7.37	-2.43
10 year p.a.	7.79	8.01	-0.22
Since incep.	10.04	8.09	+1.95

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

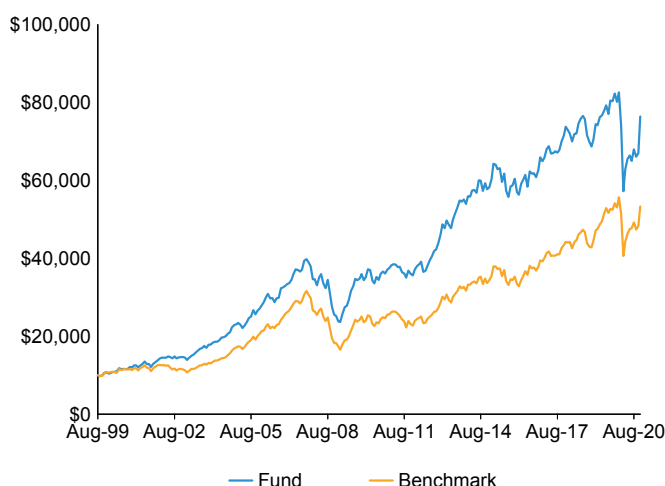
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	20.3	20.0
Dividend Yield*	3.5%	3.5%
Price / Book	1.6	2.1
Debt / Equity	30.2%	39.8%
Return on Equity*	7.7%	10.5%

<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 ended the month higher with the S&P/ASX 300 Accumulation Index gaining 10.2% in November. The market saw its largest monthly gain since 1988, assisted early in the month by a rally in global markets following Joe Biden's US Presidential election victory despite President Trump refusing to concede defeat, calling for recounts, and Supreme Court intervention.

Local market sentiment was further buoyed after the Reserve Bank upgraded its near-term GDP growth forecasts, projecting a lower unemployment rate and improved forecasts for household consumption following an easing of pandemic-related restrictions, fiscal spending, and income support measures. This came on the back of the announcement of a new \$100b asset purchase program, as well as an interest rate cut from 0.25% to a new record low of 0.1% with expectations of no rate hikes for at least three years.

Cyclical sectors and value stocks were provided with a significant boost following the announcement by US pharmaceutical company, Pfizer Inc, that its coronavirus vaccine was effective in preventing more than 90% of infections in its sample test, exceeding expectations of a 60-70% efficacy rate, resulting in the Therapeutic Goods Administration placing the vaccine on a priority path to approval. Optimistic vaccine-related sentiment was reinforced by further positive reports from the AstraZeneca-Oxford University vaccine, showing to be between 62% and 90% effective in preventing COVID-19 symptoms, while Moderna announced its vaccine to be 94.5% effective in a late-stage clinical trial. This came as national COVID cases trended downwards with Victoria reporting zero active cases by the end of the month, leading state governments to further relax restrictions and announce the gradual reopening of their borders.

The best performing sectors for the month, as measured from the S&P/ASX 300 Accumulation Index, were Energy (+28.2%), Financials (+16.1%), and Communication Services (+14.1%). The worst performers were Consumer Staples (-0.7%), Utilities (+1.5%), and Health Care (+2.9%). As a whole, industrial stocks (+10.1%) underperformed resource stocks (+10.7%) and large-cap stocks (+11%) outperformed small-cap stocks (+10.3%). Value stocks (+16.3%) outperformed growth stocks (+4.1%) as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

## PORTFOLIO COMMENTARY

The Fund's largest overweight positions include mineral sands miner Iluka Resources, casino operator Crown Resorts, and building materials manufacturer Fletcher Building. The Fund's largest underweight positions include CSL (not held), BHP Group, and Commonwealth bank.

The overweight position in building materials manufacturer Fletcher Building (+39.5%) contributed to relative performance. The stock spiked after announcing an NZ\$80m (54.4%) year-on-year increase in its EBIT (before significant items) to NZ\$227m for the first four months of the financial year. Fletcher also reported a 1% increase in revenues to NZ\$2.7b and a 2.9% increase in Group EBIT margin to 8.4% over the same period. Management noted that robust operating conditions in the residential construction market in both New Zealand and Australia were responsible for the sharp rebound in profits over the current financial year.

Not holding biopharmaceutical company CSL (+3.4%) contributed to relative performance. Despite finishing the month higher after announcing an \$800m investment in a Melbourne-based influenza vaccine manufacturing plant, the stock underperformed the benchmark following a sharp rally across the cyclical sectors and in value stocks, driven by the anticipation of a strong post-pandemic recovery following several better-than-expected coronavirus vaccine trial results, declining national infection rates, relaxed restrictions, and the announcements of state border re-openings.

The overweight position in mineral sands miner Iluka Resources (+3.7%) detracted from relative performance. Despite finishing the month higher on the back of a mostly positive resumption of broker coverage of the stock following the spin-off of its Deterra Royalties business in October. However, the stock failed to keep up with the benchmark, which rallied sharply on positive coronavirus vaccine trial results, leading to expectations of an expedited post-pandemic economic recovery. We continue to hold the stock as we believe there is still significant value to be unlocked from the demerger which is yet to be realised by the market.

The overweight position in outsourced administration services provider Link Administration Holdings Group (+3.1%) detracted from relative performance. The stock finished higher, boosted by news that it continues to engage in due diligence with Pacific Equity Partners and Carlyle Group over their previously-announced acquisition interest of the company. The stock, however, detracted from relative performance after failing to keep up with the benchmark which saw a sharp rally on the back of promising coronavirus vaccine trial results, and downward trending national infections numbers. Despite its underperformance, the Fund continues to hold the stock as we believe it is still trading at a significant discount to its sum-of-parts valuation.

## OUTLOOK

The recent market rally has been relatively narrow in Australia, with energy and the financials at the forefront. The sooner restrictions are relaxed, the lower the divergence in its impact across specific sectors and stock prices. Once the economy reopens nationally, a big question will be around the sustainability of the rebound. Many investors have a 'glass half full' perspective, which will be challenging for both the economy and markets. Furthermore, the perception that interest rates will remain at their current levels forever will be challenged as we see the potential re-emergence of inflation. Although inflation presents an unlikely risk in the shorter-term, given the excess capacity in economies globally, it may present a substantial tail risk. Subsequently, a steepening of the yield curve in response to a potential rise in inflation could see a short sharp market correction. Despite the better-than-expected earnings season, we're still to learn what 'COVID normal' will look like, and how that might impact businesses both large and small. This is why sticking to an investment approach that's underpinned by a disciplined, active, value-based methodology is important, whatever the investment environment.

# 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. This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL No 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. The PDS for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in that fund. The PDS can be obtained by calling 1800 022 033 or visiting our website [www.perpetual.com.au](http://www.perpetual.com.au). No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of any investor's capital. Total return shown for the fund(s) have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for contribution or withdrawal fees or taxation (except in the case of superannuation funds, as applicable). Past performance is not indicative of future performance.

## MORE INFORMATION

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