

Wholesale Funds

PERPETUAL WHOLESAL SMALLER COMPANIES FUND

November 2020

FUND FACTS

Investment objective: Aims to provide long-term capital growth and income through investment in quality Australian industrial and resource shares which, when first acquired, do not rank in the S&P/ASX 50 Index.

FUND BENEFITS

Provides investors with the potential to benefit from the growth of quality smaller or emerging companies, through active management by one of Australia's most experienced investment management teams.

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 Small Ordinaries Accum. Index

Investment Manager: Jack Collopy

Inception Date: October 1996

Size of Portfolio: \$565.53 million as at 30 Sep 2020

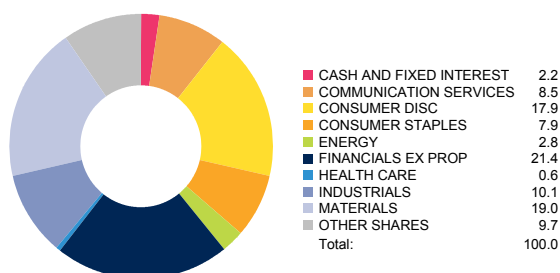
APIR: PER0048AU

Management Fee: 1.25%*

Investment style: Active, fundamental, bottom-up, value

Suggested minimum investment period: Five years or longer

PORTFOLIO SECTORS



TOP 5 STOCK HOLDINGS

Stock Holding	% of Portfolio
Pacific Current Group Ltd	5.1%
AUB Group Limited	4.0%
Centuria Capital Group	3.5%
Elanor Investors Group	3.3%
Kina Securities Ltd.	2.9%

NET PERFORMANCE - periods ending 30 November 2020

	Fund	Benchmark #	Excess
1 month	10.12	10.27	-0.15
3 months	11.15	7.66	+3.49
FYTD	17.77	17.06	+0.71
1 year	12.14	5.98	+6.16
2 year p.a.	14.61	11.17	+3.44
3 year p.a.	7.50	6.73	+0.78
4 year p.a.	10.05	10.01	+0.04
5 year p.a.	9.67	10.70	-1.03
7 year p.a.	9.42	8.22	+1.20
10 year p.a.	9.68	4.20	+5.48
Since incep.	12.22	5.77	+6.45

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

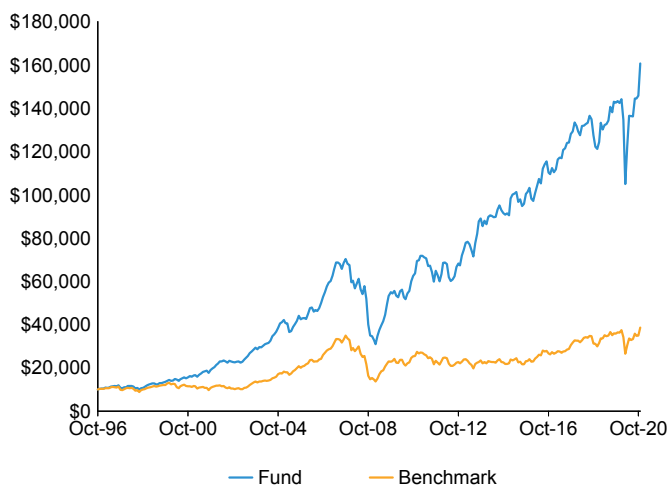
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	14.2	20.0
Dividend Yield*	4.3%	3.3%
Price / Book	1.9	1.9
Debt / Equity	23.9%	27.2%
Return on Equity*	11.9%	10.3%

[^] 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 Small Ordinaries Accumulation Index gaining 10.3% in November. The index was assisted early in the month on the back of 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 trial results from AstraZeneca-Oxford University's, and Moderna's coronavirus vaccines. 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 Small Ordinaries Accumulation Index, were Energy (+19.3%), Financials (+16.1%), and Communication Services (+15.0%). The worst performers were Information Technology (+3.2%), Consumer Staples (+5.4%), and Real Estate (+7.7%). As a whole, small cap industrial stocks (+10.1%) underperformed small cap resource stocks (+10.9%), and small cap value stocks (+11.9%) outperformed small cap growth stocks (+6.0%) as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include insurance provider AUB Group, boutique funds management firm Pacific Current Group, and investment and funds management services provider Elanor Investors Group. The Fund's largest underweight positions include Reece, Chorus, and IDP Education, all of which are not held in the Fund.

The overweight position in investment and funds management services provider Elanor Investors Group (+30.3%) contributed to relative performance. The stock rallied following the announcement that the company had established a new managed fund that will acquire a commercial office and healthcare property located in Woollongabba Queensland for \$80.2 million. The 1.5-hectare property will contain two fully occupied, prime grade, commercial offices and healthcare buildings, and intend on being leased to the Queensland Government and the Catholic Church with a 7.2 year weighted average lease expiry.

The overweight position in workspace solutions provider Servcorp (+37.1%) contributed to relative performance. The stock rallied after its FY2021 earnings outlook was reaffirmed at its AGM, with management noting that it expects to remain profitable as the business continues to generate substantial positive cash flow. Servcorp anticipates that it will generate no less than \$30m in cash flow across the current financial year, which will be used to reward shareholders via a healthy dividend stream (subject to currencies remaining constant, and the mitigation of pandemic-related impacts on operations).

The overweight position in gold miner Saracen Mineral Holdings (-16.5%) detracted from relative performance. The stock fell following a reversal in safe-haven assets, including gold, which fell 4.8% to US\$1,762.55/oz on the back of heightened prospects of a sooner-than-expected rebound in global economic activity, spurred by announcements of promising coronavirus vaccine trials results. Despite this setback, we continue to hold the stock due to its high-quality assets, experienced management, and attractive valuation.

The overweight position in insurance provider AUB Group (+0.1%) detracted from relative performance. The stock disappointed over the month in comparison to the benchmark as investors were underwhelmed after the company announced an underlying NPAT guidance in the range of \$60m to \$62m, representing growth of 12.3% to 16.1% on FY20 underlying NPAT of \$53.42m. Investors were further cautioned after management noted that its macro conditions remain "volatile and uncertain". Despite this setback, we believe the market has overreacted, and that the structural drivers of the company remain sound as it operates a resilient, cash-generative business.

OUTLOOK

The global economic recovery from COVID continues, although we remain wary of relapses that may trigger further economic dislocation, as we are seeing in Europe. The discovery of highly effective vaccines in record time, however, raises hope that sustained economic growth is possible from mid-2021 onward, as markets are beginning to price a significant rotation into stocks. Most value sectors (like banks, energy, resources, and consumer discretionary) will be more sensitive to an upswing in the economy, as such, this investment style is anticipated to outperform after a prolonged period of dominance by growth investing. This is why sticking to an investment approach that's underpinned by a disciplined, active, value-based methodology is important, whatever the investment environment.

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

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