

Wholesale Funds

PERPETUAL WHOLESAL INDUSTRIAL SHARE FUND

November 2020

FUND FACTS

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

FUND BENEFITS

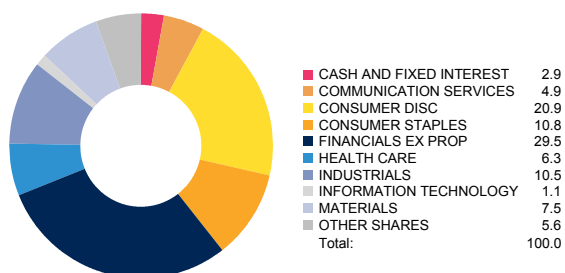
Provides investors with the potential for capital growth and consistent, tax effective income through the active management of quality industrial shares. Investors have been benefitting from this strategy since 1966.

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 Industrial Accum. Index
Investment Manager:	Anthony Cay & Anthony Aboud
Inception Date:	December 1996
Size of Portfolio:	\$1,233.13 million as at 30 Sep 2020
APIR:	PER0046AU
Management Fee:	0.99%*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Five years or longer

PORTFOLIO SECTORS



TOP 10 STOCK HOLDINGS

	% of Portfolio
Commonwealth Bank of Australia	7.7%
Woolworths Group Ltd	6.4%
National Australia Bank Limited	6.3%
Flutter Entertainment Plc	5.4%
ANZ Banking Group Ltd.	4.7%
CSL Limited	4.5%
Crown Resorts Limited	4.0%
Suncorp Group Limited	3.7%
Incitec Pivot Limited	3.7%
Qantas Airways Limited	3.2%

NET PERFORMANCE - periods ending 30 November 2020

	Fund	Benchmark #	Excess
1 month	13.52	10.12	+3.41
3 months	13.20	9.46	+3.74
FYTD	16.09	12.97	+3.11
1 year	-2.34	-2.59	+0.25
2 year p.a.	7.19	10.38	-3.20
3 year p.a.	2.75	6.02	-3.27
4 year p.a.	5.03	7.78	-2.75
5 year p.a.	5.00	7.49	-2.50
7 year p.a.	5.28	7.65	-2.38
10 year p.a.	8.74	10.31	-1.57
Since incep.	9.60	9.05	+0.55

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

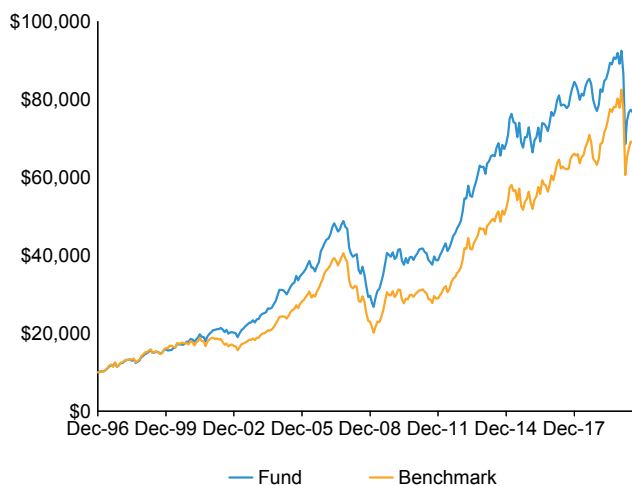
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	21.5	23.0
Dividend Yield*	3.4%	3.2%
Price / Book	1.7	2.1
Debt / Equity	37.4%	54.6%
Return on Equity*	8.1%	9.4%

[^] 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 Industrials Accumulation Index gaining 10.1% in November. The index was 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 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 300 Industrials Accumulation Index, were Financials (+16.1%), Communication Services (+14.4%), and Real Estate (+13.2%). The worst performers were Consumer Staples (-0.7%), Utilities (+1.5%), and Health Care (+2.9%). As a whole, large cap industrial stocks (+10.1%) outperformed small cap industrial stocks (+10.1%) and value stocks (+16.3%) outperformed growth stocks (+4.1%) as measured from the MSCI Australia Value and MSCI Australia Growth indices respectively.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include casino operator Crown Resorts, online gaming and betting provider Flutter Entertainment PLC, and commercial explosives and fertilizer manufacturing company Incitec Pivot. The Fund's largest underweight positions include CSL, Wesfarmers, and Macquarie Group (not held).

The overweight position in building materials manufacturer Fletcher Building (+39.5%) contributed to relative performance. The stock spiked after announcing a +54.4% (NZ\$80m) 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 its 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 largely responsible for the sharp rebound in profits over the current financial year.

The overweight position in air transportation services provider Qantas (+28.4%) contributed to relative performance. Anticipation of a sooner-than-expected resumption to international travel on the back of optimistic coronavirus trial-results announcements throughout the month boosted investor sentiment. Expectations of a rebound in domestic air travel over the Christmas period was also boosted following reduced government restrictions and the re-opening of state borders.

The overweight position in online betting and gaming provider Flutter (+0.9%) detracted from relative performance. The stock underperformed the broader market despite reporting a September-quarter revenue of £1.33b (vs £1.04b over the past comparative period) and expecting a full-year Group ex-US EBITDA of between £1.28b and £1.35b (vs its prior guidance of between £1.18 and £1.33b). Management, however, reported an EBITDA loss of £160-180mn in FY20 (vs. £140-160mn previously and a consensus of £149m) for its US business, hampering investor sentiment over the month. Despite this underperformance, we continue to hold the stock as we believe its future earnings growth potential from its international segments has yet to be fully recognised by the market.

The overweight position in diversified retailer Woolworths (-3.1%) detracted from relative performance. The stock fell during the month following a strong rotation away from the defensive sectors into the cyclicals, driven by expectations of a strong post-pandemic recovery on the back of declining national infection rates, relaxed state-level restrictions, and the announcement of several better-than-expected coronavirus vaccine trial results. Despite this setback, the Fund continued to hold the stock as we believe it remains attractively valued at its current price given its high-quality assets, conservative balance sheet, and reliable earnings streams.

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 All Industrials Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX 300 Industrials Accumulation Index.

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