

Wholesale Funds

PERPETUAL WHOLESale GEARED AUSTRALIAN SHARE FUND

November 2020

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.

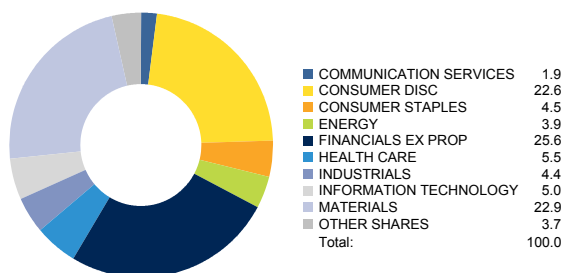
A geared fund has benefits over gearing into a fund because there are no margin calls, no credit checks, no need for collateral or assets as security.

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
Investment Manager: Vince Pezzullo
Inception Date: March 2003
Size of Portfolio: \$308.53 million as at 30 Sep 2020
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

Stock Holding	% of Portfolio
National Australia Bank Limited	5.4%
Crown Resorts Limited	4.8%
Flutter Entertainment Plc	4.2%
Westpac Banking Corporation	3.9%
Link Administration Holdings Ltd.	3.8%
La Francaise des Jeux SA	3.7%
Suncorp Group Limited	3.6%
ANZ Banking Group Ltd.	3.3%
Boral Limited	3.2%
Aristocrat Leisure Limited	3.2%

NET PERFORMANCE - periods ending 30 November 2020

	Fund	Benchmark #	Excess
1 month	26.15	10.23	+15.92
3 months	28.33	8.27	+20.06
FYTD	37.32	12.25	+25.08
1 year	-24.55	-1.62	-22.93
2 year p.a.	5.02	11.35	-6.33
3 year p.a.	-1.50	7.06	-8.56
4 year p.a.	4.31	8.91	-4.60
5 year p.a.	4.95	9.14	-4.19
7 year p.a.	3.02	7.37	-4.35
10 year p.a.	9.07	8.01	+1.07
Since incep.	11.05	9.26	+1.79

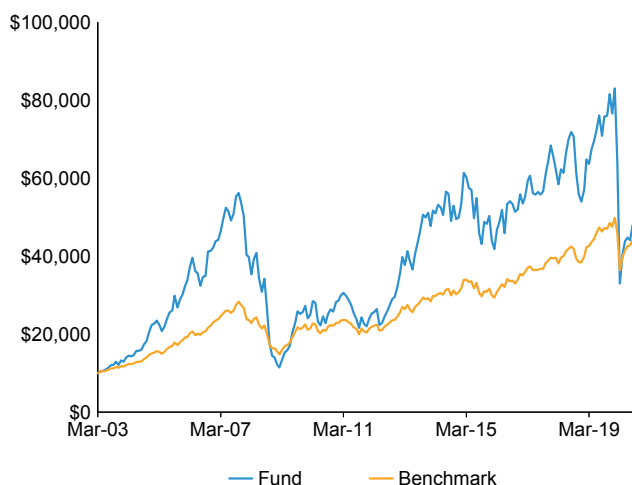
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	20.6	20.0
Dividend Yield*	3.3%	3.5%
Price / Book	1.7	2.1
Debt / Equity	33.5%	39.8%
Return on Equity*	8.4%	10.5%
Gearing Level	48.8%	

[^] 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 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 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 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 (+11.0%) 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 casino operator Crown Resorts, outsourced administration services provider Link Administration Holdings Group, and online betting and gaming provider Flutter Entertainment PLC. The Fund's largest underweight positions include Transurban Group, Rio Tinto, and Goodman Group (all of which are not held in the Fund).

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 (+1.0%) 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 automotive and industrial products manufacturer G.U.D. Holdings (-11.1%) detracted from relative performance. The stock ended the month lower on declining investor enthusiasm after management announced it had entered into a binding agreement with AMA to acquire its aftermarket car parts business, ACAD, for a \$70m consideration. The acquisition is to be partly funded by a fully underwritten \$55m institutional placement, which was also completed during the month at a price of A\$11.25 per share. Despite the stock's recent underperformance, the Fund continues to hold the stock as we believe the market is not pricing in the benefits of the acquisition and is significantly undervalued at its current price.

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.

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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