

Wholesale Funds

PERPETUAL WHOLESAL GEARED AUSTRALIAN SHARE FUND

April 2021

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.

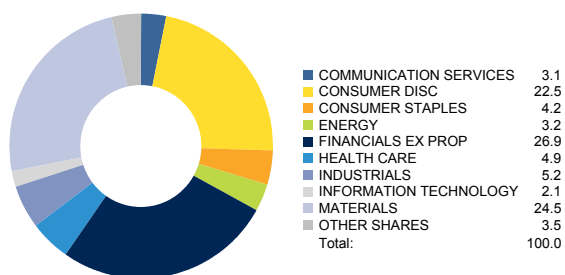
A geared fund has benefits over gearing into a fund because there are no margin calls, no credit checks, no need for collateral or assets as security.

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:	\$470.48 million as at 31 Mar 2021
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
National Australia Bank Limited	5.6%
Crown Resorts Limited	5.3%
La Francaise des Jeux SA	4.6%
Westpac Banking Corporation	4.4%
Flutter Entertainment Plc	4.0%
Iluka Resources Limited	4.0%
ANZ Banking Group Ltd.	3.8%
Suncorp Group Limited	3.5%
Bluescope Steel Limited	3.5%
Boral Limited	3.5%

NET PERFORMANCE - periods ending 30 April 2021

	Fund	Benchmark #	Excess
1 month	7.59	3.70	+3.89
3 months	28.65	7.64	+21.01
FYTD	78.78	22.83	+55.95
1 year	98.70	31.58	+67.12
2 year p.a.	8.99	9.39	-0.40
3 year p.a.	8.77	9.70	-0.93
4 year p.a.	7.21	8.69	-1.48
5 year p.a.	10.40	10.40	+-
7 year p.a.	6.03	8.07	-2.05
10 year p.a.	10.37	8.28	+2.09
Since incep.	12.41	9.58	+2.83

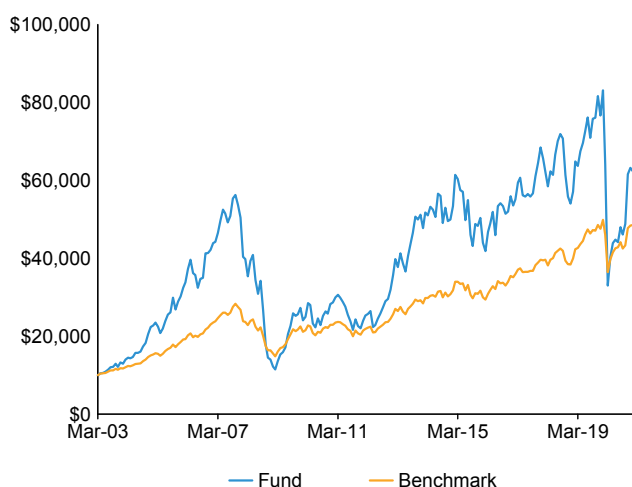
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	19.3	18.6
Dividend Yield*	3.3%	3.9%
Price / Book	1.9	2.2
Debt / Equity	28.3%	36.9%
Return on Equity*	10.2%	12.0%
Gearing Level	53.1%	

[^] 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 3.7% over April. Equities rallied on improved consumer confidence, surging to its strongest level since August 2010, buoyed by a rising housing market and a resilient labour market despite the winding down of the Job Keeper wage subsidy program and concerns surrounding the AstraZeneca vaccine rollout. Headline jobs growth more than doubled consensus estimates (increasing +70.7K month-on-month versus consensus of +35.0K), leading to a 0.2% fall in the unemployment rate to 5.6%.

Sentiment was further boosted following a bullish Reserve Bank April policy meeting, noting a faster-than-expected return of Australian GDP to pre-pandemic levels, as well as reaffirming its hold on the record low interest rate of 0.10% until inflation is sustainably within its 2-3% target range. In a pre-budget speech, Treasurer Frydenberg emphasised a pro-growth fiscal stance with a focus on job creation through increased spending without accompanied tax increases or budget cuts. While also flagging measures aimed at boosting infrastructure, tax reform, and encouraging more skilled migration to alleviate worker shortages. The market was further buoyed by strengthening US equities, which gained traction following solid March-quarter earnings and another multi-trillion-dollar fiscal package outlined by President Biden in an address to Congress.

Investors largely shrugged off concerns of intensifying global coronavirus trends which slowed reopening momentum after direct travel from India was suspended until 15-May in response to a growing number of infected travellers arriving into Australia. This came as the Federal Government abandoned its target for vaccinating the population and recommended that the AstraZeneca vaccine not be given to people under 50 following further challenges in the rollout of the program.

The best performing sectors for the month, as measured by the S&P/ASX 300 Accumulation Index, were Information Technology (+9.8%), Materials (+7.5%) and Industrials (+4.1%). The worst performers were Energy (-4.7%), Consumer Staples (-2.4%) and Utilities (-1.2%). As a whole, industrial stocks (+3.1%) underperformed resource stocks (+6.0%), and large-cap stocks (+3.2%) underperformed small-cap stocks (+5.0%). Value stocks (+3.3%) underperformed growth stocks (+3.7%) 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, online betting and gaming provider Flutter Entertainment Plc, and French Gambling operator La Francaise des Jeux SA. The Fund's largest underweight positions include Macquarie Group, Rio Tinto, and Transurban Group, all of which are not held in the Fund.

The overweight position in French Gambling operator La Francaise des Jeux SA (+11.0%) contributed to relative performance. The stock rallied following its first-quarter earnings results, reporting a 12% increase in stakes at €4.6 billion and a 5% increase in revenue of €0.5 billion compared with the first quarter of 2020. This amounted to a 6% increase in stakes and a 4% increase in revenue compared to the first quarter of 2019. Management also reported strong momentum in sports betting at +46% year-on-year (+20% in Q1 of 2019) benefitting from the normalisation of sporting events, while its lottery business incurred more modest growth (+3.8% vs Q1 2020, and +2.2% vs Q1 2019).

The overweight position in building and construction materials provider Boral (+12.9%) contributed to relative performance. The stock rose after finalising the US\$1.02 billion sale of its 50% stake in its USG Boral joint venture to German company, Gebr Knauf KG. Management reported that it expects to generate a post-tax profit of A\$450 million (US\$341.9 million) on the divestment and intend on using the proceeds to reduce its net debt position from -\$1.9 billion to its target of \$1.5 billion, as well as distributing the surplus capital via an on-market buyback of up to 10% of its shares on issue over the next 12 months.

The overweight position in online betting and gaming provider Flutter Entertainment Plc (-5.3%) detracted from relative performance. The stock fell on release of its March-quarter trading update after management noted that COVID restrictions would likely impact its retail business in the UK and Ireland by an estimated monthly EBITDA loss of £9M for each month that both locations remained in shut-down. On top of this, management flagged that the proposed German tax change would reduce contribution by £15M- £25M in 2021 if introduced from 1 July. Despite this setback, The Fund continues 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 energy producer Origin Energy (-11.3%) detracted from relative performance. The stock sold off following an unexpected outcome from a domestic contract price review for its gas purchased from the Otway Basin Fields. The new gas price is expected to result in an increase in Origin's cost of supply of between \$30m - \$40m for FY2021, then increasing to between \$60m - \$80m in FY2022. Combined with challenging operating conditions, management expects its operating earnings from its energy markets to be in the range of \$940m to \$1,020m (down from its previous guidance of \$1,000m to \$1,140m). Despite this setback, we still believe the stock is undervalued as it continues to target significant capital and operating cost savings, including the rollout of a new retail operating model and Kraken platform over FY2022-2024.

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 rollout of vaccine programs, 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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