

Wholesale Funds

PERPETUAL WHOLESAL INDUSTRIAL SHARE FUND

April 2021

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

Inception Date: December 1996

Size of Portfolio: \$1,377.21 million as at 31 Mar 2021

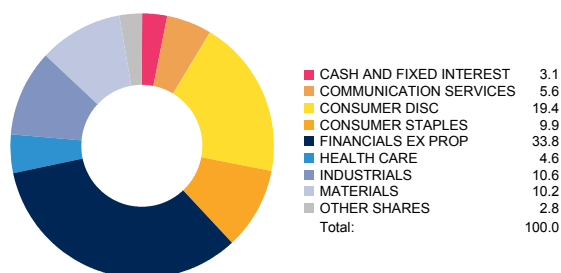
APIR: PER0046AU

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

Stock Holding	% of Portfolio
National Australia Bank Limited	7.7%
ANZ Banking Group Ltd.	6.8%
Commonwealth Bank of Australia	6.6%
Woolworths Group Ltd	6.0%
Flutter Entertainment Plc	5.8%
Suncorp Group Limited	4.5%
Crown Resorts Limited	3.9%
Incitec Pivot Limited	3.9%
Qantas Airways Limited	3.6%
Westpac Banking Corporation	3.5%

NET PERFORMANCE - periods ending 30 April 2021

	Fund	Benchmark #	Excess
1 month	1.66	3.09	-1.43
3 months	10.38	7.28	+3.10
FYTD	28.98	21.37	+7.61
1 year	34.18	29.16	+5.02
2 year p.a.	8.49	8.37	+0.12
3 year p.a.	7.00	8.80	-1.80
4 year p.a.	5.34	6.78	-1.44
5 year p.a.	7.24	8.79	-1.54
7 year p.a.	6.22	8.05	-1.83
10 year p.a.	9.09	10.39	-1.29
Since incep.	9.90	9.21	+0.69

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

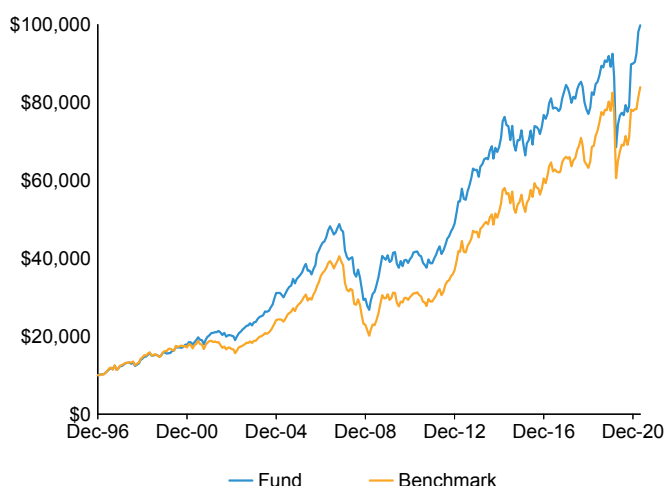
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	19.7	22.1
Dividend Yield*	3.3%	3.5%
Price / Book	1.8	2.2
Debt / Equity	39.4%	51.1%
Return on Equity*	9.5%	10.4%

[^] 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 S&P/ASX 300 Industrials Accumulation Index gained 3.1% 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 Industrials Accumulation Index, were Information Technology (+9.8%), Industrials (+4.1%) and Consumer Discretionary (+3.4%). The worst performers were Consumer Staples (-2.4%), Utilities (-1.2%) and Materials (+2.4%). As a whole, large cap industrial stocks (+3.0%) underperformed small cap industrial stocks (+3.9%) and 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 online gaming and betting provider Flutter Entertainment Plc, financial services provider Suncorp Group, and casino operator Crown Resorts. The Fund's largest underweight positions include CSL, Wesfarmers (not held), and Macquarie Group (not held).

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 steel manufacturer Bluescope Steel (+11.7%) contributed to relative performance. The stock strengthened following an updated FY2021 guidance, with management now expecting its EBIT for the second half to be in the range of \$1 billion to \$1.08 billion, up from its previously guided range of \$750 million - \$830 million provided in February. The upgraded guidance was attributed mainly to its US North Star business which has benefited from rapidly rising steel prices and increased demand resulting in stronger spreads. Bluescope's Australian Steel Products business also assisted its earnings upgrade, benefitting from improved realised domestic and export steel spreads.

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 commercial explosives and fertiliser manufacturing company Incitec Pivot (-8.9%) detracted from relative performance. In an update on its Waggaman ammonia plant, the company noted it had shut down the plant on 17 March following a dry gas seal failure, and vibrations in the turbine on the induced draft fan. Management reported that investigations were underway into the root causes of both issues and that repairs currently being conducted, with management expecting production to recommence by mid-April. Incitec is expecting an EBIT impact of \$36 million in FY2021 from the shutdown. We continue to hold the stock as we believe the long-run earnings of the company have not been impacted by this setback.

OUTLOOK

The global economic recovery from COVID-19 pandemic 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.

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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