

## Wholesale Funds

# PERPETUAL WHOLESAL INDUSTRIAL SHARE FUND

May 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

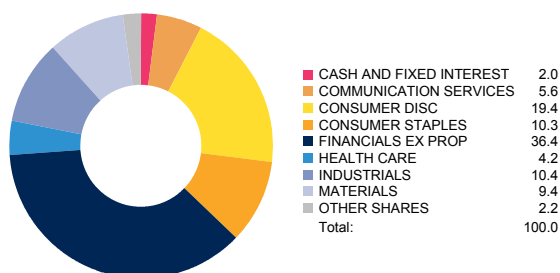
**APIR:** PER0046AU

**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	7.9%
Commonwealth Bank of Australia	7.8%
ANZ Banking Group Ltd.	6.6%
Woolworths Group Ltd	6.5%
Flutter Entertainment Plc	5.4%
Suncorp Group Limited	4.8%
Crown Resorts Limited	4.2%
Westpac Banking Corporation	3.7%
Qantas Airways Limited	3.5%
La Francaise des Jeux SA	3.5%

### NET PERFORMANCE - periods ending 31 May 2021

	Fund	Benchmark #	Excess
1 month	1.44	2.55	-1.11
3 months	9.38	10.05	-0.67
FYTD	30.84	24.46	+6.38
1 year	32.02	27.77	+4.26
2 year p.a.	8.93	8.74	+0.19
3 year p.a.	7.73	9.41	-1.68
4 year p.a.	6.58	8.40	-1.82
5 year p.a.	6.81	8.37	-1.56
7 year p.a.	6.36	8.27	-1.91
10 year p.a.	9.51	10.92	-1.41
Since incep.	9.93	9.29	+0.64

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

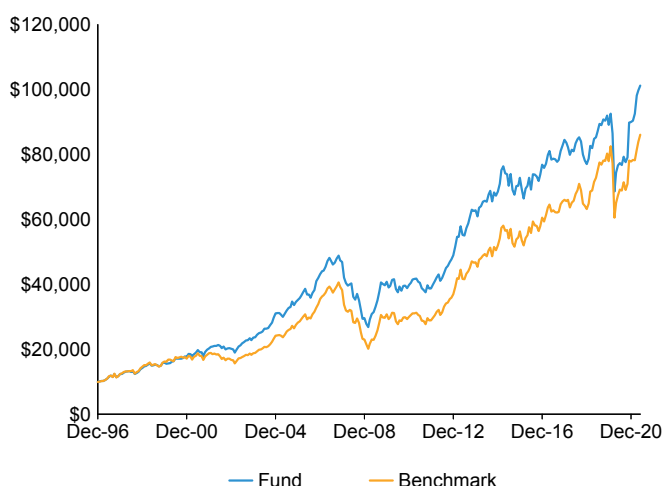
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	18.8	21.9
Dividend Yield*	3.4%	3.4%
Price / Book	1.8	2.3
Debt / Equity	35.9%	50.7%
Return on Equity*	10.1%	10.8%

<sup>^</sup> 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 2.5% over May. Stock prices were supported by a stimulating Federal Budget, rising commodity prices, and the continued roll-out of Australia's vaccine program. Unveiling of the Federal Budget during the month was well received by the market, with \$96 billion in stimulus promised over five years, much of which is expected to flow through to businesses via increased consumer spending and investment. Market sentiment was further bolstered after the Reserve Banks made positive revisions to domestic GDP growth forecasts during its May policy meeting, citing positive labour market momentum and a strong outlook for global growth. The central bank highlighted that it would decide on whether to extend quantitative easing at its July meeting as it places a high priority on a return to full employment.

Volatility heightened partway through the month as trade tensions with China flared up after the National Development and Reform Commission announced its indefinite suspension of activities under the China-Australia Strategic Economic Dialogue in response to the scrapping of Victoria's Belt & Road deal based on national security grounds. Market confidence, however, returned by the end of the month as investors largely shrugged off concerns with most sectors remaining resilient.

The best performing sectors for the month, as measured from the S&P/ASX 300 Industrials Accumulation Index, were Financials (+5.7%), Health Care (+3.5%), and Consumer Discretionary (+3.2%). The worst performers were Information Technology (-9.1%), Utilities (-6.6%) and Industrials (-1.1%). As a whole, large cap industrial stocks (+6.4%) outperformed small cap industrial stocks (+3.4%) and value stocks (+4.2%) outperformed growth stocks (+2.3%) as measured from 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).

Not holding payment services provider Afterpay (-21.1%) contributed to relative performance. Despite the absence of any materially adverse news directly relating to the company over the month, the stock fell along with the broader tech sector following declining investor confidence spurred by a broader sell-off across US tech stocks. The decline was thought to result from the prospects of higher inflation and concerns of rising interest rates that are likely to adversely impact higher valuation-multiple tech companies.

The overweight position in French Gambling operator La Francaise des Jeux SA (+10.7%) contributed to relative performance. The stock maintained its positive momentum over May, continuing to benefit from ongoing structural growth predominantly through its ongoing margin expansion due to its shift from retail sales to online sales. This was reinforced by a broker upgrade to its target price during the month, citing stronger-than-anticipated lottery margins and benefits which are expected to be derived from the migration to its online platform.

The overweight position in online betting and gaming provider Flutter PLC (-8.8%) detracted from relative performance. The stock fell after the company announced that the CEO of its US business FanDuel Group, Matt King, has given notice of his intention to resign from the company. Flutter reported that it will continue to assess its plans to float the business on the US exchange, however, noted that Mr. King's departure will affect the timing of any potential listing. 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 horticultural business provider Costa Group Holdings (-27.0%) detracted from relative performance. The stock fell abruptly during the month on the back of an underwhelming profit guidance update. Investors were disappointed after management noted that it expects its June-half profit to be only "marginally ahead" of the previous corresponding period (which suffered a significant setback due to the pandemic-affected operating environment last year). This result was reported to be an outcome of challenging domestic conditions which is expected to offset its strong international operations. The Fund continues to hold the stock as we expect to see a strong rebound in its earnings as soon as operating conditions normalise.

## OUTLOOK

As signs of a sustained recovery in the domestic economy emerge, our outlook for the Australian equity market remains optimistic over the near term with corporate earnings and business conditions continuing to strengthen. Although we remain wary of future COVID outbreaks that may trigger flash lockdowns, investor sentiment is anticipated to remain relatively resilient following the rollout of Australia's vaccine program, optimism over the eventual reopening of international borders, and ongoing discretionary fiscal and monetary stimulus measures continuing to support the economy. We expect to see a further rebound in the traditional value sectors (like banks, energy, resources, and consumer discretionary) which are likely to become more sensitive to an upswing in economic activity. As such, we anticipate that this investment style will continue to outperform after a prolonged period of dominance by growth investing. While rising inflationary pressures may stoke market volatility over the coming year, we believe that certain companies within the value segments of the market will thrive under such conditions, whereas other pockets of the market that has flourished in a low-interest rate environment will be less resilient if such conditions were to persist. This is why adhering to an investment approach that's underpinned by a disciplined, active, value-based methodology is important, regardless of 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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## MORE INFORMATION

Adviser Services 1800 062 725

Investor Services 1800 022 033

Email [investments@perpetual.com.au](mailto:investments@perpetual.com.au)

[www.perpetual.com.au](http://www.perpetual.com.au)

