Wholesale Funds

PERPETUAL WHOLESALE SMALLER COMPANIES FUND

May 2021

FUND FACTS

Investment objective: Aims to provide long-term capital growth and income through investment in quality Australian industrial and resource shares which, when first acquired, do not rank in the S&P/ASX 50 Index.

FUND BENEFITS

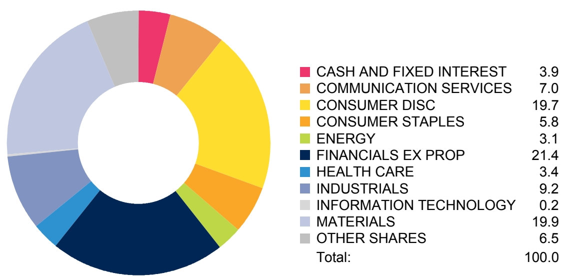
Provides investors with the potential to benefit from the growth of quality smaller or emerging companies, through active management by one of Australia's most experienced investment management teams.

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 Small Ordinaries Accum. Index
Inception Date: October 1996
Size of Portfolio: $650.33 million as at 31 Mar 2021
APIR: PER0048AU
Management Fee: 1.25%*
Investment style: Active, fundamental, bottom-up, value
Suggested minimum investment period: Five years or longer

PORTFOLIO SECTORS



TOP 5 STOCK HOLDINGS

	% of Portfolio
Northern Star Resources Ltd	4.0%
AUB Group Limited	3.8%
Pacific Current Group Ltd	3.4%
MAAS Group Holdings Ltd.	3.4%
Healius Limited	3.3%

NET PERFORMANCE - periods ending 31 May 2021

	Fund	Benchmark #	Excess
1 month	0.67	0.27	+0.40
3 months	7.71	6.09	+1.63
FYTD	36.56	29.25	+7.30
1 year	36.38	26.73	+9.64
2 year p.a.	18.50	10.92	+7.57
3 year p.a.	12.18	7.89	+4.29
4 year p.a.	12.35	12.02	+0.32
5 year p.a.	11.65	10.27	+1.38
7 year p.a.	11.00	9.42	+1.58
10 year p.a.	10.19	5.12	+5.06
Since incep.	12.63	6.07	+6.56

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

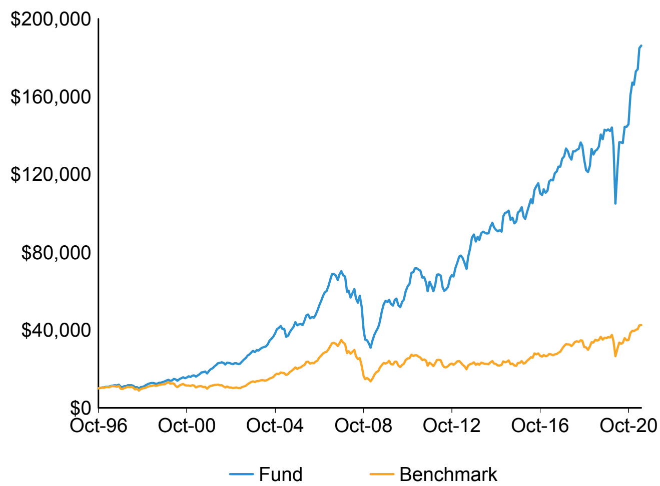
PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	12.3	19.6
Dividend Yield*	4.6%	3.4%
Price / Book	1.7	1.9
Debt / Equity	21.2%	26.0%
Return on Equity*	12.7%	10.5%

^ 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



*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 marginally higher with the S&P/ASX Small Ordinaries Accumulation Index gaining 0.3% 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.

Sentiment, however, was hampered as trade tensions flared up as China's 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 on the basis of national security grounds. A surge in iron ore prices to $US218.0/Mt, however, offset the decline in market confidence until efforts by China to constrain the commodity led to a retraction in its price. By the end of the month, iron ore still managed to finish $US14.50 higher at $US201.50/Mt.

The best performing sectors for the month, as measured by the S&P/ASX Small Ordinaries Accumulation Index, were Energy (+8.1%), Materials (+3.0%) and Real Estate (+2.6%). The worst performers were Information Technology (-5.4%), Industrials (-4.9%) and Consumer Staples (-4.3%). As a whole, small-cap industrial stocks (+3.4%) underperformed small-cap resource stocks (+13.8%), and small-cap value stocks (+0.7%) outperformed small-cap growth stocks (+0.1%) as measured by the MSCI Australia Small Cap Value and MSCI Australia Small Cap Growth indices, respectively.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions in gold miner Northern Star Resources, boutique funds management firm Pacific Current Group and construction materials supplier Maas Group Holdings. The Fund's largest underweight positions include Metcash, Steadfast Group, and Virgin Money UK Plc, all of which are not held by the Fund.

The overweight position in construction materials supplier Maas Group Holdings (+15.0%) contributed to relative performance. The stock maintained strong momentum throughout May on improved investor optimism after completing the acquisition of three private, family-owned businesses (Amcor Excavations Pty Ltd, Amcor Quarries and Concrete Pty Ltd, and Willow Tree Gravels) that was announced at the end of April. This led to a broker upgrading its target price for the company which further assisted the stock price during the month.
The overweight position in gold miner Northern Star Resources (+11.3%) contributed to relative performance. Investors reacted positively to its latest Reserves and Resources update for the nine months to 31 March 2021. Reserves grew 8% to 21M ounces while Resources increased 15% to 56.5M ounces, located in tier-1 locations and in close proximity to its existing production infrastructure. Prices were noted to have remained unchanged at $1,750/oz for Reserves and $2,000/oz for Resources. The stock was further boosted during the month upon the announcement that Northern Star has purchased a further 10% interest in the Central Tanami Project for $15m cash, increasing its total stake in the Project to 50%.

Not holding gold and nickel miner Chalice Mining (+27.2%) detracted from relative performance. Despite the absence of any direct news releases by the company, the stock price rallied persistently over the month, assisted by rising gold prices which gained 7.8% in May, benefitting from speculation that investors are turning to precious metals amid concerns of higher inflation and negative real interest rates.
The overweight position in insurance provider AUB Group (-5.0%) detracted from relative performance. Investors were disappointed after the company maintained its FY2021 NPAT guidance of between $63-65m, missing market expectations despite AUB noting robust March-quarter performance with both revenue growth and margin improvement. Despite this setback, we believe the market has overreacted, and that the structural drivers of the company remain sound as it operates a resilient, cash generative business that is well-positioned to acquire suitable businesses to augment organic growth.

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 Small Ordinaries Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX Small Ordinaries Accumulation Index.

MORE INFORMATION

Adviser Services 1800 062 725
Investor Services 1800 022 033
Email investments@perpetual.com.au
www.perpetual.com.au

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