

## Wholesale Funds

# PERPETUAL WHOLESAL CONCENTRATED EQUITY FUND

May 2021

### FUND FACTS

**Investment objective:** Aims to provide long-term capital growth and income through investment predominantly in quality Australian industrial and resource shares.

### FUND BENEFITS

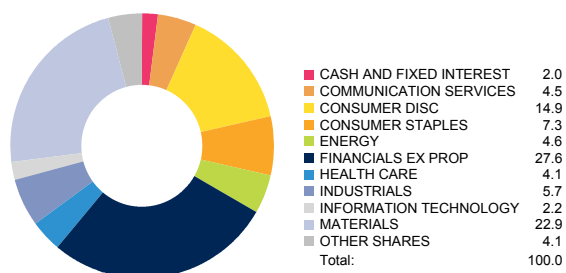
Provides investors with higher potential returns, through the active management of a portfolio of fewer stocks but with higher conviction, than our core Australian equity funds. This concentration may lead to increased short term volatility.

### 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.

<b>Benchmark:</b>	S&P/ASX 300 Accum. Index
<b>Inception Date:</b>	August 1999
<b>Size of Portfolio:</b>	\$480.76 million as at 31 Mar 2021
<b>APIR:</b>	PER0102AU
<b>Management Fee:</b>	1.10%*
<b>Investment style:</b>	Active, fundamental, bottom-up, value
<b>Suggested minimum investment period:</b>	Five years or longer

### PORTFOLIO SECTORS



### TOP 10 STOCK HOLDINGS

	% of Portfolio
Crown Resorts Limited	6.8%
Iluka Resources Limited	5.0%
Westpac Banking Corporation	4.9%
Insurance Australia Group Limited	4.4%
National Australia Bank Limited	4.3%
Woolworths Group Ltd	4.2%
Deterra Royalties Ltd	3.8%
Suncorp Group Limited	3.8%
BHP Group Ltd	3.7%
Commonwealth Bank of Australia	3.7%

### NET PERFORMANCE - periods ending 31 May 2021

	Fund	Benchmark #	Excess
1 month	2.35	2.31	+0.04
3 months	10.34	8.53	+1.81
FYTD	34.97	25.66	+9.31
1 year	36.76	28.72	+8.04
2 year p.a.	8.08	9.69	-1.61
3 year p.a.	7.53	10.10	-2.57
4 year p.a.	7.57	10.07	-2.50
5 year p.a.	7.84	10.22	-2.37
7 year p.a.	6.52	8.33	-1.81
10 year p.a.	9.02	8.75	+0.27
Since incep.	10.60	8.45	+2.15

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

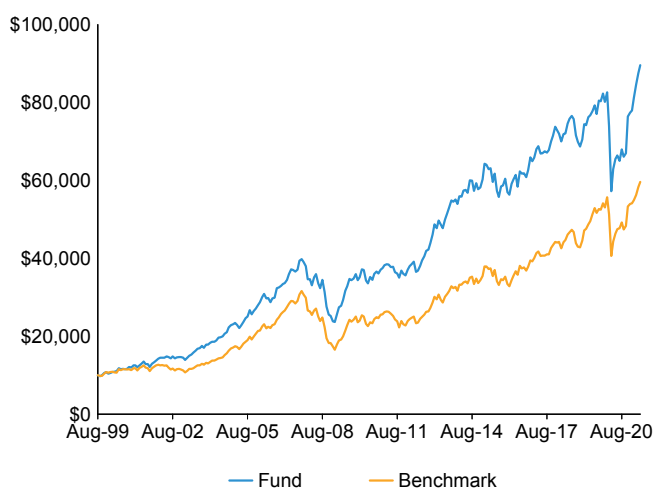
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	19.1	18.5
Dividend Yield*	3.6%	3.9%
Price / Book	1.9	2.2
Debt / Equity	28.2%	32.0%
Return on Equity*	10.2%	13.9%

<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 Australian equity market ended the month marginally higher with the S&P/ASX 300 Accumulation Index gaining 2.3% over May. Equities 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 from the S&P/ASX 300 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 Energy (-1.5%). As a whole, industrial stocks (+6.0%) underperformed resource stocks (+7.7%) and large-cap stocks (+6.5%) outperformed small-cap stocks (+5.3%). Value stocks (+4.2%) outperformed growth stocks (+2.3%) as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

## PORTFOLIO COMMENTARY

The Fund's largest overweight positions include mineral sands miner Iluka Resources, casino operator Crown Resorts, and insurance provider Insurance Australia Group Ltd. The Fund's largest underweight positions include CSL (not held), BHP Group, and Commonwealth Bank.

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 building and construction materials provider Boral (+9.8%) contributed to relative performance. The stock rallied after Boral received an off-market takeover approach from Seven Group Holdings Ltd to acquire all ordinary shares in the company for a total cash consideration of \$6.50 per share (representing a nil premium to its last closing price at the time of the offer). Boral's board of directors recommended to its shareholders that the offer be rejected, indicating that the offer was opportunistic and undervalues the company.

The underweight position in Commonwealth Bank of Australia (+12.0%) detracted from relative performance. The stock broke through the \$100 price mark for the first time in May, supported by a solid March-quarter financial result, reporting a cash net profit after tax of \$2.4 billion (compared with \$1.3 billion across the same period in 2020, \$1.70 billion in 2019, and \$2.35 billion in 2018). Management advised that the impressive performance was driven largely by lower loan impairment expenses and a 2% increase in income, resulting from above-system core volume growth, improved margins, and higher non-interest income.

Not holding biopharmaceutical company CSL (+7.0%) detracted from relative performance. The stock was boosted after announcing that it will be progressing with its licensing agreement with Uniqure NV, the developer of a haemophilia B treatment (etranacogene dezaparvovec). Under the agreement, CSL will have the rights to commercialise and sell the treatment if it passes its trials. Management also announced at the beginning of May that its Seqirus business has reported new phase 3 clinical data supporting the use of its cell-based seasonal influenza vaccine in children aged between six months to four years. This assisted the stock in receiving several broker upgrades to its target price during the month.

## 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.

# 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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## MORE INFORMATION

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