

## Wholesale Funds

# PERPETUAL WHOLESAL GEARED AUSTRALIAN SHARE FUND

June 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.

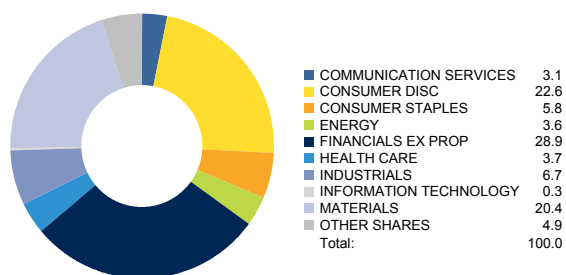
A geared fund has benefits over gearing into a fund because there are no margin calls, no credit checks, no need for collateral or assets as security.

### 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:** \$532.27 million as at 30 Jun 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

Company	% of Portfolio
National Australia Bank Limited	5.3%
Iluka Resources Limited	5.1%
La Francaise des Jeux SA	4.9%
Crown Resorts Limited	4.7%
Westpac Banking Corporation	4.6%
Insurance Australia Group Limited	4.2%
Commonwealth Bank of Australia	3.9%
ANZ Banking Group Ltd.	3.8%
BHP Group Ltd	3.8%
Dexus	3.7%

### NET PERFORMANCE - periods ending 30 June 2021

	Fund	Benchmark #	Excess
1 month	5.22	2.25	+2.96
3 months	19.25	8.48	+10.77
FYTD	98.15	28.49	+69.65
1 year	98.15	28.49	+69.65
2 year p.a.	10.67	8.95	+1.72
3 year p.a.	10.09	9.77	+0.32
4 year p.a.	12.30	10.63	+1.68
5 year p.a.	14.08	11.26	+2.82
7 year p.a.	8.36	8.90	-0.54
10 year p.a.	12.38	9.21	+3.17
Since incep.	12.89	10.04	+2.85

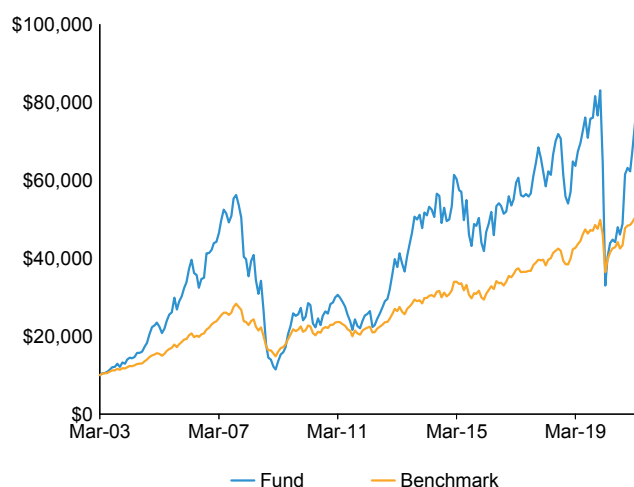
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

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

	Portfolio	Benchmark
Price / Earnings*	18.6	17.8
Dividend Yield*	3.4%	4.1%
Price / Book	2.1	2.2
Debt / Equity	29.0%	31.4%
Return on Equity*	11.9%	14.9%
Gearing Level	54.2%	

<sup>^</sup> 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 quarter higher with the S&P/ASX 300 Accumulation Index gaining 8.5%. Stock prices were supported by improved consumer confidence, surging to its highest level since August 2010 and buoyed by rallying commodity prices. Despite the wind-down of the Job Keeper wage subsidy program, the labour market remained resilient. Business conditions reached a new record high, attributed to improvements in trading, profitability, and strengthening employment data. Manufacturing activity also accelerated, while services activity reached an almost 18-year high. National house price growth maintained its momentum, boosted by consumer demand amid a low-interest-rate environment and supply-side constraints.

Market sentiment was further bolstered by the Reserve Bank's upward revision to domestic GDP growth forecasts, citing expedited return to pre-pandemic levels, positive labour-market momentum and a strong outlook for global growth. The RBA also reaffirmed its hold on the record low cash rate of 0.10% until inflation is sustainably within its 2-3% target range. A stimulating 2021-22 Federal Budget 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.

Delays in the vaccine rollout and concerns of intensifying global coronavirus trends slowed reopening momentum, while further lockdowns in Melbourne and Sydney towards the end of the quarter contributed to weakness across 'reopening' and travel-related stocks. The market, however, largely brushed this aside, buoyed by new COVID support payments and rallying 'stay-at-home' stocks.

The best performing sectors for the quarter, as measured by the S&P/ASX 300 Accumulation Index, were Information Technology (+12.1%), Consumer Discretionary (+11.6%), and Communication Services (+11.1%). The worst performers were Utilities (-4.7%), Energy (-2.3%), and Consumer Staples (+5.4%). Industrial stocks (+8.7%) outperformed resource stocks (+7.8%), and large cap stocks (+8.2%), as measured by the S&P/ASX 50 Index, underperformed small cap stocks (+8.5%), as measured by the ASX Small Ordinaries Index. Value stocks (+7.5%) underperformed growth stocks (+9.3%) 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, mineral sands miner Iluka Resources, 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 (+33.2%) contributed to relative performance. The stock maintained its strong momentum over the quarter, benefitting from ongoing margin expansion through a rotation towards online sales. This was reinforced following a broker-upgrade to its target price, 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 mineral sands miner Iluka Resources (+26.9%) contributed to relative performance. The stock strengthened following reports that its mineral sands competitor, Rio Tinto, has suspended all mining and smelting operations at its South African Richards Bay Minerals site amid escalating security and safety concerns. The suspension of operations has led to higher zircon prices and expectations of increased demand from Iluka during its next round of contract negotiations. The stock was further supported during the quarter by media speculation that Iluka has identified several parties interested in acquiring its troubled Rutile operations in Sierra Leone.

The overweight position in online betting and gaming provider Flutter Entertainment Plc (-14.0%) 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 EBITDA loss of £9M for each month that both locations remained in lockdown. 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 casino operator Crown Resorts (+1.3%) detracted relative performance. The stock fell after AUSTRAC announced that it had identified potential non-compliance with Anti-Money Laundering and Counter-Terrorism Financing laws at its Perth casino. This comes as the Crown Board had received legal advice that a practice that existed at Crown Melbourne between 2012 and 2016 contravened section 68 of the Casino Control Act. The Board responded by ensuring that any shortcomings will be addressed and that they are committed to making Crown a stronger, more transparent, and respected company while also highlighting that it has initiated a sweeping program of reforms, enhancements, and personnel changes. The stock continues to be held in the Fund as we believe that it is significantly undervalued with respect to its long-term earnings prospects.

## OUTLOOK

As signs of a sustained recovery in the domestic economy emerge, with corporate earnings and business conditions continuing to strengthen, our outlook for the Australian equity market remains optimistic over the near term. Although we remain wary that future COVID outbreaks may trigger 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 have flourished in a low-interest-rate environment will be less resilient if such conditions persist. Adhering to an investment approach that is 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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