Wholesale Funds

PERPETUAL WHOLESALE INDUSTRIAL SHARE FUND

June 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

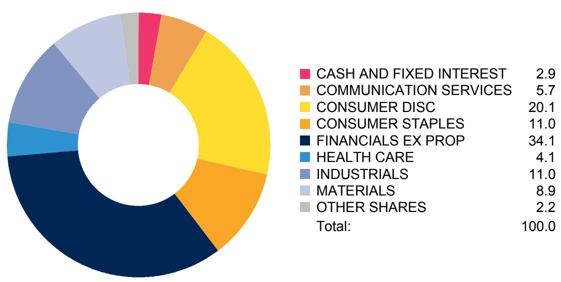
Provides investors with the potential for capital growth and consistent, tax effective income through the active management of quality industrial shares. Investors have been benefitting from this strategy since 1966.

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:	$1,277.77 million as at 30 Jun 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

	% of Portfolio
Commonwealth Bank of Australia	7.7%
National Australia Bank Limited	7.6%
ANZ Banking Group Ltd.	6.4%
Woolworths Group Ltd	5.6%
Flutter Entertainment Plc	5.4%
Suncorp Group Limited	4.3%
Crown Resorts Limited	3.9%
La Francaise des Jeux SA	3.7%
Westpac Banking Corporation	3.5%
Incitec Pivot Limited	3.4%

NET PERFORMANCE - periods ending 30 June 2021

	Fund	Benchmark #	Excess
1 month	1.16	2.78	-1.62
3 months	4.33	8.66	-4.33
FYTD	32.36	27.93	+4.43
1 year	32.36	27.93	+4.43
2 year p.a.	8.45	8.64	-0.18
3 year p.a.	7.08	9.27	-2.19
4 year p.a.	6.80	8.97	-2.17
5 year p.a.	8.15	9.67	-1.52
7 year p.a.	6.61	8.91	-2.30
10 year p.a.	9.71	11.33	-1.61
Since incep.	9.95	9.38	+0.57

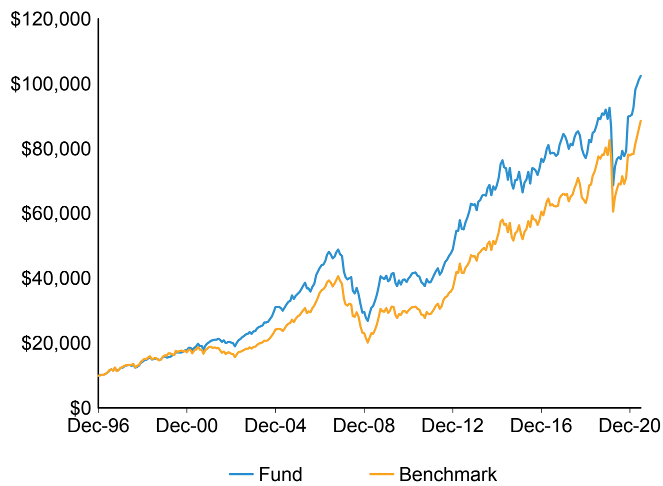
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	19.2	22.2
Dividend Yield*	3.4%	3.4%
Price / Book	1.9	2.3
Debt / Equity	35.8%	49.9%
Return on Equity*	10.1%	10.7%

^ 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 quarter higher with the S&P/ASX 300 Industrials Accumulation Index gaining 8.7%. 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 Industrials Accumulation Index, were Information Technology (+12.1%), Consumer Discretionary (+11.6%) and Communication Services (+11.1%). The worst performers were Utilities (-4.7%), Energy (+0.5%) and Consumer Staples (+5.4%). As a whole, large cap industrial stocks (+8.7%) outperformed small cap industrial stocks (+7.3%), and value stocks (+7.5%) underperformed growth (+9.3%) stocks, 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, French Gambling operator La Francaise des Jeux SA, and casino operator Crown Resorts. The Fund's largest underweight positions include CSL, Wesfarmers, and Macquarie Group (not held).

The overweight position in French Gambling operator La Francaise des Jeux SA (+33.3%) 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 underweight position in dairy producer a2 Milk Company (-23.4%) contributed to relative performance. The stock fell sharply after downgrading its FY2021 revenue guidance to between NZ$1.2b and NZ$1.25b, with an EBITDA margin of 11% to 12% (down from its previous guidance of NZ$1.4b and EBITDA margin of 24% to 26%). Management warned that it would take some time for the company to rebalance inventory levels and restore channel health. As a result, immediate recovery is not expected, and that a further update for FY2022 will be provided in August.

The overweight position in online betting and gaming provider Flutter Entertainment Plc (-13.9%) 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 commercial explosives and fertiliser manufacturing company Incitec Pivot (-17.9%) detracted from relative performance. The stock fell abruptly after an update on its Waggaman ammonia plant, which had temporarily closed in mid-April following technical disruptions. Incitec reported that it is now expecting a ~$36m EBIT impact due to the shutdown. This compares to a $110.2m EBIT reported by Incitec for the first half of FY2021. We continue to hold the stock as we believe this setback has not impacted the long-run earnings of the company.

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.

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.

MORE INFORMATION

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