Wholesale Funds

PERPETUAL WHOLESALE SMALLER COMPANIES FUND

June 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

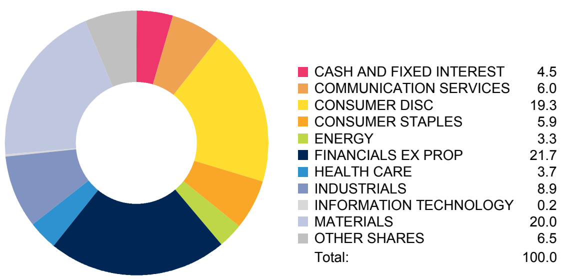
Provides investors with the potential to benefit from the growth of quality smaller or emerging companies, through active management by one of Australia's most experienced investment management teams.

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:	$692.78 million as at 30 Jun 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
AUB Group Limited	4.3%
Healius Limited	3.6%
Pacific Current Group Ltd	3.5%
MAAS Group Holdings Ltd.	3.5%
Kina Securities Ltd.	3.3%

NET PERFORMANCE - periods ending 30 June 2021

	Fund	Benchmark #	Excess
1 month	2.93	3.08	-0.15
3 months	10.09	8.50	+1.59
FYTD	40.55	33.23	+7.32
1 year	40.55	33.23	+7.32
2 year p.a.	19.48	12.10	+7.38
3 year p.a.	13.05	8.60	+4.45
4 year p.a.	12.25	12.32	-0.07
5 year p.a.	12.75	11.24	+1.51
7 year p.a.	11.45	10.07	+1.38
10 year p.a.	11.07	5.99	+5.08
Since incep.	12.72	6.18	+6.54

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

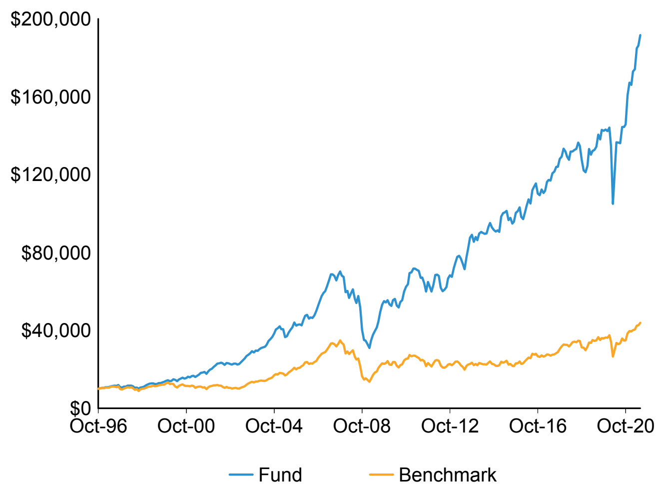
PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	11.2	20.2
Dividend Yield*	4.9%	3.3%
Price / Book	1.5	1.9
Debt / Equity	19.6%	25.7%
Return on Equity*	13.1%	10.4%

^ 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 Small Ordinaries 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 Small Ordinaries Accumulation Index, were Financials (+14%), Energy (+12.9%) and Materials (+11.8%). The worst performers were Consumer Staples (-2.5%), Industrials (+0.5%) and Consumer Discretionary (+6%). The S&P/ASX Small Industrials (+7.3%) underperformed S&P/ASX Small Resources (+13.6%), and small cap value stocks (+4.9%) underperformed small cap growth stocks (+12.8%) 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 include insurance provider AUB Group, boutique funds management firm Pacific Current Group, and construction materials supplier Maas Group Holdings. The Fund's largest underweight positions include Steadfast Group, Pilbara Mineral, and ARB Corporation, all of which are not held by the Fund.

The overweight position in construction materials supplier Maas Group Holdings (+69.3%) contributed to relative performance. The stock maintained strong momentum throughout the quarter, driven by improved investor optimism after announcing and completing the acquisition of three private, family-owned businesses (Amcor Excavations Pty Ltd, Amcor Quarries and Concrete Pty Ltd and Willow Tree Gravels Pty Ltd). The acquisitions led to a broker-upgrade of its target-price, which further assisted the stock price during the quarter.
The overweight position in mineral mining and processing company Mineral Resources Ltd (+41.7%) contributed to relative performance. The stock benefitted from record iron ore prices, which surged by 41% over the quarter, driven by strong demand from China, Europe and the US. This came as the company released its March-quarter production update, reporting iron ore production of 4.9M wet metric tonne, 44% from a year ago, and spodumene production of 109 dry metric tonne, 22% from a year ago.

Not holding cloud-based networking services provider Megaport Ltd (+66.2%) detracted from relative performance. The stock rallied sharply over the quarter, assisted by a stronger-than-expected March-quarter trading update. Management reported total revenue of $19.6m for the quarter, up 5% from the prior quarter. Megaport further reported that it had increased its customer base by 4% quarter-on-quarter, while Customer Access Ports increased 5% , Total Services rose 4%, and its Megaport Cloud Routers increased by 10% from the previous quarter.
The overweight position in farm supplies provider Elders (-5.4%) detracted from relative performance. Investors were disappointed with a weaker-than-expected financial result for the six months ending 31 March 2021. Despite reporting a 31% gain in its underlying profit after tax to $68.2m from the prior corresponding period, and a 22% increase in total sales to $1.1 billion, the results fell short of market expectations leading to a sell-off in the stock. Despite this setback, the stock continues to be held by the Fund as we anticipate a strong rebound in earnings once its operating environment normalises.

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 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