

Wholesale Funds

PERPETUAL WHOLESAL INDUSTRIAL SHARE FUND

July 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

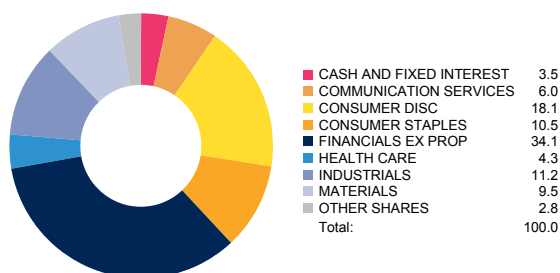
APIR: PER0046AU

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

Stock Holding	% of Portfolio
Commonwealth Bank of Australia	7.9%
National Australia Bank Limited	7.7%
ANZ Banking Group Ltd.	6.5%
Woolworths Group Ltd	5.7%
Flutter Entertainment Plc	5.3%
Suncorp Group Limited	4.1%
Incitec Pivot Limited	3.7%
Telstra Corporation Limited	3.6%
Westpac Banking Corporation	3.4%
La Francaise des Jeux SA	3.4%

NET PERFORMANCE - periods ending 31 July 2021

	Fund	Benchmark #	Excess
1 month	-1.28	-0.27	-1.01
3 months	1.30	5.12	-3.81
FYTD	-1.28	-0.27	-1.01
1 year	31.72	28.09	+3.63
2 year p.a.	6.30	6.67	-0.37
3 year p.a.	6.08	8.58	-2.50
4 year p.a.	6.52	9.14	-2.62
5 year p.a.	6.46	8.27	-1.82
7 year p.a.	5.88	8.28	-2.40
10 year p.a.	10.03	11.84	-1.81
Since incep.	9.85	9.33	+0.52

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

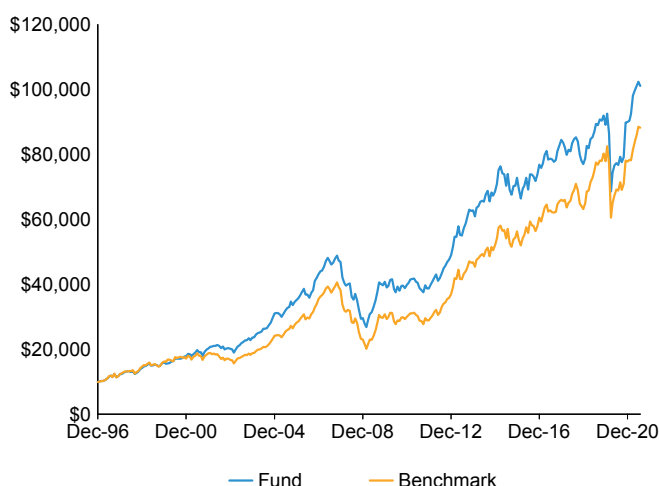
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	18.6	22.0
Dividend Yield*	3.4%	3.4%
Price / Book	1.9	2.3
Debt / Equity	45.6%	50.9%
Return on Equity*	10.2%	10.8%

[^] 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 S&P/ASX 300 Industrials Accumulation Index ended 0.3% lower. The index was assisted by rebounding consumer sentiment and improving jobs data, with unemployment falling to a ten-year low of 4.9%. Bullish corporate activities, including significant M&A activity and dividend announcements towards the end of the month, further benefitted the market.

COVID concerns flared up again during July, leading to renewed lockdowns. Victoria managed to exit its fifth lockdown by the 27th, however, Sydney's lockdown was extended as new daily cases from the Delta strain reached 239 by month-end. This amounted to harsher restrictions rolled out across several local government areas, with health experts remaining doubtful of an August 28th reopening. The lockdowns prompted a sharp downward revision to near-term economic growth, with economists forecasting a minimum 2% contraction in September-quarter GDP. Equity investors mostly shrugged off lockdown concerns, as fiscal support was boosted, and expectations mounted for the RBA to delay its planned wind-down of quantitative easing policies. Meanwhile, the federal and state governments ramped up their focus on improving vaccination rates, with only 13.9% of the population fully vaccinated as of the end of July.

Declining global market sentiment was mostly ignored by local investors, as the Delta variant drove a surge in global cases (passing 196 million accumulative cases in July from 181 million in the prior month). The best performing sectors for the month, as measured from the S&P/ASX 300 Industrials Accumulation Index, were Industrials (+4.1%), Utilities (+1.6%), and Consumer Staples (+1.5%). The worst performers were Information Technology (-6.4%), Communication Services (-1.5%), and Financials (-1.4%). As a whole, large-cap industrial stocks (-0.2%) outperformed small-cap industrial stocks (-0.9%), and value stocks (+0.4%) underperformed growth stocks (+1.2%) as measured from 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, commercial explosives and fertiliser manufacturing company Incitec Pivot, and French Gambling operator La Francaise des Jeux SA. The Fund's largest underweight positions include CSL, Wesfarmers, and Macquarie Group (not held).

The overweight position in commercial explosives and fertiliser manufacturing company Incitec Pivot (+12.6%) contributed to relative performance. The stock benefitted from the release of an operational update, reporting that its Waggaman ammonia plant in Louisiana has restarted and operating at full production capacity since June, following an extended closure after a significant technical disruption prevented the plant from operating since mid-April.

Not holding payment services provider Afterpay (-18.2%) contributed to relative performance. The stock fell midway through the month after payments company, PayPal Australia, announced its plan to launch a no-late fee 'buy now, pay later' product.

Not holding Sydney Airport Ltd (+34.9%) detracted from relative performance. The stock rose sharply following a takeover proposal early in the month. According to its release, Sydney Airport received a conditional non-binding all-cash offer valued at \$22.6b from a consortium of infrastructure investors consisting of IFM Investors, Global Infrastructure Management, and QSuper. The consortium put forward an indicative offer of \$8.25 per share, representing a 42% premium to its last closing price at the time of the announcement.

The overweight position in French Gambling operator La Francaise des Jeux SA (-7.1%) detracted from relative performance. The stock sold off after the European Commission announced it had launched an in-depth investigation into a 25-year exclusive rights agreement granted on some lottery and sport betting services provided to La Francaise des Jeux after its partial privatisation by the French Government in 2019. The Commission said it would look into whether the exclusive rights comply with European Union's state aids rules after several complaints were lodged against the company.

OUTLOOK

The rotation to economic recovery that favours value stocks remains firmly on track. Looking beyond shorter-term disruptions, it is clear that economic momentum, both home and abroad, remains strong. Admittedly, business and consumer confidence have fallen off recent highs, but the Australian recovery remains one of the most advanced in the world and well ahead of forecasts from 2020.

Companies we talk to are less concerned by shorter-term lockdowns and focused heavily on longer-term challenges, including the potential for higher embedded inflation, although this bodes well for value stocks, especially resources. Many value stocks are only just rising above previous 2007 peaks even as some growth stocks continue to trade at many multiples of their levels of just a few years ago. We think a combination of all the factors described above suggests a return to sustained global recovery, with higher inflation, higher bond yields, but also a longer and more sustained swing to value. Our focus will remain on screening out balance-sheet, management, earnings, and business risks to ensure our clients are invested in high-quality businesses at reasonable prices.

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.

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