

## Wholesale Funds

# PERPETUAL WHOLESAL CONCENTRATED EQUITY FUND

July 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

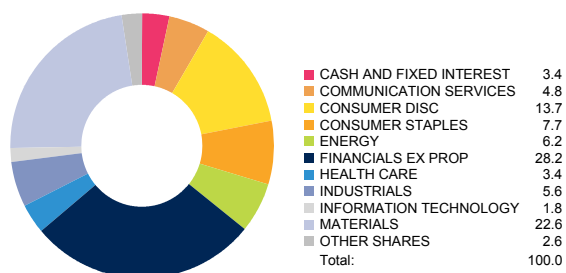
Provides investors with higher potential returns, through the active management of a portfolio of fewer stocks but with higher conviction, than our core Australian equity funds. This concentration may lead to increased short term volatility.

### 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>	\$494.97 million as at 30 Jun 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
Iluka Resources Limited	6.3%
Insurance Australia Group Limited	5.3%
Crown Resorts Limited	5.1%
Deterra Royalties Ltd	4.7%
Westpac Banking Corporation	4.6%
BHP Group Ltd	4.2%
Medibank Private Ltd.	4.2%
National Australia Bank Limited	4.2%
Suncorp Group Limited	3.4%
Commonwealth Bank of Australia	3.4%

### NET PERFORMANCE - periods ending 31 July 2021

	Fund	Benchmark #	Excess
1 month	-0.77	1.11	-1.88
3 months	3.79	5.77	-1.98
FYTD	-0.77	1.11	-1.88
1 year	39.78	29.14	+10.64
2 year p.a.	7.04	7.96	-0.92
3 year p.a.	6.22	9.70	-3.48
4 year p.a.	7.71	10.93	-3.21
5 year p.a.	7.84	10.14	-2.30
7 year p.a.	6.09	8.40	-2.31
10 year p.a.	9.57	9.76	-0.19
Since incep.	10.59	8.55	+2.04

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

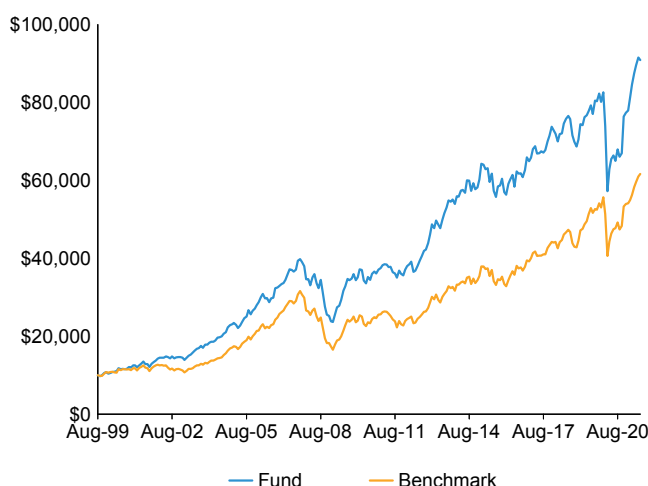
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	18.0	17.2
Dividend Yield*	3.8%	4.1%
Price / Book	1.9	2.3
Debt / Equity	34.8%	31.3%
Return on Equity*	11.3%	15.7%

<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 continued its positive run throughout July, reaching a new record high with the S&P/ASX 300 Accumulation Index ending 1.1% higher. 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 concerns from the lockdowns, 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 Accumulation Index, were Materials (+7.1%), Industrials (+4.1%), and Utilities (+1.6%). Conversely, the worst performers were Information Technology (-6.4%), Energy (-2.4%), and Communication Services (-1.5%). As a whole, industrial stocks (-0.3%) underperformed resource stocks (+6.5%), and large-cap stocks (+1.3%) outperformed small-cap stocks (+0.7%). Value stocks (+0.4%) underperformed growth stocks (+1.2%) as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

## PORTFOLIO COMMENTARY

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

The overweight position in mineral sands miner Iluka Resources (+8.5%) contributed to relative performance. The stock benefitted from a 75% year-on-year gain in its June-quarter mineral sands revenue, assisted by a 30% total gain in its production of zircon, rutile, and synthetic rutile compared to the same period last year. Most noticeably was a 71% year-on-year improvement in its zircon output. Management noted that its impressive sales reflected an increase in zircon prices as well as a return to pre-pandemic production levels amongst Chinese tile manufacturers. 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.

The overweight position in insurance provider Insurance Australia Group Ltd (-6.0%) detracted from relative performance. The stock was hampered following the release of its preliminary FY2021 full-year financial results, slightly missing market expectations despite reporting Gross Written Premium growth of 3.8% and a 1.5% increase in its net earned premium. Management revealed that its underlying insurance margin came in at 14.7% for the year (down from 16% a year earlier), dragged lower by a second-half margin of 13.5%. Management indicated that its underlying financial results were sound and within expectations. However, it acknowledged the presence of challenges that were identified and provisioned for in its results.

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.

## 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.

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# 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. This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL No 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. The PDS for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in that fund. The PDS can be obtained by calling 1800 022 033 or visiting our website [www.perpetual.com.au](http://www.perpetual.com.au). No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of any investor's capital. Total return shown for the fund(s) have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for contribution or withdrawal fees or taxation (except in the case of superannuation funds, as applicable). Past performance is not indicative of future performance.

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## MORE INFORMATION

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