

Wholesale Funds

PERPETUAL WHOLESAL SMALLER COMPANIES FUND

July 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

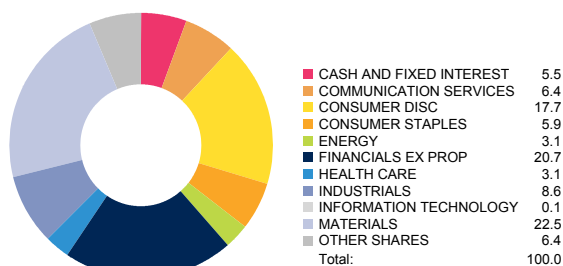
APIR: PER0048AU

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

Stock Holding	% of Portfolio
AUB Group Limited	3.8%
Pacific Current Group Ltd	3.5%
Northern Star Resources Ltd	3.5%
Elders Limited	3.1%
Senex Energy Limited	3.1%

NET PERFORMANCE - periods ending 31 July 2021

	Fund	Benchmark #	Excess
1 month	1.00	0.68	+0.31
3 months	4.65	4.06	+0.59
FYTD	1.00	0.68	+0.31
1 year	42.19	32.30	+9.89
2 year p.a.	17.33	10.03	+7.30
3 year p.a.	13.26	9.22	+4.04
4 year p.a.	12.35	12.41	-0.06
5 year p.a.	11.55	9.57	+1.97
7 year p.a.	11.00	9.42	+1.58
10 year p.a.	11.16	5.92	+5.25
Since incep.	12.72	6.19	+6.53

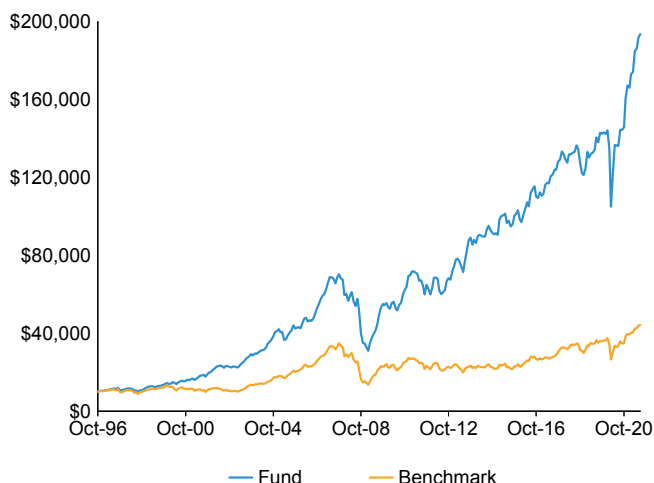
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	13.7	20.4
Dividend Yield*	4.0%	3.3%
Price / Book	1.8	2.0
Debt / Equity	18.6%	27.2%
Return on Equity*	12.7%	11.1%

[^] 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 Small Ordinaries Accumulation Index ending 0.7% 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 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 by the S&P/ASX Small Ordinaries Accumulation Index, were Materials (+5.8%), Energy (+5.8%), and Industrials (+4.5%). The worst performers were Health Care (-3.6%), Consumer Staples (-2.3%), and Financials (-2.2%). As a whole, small-cap industrial stocks (-0.9%) underperformed small-cap resource stocks (+7.4%), and small-cap value stocks (+1.0%) underperformed small-cap growth stocks (+2.4%) 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 gold miner Northern Star Resources. 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 mineral mining and processing company Mineral Resources Ltd (+17.2%) contributed to relative performance. The stock benefitted after announcing that its subsidiary, Energy Resources Ltd, has secured a drilling rig for the conventional gas exploration well situated in the highly prospective northern section of the onshore Perth Basin in Western Australia, which has been host to several recent significant gas discoveries. Management noted that the exploration aligns with the company's strategy to secure its own natural gas supply and to provide energy security for its current and future mining operations at a lower cost and with lower emissions.

Not holding US-based lithium explorer Piedmont Lithium Inc (-28.3%) contributed to relative performance. The stock sold off following a company presentation to residents and commissioners of Gaston County, North Carolina. According to reports, many residents had objected to the company's plans to establish an open-pit lithium mine in their community. Piedmont was forced to make the presentation after five of the seven members of the county's board of commissioners, who control zoning changes, indicated that they might block or delay the project because the company had not provided information relating to various environmental impacts of the mine.

The overweight position in construction materials supplier Maas Group Holdings (-17.5%) detracted from relative performance. The stock fell on the back of a A\$75.0m equity capital raising announcement, comprising of a A\$29.0m conditional placement to certain MGH directors (non-underwritten and subject to MGH shareholders approval) with an additional \$15m share purchase plan will be offered to eligible shareholders in Australia and New Zealand following the completion of the institutional placement. MGH notes the funds will be used to enhance MGH's financial capacity to fund growth and acquisition initiatives, including near-term opportunities in residential property and construction materials, and to reduce debt.

Not holding lithium and tantalum miner Pilbara Minerals (+22.1%) detracted from relative performance. The stock benefitted towards the end of the month from a stronger-than-expected quarterly business trading update by the company. Pilbara reported strong production figures, record lithium spodumene shipments, and a significant improvement in lithium prices. Pilbara also commented that it anticipates lithium prices to continue to rise due to tight supplies and strengthening demand from China.

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 Small Ordinaries Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX Small Ordinaries Accumulation Index.
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