

Wholesale Funds

PERPETUAL WHOLESAL GEARED AUSTRALIAN SHARE FUND

July 2021

FUND FACTS

Investment objective: Aims to enhance long-term capital growth through borrowing (gearing) to invest predominantly in quality Australian industrial and resource shares.

FUND BENEFITS

Offers investors broad market exposure with the potential for higher returns through the use of gearing (borrowing within the fund) and actively managed by one of Australia's most experienced investment management teams.

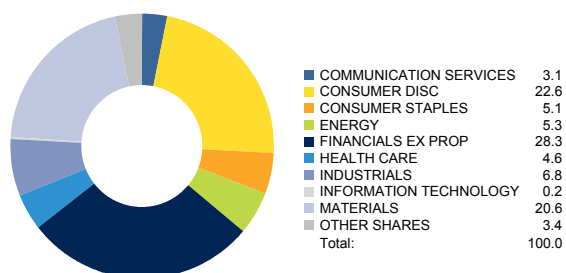
A geared fund has benefits over gearing into a fund because there are no margin calls, no credit checks, no need for collateral or assets as security.

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 Accum. Index
Inception Date:	March 2003
Size of Portfolio:	\$532.27 million as at 30 Jun 2021
APIR:	PER0071AU
Management Fee:	1.17%*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Seven years or longer

PORTFOLIO SECTORS



TOP 10 STOCK HOLDINGS

	% of Portfolio
Iluka Resources Limited	5.6%
National Australia Bank Limited	5.3%
BHP Group Ltd	4.8%
Insurance Australia Group Limited	4.7%
Westpac Banking Corporation	4.3%
Crown Resorts Limited	4.2%
La Francaise des Jeux SA	4.1%
Flutter Entertainment Plc	4.0%
Commonwealth Bank of Australia	4.0%
ANZ Banking Group Ltd.	3.7%

NET PERFORMANCE - periods ending 31 July 2021

	Fund	Benchmark #	Excess
1 month	-2.40	1.11	-3.50
3 months	8.18	5.77	+2.41
FYTD	-2.40	1.11	-3.50
1 year	96.24	29.14	+67.10
2 year p.a.	6.73	7.96	-1.23
3 year p.a.	7.35	9.70	-2.35
4 year p.a.	11.28	10.93	+0.35
5 year p.a.	10.19	10.14	+0.05
7 year p.a.	6.29	8.40	-2.11
10 year p.a.	13.04	9.76	+3.28
Since incep.	12.68	10.06	+2.62

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

Please note: From July 2021 we corrected a minor discrepancy in the previously published 'since inception' return for the benchmark. There has been no impact to any other performance figures in the table. If you wish to receive historical 'since inception' data contact us.

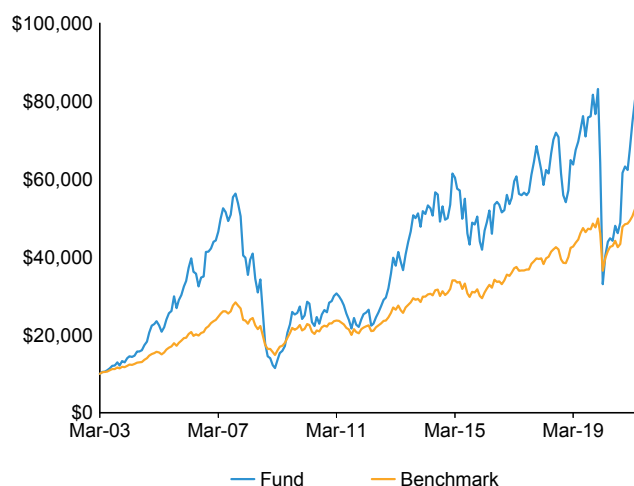
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	17.1	17.2
Dividend Yield*	3.7%	4.1%
Price / Book	2.1	2.3
Debt / Equity	29.9%	31.3%
Return on Equity*	13.1%	15.7%
Gearing Level	56.0%	

[^] Portfolio Fundamentals are compiled using our methodology and provided only for the purpose of illustrating Perpetual'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 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 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 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 Fund's largest overweight positions include casino operator Crown Resorts, mineral sands miner Iluka Resources, and insurance provider Insurance Australia Group Ltd insurance provider Insurance Australia Group Ltd. The Fund's largest underweight positions include Macquarie Group, Rio Tinto, and Transurban Group, all of which are not held in the Fund.

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. The overweight position in steel manufacturer BlueScope Steel (+10.2%) contributed to relative performance. The company released its preliminary unaudited results, surpassing expectations and for the second half of FY2021 and upgrading its second-half EBIT guidance from a range of between \$1.00b and \$1.08b to a new estimate of \$1.19b. BlueScope's Australian steel products segment delivered a substantially better preliminary result, increasing ~60% from the first half of FY2021. Performance from its NZ and Pacific Islands segments were also up ~25% over the same period as strong domestic demand and higher realised steel prices more than offsetting higher energy costs.

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.

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.

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.

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. 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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