

Wholesale Funds

PERPETUAL WHOLESAL INDUSTRIAL SHARE FUND

August 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

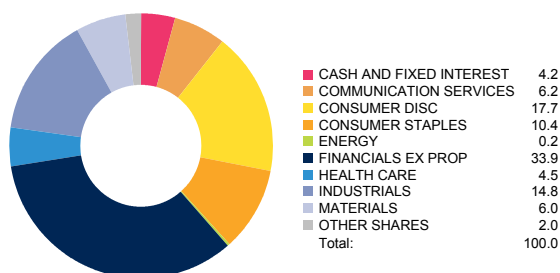
APIR: PER0046AU

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	8.3%
National Australia Bank Limited	7.2%
ANZ Banking Group Ltd.	6.3%
Flutter Entertainment Plc	5.8%
Woolworths Group Ltd	5.3%
Suncorp Group Limited	4.2%
Qantas Airways Limited	3.7%
Incitec Pivot Limited	3.6%
Telstra Corporation Limited	3.5%
CSL Limited	3.5%

NET PERFORMANCE - periods ending 31 August 2021

	Fund	Benchmark #	Excess
1 month	5.64	5.61	+0.03
3 months	5.49	8.26	-2.76
FYTD	4.28	5.32	-1.04
1 year	34.59	30.54	+4.05
2 year p.a.	9.54	10.16	-0.61
3 year p.a.	7.76	9.53	-1.78
4 year p.a.	8.25	10.69	-2.44
5 year p.a.	7.66	9.87	-2.21
7 year p.a.	6.49	8.92	-2.43
10 year p.a.	10.81	12.51	-1.70
Since incep.	10.06	9.54	+0.52

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

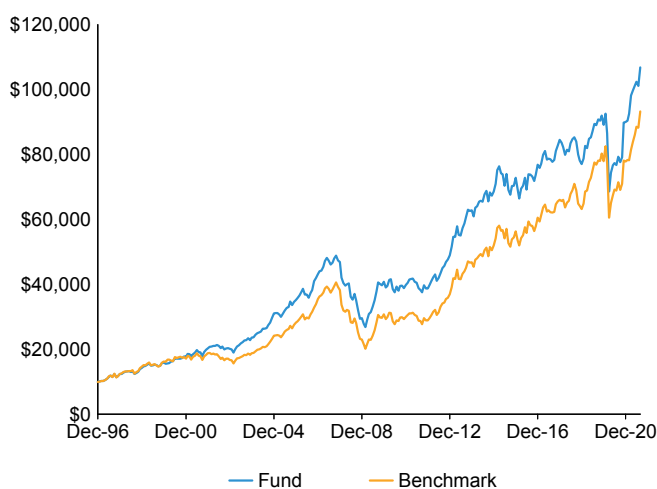
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	20.0	23.3
Dividend Yield*	3.2%	3.3%
Price / Book	2.0	2.4
Debt / Equity	37.6%	50.7%
Return on Equity*	10.3%	10.7%

[^] 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

Investor sentiment was tested during the month following mixed earnings results and broader economic uncertainty driven by surging COVID cases and vaccine inefficacy concerns. The market largely shrugged off these concerns as the S&P/ASX 300 Industrials Accumulation Index reached a record high mid-way through August and finished the month 5.6% higher. While reporting season drew to a close, a mixed-bag of full-year financial results saw investors punish companies that missed earnings guidance more than it rewarded companies that outperformed. The shutdown of construction activity loomed over building materials producers as the spread of the Delta variant contributed to commodity price volatility, leading to a sell-off across the mining sector. Reopening stocks came under pressure as Sydney tightened restrictions and Victoria entered its sixth lockdown. Pressure across these sectors was partially offset later in the month following positive vaccine-supply news and political leaders expressing the need to pivot away from reducing COVID case numbers and focus instead on vaccinations rates as the pathway out of lockdowns.

The tightening of COVID restrictions saw the RBA lower its year-end GDP growth forecasts during the month. Investors, however, dismissed concerns as 2022 growth projections were upgraded in line with expectations of a vaccination-driven bounce back. The unemployment rate unexpectedly fell to a 12-year low yet was offset by an increase in the underemployment rate as the lockdowns impacted total monthly hours worked. Investors nevertheless were reassured as the RBA reiterated its continuation of quantitative easing in the event of any further significant economic setbacks. The RBA further revealed that conditions for a rate hike could be met before its 2024 timeline if unemployment and inflation forecasts remained on track.

The best performing sectors for the month, as measured from the S&P/ASX 300 Industrials Accumulation Index, were Information Technology (+16.2%), Materials (+7.1%), and Consumer Staples (+6.8%). The worst performers were Utilities (+1.0%), Industrials (+2.5%), and Consumer Discretionary (+3.3%). As a whole, large-cap industrial stocks (+5.5%) underperformed small-cap industrial stocks (+6.1%) and value stocks (-0.3%) underperformed growth stocks (+4.4%) 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 financial services provider Suncorp Group. The Fund's largest underweight positions include CSL, Wesfarmers (not held), and Macquarie Group (not held).

The overweight position in online betting and gaming provider Flutter Entertainment Plc (+14.2%) contributed to relative performance. The stock benefitted from a stronger-than-expected half-year financial result, reporting a 99% increase in revenue and a 221% year-on-year increase in profit before tax. Management attributed its solid performance to the quality of its products and the extensive reach of the FanDuel brand as it remained the number one online sports betting operator in the US. Flutter further noted that its UK and Ireland businesses had also benefitted from shared learnings as the integration between its brands continued to progress well over the period.

The overweight position in hospitality and leisure company Event Hospitality & Entertainment (+19.0%) contributed to relative performance. The stock outperformed upon release of stronger-than-expected full-year financial results. Management highlighted that despite COVID-related lockdowns and restrictions significantly impacting earnings, its cinemas business had seen a strong rebound once venues had reopened, with customers spending more than during pre-COVID times. This led to expectations of an optimistic earnings outlook by management once current restrictions are lifted.

Not holding payment services provider Afterpay (+39.2%) detracted from relative performance. The stock spiked at the beginning of August after the US tech company, Square, Inc. announced a \$39b proposal to acquire all Afterpay shares via a scheme of arrangement, in what would be the largest takeover in Australia's history. Under the proposed terms of the agreement, each Afterpay investor would receive 0.375 shares in Square for every Afterpay share they own, representing a ~30% premium to its last closing price on the day of the announcement.

The overweight position in Seven Group Holdings Ltd (-8.6%) detracted from relative performance. Despite reporting a 6.1% increase in full-year trading revenue, a 7.3% increase in EBIT, and a 10% rise in its fully franked dividend, investors were disappointed with the company's FY2022 earnings outlook as management reduced its EBIT guidance for its WesTrac and Coates businesses by 8% and 2% respectively, while also failing to provide a group EBIT guidance. Seven Group also reported during the month that its Executive Chairman, Kerry Stokes, will be retiring from his role in the company in November.

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 while some growth stocks continue to trade at valuation multiples many times higher than 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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