

## Wholesale Funds

# PERPETUAL WHOLESAL SMALLER COMPANIES FUND

August 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

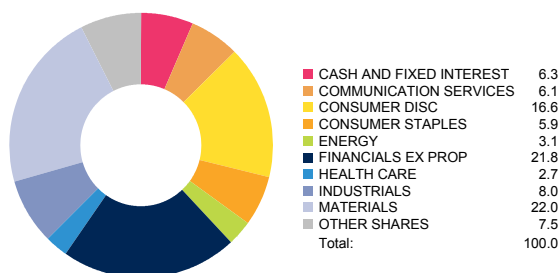
**APIR:** PER0048AU

**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
Pacific Current Group Ltd	3.8%
AUB Group Limited	3.5%
Northern Star Resources Ltd	3.3%
Elanor Investors Group	3.1%
Senex Energy Limited	3.1%

### NET PERFORMANCE - periods ending 31 August 2021

	Fund	Benchmark #	Excess
1 month	2.28	4.98	-2.70
3 months	6.32	8.95	-2.63
FYTD	3.30	5.70	-2.40
1 year	37.02	29.51	+7.51
2 year p.a.	19.71	14.97	+4.74
3 year p.a.	13.21	10.09	+3.11
4 year p.a.	12.41	13.03	-0.62
5 year p.a.	11.66	10.99	+0.66
7 year p.a.	11.04	9.82	+1.22
10 year p.a.	11.90	6.72	+5.17
Since incep.	12.78	6.38	+6.40

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

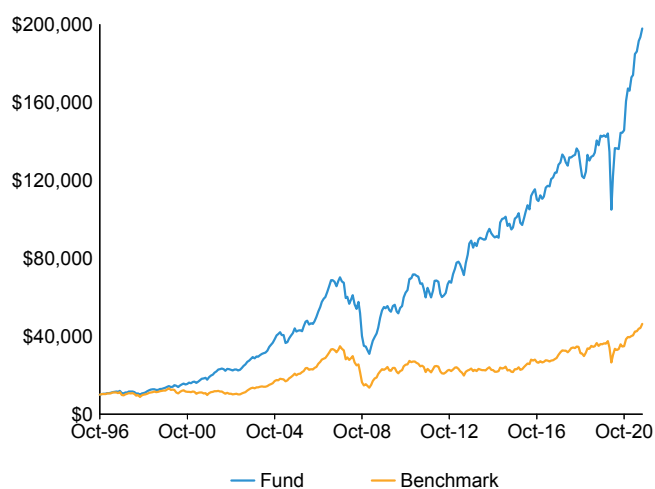
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	12.9	20.7
Dividend Yield*	4.5%	3.3%
Price / Book	1.6	2.0
Debt / Equity	15.6%	26.1%
Return on Equity*	11.6%	10.6%

<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

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 Small Ordinaries Accumulation Index finished the month 5.0% 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 by the S&P/ASX Small Ordinaries Accumulation Index, were Communication Services (+11.0%), Financials (+10.0%), and Consumer Staples (+8.9%). The worst performers were Industrials (+0.0%), Materials (+0.2%), and Consumer Discretionary (+4.0%). As a whole, small-cap industrial stocks (+6.1%) outperformed small-cap resource stocks (+0.7%), and small-cap value stocks (+3.8%) outperformed small-cap growth stocks (+3.7%) 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 funds management firm Pacific Current Group, gold miner Northern Star Resources, and funds manager provider Elanor Investors Group. The Fund's largest underweight positions include Orocobre Ltd (not held), Pilbara Minerals Ltd (not held), and Steadfast Group.

Not holding iron ore producer Champion Iron Ltd. (-22.5%) contributed to relative performance. The stock price weakened following a 20% fall in iron ore prices during the month. The decline was linked to softer Chinese demand after scaling back its steel production. Reports suggest that Chinese production may remain weak over the near term in order to improve air quality ahead of the Beijing Winter Olympic Games. Iron ore prices came under further pressure during the month following commentary from the US Federal Reserve indicating that it could soon tighten its accommodative monetary policy stance.

The overweight position in funds management company Centuria Capital Group (+17.5%) contributed to relative performance. The stock ended the month higher following a stronger-than-expected full-year financial result, reporting a 40% increase in operating revenue and a 98% increase in its funds under management, boosted by its merger with Augusta and Primewest property groups during the year. Investors were further bullish on the stock after management issued its full-year FY2022 operating earnings per share guidance and dividend per share guidance, both up by 10% over the past comparative period.

The overweight position in gold miner Northern Star Resources (-4.5%) detracted from relative performance. The stock declined over the month despite the absence of any material news directly related to the company other than a broker-downgrade to its target price on the back of a decrease in its expected Super Pit production.

Not holding lithium and tantalum miner Pilbara Minerals (+26.0%) detracted from relative performance. The stock rallied over the month in the lead-up to its full-year financial results. The company reported a significant improvement in its gross cash margin, driven by a combination of improved market conditions and strong operational performance at its Pilgangoora lithium-tantalum operations in Western Australia. Management noted that a significant increase in demand from customers during the second half of the year supported its total FY2021 spodumene concentrate shipments (up 142% from last year) which assisted its 109% year-on-year increase in group revenue.

## 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.

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# 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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## MORE INFORMATION

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