

Wholesale Funds

PERPETUAL WHOLESAL GEARED AUSTRALIAN SHARE FUND

August 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.

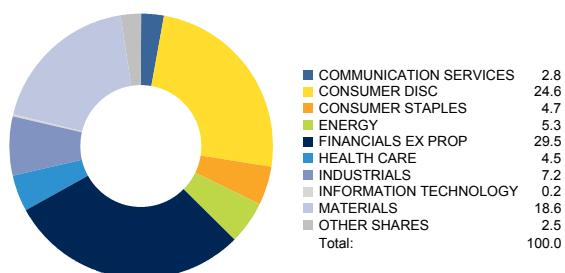
A geared fund has benefits over gearing into a fund because there are no margin calls, no credit checks, no need for collateral or assets as security.

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
National Australia Bank Limited	5.7%
Crown Resorts Limited	5.4%
Insurance Australia Group Limited	5.0%
Iluka Resources Limited	4.9%
Westpac Banking Corporation	4.6%
Flutter Entertainment Plc	4.5%
La Francaise des Jeux SA	3.9%
Commonwealth Bank of Australia	3.7%
BHP Group Ltd	3.7%
ANZ Banking Group Ltd.	3.6%

NET PERFORMANCE - periods ending 31 August 2021

	Fund	Benchmark #	Excess
1 month	8.34	2.61	+5.73
3 months	11.26	6.08	+5.18
FYTD	5.74	3.74	+2.00
1 year	95.81	28.58	+67.23
2 year p.a.	15.13	10.63	+4.50
3 year p.a.	9.33	10.13	-0.80
4 year p.a.	13.87	11.44	+2.43
5 year p.a.	11.67	11.05	+0.61
7 year p.a.	7.66	8.70	-1.04
10 year p.a.	14.69	10.26	+4.43
Since incep.	13.10	10.16	+2.94

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' returns for the benchmark. If you wish to receive historical 'since inception' data, please contact us. There has been no impact to any other performance period data in the table.

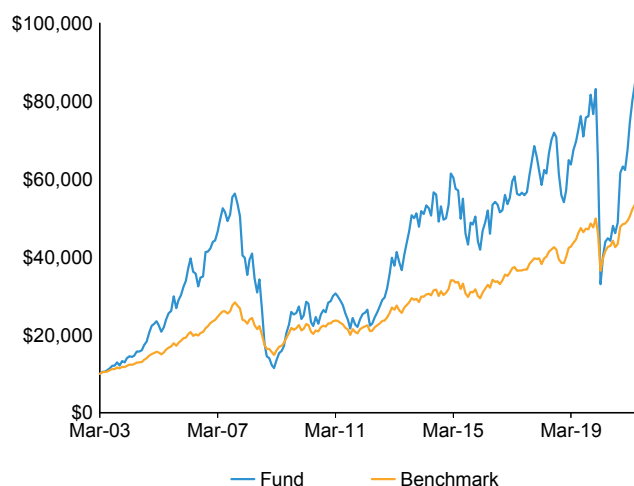
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	19.4	17.9
Dividend Yield*	3.4%	4.0%
Price / Book	2.2	2.3
Debt / Equity	30.6%	30.2%
Return on Equity*	12.2%	15.0%
Gearing Level	54.2%	

[^] 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

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 reached a record high mid-way through August and finished the month 2.6% 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 Accumulation Index, were Information Technology (+16.2%), Consumer Staples (+6.8%), and Health Care (+6.6%). Conversely, the worst performers were Materials (-6.9%), Energy (-3.8%), and Utilities (+1.0%). As a whole, industrial stocks (+5.6%) outperformed resource stocks (-8.4%) and large-cap stocks (+2.0%) underperformed small-cap stocks (+5.0%). Value stocks (-0.3%) underperformed growth stocks (+4.4%) 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. Conversely, the Fund's largest underweight positions Rio Tinto, Transurban Group, and Goodman Group, all of which are not held in the Fund.

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 insurance provider Insurance Australia Group Ltd (+10.7%) contributed to relative performance. The stock rose over the month after reporting its full-year financial results, with insurance profits climbing 35.9% and cash earnings rising 170%, leading to a 100% increase in its full-year dividend to 20 cents per share. In addition, management introduced its earnings guidance for FY2022 and expressed confidence that its underlying performance would continue to improve due to the strength of its core business and greater certainty in its economic outlook.

The overweight position in mining royalty firm Deterra Royalties Ltd (-6.9%) detracted from relative performance. Despite reporting solid full-year financial results during the month, the stock came under pressure from weakness in iron ore prices, falling 20% in August and losing almost a third of its value since its record high in May. The decline in the commodity was linked to softer Chinese demand as steel production fell 10.5%, and from the US Federal Reserve commenting that it might soon tighten its accommodative monetary policy stance.

The overweight position in French Gambling operator La Francaise des Jeux SA (-2.8%) detracted from relative performance. The stock fell after Goldman Sachs cut its rating on the stock from "neutral" to "sell" during the month. The broker indicated that the company now offered lower earnings-growth potential and a higher risk profile following the European Commission's probe into the French government granting exclusive 25-year lottery gaming rights to La Francaise des Jeux in 2019.

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.

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.

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