

Wholesale Funds

PERPETUAL WHOLESAL AUSTRALIAN SHARE FUND

October 2021

FUND FACTS

Investment objective: Aims to provide long-term capital growth and regular income through investment predominantly in quality Australian industrial and resource shares.

FUND BENEFITS

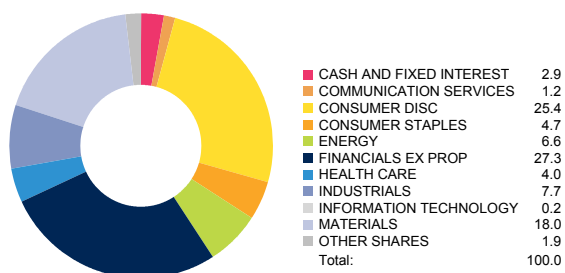
Provides investors with the potential for maximising capital growth and income, with broad market exposure, through active management by one of Australia's most experienced investment management teams.

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 300 Accum. Index
Inception Date:	February 1997
Size of Portfolio:	\$538.72 million as at 30 Sep 2021
APIR:	PER0049AU
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

	% of Portfolio
National Australia Bank Limited	5.6%
Crown Resorts Limited	5.6%
BHP Group Ltd	4.9%
Insurance Australia Group Limited	4.8%
Westpac Banking Corporation	4.8%
Oil Search Limited	4.1%
Iluka Resources Limited	3.8%
La Francaise des Jeux SA	3.8%
Aristocrat Leisure Limited	3.6%
ANZ Banking Group Ltd.	3.5%

NET PERFORMANCE - periods ending 31 October 2021

	Fund	Benchmark #	Excess
1 month	-0.09	0.10	-0.18
3 months	3.52	0.77	+2.74
FYTD	2.43	1.89	+0.55
1 year	36.32	28.57	+7.76
2 year p.a.	11.84	8.81	+3.03
3 year p.a.	11.61	12.26	-0.65
4 year p.a.	9.20	9.84	-0.64
5 year p.a.	9.17	11.03	-1.86
7 year p.a.	7.18	8.63	-1.45
10 year p.a.	9.59	10.01	-0.42
Since incep.	10.32	8.85	+1.47

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

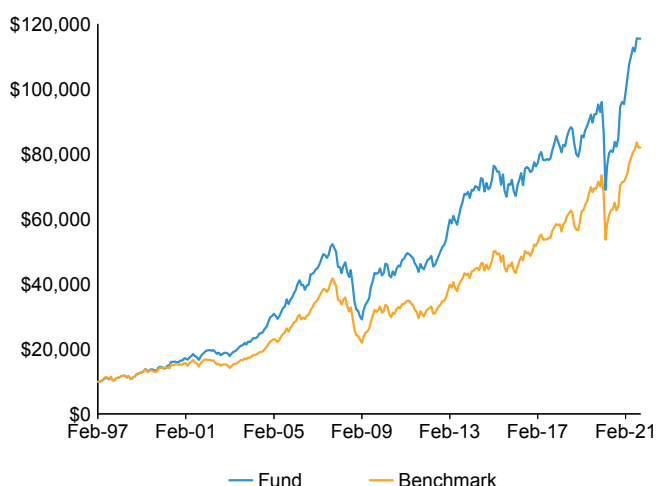
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	18.7	18.0
Dividend Yield*	3.6%	3.9%
Price / Book	2.2	2.2
Debt / Equity	32.4%	35.7%
Return on Equity*	12.1%	12.7%

[^] 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

The Australian equity market ended the month higher, assisted by the 'reopening stocks' which outperformed as NSW eased lockdown restrictions after passing the 70% double vaccination rate, as well as the Victorian Government announcing its reopening plans for when it achieves 90% double vaccinations, and the Federal Government announcing the recommencement of international flights in November.

Australian employment data showed another significant headline decline; however, this was on the back of a better-than-expected jobless rate as lockdowns impacted the number of hours worked. Consumer confidence eased, though optimists still outweighed pessimists amid the success and pace of vaccine-led reopening across NSW and Victoria. The 12-month economic outlook declined, yet reopening expectations boosted confidence around employment.

The rotation trade was in swing, with cyclical stocks outperforming as Australia's reopening took another step forward, and as growth/high valuation pockets confronted a significant spike in bond yields. Commodity producers extended gains, spurred by attention on the energy crunch, which continues unabated as coal, gas, and crude oil prices scaled new record highs. The surge in global energy prices continued to impact supply chains, especially out of China, which have raised concerns over future levels of inflation. Base metal prices peaked around mid-October before finishing the month slightly lower, while iron ore prices fell towards the end of October on Chinese demand concerns.

The market returned part of its earlier gains towards the end of the month as underlying inflation climbed to its highest level in six years, pushing above the bottom end of the RBA's 2-3% target range. This reinforced views that the central bank will upgrade inflation forecasts. The ABS highlighted fuel and housing market strength as the key drivers against the backdrop of supply chain disruptions, translating to higher prices for consumer durables. This was supported by the RBA's decision not to defend its yield target in the face of surging front-end bond yields, fuelling speculation that the central bank is readying to shift policy guidance as markets priced in RBA rate hikes as early as May 2022 (far earlier than the 2024 timeframe previously provided).

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Crown Resorts Limited, Insurance Australia Group Limited, and La Francaise des Jeux SA. Conversely, the Fund's largest underweight positions include Commonwealth Bank of Australia, CSL Limited, and Macquarie Group Limited.

The overweight position in casino operator Crown Resorts (+4.0%) contributed to relative performance. The stock rallied on investor reprieve following the announcement that the Victorian Royal Commission has recommended the company retain its license to operate its Melbourne Casino following the inquiry into alleged illegal activities and unethical conduct. The Commission has instead recommended the appointment of a Special Manager to oversee Crown's path to suitability for a two-year period, which the State Government has accepted. The Government, however, noted that the licence would be automatically cancelled at the end of the two years if the company is unable to prove that it has adequately reformed.

The overweight position in copper and gold miner Oz Minerals (+11.6%) contributed to relative performance. The stock benefitted over the month from its September quarter trading update, reporting 33,794t of copper production (vs 32,681t from last quarter) and gold production of 65,932oz (vs quarter-ago 57,875oz) at an All-In Sustaining Cost of \$1.06/lb (vs \$1.35/lb last quarter). The company's full-year copper production guidance was unchanged at 120-145Kt; however, its gold production forecast was increased to 220-243Koz (from 205-208Koz) and its full-year All-In Sustaining Cost guidance was reduced to \$1.25-1.40/lb (from \$1.30-1.45/lb).

The overweight position in fuel retailer Ampol (+9.3%) contributed to relative performance. The stock benefitted from the announcement that it has entered into a binding scheme implementation agreement to acquire NZ-listed fuel distributor Z Energy Ltd. Management is forecasting significant transition and synergy opportunities totalling NZ\$60m to NZ\$80m, which is expected to be achieved via fuel procurement and overhead cost reductions. The stock was further boosted during the month after reporting strong profit growth over the third quarter, with its unaudited EBIT increasing 76% to AU\$102m.

The overweight position in online betting and gaming provider Flutter Entertainment Plc (-8.2%) detracted from relative performance. The stock reversed its positive momentum throughout October, handing back a significant portion of its August and September gains despite the absence of any material news flow directly relating to the company over the month. Despite this setback, the stock is still considered attractively valued at its current price and continues to be held in the portfolio.

The underweight position in investment banking and financial services company Macquarie Group (+8.7%) detracted from relative performance. The stock rallied following the release of its stronger-than-expected half-year financial results, reporting a 107% rise in its first-half net profit to \$2,043m and a 31% increase in assets under management increasing during the six months to \$737b. A key driver of the growth came from its Macquarie Capital business, which delivered a net profit contribution of \$468m. This was up from a loss of \$189m in the previous half.

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. This, however, bodes well for value stocks, especially those in the resources sector. 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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