

Wholesale Funds

PERPETUAL WHOLESAL AUSTRALIAN SHARE FUND

January 2022

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

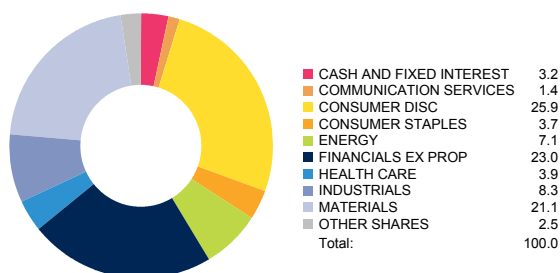
Provides investors with the potential for maximising capital growth and income, with broad market exposure, through active management by one of Australia's most experienced investment management teams.

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:	\$526.71 million as at 31 Dec 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
BHP Group Ltd	7.8%
Crown Resorts Limited	7.1%
Santos Limited	5.1%
Insurance Australia Group Limited	4.5%
National Australia Bank Limited	4.1%
La Francaise des Jeux SA	4.0%
Westpac Banking Corporation	3.6%
ANZ Banking Group Ltd.	3.5%
Iluka Resources Limited	3.5%
Wesfarmers Limited	3.3%

NET PERFORMANCE - periods ending 31 January 2022

	Fund	Benchmark #	Excess
1 month	-2.69	-6.45	+3.76
3 months	-2.04	-4.49	+2.44
FYTD	0.34	-2.68	+3.02
1 year	18.63	9.59	+9.04
2 year p.a.	8.53	3.27	+5.26
3 year p.a.	11.74	10.05	+1.69
4 year p.a.	7.70	7.74	-0.04
5 year p.a.	8.23	8.65	-0.42
7 year p.a.	6.72	7.63	-0.91
10 year p.a.	9.35	9.50	-0.15
Since incep.	10.12	8.56	+1.56

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

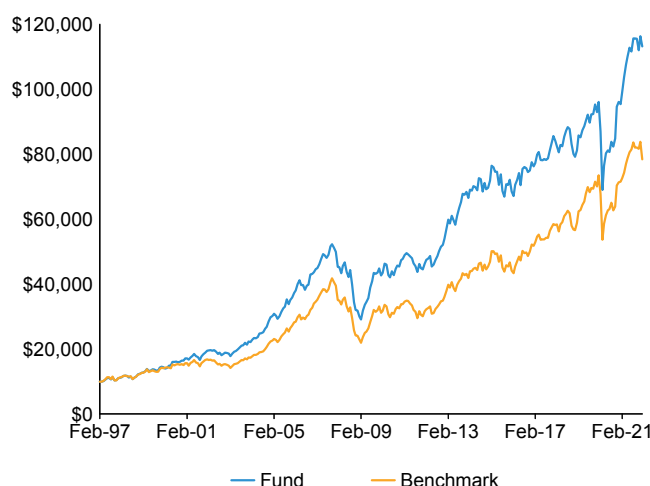
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	17.0	16.2
Dividend Yield*	3.7%	4.2%
Price / Book	2.1	2.1
Debt / Equity	32.2%	37.9%
Return on Equity*	12.7%	13.4%

[^] 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 capped off its worst month since the collapse of March 2020 as volatility rippled across the globe. Central bank policy outlook swung decisively hawkish with economists anticipating the first interest rate increase to occur in around six months. This was bolstered by a hotter-than-expected Australian inflation print, showing underlying CPI rising above the midpoint of the RBA's 2-3% target zone. This was driven by elevated input costs and strengthening labour markets, leading to concerns that rate repricing still has further to go. However, there is also an argument that the Reserve Bank will wait for more evidence of a pickup in wages growth before it begins its tightening policy.

Soaring interest rate pressure intensified scrutiny on the high-valuation/Growth segments of the market that had largely outperformed over the course of the pandemic, especially across IT and healthcare stocks, which were the worst-performing sectors over the month. Discretionary retailers also underperformed as company trading updates highlighted margin pressures from supply chain disruptions.

Coronavirus news continued to dominate headlines though there was no significant shift in the narrative. The Omicron variant intensified the pressure on already-strained supply chains, while isolation requirements exacerbated worker shortages. This placed further focus on rising wages and cost pressures, which adversely impacted business confidence and conditions. The consumer sentiment index, however, registered a smaller-than-feared decline as the worst-hit Omicron states of NSW and Victoria both saw a rise in confidence, offsetting steep falls in Queensland and South Australia.

The market saw some reprieve towards the end of the month, partially recouping its losses as investors considered oversold conditions and depressed sentiment as opportunities to buy.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Crown Resorts Limited, Santos Limited, and Insurance Australia Group Limited. Conversely, the Fund's largest underweight positions include Commonwealth Bank of Australia, CSL Limited, and BHP Group Limited.

The overweight position in oil and gas producer Santos (+13.2%) contributed to relative performance. The stock rallied following a sharp rise in crude oil prices over the month, with WTI and Brent increasing 17.0% and 18.2%, respectively. The commodity climbed on concerns that supplies could tighten due to Ukraine-Russia tensions, threats to infrastructure in the United Arab Emirates, and struggles by OPEC+ to hit its targeted monthly output increase. However, this more than offset concerns about the price, following the possibility of an interest rate hike by the U.S. Federal Reserve.

The overweight position in casino operator Crown Resorts (+1.1%) contributed to relative performance. The stock ended the month higher after receiving a revised non-binding proposal from Blackstone to acquire the company at \$13.10/share (up from its prior offer of \$12.50). The Revised Proposal is subject to the same conditions announced by Crown last November, including (but not limited to) completing further due diligence, unanimous support and recommendation by the Crown board, execution of a binding implementation agreement, and Blackstone receiving final approval from casino regulators.

The overweight position in mineral sands miner Iluka Resources (+2.4%) contributed to relative performance. The stock rose over the month, supported by solid December-quarter production results, reporting a 5% quarter-on-quarter increase in mineral sands production and an increase in rutile, zircon, and synthetic rutile production relative to the previous quarter. However, mineral sands revenue was shown to decline by 9% quarter-on-quarter. The stock price rise was further assisted by target-price increases for the stock by JPM, Citi, and Macquarie Group.

Not holding iron ore miner Rio Tinto (+11.4%) detracted from relative performance. The stock strengthened on the back of a solid rally in iron ore prices, with the benchmark 62%-grade material index gaining 16.6% over the month. The commodity was assisted by a combination of fears over tight supply prospects and hopes that China's stepped-up monetary easing would stimulate demand, as well as expectations that it will ease restrictions on steelmakers and other heavy industrial firms once the Beijing Winter Olympics finish.

Not holding iron ore producer Fortescue Metals Group (+3.4%) detracted from relative performance. The stock similarly rallied hard on the back of the solid increase in iron ore prices during the month.

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.

Companies we talk to are less concerned about shorter-term restrictions and focus more on longer-term challenges, including higher embedded inflation. This, however, bodes well for value stocks. 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 from 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 and Target Market Determination 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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