Wholesale Funds

PERPETUAL WHOLESALE AUSTRALIAN SHARE FUND

February 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

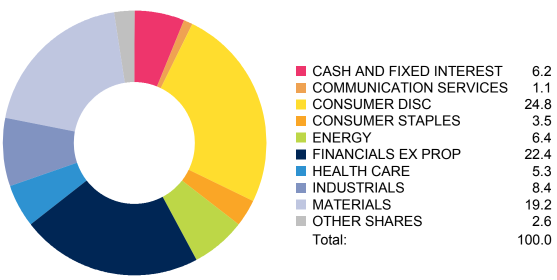
Provides investors with the potential for maximising capital growth and income, with broad market exposure, through active management by one of Australia's most experienced investment management teams.

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	7.1%
Santos Limited	5.2%
Insurance Australia Group Limited	5.2%
Crown Resorts Limited	4.7%
Westpac Banking Corporation	4.0%
La Francaise des Jeux SA	3.8%
Flutter Entertainment Plc	3.8%
National Australia Bank Limited	3.7%
ANZ Banking Group Ltd.	3.2%
Brambles Limited	3.2%

NET PERFORMANCE - periods ending 28 February 2022

	Fund	Benchmark #	Excess
1 month	2.16	2.09	+0.08
3 months	3.30	-1.97	+5.27
FYTD	2.51	-0.65	+3.17
1 year	16.69	10.25	+6.44
2 year p.a.	15.34	8.65	+6.69
3 year p.a.	10.49	8.68	+1.81
4 year p.a.	8.82	8.21	+0.61
5 year p.a.	8.42	8.63	-0.21
7 year p.a.	6.09	6.92	-0.82
10 year p.a.	9.31	9.51	-0.20
Since incep.	10.18	8.62	+1.56

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

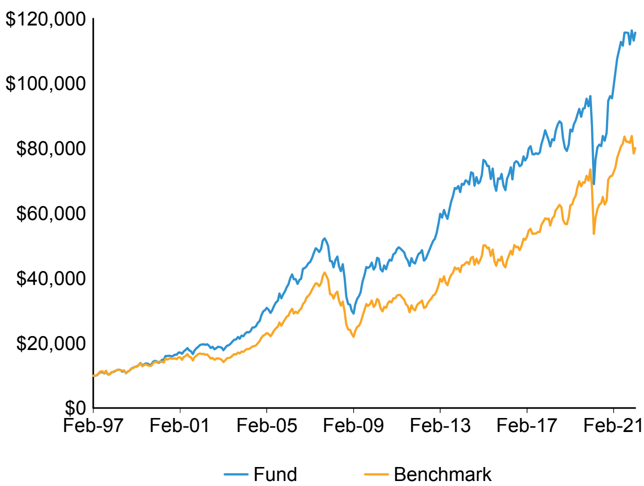
PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	17.1	16.0
Dividend Yield*	3.7%	4.3%
Price / Book	2.1	2.1
Debt / Equity	31.7%	34.9%
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



*Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

MARKET COMMENTARY

The Australian equity market remained resilient throughout February, managing to weather the Ukraine crisis-related sell-off to finish the month in front. Value stocks outperformed growth stocks, as Energy, Materials, and Consumer Staple sectors supported the market's advance. However, losses across the Consumer Discretionary, IT, and Telecom sectors impeded performance. Half-year corporate financial results released throughout February contributed to solid gains seen during the first half of the month and helped offset losses towards the end of the month. Inflation showed a key earnings theme with companies that demonstrated pricing power rewarded by investors. Other focus areas included Omicron-related impacts on trading conditions and guidance, as well as margin/cost pressures from labour shortages and supply chain constraints.

In local macro developments, the Australian wage price index rose in line with expectations but was still short of the pace required to prompt a more hawkish RBA. Business confidence data rebounded, signalling expectations of a short-lived Omicron setback, despite firms weighed down by its impact on consumer behaviour and staff shortages attributed to higher than usual annual leave and sick leave. The announcement of the reopening of the international border, however, assisted in boosting confidence. Strong Australian jobs data saw markets bump up interest rate hike expectations, with five now being priced-in for 2022 (that takes the cash rate to 1.25%). Nevertheless, the RBA Governor Lowe reiterated that the board is prepared to be patient on rates as it remains too early to conclude whether inflation is sustainably within its 2-3% target range.

Heightened geopolitical tensions exacerbated volatility across global markets, keeping risk appetite in check as haven assets were in demand and Australian yields dropping considerably. Commodities rallied hard over supply-disruption concerns, while crude oil soared to fresh October 2014 highs amid the possibility of sanctions targeting Russia's energy sector or retaliation that will limit energy supplies to Europe and elsewhere.

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 insurance provider Insurance Australia Group Ltd (+9.9%) contributed to relative performance. The stock rallied on the back of reporting a solid set of half-year financial results. IAG posted cash earnings of $176m (vs consensus of $170.3m), and an underlying insurance margin of 15.1% (vs 15.9% from last year). Management also reaffirmed its reported insurance margin guidance of 10-12%, noting that it aligns with its aspirational goal of achieving a 15% to 17% margin over the medium term. The stock further benefitted from a favourable ruling by the Federal Court in a vital test case for insurers to largely reject Covid-related business interruption insurance claims.
Not holding online business solutions provider Xero Limited (-17.0%) contributed to relative performance. The stock fell following a target-price cut of 23% to $100.00/Share by Macquarie during the month. The broker noted that it is leaning towards more defensive picks among Australian tech stocks at the start of what is believed will be a disappointing round of earnings reports.
Not holding commercial real estate developer Goodman Group (-4.1%) contributed to relative performance. The stock fell after being downgraded to neutral from overweight by JPMorgan, based on its relative valuation. This came despite the company reporting a first-half OEPS of $0.42 vs $0.33 from last year, an operating income increase of $786.2m (from $614.9M a year ago), and an NPAT rise to $2.00b from $1.04b last year.

The overweight position in online betting and gaming provider Flutter Entertainment Plc (-6.4%) detracted from relative performance. The stock fell after reporting a full-year Adj EPS of 252.7p vs consensus of 275.7p. Full-year revenue and Adjusted EBITDA fell broadly in line with consensus expectation. Management noted that trading in the first seven weeks of 2022 was in line with expectations, with Group revenue up +2% y/y, reflecting strong comparatives which have benefited from favourable sports results.
Not holding oil and gas producer Woodside Petroleum (+19.8%) detracted from relative performance. The stock benefitted from rising oil prices across the month, as well as from a stronger-than-expected financial result. The company reported a full-year underlying NPAT of $1.62b (vs consensus of $1.45b), revenue of $6.96b (vs consensus $6.72b), an EBITDA of $4.14b (vs consensus of $4.32b), and an NPAT of $1.98b (up from -$4.03b from last year).

OUTLOOK

After the recent shakeout in equities from rate rise fears, the invasion of Ukraine has further dented confidence. The shock of war will have a negative effect on confidence and economic activity, mainly in Europe. This will ripple, to varying degrees, out to the world. Sanctions have an even greater potential to disrupt capital movement and key resources, especially Russian energy production. A rising global oil price acts as a tax or interest rate hike on the global economy. The financial sanctions will also bite specific sectors hard. The only thing we really know for certain is that these sanctions are the toughest ever imposed on a country and are likely to be in place for the foreseeable future. This all adds to the existing supply chain and inflation problem that besets the global economy.

By and large Australian equities offer some natural protection for investors. We are far removed from the events of Ukraine itself. The Australian economy is also in much better shape than most of the rest of the world, having avoided the worst of Covid. Business confidence is beginning to build again and inflation, whilst a significant problem in the US and Europe, has been more contained here. But it will rise. There is always risk of some unexpected 'contagion', like unknown Russian financial exposures, although these are likely to be more of a problem in Europe than Australia. Despite these challenges and uncertainty in markets that lay ahead, we remain consistent in our investment approach.

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.

MORE INFORMATION

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