

Wholesale Funds

PERPETUAL WHOLESAL AUSTRALIAN SHARE FUND

March 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

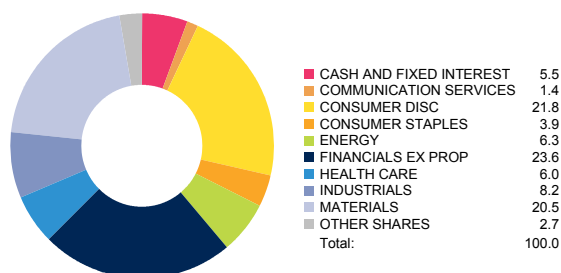
Provides investors with the potential for maximising capital growth and income, with broad market exposure, through active management by one of Australia's most experienced investment management teams.

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:	\$594.11 million as at 31 Mar 2022
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	7.6%
Santos Limited	5.5%
Insurance Australia Group Limited	5.1%
Westpac Banking Corporation	5.0%
La Francaise des Jeux SA	3.9%
National Australia Bank Limited	3.9%
Iluka Resources Limited	3.7%
ANZ Banking Group Ltd.	3.6%
Wesfarmers Limited	3.5%
Brambles Limited	3.5%

NET PERFORMANCE - periods ending 31 March 2022

	Fund	Benchmark #	Excess
1 month	2.66	6.90	-4.24
3 months	2.05	2.08	-0.03
FYTD	5.24	6.20	-0.96
1 year	14.39	15.21	-0.82
2 year p.a.	31.19	26.24	+4.95
3 year p.a.	11.68	10.85	+0.83
4 year p.a.	10.17	11.07	-0.91
5 year p.a.	8.26	9.38	-1.12
7 year p.a.	6.58	7.95	-1.36
10 year p.a.	9.50	10.10	-0.60
Since incep.	10.26	8.88	+1.38

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

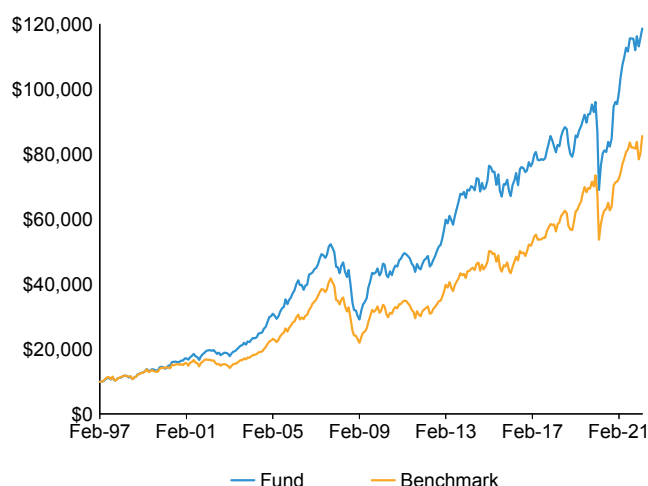
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	16.6	16.6
Dividend Yield*	3.7%	4.1%
Price / Book	2.2	2.2
Debt / Equity	35.7%	34.3%
Return on Equity*	13.7%	13.8%

[^] 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 strengthened over the March quarter, supported by the Resources sector as energy and metals prices soared to multi-year and record highs amid concerns that the Ukrainian war and associated sanctions would curtail supply. While volatility was elevated, the market remained relatively resilient against a backdrop of geopolitical tensions, trade restrictions, supply disruptions, and heightened inflationary pressure. Value stocks outpaced growth stocks, as the IT sector sold off heavily early in the quarter despite seeing a strong rally in March. The Health Care and Consumer Discretionary industries were also heavily impacted as trading updates highlighted margin pressures from supply chain disruptions. Solid half-year corporate financial results released throughout February, however, helped offset losses incurred at the beginning of the quarter.

Coronavirus news dominated headlines in January, 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 and adversely impacted business confidence and conditions. The announcement of the reopening of the international border assisted in boosting confidence, though consumers appeared more reactive to the war in Ukraine, rising inflation, and interest rate developments. Finally, there were few surprises in the Federal Budget, which included new spending and income support to ease cost-of-living pressures.

Robust jobs data saw markets increase interest rate hike expectations, with five now priced in for 2022. While the RBA left policy settings unchanged throughout the quarter, it reiterated the possibility of an interest rate rise in 2022 as inflation picked up more quickly than expected and acknowledged the risk of waiting too long to raise rates. However, it did note that the Ukraine war and increase in energy prices had created additional uncertainty that was likely to intensify headline inflation pressures and adversely impact economic growth, which further quelled market sentiment.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Santos Limited, La Francaise des Jeux SA, and Insurance Australia Group Limited. Conversely, the Fund's largest underweight positions include Commonwealth Bank of Australia, BHP Group Ltd, and Macquarie Group Limited (not held).

The overweight position in oil and gas producer Santos (+24.7%) contributed to relative performance. The stock was supported over the quarter from a sharp rise in crude oil prices, with WTI and Brent increasing 33.5% and 38.9%, respectively, driven by concerns of supply disruptions resulting from the Ukrainian war.

The overweight position in mineral sands miner Iluka Resources (+13.1%) contributed to relative performance. The stock was 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. A favourable court decision from a shareholder class action in relation to alleged breaches of Iluka's continuous disclosure obligations and misleading conduct in 2012 also benefited the stock throughout the quarter. The stock price was also assisted by target-price increases from JPM, Citi, and Macquarie Group.

The overweight position in casino operator Crown Resorts (+6.7%) contributed to relative performance. The stock ended the quarter 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 online betting and gaming provider Flutter Entertainment Plc (-28.9%) detracted from relative performance. The company reported a full-year Adjusted EPS of 252.7p (vs consensus of 275.7p), on revenue of £6.04B (vs consensus of £5.98B), and an adjusted EBITDA of £1.00B (vs consensus of £1.01B). Management also reported that trading in the first seven weeks of 2022 had been in line with expectations, with Group revenue up +2% y/y, reflecting strong comparatives which benefited from very favourable sports results. Management anticipated revenue growth to accelerate as 2022 progresses, reflecting the phasing of sports margin comparables and safer gambling measures taken in 2021.

The overweight position in plumbing and heating products supplier Ferguson PLC (-25.01%) detracted from relative performance. The stock struggled over the quarter despite its first-half adjusted EPS of US\$4.43, beating consensus of US\$4.39, as well as increasing its interim dividend by 15% and conducting a \$2.0 equity buyback. Management announced that markets remain supportive and anticipate solid revenue growth in the second half as it begins to lap tougher comparatives. It was also noted that first-half tailwinds on gross margins would likely moderate but are confident in its full-year expectations.

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.

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