

## Wholesale Funds

# PERPETUAL WHOLESAL SMALLER COMPANIES FUND

August 2022

### FUND FACTS

**Investment objective:** Aims to provide long-term capital growth and income through investment in quality Australian industrial and resource shares which, when first acquired, do not rank in the S&P/ASX 50 Index.

### FUND BENEFITS

Provides investors with the potential to benefit from the growth of quality smaller or emerging companies, 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 Small Ordinaries Accum. Index

**Inception Date:** October 1996

**Size of Portfolio:** \$606.51 million as at 30 Jun 2022

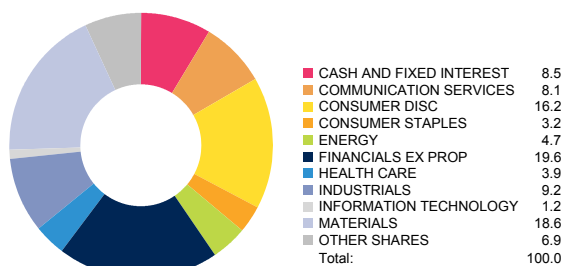
**APIR:** PER0048AU

**Management Fee:** 1.25%\*

**Investment style:** Active, fundamental, bottom-up, value

**Suggested minimum investment period:** Five years or longer

### PORTFOLIO SECTORS



### TOP 5 STOCK HOLDINGS

Stock Holding	% of Portfolio
Pacific Current Group Ltd	5.6%
Whitehaven Coal Limited	3.9%
Mcmillan Shakespeare Limited	3.6%
Enero Group Limited	3.4%
Healius Limited	3.4%

### NET PERFORMANCE - periods ending 31 August 2022

	Fund	Benchmark #	Excess
1 month	7.03	0.58	+6.45
3 months	2.37	-2.59	+4.96
FYTD	16.54	12.08	+4.46
1 year	6.40	-14.66	+21.06
2 year p.a.	20.74	5.13	+15.61
3 year p.a.	15.10	4.10	+11.00
4 year p.a.	11.46	3.30	+8.16
5 year p.a.	11.18	6.85	+4.33
7 year p.a.	12.08	8.92	+3.15
10 year p.a.	12.95	6.29	+6.67
Since incep.	12.52	5.47	+7.05

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

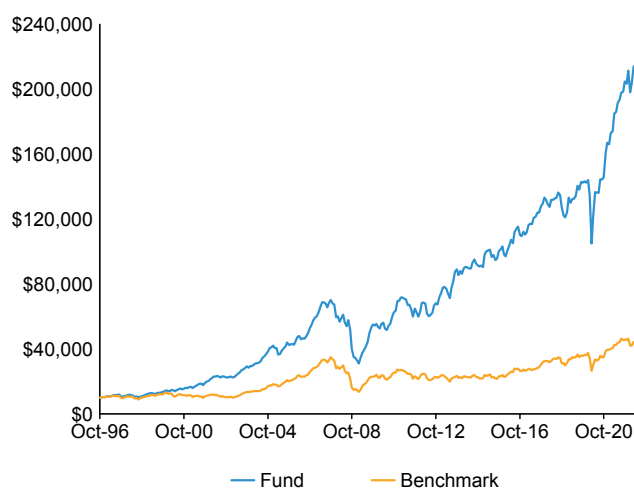
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	10.4	16.8
Dividend Yield*	5.4%	4.2%
Price / Book	1.5	1.2
Debt / Equity	21.6%	27.4%
Return on Equity*	14.0%	10.8%

<sup>^</sup> 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 finished higher for the second month in a row as FY2022 corporate earnings were reported. The Resources sector outperformed on stronger-than-expected results, spurred by M&A activity and a recovery in commodity prices and record cash flows over the past year. The Energy sector rallied amid the prospect of OPEC+ announcing more production cuts, while mining producers impressed despite underlining concerns about the outlook for steel demand. Rate-sensitive pockets, however, weakened amid the increase in bond yields, with Real Estate and Tech stocks among those falling. Underwhelming earnings adversely impacted the Financials as interest rate increases led to a slowdown in housing credit growth and rising term deposit rates pressured profit margins. The Consumer Staples sector bore the brunt of the selling after results from food and grocery stocks confirmed headwinds from inflation, while M&A activity underpinned strengthening Telco performance during August.

Market sentiment was supported by an unexpected rebound in business confidence and conditions in July, indicating that demand remained resilient in the face of economic headwinds. However, the more significant market issue remains the outlook for monetary policy after central bankers emphasised that they are a long way from a policy pivot. The RBA upgraded its inflation forecasts, with headline CPI projected to hit 7.75% by end-2022 without falling back to the 2-3% target band until at least the end of 2024, when supply chain constraints ease and commodities stabilise. At the same time, the global economy continues to face headwinds from restrictive monetary policy and a northern hemisphere energy crunch. GDP growth was forecast to slow next year as cost pressures weighed on household consumption, however, the near-term outlook for employment was revised upwards. The sales, profitability and employment sub-indexes all strengthened, yet inflation pressures were evident with purchase costs and capacity utilisation hitting record highs and retail sales prices increasing.

## PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Pacific Current Group, Whitehaven Coal Ltd, and Enero Group. Conversely, the Fund's largest underweight positions include Technology One Limited, Liontown Resources Ltd, and NIB Holdings Ltd, all of which are not held in the Fund.

The overweight position in coal miner Whitehaven Coal (+28.3%) contributed to relative performance. The stock benefitted from rising coal prices, nearing its record highs attained in early March, supported by persistent supply disruptions caused by the invasion of Ukraine. Whitehaven also reported a full-year FY2022 revenue increase of 216% year-over-year (YoY) during the month, an EBITDA increase of 1,396% YoY, and posted a record NPAT of \$1.95B, up from a \$543.9M loss in FY2021. In addition, management noted that demand for high-quality seaborne thermal coal is expected to remain strong throughout FY23, and high-CV coal prices should continue to be well supported. The overweight position in copper and gold miner Oz Minerals (+36.9%) contributed to relative performance. The stock rose sharply after receiving an unsolicited, conditional, and non-binding indicative proposal from BHP Group to acquire 100% of its shares for \$25.00 per share in cash via a scheme of arrangement. The Oz Minerals board, however, has unanimously determined that the Indicative Proposal significantly undervalues the company and is not in the best interests of its shareholders. The company noted that it has a unique set of copper and nickel assets, all with strong long-term growth potential in quality locations and that it does not consider that the proposal from BHP sufficiently recognises these attributes. The overweight position in salary packaging, vehicle leasing, and administration services provider McMillan Shakespeare (+16.1%) contributed to relative performance. The stock rose sharply upon release of its full-year financial results, reporting normalised revenue of \$594.3M, up 9.2% compared to the prior corresponding period (pcp). Statutory NPAT grew by 15.2% on the pcp to \$70.3M, and its final dividend was increased by 154%. Going forward, McMillan announced that it will return between 70% and 100% of underlying profit to shareholders in the form of dividends, up from 66% in the pcp.

Not holding lithium and gold miner Liontown Resources (+31.4%) detracted from relative performance. The stock price was boosted after analysts at Macquarie raised their lithium price forecasts on the belief that supply will remain tight for the foreseeable future. The broker pointed out that sales of electric vehicles (EVs) will continue to grow strongly in 2022 despite rising battery prices. Global EV sales are up an estimated 57% year-on-year between January and July. This came as the state of California mandated that all new vehicles to be sold in the state will be powered by hydrogen or electricity by 2035.

Not holding emerging lithium producer Sayona Mining Ltd (+51.3) detracted from relative performance. The stock rallied over the month after announcing that it had restarted its North American Lithium production in Quebec, Canada, with the first spodumene concentrate production expected in the first quarter of 2023. Sayona revealed that approximately 30% of plant and equipment upgrades have been completed. This is expected to accelerate with the number of construction workers on site set to double to 100 by September. Rising lithium prices further supported the stock over the month, boosted by increasing global demand expectations for the EV battery ingredient.

## OUTLOOK

We have long believed that markets are poised for further rotation to a more value-oriented investment environment as Covid disruptions, waning stimulus, and war combine to keep consumer price inflation at high levels. Until June this year, equity markets were resilient in the face of the rate hikes, but bond markets have priced in tighter monetary policy much more aggressively. Historically, when the bond market and equity market disagreed, the bond market was usually correct. In our view, rising bond yields will eventually lead overpriced growth stocks into a more sustained and overdue correction, challenging investors with large growth exposures. We think, in the years ahead, markets will need to become accustomed to more inflation than previously experienced. This distinct shift in the macro backdrop is already playing out across asset classes. In these conditions, our focus on value style investing, buying quality companies with strong balance sheets trading at reasonable valuations, should continue to do well and offer attractive opportunities for investors.

# Benchmark prior to 1/4/2000 was the ASX Small Ordinaries Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX Small Ordinaries Accumulation Index.

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## MORE INFORMATION

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