Wholesale Funds

PERPETUAL WHOLESALE SMALLER COMPANIES FUND

July 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

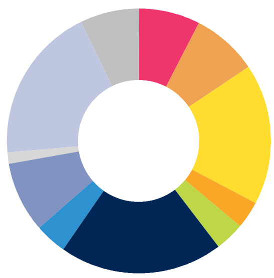
Provides investors with the potential to benefit from the growth of quality smaller or emerging companies, through active management by one of Australia's most experienced investment management teams.

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



CASH AND FIXED INTEREST	7.4
COMMUNICATION SERVICES	8.0
CONSUMER DISC	17.4
CONSUMER STAPLES	3.2
ENERGY	3.7
FINANCIALS EX PROP	19.8
HEALTH CARE	4.1
INDUSTRIALS	8.5
INFORMATION TECHNOLOGY	1.4
MATERIALS	19.3
OTHER SHARES	7.1
Total:	100.0

TOP 5 STOCK HOLDINGS

	% of Portfolio
Pacific Current Group Ltd	5.0%
Enero Group Limited	3.6%
Mcmillan Shakespeare Limited	3.4%
Healius Limited	3.3%
Bapcor Ltd	3.1%

NET PERFORMANCE - periods ending 31 July 2022

	Fund	Benchmark #	Excess
1 month	8.88	11.43	-2.55
3 months	-8.38	-9.94	+1.56
FYTD	8.88	11.43	-2.55
1 year	1.68	-10.93	+12.61
2 year p.a.	20.24	8.55	+11.68
3 year p.a.	11.86	2.55	+9.32
4 year p.a.	10.25	3.79	+6.46
5 year p.a.	10.13	7.30	+2.83
7 year p.a.	10.50	8.06	+2.44
10 year p.a.	12.45	6.53	+5.91
Since incep.	12.27	5.47	+6.80

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

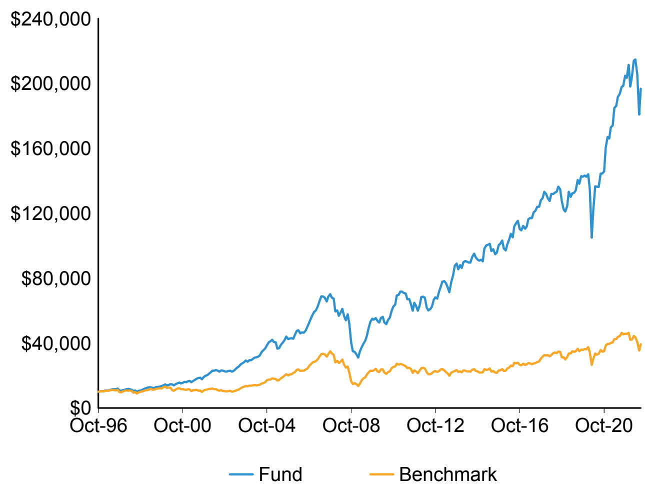
PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	9.9	16.3
Dividend Yield*	5.9%	4.3%
Price / Book	1.4	1.6
Debt / Equity	22.9%	27.1%
Return on Equity*	14.5%	11.1%

^ 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 broke its consecutive three-month downward trend to end July higher, as a rebound in recent laggards – including tech stocks, REITs, and the banks – assisted the ASX. An expected 50 basis point hike in the cash rate to 1.35% at the beginning of the month did little to quell investor sentiment. There was no substantive change to policy guidance, with the Reserve Bank flagging more tightening in the period ahead. However, the RBA also suggested that inflation is expected to peak later in 2022 and that its medium-term view is that inflation expectations remain well anchored. Markets subsequently dialled back terminal interest rate forecasts amid thoughts that plateauing inflation and a softening economy may prompt central banks to slow the pace of tightening.

This notion was supported by the June-quarter headline inflation print, which fell below expectations and reduced the likelihood of a 75-basis point interest rate hike in August. Trimmed mean inflation, however, hit a record high, spurred predominantly by the increase in fuel costs. Pricing pressures were also evident in clothing, housing, household equipment, and several food categories. Elevated freight costs, supply constraints, rising construction costs, and strong demand continued to drive up inflation and a rebound in rents. This, combined with softening macro data, the potential for a Russian gas shutoff to Europe, risks to US earnings and China, Covid uncertainty remain overhangs on risk sentiment.

Mining producers constrained the market's advance, underpinned by heavy losses across commodity prices over the month as concerns from demand destruction in a recessionary environment continue to mount. Significant iron ore weakness was further attributed to heightened frictions from China's real estate developers. This fragility was offset by solid performance across the Financials, benefitting from improved sentiment due to increased M&A activity and its low interest-rate sensitivity after the big banks moved quickly to raise their variable home loan rates by 50 basis points.

PORTFOLIO COMMENTARY

The Fund’s largest overweight positions include Pacific Current Group, McMillan Shakespeare, and Enero Group Limited. Conversely, the Fund’s largest underweight positions include Technology One Limited, Shopping Centres Australasia Property Group RE, and NIB Holdings Ltd, all of which are not held in the Fund.

The overweight position in coal miner Whitehaven Coal (+27.8%) contributed to relative performance. The stock benefitted from rallying coal prices over the month, despite the gloomy outlook on the global economy. The release of an International Energy Agency report highlighted that global coal demand is expected to challenge its all-time high in 2022. This followed news that China could reopen its ports to ships carrying Australian coal. As a result, Whitehaven now expects to report a record EBITDA of ~$3.0B for the 2022 financial year (vs $0.2B from a year ago).
The overweight position in salary packaging, vehicle leasing, and administration services provider McMillan Shakespeare (+26.3%) contributed to relative performance. The stock was upgraded from 'neutral' to 'outperform' at Macquarie following a broker note suggesting that the company may benefit over the medium-term from the Australian government's policy shift toward electric vehicles. The note indicated that the policy could support the uptake of novated lease services. While the proposed change will have an immaterial impact on near-term earnings at the salary packaging firm, it could generate upside risk over the medium term.
The overweight position in lender's mortgage insurance provider Genworth Mortgage Insurance Australia Ltd (+22.2%) contributed to relative performance. The company reported a first-half underlying NPAT of $134.3M (vs $76.4M last year) and a statutory NPAT of $18.9M (vs $59.4M last year), which included unrealised mark-to-market investment losses of $162.1M. Management also provided its second-half guidance, including $375-435M of premiums written (vs prior guidance of $315-375M), indicating that while net incurred claims are expected to begin to normalise, it will take some time for changes in the economy to flow through to delinquencies. This is likely to result in second-half 2022 claims remaining below historical averages.

The overweight position in copper and zinc miner 29Metals (-13.0%) detracted from relative performance. A broker note from Macquarie during the month indicated that the outlook for copper demand remains uncertain. The weakness in the base metal, which is currently trading below Macquarie's near-term forecasts, presents a downside risk to the company's earnings. Macquarie also anticipated sequentially higher operating costs at the group level in the June quarter, reflecting the current tight labour market and cost inflation pressures. This came as the miner reiterated its production guidance during its first quarter update, although it indicated that it was more likely to be towards the lower end of guidance for the 2022 calendar year.
Not holding cancer diagnostic and treatment products developer Telix Pharmaceuticals Ltd. (+63.1%) detracted from relative performance. The stock rallied sharply following its June-quarter financial results update, where it recognised its first quarter of commercial sales from its Illuccix radioactive diagnostic agent product. The company reported total revenue of $22.5M from global sales of Illuccix – more than a ten-fold increase from its 2022 March-quarter sales of $1.9M. This included $19.3M generated during its first ten weeks of commercial sales into the United States.

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.

MORE INFORMATION

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