Wholesale Funds

PERPETUAL WHOLESALE AUSTRALIAN SHARE FUND

September 2020

FUND FACTS

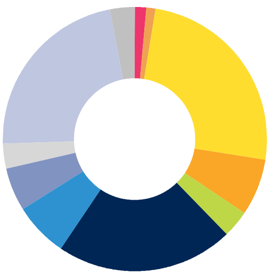
Investment objective: Aims to provide long-term capital growth and regular income through investment predominantly in quality Australian industrial and resource shares.

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.

Benchmark:	S&P/ASX 300 Accum. Index
Investment Manager:	Vince Pezzullo
Inception Date:	February 1997
Size of Portfolio:	$695.71 million as at 30 Sep 2020
APIR:	PER0049AU
Management Fee:	0.99%*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Five years or longer

PORTFOLIO SECTORS



CASH AND FIXED INTEREST	1.4
COMMUNICATION SERVICES	1.2
CONSUMER DISC	24.9
CONSUMER STAPLES	6.8
ENERGY	3.4
FINANCIALS EX PROP	21.8
HEALTH CARE	6.7
INDUSTRIALS	5.2
INFORMATION TECHNOLOGY	3.1
MATERIALS	22.6
OTHER SHARES	2.9
Total:	100.0

TOP 10 STOCK HOLDINGS

	% of Portfolio
Iluka Resources Limited	5.7%
Crown Resorts Limited	5.3%
Flutter Entertainment Plc	5.2%
Boral Limited	4.7%
National Australia Bank Limited	4.5%
CSL Limited	3.7%
La Francaise des Jeux SA	3.7%
Aristocrat Leisure Limited	3.4%
Link Administration Holdings Ltd.	3.1%
Premier Investments Limited	3.1%

NET PERFORMANCE - periods ending 30 September 2020

	Fund	Benchmark #	Excess
1 month	-1.83	-3.59	+1.77
3 months	1.41	-0.06	+1.46
FYTD	1.41	-0.06	+1.46
1 year	-10.77	-9.96	-0.81
2 year p.a.	-3.18	0.67	-3.85
3 year p.a.	1.49	4.94	-3.45
4 year p.a.	2.13	5.95	-3.82
5 year p.a.	4.23	7.42	-3.19
7 year p.a.	3.37	5.98	-2.61
10 year p.a.	6.29	6.85	-0.57
Since incep.	9.24	8.03	+1.21

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

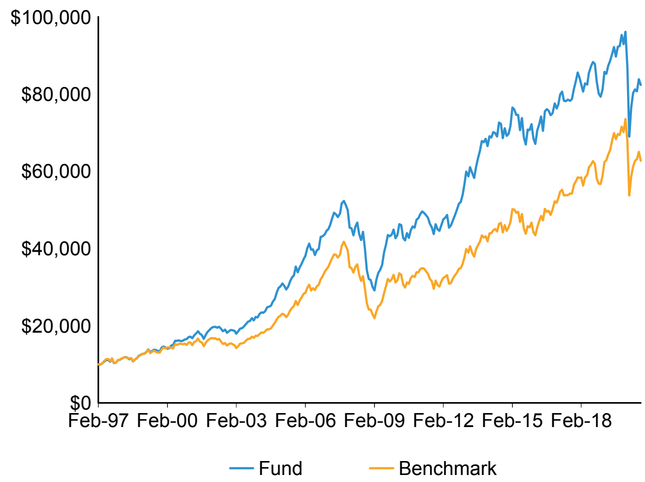
PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	19.7	18.9
Dividend Yield*	3.2%	3.6%
Price / Book	1.5	1.8
Debt / Equity	36.4%	41.1%
Return on Equity*	8.2%	10.1%

^ 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 ended the September quarter lower as the S&P/ASX 300 Accumulation Index fell 0.1%. Despite optimism from positive coronavirus vaccine trials and recovering global economic activity early in the quarter, local stocks struggled as the second wave of infections across Victoria saw an extension to its stage 4 lockdowns, resulting in the temporary closure of all non-essential businesses, curfews, and border closures with other states, leading to a decline in consumer confidence as the Victorian Government outlined an overly cautious roadmap for relaxing the restrictions.

The economic impact from the pandemic was further highlighted after the consumer price index dropped a record 1.9% over the June quarter, resulting in an annual inflation rate of -0.3% over FY2020, the first time in 22 years that the economy has experienced deflation. A record contraction in GDP also confirmed the first official recession in almost 30 years, with June-quarter GDP falling 7.0% quarter-on-quarter (vs a consensus decline of 6.0% and a 0.3% decline in the March Quarter). This was cushioned by the Reserve Bank signalling the possibility of further interest rate cuts, as well as the Federal Government announcing an extension to its JobKeeper payments and indicating additional fiscal support in the October budget. By the end of August, most companies had reported their full-year FY2020 financial results. Corporate earnings experienced their worst average decline since the 1990s recession, with only 75% of companies reporting a statutory profit and under 69% issuing a final dividend. The market continued to be pressured later in the quarter on concerns of a second wave of infections across Europe, US election uncertainty, and slowing global economic recovery.

The best performing sectors for the quarter, as measured by the S&P/ASX 300 Accumulation Index, were Information Technology (+13.0%), Consumer Discretionary (+10.1%) and Real Estate (+6.1%). The worst performers were Energy (-13.5%), Utilities (-8.2%) and Financials (-5.8%). As a whole, industrial stocks (-0.1%) underperformed resource stocks (-0.0%), and large cap stocks (-1.9%) underperformed small cap stocks (+5.7%). Value stocks (-3.5%) underperformed growth stocks (+1.3%) as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include mineral sands miner Iluka Resources, casino operator Crown Resorts, and sports betting and gaming provider Flutter Entertainment. The Fund's largest underweight positions include CSL, Commonwealth Bank, and BHP Group.

The overweight position in online betting and gaming provider Flutter (+16.2%) contributed to relative performance. The stock rose over the quarter after investors reacted positively to the announcement of a US$80m credit giveaway and accompanying advertising campaign for its US bookmaker and fantasy sports provider business, FanDuel. The campaign commenced 22 July and offered a day of risk-free betting up to $100 for all users in a move to attract new and existing customers. We believe the stock remains attractively valued as its future earnings growth across its Australian and international businesses are yet to be fully incorporated into its current price.
The overweight position in building and construction materials provider Boral (+20.3%) contributed to relative performance. The stock was boosted after Seven Group Holdings increased its stake in the company by 45 million shares, bringing the conglomerate's share in the company to 19.98% from 16.31%, just short of the 20% threshold required to lodge a mandatory takeover bid for the company. The investment by Seven was reported to have stoked interest amongst investors, placing it under the spotlight as a potential takeover target.

The overweight position in energy producer Origin Energy (-24.9%) detracted relative performance. The stock declined over the quarter on the back of a pullback in oil prices after Saudi Arabia initiated deep price cuts to the commodity in an effort to reduce an oversupply issue. A stronger US dollar and a weaker global economic growth outlook further spurred the price decline, leading to a 6.7% fall in Brent crude oil and a 5.9% fall in WTI crude. Despite this setback, we expect a strong rebound in Origin's stock price once oil prices normalise.
The overweight position in health insurer Medibank Private (-14.1%) detracted from relative performance. The stock fell after reporting a weaker-than-expected full-year financial result as revenue from ordinary activities fell by 6% to $6.785b. Revenue from insurance premiums, however, increased 1.3% to $6.546b, though insurance claims increased by 3.2%, leading to a $470.6m fall in health insurance profits. Overall, net profit after tax declined by 31.3% to $315.6m. Despite underperforming, the Fund continues to hold the stock due to its attractive balance sheet, defensive revenue stream, and high barriers to entry.

OUTLOOK

The recent market rally has been particularly narrow in Australia, with healthcare, tech, and iron ore names at the forefront. The longer that the shutdown in Victoria is in place, the greater the divergence in its impact across specific sectors and stock prices. Once the economy reopens nationally, a big question will be around the strength of the rebound. Many investors have a 'glass half full' perspective, which will be challenging for both the economy and markets. Finally, the perception that interest rates will remain at their current levels forever will be challenged as we see the potential re-emergence of inflation. Although inflation presents an unlikely risk in the shorter-term, given the excess capacity in economies globally, it may present a substantial tail risk. Subsequently, a steepening of the yield curve in response to a potential rise in inflation could see a short sharp market correction. Despite the better-than-expected earnings season, we're still to learn what 'COVID normal' will look like, and how that might impact businesses both large and small. This is why sticking to an investment approach that's underpinned by a disciplined, active, value-based methodology is important, whatever the investment environment.

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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