Wholesale Funds

PERPETUAL WHOLESALE INCOME SHARE FUND

September 2021

FUND FACTS

Investment objective: To provide investors with exposure to a diversified portfolio of tax-effective high income yielding Australian securities that are also expected to produce some long-term capital growth. To provide above market dividend yield as measured by the S&P/ASX 200 Accumulation Index.

FUND BENEFITS

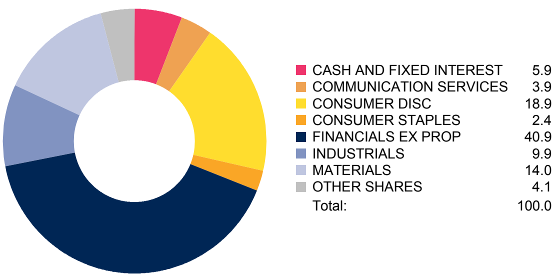
To provide investors with regular income through investment in quality securities.

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 200 Accum. Index
Inception Date:	December 1995
Size of Portfolio:	$169.23 million as at 30 Sep 2021
APIR:	PTC0002AU
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
National Australia Bank Limited	7.4%
BHP Group Ltd	7.3%
ANZ Banking Group Ltd.	6.8%
Commonwealth Bank of Australia	5.9%
Insurance Australia Group Limited	5.3%
Westpac Banking Corporation	4.1%
Medibank Private Ltd.	3.8%
Tabcorp Holdings Limited	3.7%
Premier Investments Limited	3.2%
Deterra Royalties Ltd	3.0%

NET PERFORMANCE - periods ending 30 September 2021

	Fund	Benchmark	Excess
1 month	-0.47	-1.85	+1.38
3 months	0.57	1.71	-1.14
FYTD	0.57	1.71	-1.14
1 year	33.06	30.56	+2.51
2 year p.a.	6.81	8.27	-1.47
3 year p.a.	7.26	9.65	-2.39
4 year p.a.	6.49	10.72	-4.22
5 year p.a.	6.73	10.42	-3.69
7 year p.a.	8.52	9.14	-0.62
10 year p.a.	11.17	10.80	+0.37
Since incep.	8.96	9.26	-0.30

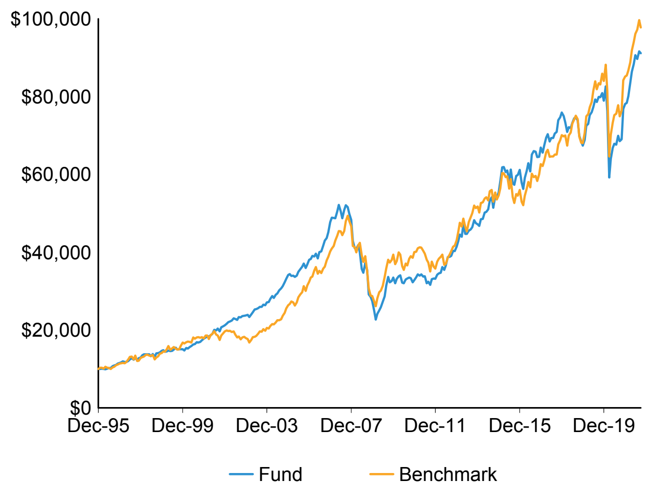
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	15.5	17.8
Dividend Yield*	4.8%	4.0%
Price / Book	2.0	2.2
Debt / Equity	25.2%	35.6%
Return on Equity*	12.9%	13.0%

^ 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 was assisted earlier in the quarter by rebounding consumer sentiment and improving jobs data. Full-year reporting season saw a mixed-bag of financial results, which saw investors punish companies that missed earnings guidance more than rewarding companies that outperformed. Reopening stocks came under pressure as Sydney and Victoria re-entered lockdowns, and state borders closed, prompted a sharp downward revision to near-term economic growth, with economists forecasting a minimum 2% contraction in September-quarter GDP. Pressure across these sectors was partially offset later in the quarter following faster-than-expected vaccination-uptake rates and political leaders expressing the need to pivot away from reducing COVID case numbers and focus instead on vaccination rates as the pathway out of lockdowns. Equity investors mostly shrugged off concerns as federal and state governments ramped up their focus on improving vaccination rates, and fiscal support was boosted.

Fresh momentum behind Australia's economic reopening lifted sentiment, which corresponded with rallies in travel and airline stocks as NSW announced a reopening roadmap for Greater Sydney. The market, however, sold off towards the end of the quarter as growth pockets came under pressure without a corresponding rotation to value/cyclical segments. Building materials producers and mining contractors created a drag on industrials, while logistics providers strengthened. Precious metal producers also rebounded, though materials were held down by the iron ore miners, which sold off on the back of weaker Chinese steel mill output in response to regulatory directives. Energy companies prevented a larger drop on the ASX amid a spike in energy demand across Europe and Asia, driving crude oil and gas prices to record highs as supply failed to keep up. Reopening momentum was also dealt a setback after Melbourne announced the extension of its lockdown until early November, and Premier Palaszczuk warned that Queensland's borders might remain closed even after the 80% double vaccination target is reached.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Insurance Australia Group, Medibank Private, and Tabcorp Holdings. Conversely, the Fund's largest underweight positions include CSL (not held), Commonwealth Bank of Australia, and Transurban Group (not held).

The overweight position in salary packaging and fleet management services provider Smartgroup Corporation (+31.6%) contributed to relative performance. The company received a takeover offer at a 32% premium from a consortium comprising TPG Global LLC and Potentia Capital during the quarter. The consortium has advised Smartgroup that Aware Super will also participate as an equity co-investor. Smartgroup's board has indicated that it intends to unanimously recommend shareholders vote in favour of the $1.38b proposal. The deal, however, remains subject to the consortium's due diligence, final approval from the board, and the investment committees of TPG and Potentia.
Not holding Fortescue Metals Group (-28.6%) contributed to relative performance. A sell-off across the iron ore producers was observed following a sharp pullback in iron ore prices saw the commodity decline 44.2% over the quarter. The fall was driven by a slowdown in steel production out of China to meet decarbonisation targets in the leadup to the 2022 Beijing Winter Olympics, and bearish sentiment surrounding the Evergrande debt fiasco, which has triggered a slowdown in construction activity. Commentary from the US Federal Reserve, indicating that it could soon tighten its accommodative monetary policy stance further contributed to the sell-off in iron ore during the quarter.

The overweight position in funds management and financial services provider Platinum Asset Management (-25.6%) detracted from relative performance. The stock fell on the back of its June trading update. Platinum recorded a 4.8% month-on-month decline in total funds under management to $23.5b at the end of June. The decline was spurred by net fund outflows of $167m (not including the impact of its cash distribution to unitholders of $1.4b, or the distribution re-investment of $383m). Management also advised that it expects a 56% reduction in its total performance fee for FY2021 compared to FY2020.
The overweight position in mining royalty firm Deterra Royalties Ltd (-13.4%) detracted from relative performance. Despite reporting solid full-year financial results during the quarter, the stock came under pressure from weakness in iron ore prices, which fell 44.2% over the quarter. The decline in the commodity was linked to softer Chinese demand as steel production fell 10.5%, and from the US Federal Reserve commenting that it might soon tighten its accommodative monetary policy stance.

OUTLOOK

The rotation to economic recovery that favours value stocks remains firmly on track. Looking beyond shorter-term disruptions, it is clear that economic momentum, both home and abroad, remains strong. Admittedly, business and consumer confidence have fallen off recent highs, but the Australian recovery remains one of the most advanced in the world and well ahead of forecasts from 2020.

Companies we talk to are less concerned by shorter-term lockdowns and focused heavily on longer-term challenges, including the potential for higher embedded inflation, although this bodes well for value stocks, especially resources. Many value stocks are only just rising above previous 2007 peaks, while some growth stocks continue to trade at valuation multiples many times higher than their levels of just a few years ago. We think a combination of all the factors described above suggests a return to sustained global recovery, with higher inflation, higher bond yields, but also a longer and more sustained swing to value. Our focus will remain on screening out balance-sheet, management, earnings, and business risks to ensure our clients are invested in high-quality businesses at reasonable prices.

MORE INFORMATION

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