Wholesale Funds

PERPETUAL WHOLESALE INCOME SHARE FUND

September 2020

FUND FACTS

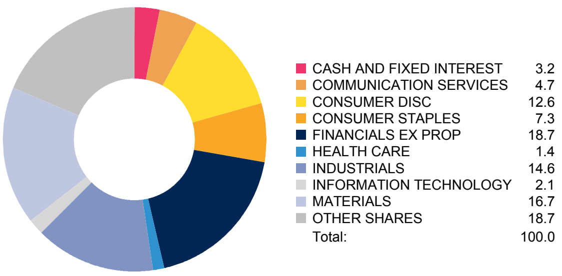
Investment objective: To provide investors with exposure to a diversified portfolio of tax-effective high income yielding Australian securities that are also expected to produce some long-term capital growth. To provide above market dividend yield as measured by the S&P/ASX 200 Accumulation Index.

FUND BENEFITS

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

Benchmark:	S&P/ASX 200 Accum. Index
Investment Manager:	Anthony Cay
Inception Date:	December 1995
Size of Portfolio:	$142.14 million as at 30 Sep 2020
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
BHP Group Ltd	7.3%
Woolworths Group Ltd	7.0%
Commonwealth Bank of Australia	6.0%
Telstra Corporation Limited	4.7%
Centuria Capital Group	4.2%
National Australia Bank Limited	4.1%
Brambles Limited	3.9%
Crown Resorts Limited	3.2%
Saracen Mineral Holdings Limited	3.2%
Mirvac Group	3.1%

NET PERFORMANCE - periods ending 30 September 2020

	Fund	Benchmark	Excess
1 month	-2.07	-3.66	+1.60
3 months	0.87	-0.44	+1.31
FYTD	0.87	-0.44	+1.31
1 year	-14.27	-10.21	-4.06
2 year p.a.	-3.70	0.49	-4.19
3 year p.a.	-1.13	4.80	-5.92
4 year p.a.	1.00	5.89	-4.89
5 year p.a.	3.64	7.31	-3.67
7 year p.a.	5.72	5.93	-0.22
10 year p.a.	7.41	6.93	+0.49
Since incep.	8.09	8.48	-0.39

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

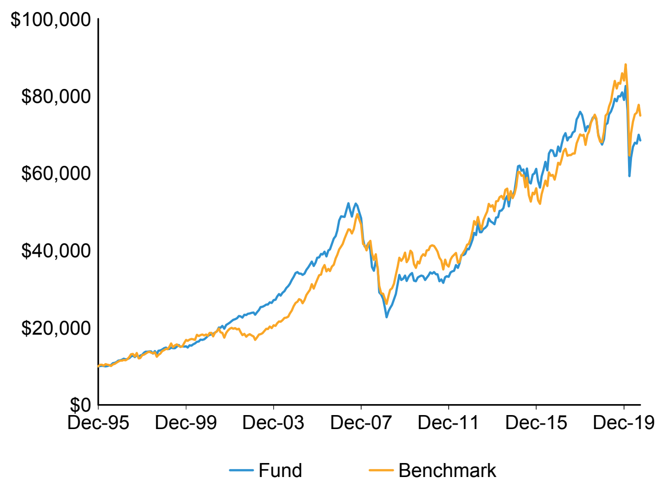
PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	18.4	18.8
Dividend Yield*	4.0%	3.6%
Price / Book	1.6	1.8
Debt / Equity	37.1%	42.1%
Return on Equity*	9.1%	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 200 Accumulation Index fell 0.4%. 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 200 Accumulation Index, were Information Technology (+12.6%), Consumer Discretionary (+8.7%) and Real Estate (+5.6%). The worst performers were Energy (-14.1%), Utilities (-8.1%) and Financials (-6.2%). 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 diversified retailer Woolworths, funds management company Centuria Capital Group, and casino operator Crown Resorts. The Fund's largest underweight positions include CSL, Wesfarmers (not held), and Westpac Bank.

The overweight position in funds management company Centuria Capital Group (+24.9%) contributed to relative performance. The stock ended the quarter higher following a stronger-than-expected full-year financial result, reporting a statutory profit of $21.1m and operating NPAT of $53.3m, leading to an operating EPS of 12.0 cents (beating its guidance of 11.5c). A dividend of 9.70 cents per share was also declared (up 4.9% on FY2019) while management also noted that it retains a strong balance sheet with cash on hand of $149.5m.
The overweight position in plumbing supplies company Reece Ltd (+40.9%) contributed to relative performance. The stock was boosted over the quarter by its impressive full-year financial result, delivering a 10% increase in revenue to $6,010m driven largely by its US business (reporting sales growth of 20% to $3,122m), as well as by sales from its Australian business (increasing 1% to $2,888m). The improved sales led to a 3% increase in EBITDA to $537m over the year and a 19% increase in net profit after tax to $202m for the company.

Not holding iron ore producer Fortescue Metals Group (+24.4%) detracted from relative performance. The stock rallied on the back of a 10.6% rise in the price of iron ore to US$109.50/t, assisted by strengthening demand from China and a slowdown in production from Brazil as it struggled through the pandemic. The stock further benefitted after revealing it had beaten its financial year iron ore estimates, with record iron ore shipments of 47.3mt for the June quarter and 178.2mt for FY2020 (exceeding the top end of its 177mt guidance).
Not holding commercial real estate developer Goodman Group (+20.8%) detracted from relative performance. The stock climbed over the quarter on improved earnings-growth prospects across its industrial property space after its largest client, Amazon, signed a deal with the company for a new 16,300 square metre warehouse in Brisbane. This came as the group entered a partnership with Brickworks Ltd to jointly secure a long-term lease with Amazon at Oakdale West in Sydney.

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.

MORE INFORMATION

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