

## Perpetual Investment Funds

# PERPETUAL AUSTRALIAN SHARE FUND

August 2023

### 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

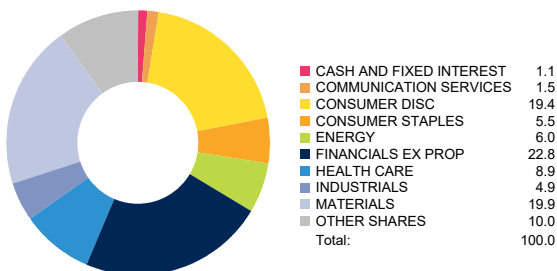
Provides investors with the potential for maximising capital growth and income, with broad market exposure, through active management by one of Australia's most experienced investment management teams.

### 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.

<b>Benchmark:</b>	S&P/ASX 300 Accum. Index
<b>Inception Date:</b>	February 1997
<b>Size of Portfolio:</b>	\$636.06 million as at 30 Jun 2023
<b>APIR:</b>	PER0049AU
<b>Management Fee:</b>	0.99%*
<b>Investment style:</b>	Active, fundamental, bottom-up, value
<b>Suggested minimum investment period:</b>	Five years or longer

### PORTFOLIO SECTORS



### TOP 10 STOCK HOLDINGS

	% of Portfolio
BHP Group Ltd	8.3%
Insurance Australia Group Ltd	6.0%
Flutter Entertainment Plc	4.8%
Westpac Banking Corporation	4.8%
Santos Limited	4.7%
Commonwealth Bank of Australia	4.6%
National Australia Bank Limited	4.1%
La Francaise des Jeux SA	3.9%
CSL Limited	3.8%
Goodman Group	3.5%

### NET PERFORMANCE - periods ending 31 August 2023

	Fund	Benchmark #	Excess
1 month	-1.25	-0.76	-0.49
3 months	1.91	3.88	-1.97
FYTD	0.57	2.11	-1.54
1 year	7.48	8.96	-1.48
2 year p.a.	3.95	2.45	+1.50
3 year p.a.	14.24	10.51	+3.73
4 year p.a.	8.65	6.46	+2.19
5 year p.a.	7.20	6.99	+0.20
7 year p.a.	7.36	8.53	-1.17
10 year p.a.	7.03	7.95	-0.91
Since incep.	9.90	8.49	+1.41

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

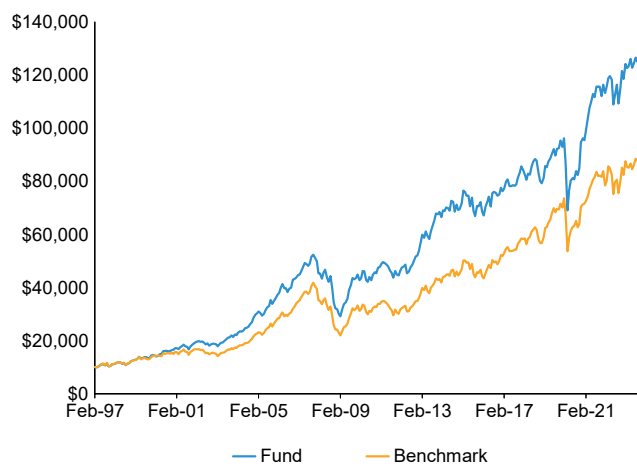
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	16.8	16.0
Dividend Yield*	3.5%	4.1%
Price / Book	2.0	2.0
Debt / Equity	29.2%	34.3%
Return on Equity*	12.4%	12.5%

<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 S&P/ASX300 Accumulation Index fell -0.76% during the month of August. The RBA left the official cash rate unchanged at 4.10% on the first day of the month, triggering a series of downgrades to future rate hike expectations as inflation fell and hopes of a soft landing grew. Despite the central bank news, corporate reporting season dominated the month, especially towards the end. After a fairly lacklustre start the number of stocks disappointing the market grew as the month went on. Companies reporting full year results saw revenue rise a respectable 8.9%, however expenses typically rose 13.9%, contributing to a sharp decline in profitability. Whilst stocks like Wesfarmers (+10.6%) and Goodman Group (+13.7%) led the market index, stocks as varied as BHP (-2.5%), Transurban (-7.5%), Resmed (-24.0%), Wisetech (-19.0%) and Coles (-10.6%) dragged the market down towards the end of the month. It was a case of resilient companies with pricing power faring well versus those caught by rising costs, especially rising interest bills. Some companies forced to cut dividends were heavily punished. In terms of sectors consumer discretionary fared the best despite the challenges facing consumers, whilst Utilities, Consumer Staples, Industrials and Materials fared the worst.

## PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Insurance Australia Group Ltd, Flutter Entertainment Plc, and La Francaise des Jeux. Conversely, the Fund's largest underweight positions include Commonwealth Bank of Australia, Macquarie Group, Ltd (not held), and CSL Limited.

The overweight to Premier Investments (+16.14%) strongly contributed during August. Premier like most retail has struggled with its share-price since early May as pressures on the consumer increased resulting in negative industry sales, not aided by significant cost headwinds. All while cycling very strong comparative trading outcomes. Market analysts were very uncertain about just how bad FY23 & FY24 outcomes might be. PMV has long been part of our core retail investments- it is a quality business, supported by a particularly strong net cash balance sheet and overseen by engaged and experienced executive leadership personnel. The business also has future growth potential across several offshore geographies with the retail sector normalising post the widespread 2020/2021 covid restrictions. On 21st August 2023, PMV surprised the market with three separate announcements. Firstly with FY23 sales and profit guidance modestly ahead of market consensus but very reassuring nonetheless. Secondly that CEO Richard Murray has resigned effective 15 September 2023 with CFO John Bryce to act as interim CEO for the foreseeable future. Given Solomon Lew's executive chairmanship and exceedingly strong divisional leadership and Richard's relatively short tenure in the role, there is little for the market to be concerned with here. And finally, PMV announced a strategic review is to be initiated focussing on the corporate, operating and capital structure of the various brands and businesses held by the company. Future conclusions of this review are difficult to narrow down at this time and are potentially very wide ranging but including that there may be no change at all.

The overweight to Goodman Group contributed strongly to performance in August (+13.73%) as the company reported a solid result and provided an upbeat update highlighting their current and potential investments into data-centre development. We took the opportunity to establish a position in Goodman Group late last year when the market was generally worried about large property groups' performance in a rising rate environment. However, Goodman's focus on the Industrial & logistics segment has delivered strong results driven by tenants' e-commerce expansion and supply chain optimisation in an environment of limited supply of modern and well-located warehouses. We believe that Goodman will continue to grow earnings across its global portfolio supported by profitable development and ongoing rental increases with a conservatively geared balance sheet. Goodman's management team has consistently demonstrated their ability to identify strategic locations, secure long-term leases with blue-chip clients, and maximize property value through efficient operations through the cycle. Finally, Goodman Group is committed to sustainability and responsible corporate practices, aligning with evolving investor values and regulatory requirements. Their green initiatives not only reduce environmental impact but is aligned with blue-chip tenants' requirements. In conclusion, Goodman Group's best-in-class status, focus on the booming industrial and logistics sector, financial stability, exceptional management team, and commitment to sustainability make it a compelling long-term investment choice in the Australian property market for the right price.

Iluka Resources fell -16.54% during August due to growing concerns over the health of the Chinese property market and destocking from global pigment producers. This comes after an exceptional rise in the share price over the past few years. Iluka is the worlds largest producer of rutile that is used to produce pigment (paint) and zircon that is used to produce ceramics (tiles etc). These minerals generate the earnings and cashflow for the company currently, and the company has responded to soft near-term demand by idling some production to avoid inventory and working capital build. Iluka has a very strong balance sheet (net cash) and also owns a valuable stake in Deterra Royalties, which was spun-off in an IPO, so is able to buffer these periods of demand distortion that is a feature of these markets. Risk of a capex increase for the fully integrated rare earths refinery being built in WA to break China's stronghold on these markets also dominated market attention, although we would highlight that construction is funded from a non-recourse loan of more than \$1 billion from the federal government that has a \$200m overrun facility.

A2 Milk detracted from returns during August (-10.9%). A2's FY23 results met expectations with A2 navigating the challenging China label transition well to date holding average selling price in a highly competitive market. However guidance was cautious as A2 expects FY24 to be challenging as China's birth rate hits record lows. Despite the recent softness in the share price, which trades at a fraction of the \$20 per share peak in 2020, we think that A2 is fundamentally well positioned. The business has transitioned from a fast-growing start-up to an established and professional operator in recent years. The A2 brand remains strong in China with healthy lead indicators and growing market share in emerging cities. Management of inventory and pricing is sound, and we have growing confidence its investment in marketing is generating solid returns.

## OUTLOOK

The economic and market outlook remains uncertain. Central banks are hoping they are at the end of their tightening cycles. Bond markets are still not fully convinced, with yields remaining near multi-year highs. Despite this, equity market indices remain relatively sanguine and we think there are risks to the downside, especially in cyclical sectors with markets yet to fully price any downturn in earnings over the year ahead. There is still the possibility of a "soft landing" or even "no landing" economic scenario due to the resilience of consumers and strength of labour markets, buttressed by years of stimulus and structural shortages. The challenge to this thinking is that it would likely come at the cost of core inflation embedding even more which would necessitate even higher interest rates. So far during this cycle central banks have consistently underestimated the extent of underlying inflation. We are also conscious of the macroeconomic gap globally, with the US about six months ahead of the Australian cycle. Furthermore in a world of rising geopolitical risks, de-globalisation and pressure to decarbonise through higher cost renewable energy, we still believe the risks of higher structural inflation remain. The US Inflation Reduction Act, for example, continues to drive much higher than anticipated industrial activity, which could yet manifest in the form of inflation and interest rates. Our quality and value process continues to point us towards a range of reasonably priced businesses with solid balance sheets and good prospects able to deliver long term returns with lower than market risk.

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# 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.  
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#### **MORE INFORMATION**

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