

Perpetual Investment Funds

PERPETUAL AUSTRALIAN SHARE FUND

May 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

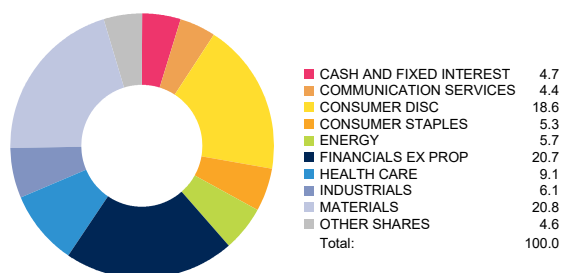
Provides investors with the potential for maximising capital growth and income, with broad market exposure, through active management by one of Australia's most experienced investment management teams.

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.

Benchmark:	S&P/ASX 300 Accum. Index
Inception Date:	February 1997
Size of Portfolio:	\$631.60 million as at 31 Mar 2023
APIR:	PER0049AU
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	6.2%
Insurance Australia Group Ltd	5.7%
Flutter Entertainment Plc	5.4%
CSL Limited	5.0%
Santos Limited	4.8%
Commonwealth Bank of Australia	4.1%
Brambles Limited	4.0%
Iluka Resources Limited	3.9%
Westpac Banking Corporation	3.9%
Telstra Group Limited	3.8%

NET PERFORMANCE - periods ending 31 May 2023

	Fund	Benchmark #	Excess
1 month	-2.71	-2.53	-0.18
3 months	0.01	-0.96	+0.98
FYTD	12.64	12.45	+0.19
1 year	3.75	2.37	+1.38
2 year p.a.	5.50	3.53	+1.97
3 year p.a.	15.19	11.33	+3.87
4 year p.a.	8.47	6.57	+1.90
5 year p.a.	8.27	7.43	+0.84
7 year p.a.	7.46	8.27	-0.81
10 year p.a.	7.50	8.10	-0.60
Since incep.	9.92	8.42	+1.51

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

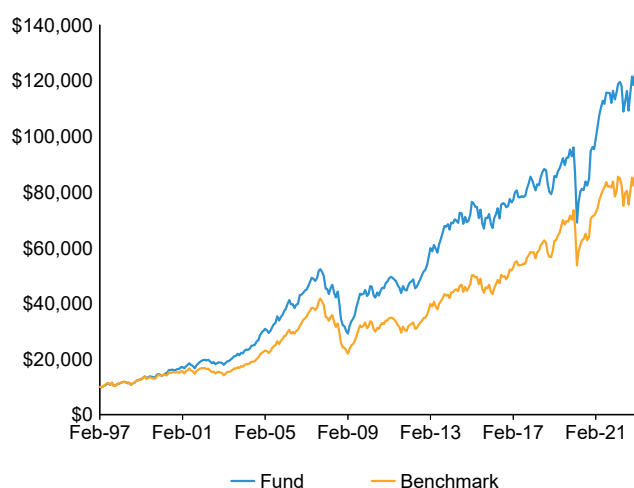
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	15.8	14.4
Dividend Yield*	3.8%	4.5%
Price / Book	1.9	1.9
Debt / Equity	30.8%	33.9%
Return on Equity*	13.0%	13.7%

[^] 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 Australian equities market ended the month lower, with the S&P/ASX300 Accumulation Index falling by 2.5%. May was defined by a return to favour of growth and momentum equities, driven by a belief that the central banks were near the end of their tightening cycle and rising hopes of a "soft landing" in the global economy. This was despite the US debt ceiling crisis casting a cloud over the second half of the month. Signs of strength were evident across the economy: Australian housing market valuations rose (with national home prices rising in March and April after 10 straight months of falls), March housing finance soared +4.9% vs -0.3% consensus, better than expected job advertisements and March retail sales beat expectations. A budget surplus of \$4.2 billion for 2022/23 was handed down on 9 May. Massive downward revisions to the deficit over recent months were driven by booming jobs and commodity prices. Some market economists thought the \$14.6 billion in cost-of-living assistance in the budget added incrementally to fears of further rate hikes.

A string of softer numbers later in the month, including the May Westpac consumer sentiment index (which dropped from 85.8 to 79), a slight uptick in unemployment from 3.5% to 3.7%, and flatter retail numbers for April appeared to make the case for a rate pause stronger. However, hotter wages growth (3.7% in Q1 vs 3.6% prior) and fears that the Fair Work Commission would sign off on record wage rises in June presaged a shock inflation read for April of +6.8%, way above consensus of +6.4% and well above the +6.3% reported in March. This all but sealed the case for further tightening by the RBA. It has not escaped our notice that despite the exuberance of growth equities, bond yields have also been rising through the month, hinting at more inflation or growth in contrast to hopes of lower interest rates from long duration equities.

PORTFOLIO COMMENTARY

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

The overweight position in insurance provider Insurance Australia Group Ltd (+4.2%) contributed to relative performance. The stock finished higher after being upgraded to 'overweight' from 'neutral' at JPMorgan, with its target price increased to A\$5.75 from A\$5, representing a 20% upside to its price at the time of the upgrade.

The overweight position in oil and gas producer Santos (+3.1%) contributed to relative performance. During the month, the company announced that its Moomba CCS project was 60% complete and is on track to start storing CO₂ next year. Once complete, the project is set to support Santos in reducing its own emissions, in addition to working with other hard-to-abate sectors to look at ways of using Moomba CCS to help reduce their emissions as well. According to the company, in the next six weeks, there will be a direct air capture facility installed at the project and that will work for nine months trialling the company's new technology for direct air capture.

The overweight position in mineral sands miner Iluka Resources (+2.5%) contributed to relative performance. The stock price rose sharply after being upgraded to 'outperform' from 'neutral' by Macquarie analysts, with its target price increasing to A\$12.30 from A\$12, representing a 12% upside to its price at the time of the upgrade.

The overweight position in gold and copper miner Newcrest Mining (-11.7%) detracted from relative performance. The stock was hampered after announcing that its Cadia mine was under investigation regarding its management of emissions of dust and other pollutants. Newcrest's Cadia Holdings mine in Central West NSW has been issued with a draft pollution Prevention Notice and a draft licence variation regarding the management of the emissions of dust and other pollutants as part of a new investigation commenced by the NSW Environment Protection Authority. The EPA has also written to the NSW Chief Health Officer requesting a full health risk analysis to determine if mine dust is impacting the health of the community.

The overweight position in copper and zinc miner 29Metals (-40.5%) detracted from relative performance. A strategic update on the recovery of its Capricorn Copper business and a revised outlook for its Golden Grove business saw the stock fall sharply during the month. Analysts dissected the update and shared their insights on key points and potential implications on the miner's future. There were concerns around the need for additional capital to restart production and unlock growth, putting pressure on the stock. Several highlighted the risks of operational disruptions and the tight financial position of 29Metals, exerting caution until further clarity on a return to positive cash flow is provided. The uncertain timing of the restart and the success of the de-watering and recovery plan, remain as critical components for any re-rating of the stock. The outlook for its Golden Grove site indicated that growth is expected in 2023-24, with the benefits anticipated to accrue in 2025+. However, doubts arose regarding zinc and its production profile, which yielded conservative remarks from analysts.

The overweight position in healthcare services and hospital operator Ramsay Health Care (-11.3%) detracted from relative performance. Ramsay Health Care announced its preliminary NPAT (net profit after tax) for the first nine months of FY23, which stands at A\$235.1M. This marks an increase of 17% compared to the same period last year, when it was A\$201.6M. The revenue for the 9M period was A\$11.24B, which is an 11% increase from A\$10.14B in the previous year. Additionally, EBITDA for the period was A\$1.47B, a 7% increase from A\$1.38B in the previous year. Looking ahead, the company expects a gradual recovery in earnings through FY23 and more normalised conditions in FY24.

OUTLOOK

Economic conditions will continue to evolve, and uncertainty will continue to manifest in markets. The central banks' aggressive attempt to rein in inflation expectations will cause unintended consequences in both economies and the markets. Because central banks have no influence on the supply of goods and materials, they also cannot influence the willingness of companies to invest in expanding supply in response to higher prices. This hesitancy is mostly due to companies seeing this as a significant pull forward of demand from fiscal and monetary largesse. We see the only influence central banks can have is on demand, and to achieve a reduction in demand, we will see a tightening in liquidity and financial conditions. This will force many companies to face up to this new reality with many early phase/profitless companies not surviving.

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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