

Perpetual Investment Funds

PERPETUAL INDUSTRIAL 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 shares.

FUND BENEFITS

Provides investors with the potential for capital growth and consistent, tax effective income through the active management of quality industrial shares. Investors have been benefitting from this strategy since 1966.

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 Industrial Accum. Index

Inception Date: December 1996

Size of Portfolio: \$1,053.20 million as at 31 Mar 2023

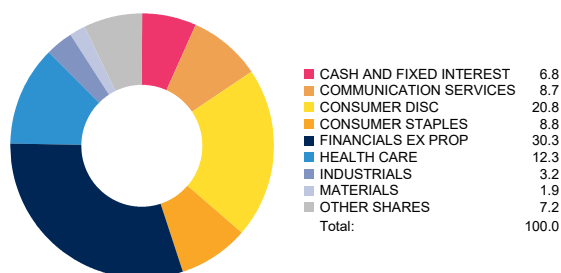
APIR: PER0046AU

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

Stock Holding	% of Portfolio
Commonwealth Bank of Australia	9.5%
CSL Limited	7.7%
Flutter Entertainment Plc	7.3%
Suncorp Group Limited	7.1%
Westpac Banking Corporation	5.7%
Goodman Group	4.6%
Telstra Group Limited	3.9%
ANZ Group Holdings Limited	3.6%
National Australia Bank Limited	3.5%
Endeavour Group Ltd	3.0%

NET PERFORMANCE - periods ending 31 May 2023

	Fund	Benchmark #	Excess
1 month	-1.98	-2.00	+0.02
3 months	-1.21	-0.79	-0.42
FYTD	15.48	10.81	+4.68
1 year	5.73	1.76	+3.97
2 year p.a.	3.81	1.49	+2.31
3 year p.a.	12.47	9.59	+2.88
4 year p.a.	6.34	5.05	+1.28
5 year p.a.	6.14	6.17	-0.03
7 year p.a.	5.94	6.36	-0.42
10 year p.a.	7.04	7.84	-0.81
Since incep.	9.45	8.68	+0.77

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

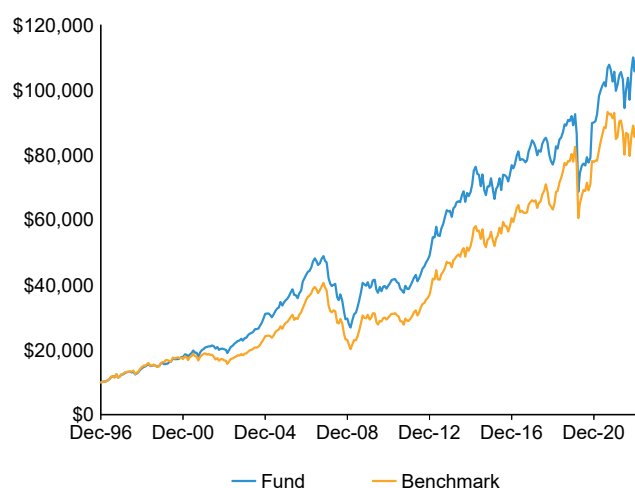
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	17.4	17.3
Dividend Yield*	3.6%	4.1%
Price / Book	2.0	1.9
Debt / Equity	34.4%	52.2%
Return on Equity*	11.4%	11.7%

[^] 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



— Fund — Benchmark

MARKET COMMENTARY

The Australian equities market ended the month weaker, with May 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 Flutter Entertainment Plc, EVT Limited, and Suncorp Group Limited. The Fund's largest underweight positions include Transurban Group (not held), Macquarie Group, and CSL.

The overweight position in financial services provider Suncorp Group (+6.6%) contributed to relative performance. The stock's recent performance has been impressive, receiving a significant boost towards the end of the month after being upgraded to 'overweight' by JPMorgan from its previous 'neutral' status. Notably, the target price has been raised to A\$14.30 from A\$14.00, representing a 6% upside to its price at the time of the upgrade.

The overweight position in Omni Bridgeway (+17.5%) contributed to relative performance. During the month, the company entered into an agreement to sell a participation in its Fund 1 to Gerchen Capital Partners for an initial payment of \$38.0M. The sale includes the deferred fair value of OBL's retained residual interest in the Fund, recorded on its financial statements as \$35.7M. The transaction is subject to documentation and is expected to close prior to the end of FY2023. A Net balance of cash proceeds of \$30.0M is to be immediately distributed to OBL. The transaction will result in an estimated net gain to the company on closing of approximately \$20.3M and the deconsolidation of the Fund. OBL will continue to manage the Fund on behalf of Gerchen Capital Partners subject to certain removal rights.

The overweight position in property and investment company HMC Capital (+9.2%) contributed to relative performance. The stock outperformed following the release of a trading update and outlook. HMC indicated that it has established 3 new scalable growth initiatives in the past 12 months which are taking advantage of compelling opportunities in the current environment. Management noted that the firm is on-track to achieve A\$10B AUM target by year-end 2023 (12 months ahead of previous target) following its A\$1.2B Healthscope Hospital Portfolio transaction. It also reaffirmed its FY23 Dividend guidance of 12c per share.

The overweight position in retail outlet investment company Premier Investments Ltd (-13.9%) detracted from relative performance. The stock fell on the back of signals of a deteriorating consumer environment from Apr/May-23, as discretionary retail conditions deteriorated in April/May-23, evidenced by four listed retail updates showing sales, on average, moving from -1% y/y in January/February 2023 to -14% y/y in March-May 2023.

The overweight position in out-of-home advertising solutions provider oOh!media (-25.8%) detracted from relative performance. The stock fell sharply following a trading update during the month, reporting a 3% increase in Q1 revenues over Q1 2022, despite a significant softening in March due to a decline in the macroeconomic environment in Australia and New Zealand. The decline was attributed to a decrease in short-term in-month bookings, especially in the government spend category. However, Road and Fly (roadside billboards and airport terminal advertising) categories continued to grow strongly year on year. Overall, the Q1 results exceeded market expectations, with Q2 currently pacing slightly ahead of the previous corresponding period. Capex March YTD is on track for guidance, and the share buyback program is progressing well.

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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.

Benchmark prior to 1/4/2000 was the ASX All Industrials Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX 300 Industrials Accumulation Index.

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MORE INFORMATION

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