

Perpetual Investment Funds

PERPETUAL INDUSTRIAL SHARE FUND

July 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: \$1,006.35 million as at 30 Jun 2023

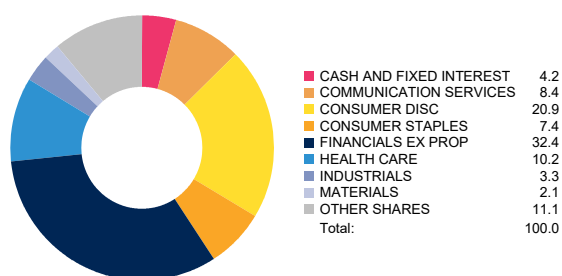
APIR: PER0046AU

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	10.5%
Suncorp Group Limited	7.3%
Flutter Entertainment Plc	7.1%
CSL Limited	6.1%
National Australia Bank Limited	5.2%
Goodman Group	4.8%
ANZ Group Holdings Limited	4.3%
Wesfarmers Limited	4.3%
Westpac Banking Corporation	4.2%
Telstra Group Limited	3.4%

NET PERFORMANCE - periods ending 31 July 2023

	Fund	Benchmark #	Excess
1 month	2.85	3.14	-0.28
3 months	1.35	1.85	-0.50
FYTD	2.85	3.14	-0.28
1 year	12.74	6.30	+6.44
2 year p.a.	5.62	2.19	+3.43
3 year p.a.	13.69	10.18	+3.50
4 year p.a.	5.96	4.41	+1.55
5 year p.a.	5.90	5.98	-0.08
7 year p.a.	6.22	6.50	-0.28
10 year p.a.	7.01	7.86	-0.85
Since incep.	9.53	8.78	+0.75

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

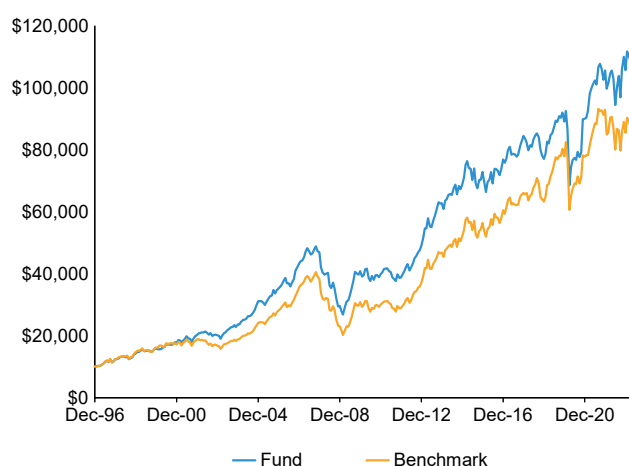
PORTFOLIO FUNDAMENTALS*

	Portfolio	Benchmark
Price / Earnings*	18.1	18.1
Dividend Yield*	3.4%	3.9%
Price / Book	2.0	2.0
Debt / Equity	40.2%	51.1%
Return on Equity*	11.5%	11.6%

* 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 S&P/ASX300 Accumulation Index rose 2.9% during the month of July despite the month starting off badly for equities. Australia reported strong building approvals and housing finance for May and the RBA decided not to raise interest rates on the 4th of July. Despite this, the market was hit with a wave of selling in the first week as they fretted over indebted Chinese property developers and their impact on mainland banks. Hotter than expected ISM and jobs data in the US also created fears of drawn-out central bank tightening. Higher bond yields sparked a sell-off in interest rates sensitive stocks. In Australia a Moody's report showed mortgage delinquencies on the rise.

From the middle of the month however equities rallied again. July Westpac consumer sentiment and NAB business conditions both rose. Markets embraced signs of lower inflation in the US and hopes for a "soft landing" in the economy began to emerge. Chinese policymakers ended a multi year crackdown on the tech sector. The Federal Government announced that Deputy RBA Governor Michelle Bullock would replace incumbent Governor Philip Lowe in September. Another 32,600 jobs were created in June, above the consensus of 15,000, although Q2 inflation came in at 0.8%, below consensus of 1.0%. Headline inflation was 6.0% y/y versus 6.2% expected. Whilst there was some concern about services inflation running at the highest rate since 2001, overall markets tempered expectations of rate hikes towards the end of the month, with equities finishing the month relatively strongly.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Flutter Entertainment Plc, Suncorp Group Limited, and EVT Limited. The Fund's largest underweight positions include Macquarie Group Ltd, Woolworths Group Ltd, and Transurban Group Ltd all of which are not held.

The funds overweight to Costa Group contributed to performance over the month as the stock rose 21.7% during July following a bid from private equity firm Paine Schwartz. This certainly vindicated our view that there was substantial value in this agricultural name. We had noted that Paine Schwartz had been creeping up the register and that its attractive asset base made it a potential target. Costa is the leading producer in several agricultural categories including mushrooms, tomatoes and has best-in-class genetics in the berries segment (especially blueberries). We had recently visited China where we believe Costa has substantial growth prospects, especially in the blueberry market where consumption per capita is a fraction of US and Australian levels and where its IP gave it superior product versus peers.

An underweight to Macquarie Group was the second largest contributor to returns as the stock fell -1.5%. The stock trades at a significant premium to our assessed valuation and hence the fund does not have a position. We exercise caution as excluding trading and investment income at \$7.5 billion and 39% of the group's income, there was no revenue growth which accounts for our caution in capitalising it into a higher valuation for the business.

Flutter PLC was a detractor in July, falling -1.87% in AUD terms. There was no exceptional newsflow and the stock has more or less drifted sideways to slightly down since May. It is worth noting the stock had rallied +26.44% in AUD terms in the prior two months. Post month end, Flutter reported its 1H23 results which were highly anticipated by the market given the potential for its core US division Fanduel to report its maiden half year profit. Pleasingly, Fanduel delivered £0m of EBITDA during the half which materially exceeded the markets expectations. Fanduel remains the key asset within Flutter and as the division inflects from up-front losses to profits, it will drive material earnings growth for the Flutter group. Outside of Fanduel, the manager was pleased with the Flutter results which demonstrated ongoing growth in the key growth markets of Italy and India.

Endeavour Group fell -3.7% during July partly as Consumer Staples fell out of favour and also due to a surprise announcement from the Victorian government which had potential to impact earnings, the market took a short first approach to valuation. The Andrews administration announced on the 17th of July Endeavour de-merged from Woolworths in 2021 and is the largest liquor retail distribution network in Australia with an approximate 40% market share and 1600+ individual stores. It also owns the largest network of hotels with 9% market share offering food, beverages, gaming and accommodation. Endeavour also owns a strong private label drinks business, Pinnacle Drinks as well as Endeavour X, a full and growing suite of digital and fulfillment capabilities and platforms, loyalty propositions and oversight of speciality trading and eCommerce businesses. Despite quality assets the stock trades in line with its 2021 IPO price, at a discount to our appraised value, and offers a solid defensive dividend.

OUTLOOK

A number of challenges loom for markets. In the near term we are focused on the August reporting season and the outlook for corporate earnings. We are also mindful of the ongoing inflation challenge, with services inflation running at the highest level since 2001. Expectations of rising energy prices and strong award wage growth are creating fears that inflation could be stickier in Australia than the US. Unemployment remains just 3.5%, a long way below the 4.5% level that the RBA believes is the NAIRU (non-accelerating inflation rate of unemployment) required to keep inflation under control. It may be 3 more years before inflation falls into the RBA's band, during which the risk of inflation expectations embedding into consumer consciousness remains.

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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The PDS for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in that fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website www.perpetual.com.au. No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of any investor's capital. Total return shown for the fund(s) have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for contribution or withdrawal fees or taxation (except in the case of superannuation funds, as applicable). Past performance is not indicative of future performance.

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