

Perpetual Investment Funds

PERPETUAL INDUSTRIAL 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 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

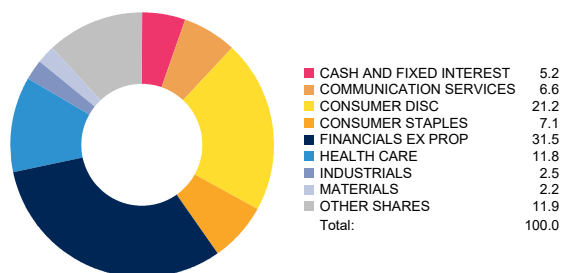
APIR: PER0046AU

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	10.3%
Suncorp Group Limited	7.1%
Flutter Entertainment Plc	6.7%
CSL Limited	6.3%
Goodman Group	5.5%
Wesfarmers Limited	5.0%
National Australia Bank Limited	4.9%
ANZ Group Holdings Limited	4.3%
Westpac Banking Corporation	4.2%
Endeavour Group Ltd	3.2%

NET PERFORMANCE - periods ending 31 August 2023

	Fund	Benchmark #	Excess
1 month	-0.30	-0.37	+0.06
3 months	3.07	3.54	-0.47
FYTD	2.54	2.76	-0.22
1 year	8.30	6.39	+1.91
2 year p.a.	2.61	-0.74	+3.35
3 year p.a.	12.32	8.75	+3.57
4 year p.a.	6.02	4.57	+1.45
5 year p.a.	5.67	5.30	+0.37
7 year p.a.	6.19	6.73	-0.53
10 year p.a.	6.69	7.62	-0.92
Since incep.	9.49	8.74	+0.75

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

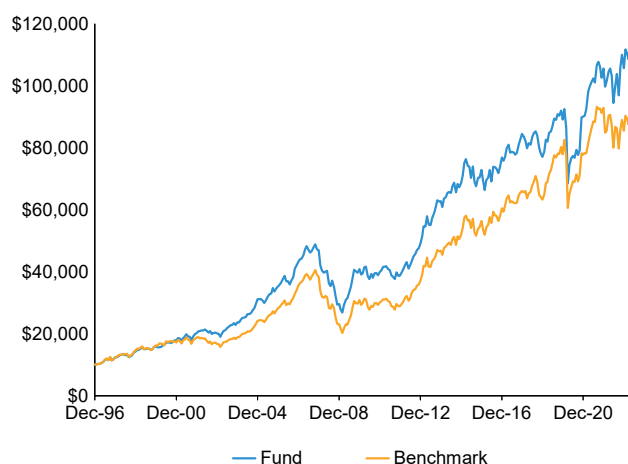
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	18.7	18.0
Dividend Yield*	3.3%	4.0%
Price / Book	2.1	2.0
Debt / Equity	32.2%	51.3%
Return on Equity*	10.8%	11.5%

[^] 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 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 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.

The overweight position in Omni Bridgeway (-25.53%) contributed to relative performance. OBL reported its FY23 results during August. Whilst the revenue and cashflow had been pre-released in July, the profit result for OBL was slightly softer than market expectations due to higher expenses. Overall FY23 was a tough year for OBL with delays in case realisations impacting financial results. The timing of case outcomes are inherently hard to forecast and thus it is not unusual for there to be periods of weaker realisations. We do not believe this reflects any fundamental issues in OBL's underwriting capability and continue to believe there is significant value in the funds management platform OBL has developed which we expect will start to generate meaningful earnings and cashflow in the years ahead.

The funds overweight to Endeavour Group (-8.28%) detracted from performance over the month. Endeavour has struggled over recent months as it matures into its standalone status after demerger from Woolworths, faces into continuing erratic sell-down of the residual WOW shareholding, cycles inconsistent covid impacted trading in its retail and hotel divisions and mostly remains vulnerable to numerous erratic political responses to gaming regulation. Given all these mixed headwinds it has been difficult for the market to discern what normalised future trading might look like. For its part, Endeavour has struggled to articulate its actions and, at this still early stage, to demonstrate outcomes around its existing asset base. As an active investor we purposefully interact and engage with the company, particularly around capital allocation and return hurdles and will continue to do so. Regardless Endeavour possesses significant assets, capable management, and a solid balance sheet. Endeavour is far and away the country's leading liquor retailer with >1700 outlets around the nation as well as the biggest single hotel operator (but where the approximate 354 hotels are probably only c9% market share within a highly fragmented market) and a growing Paragon Wine Estates vineyard portfolio.

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.

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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Adviser Services 1800 062 725

Investor Services 1800 022 033

Email investments@perpetual.com.au

www.perpetual.com.au

