

## Perpetual Investment Funds

# PERPETUAL INDUSTRIAL SHARE FUND

September 2022

### FUND FACTS

**Investment objective:** Aims to provide long-term capital growth and regular income through investment predominantly in quality Australian industrial shares.

### FUND BENEFITS

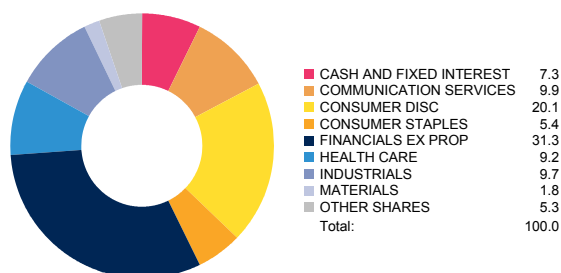
Provides investors with the potential for capital growth and consistent, tax effective income through the active management of quality industrial shares. Investors have been benefitting from this strategy since 1966.

### 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.

<b>Benchmark:</b>	S&P/ASX 300 Industrial Accum. Index
<b>Inception Date:</b>	December 1996
<b>Size of Portfolio:</b>	\$991.90 million as at 30 Sep 2022
<b>APIR:</b>	PER0046AU
<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
Commonwealth Bank of Australia	8.7%
National Australia Bank Limited	7.2%
CSL Limited	6.6%
Flutter Entertainment Plc	5.7%
Qantas Airways Limited	4.5%
Suncorp Group Limited	4.4%
ANZ Banking Group Ltd.	4.2%
Telstra Corporation Limited	4.1%
Event Hospitality & Entertainment Ltd.	3.4%
La Francaise des Jeux SA	3.1%

### NET PERFORMANCE - periods ending 30 September 2022

	Fund	Benchmark #	Excess
1 month	-6.56	-7.65	+1.09
3 months	2.70	-0.41	+3.11
FYTD	2.70	-0.41	+3.11
1 year	-10.02	-13.82	+3.79
2 year p.a.	11.76	7.38	+4.37
3 year p.a.	2.21	0.69	+1.52
4 year p.a.	3.66	3.67	--
5 year p.a.	4.36	5.06	-0.71
7 year p.a.	5.29	6.40	-1.11
10 year p.a.	7.81	8.77	-0.96
Since incep.	9.21	8.46	+0.75

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

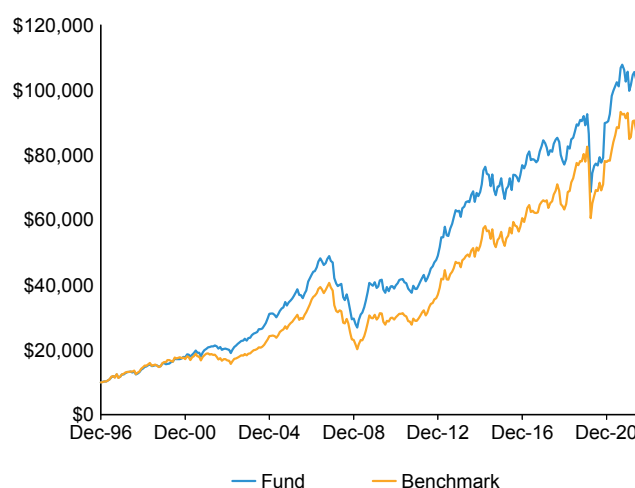
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	14.3	16.6
Dividend Yield*	4.4%	4.2%
Price / Book	1.8	1.8
Debt / Equity	44.9%	50.4%
Return on Equity*	13.1%	11.5%

<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



— Fund — Benchmark

## MARKET COMMENTARY

The Australian equity market finished the September quarter marginally higher after returning most of its earlier gains in the latter half. Energy and Health Care sectors were the standouts, whereas Utilities and REITS were significant laggards. The Energy sector rallied amid the prospect of OPEC+ announcing more production cuts, while mining producers impressed despite underlining concerns about the outlook for steel demand. The Resources sector outperformed on stronger-than-expected results, spurred by M&A activity and record cash flows over the past year, despite significant declines in commodity markets and crude oil trading at its lowest since January. Consumer Staples ended worse after results from food and grocery companies confirmed prevailing headwinds from inflation. All in all, this allowed Value stocks to slightly edged-out Growth stocks over the quarter.

Market sentiment was supported early in the quarter by an unexpected rebound in business confidence and conditions, suggesting that demand had remained resilient in the face of economic headwinds. This came as Australian employment rebounded in August, despite the jobless rate unexpectedly rising for the first time in 10 months. This strengthened the case for the RBA to slow the pace of tightening in October and acknowledge that rates are nearing a normal setting. Investors, however, remained alert to the more significant market issues, including the outlook for monetary policy after central bankers emphasised that they are a long way from a policy pivot. This came after three consecutive cash rate rises over the quarter, totalling 150 basis points. Sentiment was weighed down later in the quarter by an increasingly hawkish central bank rate outlook, tightening financial conditions, and volatility in FX and bond markets. Furthermore, concerns of a surge in utility prices and the expiration of the fuel excise cut are expected to put more upward pressure on inflation over the December quarter. Europe's energy crunch, UK policy uncertainty, China's Covid lockdowns, and speculation of a global recession further contributed to a deteriorating outlook for global growth and consensus earnings estimates, which stoked September-quarter local market volatility.

## PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Flutter Entertainment Plc, Suncorp Group Limited, and Qantas Airways Limited. The Fund's largest underweight positions include CSL, Macquarie Group Limited (not held), and Woolworths Group Ltd (not held).

The overweight position in online betting and gaming provider Flutter Entertainment Plc (+18.5%) contributed to relative performance. The stock rallied upon release of a stronger-than-expected half year result. Flutter saw an 11% rise in revenue compared to the first half of 2021, however, adjusted EBITDA fell 19%. Positive revenue momentum was driven by recreational player growth, with average monthly players up 14% at the group level. In the US, its sports betting market share accelerated to 51% in the June quarter, driven by FanDuel's efficient customer acquisition and strong operational execution. However, its UK & Ireland June-half performance reflected safer gambling initiatives.

The overweight position in air transportation services provider Qantas (+12.3%) contributed to relative performance. Qantas printed an FY22 result that saw underlying profit before tax fall broadly in line with consensus forecasts, while top-line sales came in ahead of estimates by ~5%. While no dividend was declared for the year, a \$400M share buyback was announced. Analysts pointed to the international segment as the strongest contributor to the result, with freight growth from its e-commerce expansion acting as a hedge against other pressures. Management also provided FY23 EBIT guidance of \$425-450M, which would see the airline return to a level of profitability for the first time since the beginning of the pandemic.

The overweight position in retail outlet investment company Premier Investments Ltd (+17.0%) contributed to relative performance. The retailer reported during the quarter a 5.2% increase in global sales for the 12 months ending 30 July, despite the company's stores being closed for a combined 42,675 trading days during the first half. Sales growth was driven partly by strong performances from its key businesses, with Peter Alexander sales up 11.4%, and Smiggle sales up 24.6%. Growth was also supported by strong online sales, increasing 14.3% from the previous year.

The overweight position in healthcare services and hospital operator Ramsay Health Care (-21.2%) detracted from relative performance. The stock fell after the KKR-led consortium confirmed that it had ceased discussions with Ramsay regarding a potential acquisition. Ramsay's board advised KKR to increase its offer to \$88 per share for due diligence to be granted. However, the consortium advised that it would not proceed with an alternative proposal on the belief that the business had materially deteriorated over the past six months. Ramsay indicated that it remains open to engaging in talks relating to a change of control.

The overweight position in horticultural business provider Costa Group Holdings (-20.4%) detracted from relative performance. The stock fell abruptly following a broker downgrade to the company by Credit Suisse, which cut its target price from 3.70 to \$2.80 after revising its earnings estimates lower. These revisions were primarily driven by weaker avocado prices, supply chain headwinds, and its expectation of a poor citrus season due to diseases impacting harvests. A subsequent market update by Costa, revealing that its unaudited first-half results were in line with company expectations, was further interpreted poorly by investors. Management noted that the full impact of the quality issues across its citrus portfolio on final pricing outcomes and second-half earnings could not be determined until the citrus season is further progressed.

## OUTLOOK

We have long believed that markets are poised for further rotation to a more value-oriented investment environment as Covid disruptions, waning stimulus, and war combine to keep consumer price inflation at high levels. Until June this year, equity markets were resilient in the face of the rate hikes, but bond markets have priced in tighter monetary policy much more aggressively. Historically, when the bond market and equity market disagreed, the bond market was usually correct. In our view, rising bond yields will eventually lead overpriced growth stocks into a more sustained and overdue correction, challenging investors with large growth exposures. We think, in the years ahead, markets will need to become accustomed to more inflation than previously experienced. This distinct shift in the macro backdrop is already playing out across asset classes. In these conditions, our focus on value style investing, buying quality companies with strong balance sheets trading at reasonable valuations, should continue to do well and offer attractive opportunities for investors.

# 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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