

## Perpetual Investment Funds

# PERPETUAL INDUSTRIAL SHARE FUND

October 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.

**Benchmark:** S&P/ASX 300 Industrial Accum. Index

**Inception Date:** December 1996

**Size of Portfolio:** \$991.90 million as at 30 Sep 2022

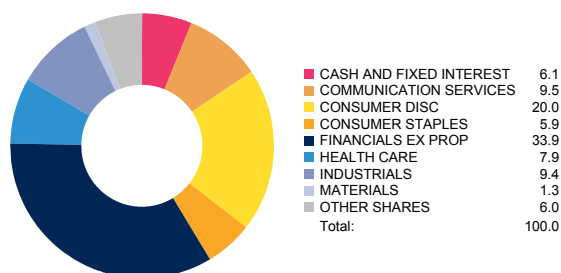
**APIR:** PER0046AU

**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	9.8%
National Australia Bank Limited	7.4%
Flutter Entertainment Plc	5.8%
CSL Limited	5.3%
ANZ Banking Group Ltd.	4.6%
Qantas Airways Limited	4.5%
Insurance Australia Group Limited	4.0%
Telstra Group Limited	3.9%
Suncorp Group Limited	3.6%
EVT Limited	3.6%

### NET PERFORMANCE - periods ending 31 October 2022

	Fund	Benchmark #	Excess
1 month	9.43	7.69	+1.74
3 months	6.11	-1.00	+7.12
FYTD	12.38	7.25	+5.14
1 year	-0.04	-7.39	+7.35
2 year p.a.	15.83	9.98	+5.86
3 year p.a.	5.50	3.23	+2.27
4 year p.a.	7.32	7.27	+0.05
5 year p.a.	5.54	5.82	-0.28
7 year p.a.	6.06	6.90	-0.84
10 year p.a.	8.50	9.23	-0.73
Since incep.	9.56	8.75	+0.82

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

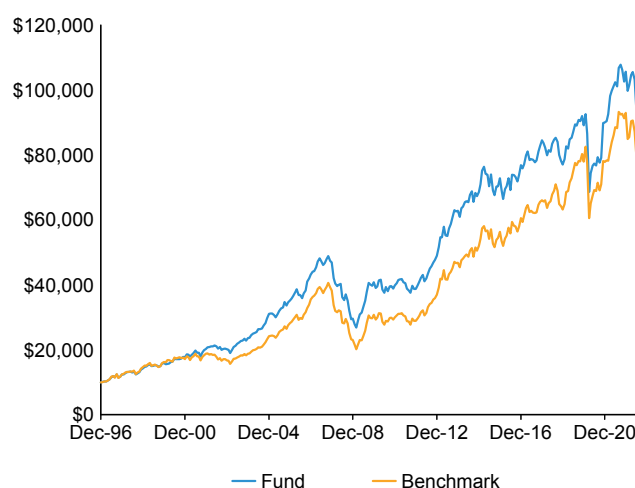
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	15.2	17.5
Dividend Yield*	4.1%	4.0%
Price / Book	2.0	2.0
Debt / Equity	46.2%	50.9%
Return on Equity*	13.3%	11.7%

<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



## MARKET COMMENTARY

**Australian** equities rallied over October following the RBA's smaller-than-expected 25 bp rate hike to 2.60%. The decision underpinned market views that the RBA's front-loading of rate hikes has ended, and that future tightening is expected to be in 25 bp increments. While the RBA reiterated its determination to continue tightening, it signalled that it is becoming more mindful of policy trade-offs and is broadening its focus beyond just controlling inflation. The October RBA meeting minutes revealed that the central bank sees the possibility of more substantial wage growth, just as other economies have experienced, and was also wary of credibility damage if upside risk to inflation materialised. This came as headline inflation accelerated to a 32-year high during the September quarter, with food prices being a significant contributor, spurred by rising input costs and crop damage from the recent floods. Underlying inflation pressures were also evident, driven by housing-related categories such as input shortages, supply chain issues and building cost pass-through, pushed up the price of furnishings and new dwellings. Gas and other fuels have risen the most since 2012, while rental inflation climbed further due to falling vacancy rates.

There were notable moves among the sectors over the month, with Financials being the top performer, led by the major banks. A-REITs significantly outperformed amid a sharp fall in bond yields and after the budget outlined plans to build one million new homes. Utilities also stood out following the government's plans to invest more in green energy and build new transmission lines. Energy also continued to rise sharply, despite the government threatening unprecedented regulatory intervention in the power market to curb price rises. Consumer staples underperformed as continued cost inflation pressures weighed on grocery retailers, whereas Materials were also among the decliners, reflecting weakness among the major miners on the back of falling iron ore prices.

## PORTFOLIO COMMENTARY

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

The overweight position in online betting and gaming provider Flutter Entertainment Plc (+20.8%) contributed to relative performance. The stock was assisted by the announcement that its CFO, Jonathan Hill, is to take on the new Group COO role. Paul Edgecliffe-Johnson, currently CFO and Group Head of Strategy at InterContinental Hotels Group, will join as CFO and Executive Director of the group in H1 of 2023. The company indicated that given Jonathan's expertise, knowledge of the business, and role in shaping Flutter's strategy, he is well placed to set up the new Group COO function for success.

The underweight position in biopharmaceutical company CSL (-1.6%) contributed to relative performance. The stock ended lower despite an optimistic annual general meeting update. The company's update on its new CSL Vifor business was encouraging and there may be significant potential upside for investors over the next 12 months. CSL is spruiking Vifor as having an extensive suite of products available in a large, underpenetrated market, with a limited number of competitors, and unique industry partnerships. The medium-term revenue growth target of >10% will likely help support medium-term consensus but risks still remain surrounding the durability of its iron therapy franchise beyond the end of the exclusivity period for Ferinject in FY27.

The overweight position in Entertainment, hospitality and leisure company EVT Ltd. (+15.2%) contributed to relative performance. The stock was boosted by its first-quarter trading update, reporting normalised EBITDA (ex-AASB 16 leases) of A\$70.6M (vs a \$15.5M loss from a year-ago). Normalised EBITDA from its Entertainment businesses (including CineStar Germany) increased to A\$10.0M from A\$5.3M in Q1 FY19, Thredbo normalised EBITDA rose +41.7% from Q1 FY19, and Hotels EBITDA rose +5.7% from Q1 FY19. Consolidated revenue was down (0.3%) on the pre-COVID FY19 year, and Thredbo revenue was up +27.7% vs Q1 FY19.

The underweight position in Commonwealth Bank of Australia (+15.4%) detracted from relative performance. The stock rose sharply following an upbeat Annual General Meeting. Although it didn't provide any details on its performance during the current quarter, CEO Matt Comyn indicated that overall, the bank remains fundamentally optimistic about the medium to long-term opportunities for Australia, as well as its capacity to provide support in the immediate future for its customers. It was also announced that the bank would continue to invest in its core retail, business, and institutional banking franchises to reinforce its proposition and extend its digital leadership.

## OUTLOOK

Volatility remains the order of the day. Markets are seemingly hanging on to every word from Fed governors looking for some signs of a "pivot" on interest rate rises and trading in big swings on monthly inflation prints. Such a macro-driven market creates a lot of choppiness and single-stock opportunities for patient investors. As the market trades lower, the opportunity set continues to grow, and several new quality names are being added to the watch list that has not looked appealing for many years. In the years ahead, we think 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. Valuation discipline remains critical though, and in light of comments around persistent valuation dispersion, we are doing the work, but moving forward with some degree of caution. 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

Adviser Services 1800 062 725

Investor Services 1800 022 033

Email [investments@perpetual.com.au](mailto:investments@perpetual.com.au)

[www.perpetual.com.au](http://www.perpetual.com.au)

