

Perpetual Investment Funds

PERPETUAL INDUSTRIAL SHARE FUND

November 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

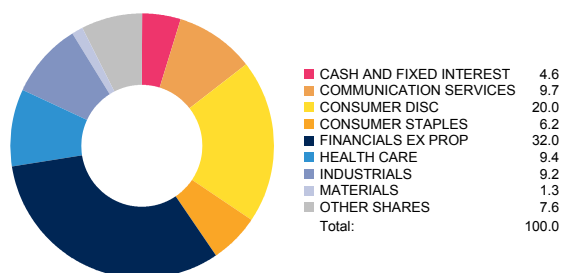
Provides investors with the potential for capital growth and consistent, tax effective income through the active management of quality industrial shares. Investors have been benefitting from this strategy since 1966.

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

	% of Portfolio
Commonwealth Bank of Australia	9.3%
CSL Limited	6.1%
Flutter Entertainment Plc	5.6%
National Australia Bank Limited	5.6%
Telstra Group Limited	4.6%
Qantas Airways Limited	4.4%
ANZ Banking Group Ltd.	4.4%
Westpac Banking Corporation	4.1%
Insurance Australia Group Limited	3.8%
Suncorp Group Limited	3.7%

NET PERFORMANCE - periods ending 30 November 2022

	Fund	Benchmark #	Excess
1 month	3.67	3.71	-0.05
3 months	6.00	3.14	+2.86
FYTD	16.50	11.23	+5.27
1 year	7.23	-2.51	+9.74
2 year p.a.	10.69	6.73	+3.96
3 year p.a.	6.16	3.53	+2.63
4 year p.a.	8.92	8.54	+0.38
5 year p.a.	5.86	6.30	-0.45
7 year p.a.	6.59	7.27	-0.68
10 year p.a.	8.73	9.52	-0.79
Since incep.	9.68	8.87	+0.81

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

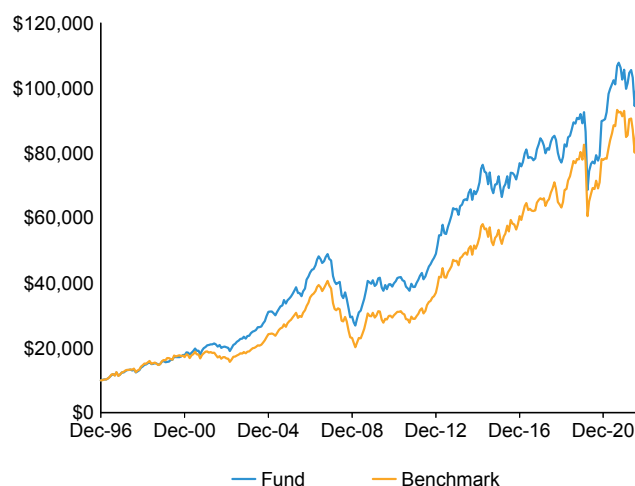
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	15.8	17.9
Dividend Yield*	4.0%	3.9%
Price / Book	2.1	2.0
Debt / Equity	45.9%	50.8%
Return on Equity*	13.4%	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



MARKET COMMENTARY

The Australian equities market experience solid returns over the month to close out November higher. Stocks were bolstered early on by the RBA's comparatively milder-than-expected 25-basis point interest rate hike to 2.85% and a cooler-than-expected inflation print. RBA Governor Philip Lowe reiterated that more rate hikes are expected - and did not rule out further 50bp hikes - but said the RBA was also open to keeping policy unchanged. Its CPI forecast for coming years was also revised upwards, with inflation seen above 3% through 2024 and forecast to peak near 8% vs the RBA's prior estimate of 7.75%. Nevertheless, economists expect a longer tightening cycle and a peak cash rate closer to 4% than 3.5%. The upgraded CPI forecasts were based partly on the east coast flooding, adding upward pressure to food prices and an expected jump in utility costs in 2023. Nevertheless, investor apprehension was curtailed as the Reserve Bank reasoned that inflation is expected to fall over coming years as supply disruptions ease, commodity prices stabilise, and higher rates lower aggregate demand.

The RBA also revised down its GDP forecasts, citing a deteriorating global economy and a softer outlook for consumption. However, Governor Lowe expressed confidence that Australia has a better chance of achieving a soft landing than other countries and did not believe that wage growth would reach a level that would trigger a wage-price spiral.

While Australian trimmed mean inflation weakened by more than expected in October, new dwellings drove the rise in underlying inflation amid ongoing input shortages, though the pace of increase appeared to be decelerating from earlier this year. Expectations of another 25 bp rate hike in December strengthened later in the month as the economy added more jobs than projected in October, and unemployment unexpectedly fell to an almost 50-year low, further supporting market confidence. Measures of labour market slack tightened, with underemployment now 2.8% below pre-pandemic levels and the underutilisation rate down to its lowest since March 1982.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Flutter Entertainment Plc, La Francaise des Jeux SA, 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 French gambling operator La Francaise des Jeux SA (+15.2%) contributed to relative performance. The company announced during the month its finalisation of the acquisition of Aleda, a France-based company specialising in point-of-sale (PoS) systems and processing solutions. The completion of the transaction was subject to the agreement of the French Competition Authority, which authorised the acquisition under conditions on 14 November 2022.

The overweight position in dairy producer a2 Milk Company (+17.9%) contributed to relative performance. The stock rose sharply after the US FDA granted the company approval to import, sell, and distribute infant formula products into the US market to assist in alleviating current shortages through to 3 January 2023, with a possible extension until October 2025. As a result, a2 estimates it will ship around one million cans of formula into the country during the second half of FY2023 and believes it can supply upwards of nine million cans in the future, if required. The underweight position in James Hardie Industries (-14.1%) contributed to relative performance. The stock fell sharply following the release of its half-year financial results. For the six months ending 30 September, the company reported a 14% increase in sales to US\$1,998.5M and a 22% jump in net profit to US\$330.5M. However, sales and profit growth slowed from 19% and 34%, respectively, during the first quarter. Based on the challenging macro-economic conditions and housing market uncertainty, management adjusted its fiscal year 2023 Adjusted Net Income guidance range to US\$650M-US\$710M, from US\$730M-US\$780M due to a decline in volume expectations.

The overweight position in hospitality and leisure company EVT Ltd. (-7.5%) detracted from relative performance. The stock fell despite the absence of any price-sensitive news releases over the month. The declines came after a sharp rise during October on the back of its Q1 trading update, where it reported normalised EBITDA (ex-AASB 16 leases) of \$70.6M vs a loss of (\$15.5M) over the same period last year.

Not Holding energy producer Origin Energy (+41.1%) detracted from relative performance. The stock price spiked after receiving a non-binding, indicative offer at A\$9.00/share cash from Brookfield consortium to acquire the company via a scheme of arrangement. Brookfield would acquire Origin's Energy Markets business, while MidOcean would acquire its Integrated Gas business. Origin has subsequently entered into a confidentiality and exclusivity agreement with the consortium. If the consortium makes a binding offer at \$9.00 cash per share, then the Origin Board's current intention is to unanimously recommend that shareholders vote in favour of the proposal.

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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Adviser Services 1800 062 725

Investor Services 1800 022 033

Email investments@perpetual.com.au

www.perpetual.com.au

