Perpetual Investment Funds

PERPETUAL INDUSTRIAL SHARE FUND

December 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:	$1,047.61 million as at 31 Dec 2022
APIR:	PER0046AU
Management Fee:	0.99%*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Five years or longer

PORTFOLIO SECTORS

CASH AND FIXED INTEREST	6.2
COMMUNICATION SERVICES	9.8
CONSUMER DISC	19.5
CONSUMER STAPLES	6.4
FINANCIALS EX PROP	32.3
HEALTH CARE	9.4
INDUSTRIALS	7.8
MATERIALS	2.0
OTHER SHARES	6.7
Total:	100.0

TOP 10 STOCK HOLDINGS

	% of Portfolio
Commonwealth Bank of Australia	9.3%
CSL Limited	5.6%
Flutter Entertainment Plc	5.3%
National Australia Bank Limited	5.1%
Telstra Group Limited	4.8%
Westpac Banking Corporation	4.7%
ANZ Group Holdings Limited	4.4%
Insurance Australia Group Ltd	3.9%
Suncorp Group Limited	3.9%
Qantas Airways Limited	3.6%

NET PERFORMANCE - periods ending 31 December 2022

	Fund	Benchmark #	Excess
1 month	-3.95	-3.99	+0.04
3 months	8.96	7.23	+1.73
FYTD	11.90	6.79	+5.11
1 year	0.05	-8.04	+8.09
2 year p.a.	8.37	4.81	+3.56
3 year p.a.	5.84	3.15	+2.69
4 year p.a.	8.22	7.83	+0.39
5 year p.a.	4.58	5.29	-0.72
7 year p.a.	5.46	6.14	-0.68
10 year p.a.	8.01	8.75	-0.74
Since incep.	9.48	8.67	+0.81

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

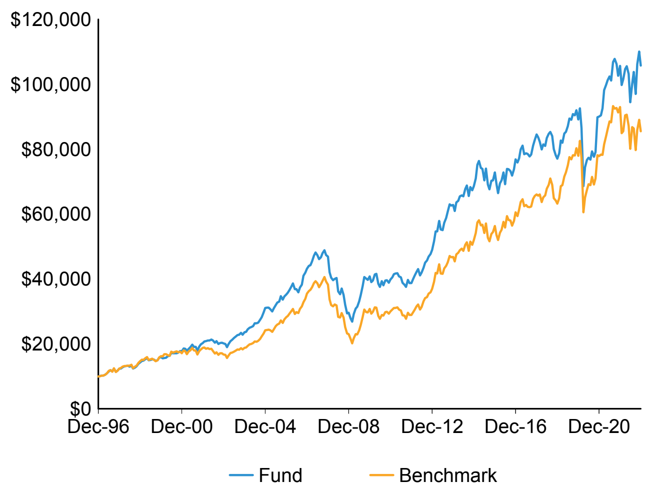
PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	15.4	17.1
Dividend Yield*	4.1%	4.1%
Price / Book	2.0	1.9
Debt / Equity	45.3%	50.6%
Return on Equity*	13.4%	11.8%

^ 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



*Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

MARKET COMMENTARY

The Australian equity market ended the December quarter higher, as it made ground throughout October and November but returned some of these gains in December. While all sectors ended in positive territory, Utilities was the top performing sector, boosted by the Federal Government's announcement of plans to invest more in green energy and build new transmission lines. Resources stocks did a lot of the heavy lifting upon a sharp rally in commodity prices, and iron ore miners stood out following Covid reopening steps and pro-growth messaging from China. Real Estate also outperformed amid a sharp fall in bond yields after the Federal Budget outlined plans to build one million new homes.

The market was further bolstered over the quarter by milder-than-expected, consecutive 25-basis point interest rate hikes by the RBA across each month. Despite reiterating its determination to continue tightening, the decisions underpinned market views that the RBA's front-loading of rate hikes has ended and signalled that it is becoming more mindful of policy trade-offs. The Reserve Bank's CPI forecast for coming years, however, 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%). 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.

Optimism surrounding a slowdown in the pace of central bank tightening gave way in December to renewed concerns surrounding a deteriorating global economy and downside risks to earnings estimates. This preceded a recent run of downbeat economic data and corporate commentary, heightening the risk of a recession in 2023. Concerns also remained of a resilient labour market and persistently elevated inflation as headline employment rose by more than expected, and the unemployment rate stood at an almost 50-year low. This reaffirmed expectations that the RBA will follow with another 25 basis points increase in February as the Reserve Bank repeated its intent to return inflation to its 2-3% target range, while avoiding a wage-price spiral.

PORTFOLIO COMMENTARY

The Fund’s largest overweight positions include Flutter Entertainment Plc, La Francaise des Jeux SA, and Insurance Australia Group. The Fund’s largest underweight positions include CSL, Macquarie Group (not held), and Woolworths Group (not held).

The overweight position in French gambling operator La Francaise des Jeux SA (+27.4%) contributed to relative performance. The company announced during the quarter the finalisation of its 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 online betting and gaming provider Flutter Entertainment Plc (+16.1%) contributed to relative performance. The stock price 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 overweight position in dairy producer a2 Milk Company (+27.4%) 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 overweight position in hospitality and leisure company EVT Ltd. (-1.1%) detracted from relative performance. The stock fell during November and December despite the absence of any price-sensitive news releases over the month. The decline 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 (+49.3%) 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.

The overweight position in insurance provider Insurance Australia Group Ltd (+3.3%) detracted from relative performance. The stock underperformed as severe weather was forecast across parts of Australia, with flooding continuing in areas of New South Wales and extreme weather events experienced in Victoria and South Australia. The company said it received over 4,000 claims from these events between 12 November and 22 November and warned that Australia is entering its annual severe thunderstorm season with a particular focus on potential hail damage.

OUTLOOK

Volatility remains the order of the day. Markets are seemingly hanging on to every word from central bank 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 have 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.

MORE INFORMATION

Adviser Services 1800 062 725
Investor Services 1800 022 033
Email investments@perpetual.com.au
www.perpetual.com.au