Perpetual Investment Funds

PERPETUAL INDUSTRIAL SHARE FUND

January 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

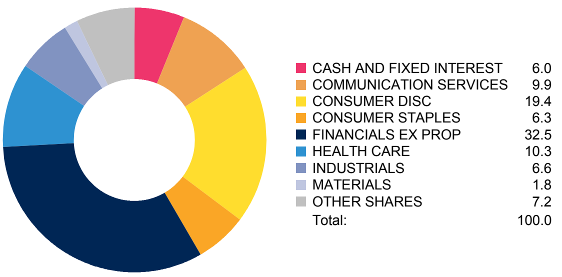
Provides investors with the potential for capital growth and consistent, tax effective income through the active management of quality industrial shares. Investors have been benefitting from this strategy since 1966.

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:	$1,047.61 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



TOP 10 STOCK HOLDINGS

	% of Portfolio
Commonwealth Bank of Australia	9.5%
CSL Limited	6.5%
Flutter Entertainment Plc	5.5%
National Australia Bank Limited	5.1%
Telstra Group Limited	4.7%
Westpac Banking Corporation	4.6%
ANZ Banking Group Ltd.	4.4%
Suncorp Group Limited	3.9%
Insurance Australia Group Ltd	3.9%
Goodman Group	3.6%

NET PERFORMANCE - periods ending 31 January 2023

	Fund	Benchmark #	Excess
1 month	5.72	5.72	+0.00
3 months	5.27	5.27	+-
FYTD	18.31	12.90	+5.41
1 year	12.01	6.40	+5.61
2 year p.a.	11.18	7.45	+3.72
3 year p.a.	6.49	3.07	+3.42
4 year p.a.	9.16	8.65	+0.51
5 year p.a.	5.97	6.61	-0.64
7 year p.a.	7.06	7.77	-0.71
10 year p.a.	8.04	8.72	-0.69
Since incep.	9.68	8.87	+0.81

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

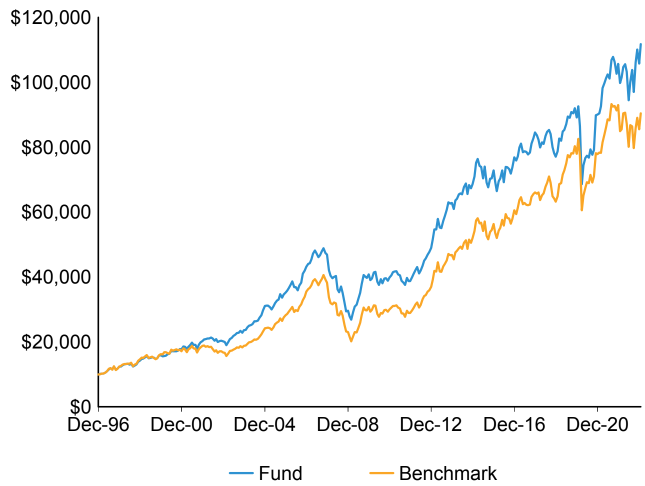
PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	16.7	17.9
Dividend Yield*	3.6%	3.9%
Price / Book	2.1	2.0
Debt / Equity	39.8%	50.3%
Return on Equity*	13.0%	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 equities market had a stellar start to the 2023 calendar year, with strong January performance underpinned mainly by traction behind the disinflation narrative, a rise in soft landing expectations, and hopes for a near-term Federal Reserve pause (and pivot later in 2023). Reopening momentum across China following signs that its latest Covid wave had peaked also helped boost investor sentiment throughout the month. All but one sector (Utilities) ended higher, with Consumer Discretionary, Materials, and REITS being the standout performers. Commodity producers also outperformed amid gains in iron ore following the latest policy support headlines out of China.

December quarter inflation came in hotter-than-expected, with data rising to its highest level since 1990 and trimmed mean inflation climbing to its highest point since the ABS first published this data in 2003. The main contributors to the rise were holiday travel, accommodation, and electricity, leading to expectations that the RBA will hike the cash rate by 25 bp to 3.35% in February. China's reopening momentum also threatened to increase global pricing pressures. While goods inflation showed signs of moderating, services inflation proved stickier with the economy still experiencing a tight labour market. This came as Australian home prices fell 1.0% m/m in January, a slight improvement on December's 1.1% drop.

Australian consumer confidence continued to recover from its lowest reading since April 2020. Retail sales, however, registered its largest fall in a year during December, breaking a run of 11 consecutive gains, and widely attributed to heightened cost of living pressures. The data led markets to peel back the projected peak cash rate to 3.7% from 3.8%, and while a February rate increase is fully priced in, markets pushed out expectations of a follow-up rate hike from March to May.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Flutter Entertainment Plc, EVT Ltd, and Insurance Australia Group. The Fund's largest underweight positions include Transurban Group Ltd., Macquarie Group, and Woolworths Group, all of which are not held in the portfolio.

The overweight position in retail outlet investment company Premier Investments Ltd (+15.2%) contributed to relative performance. The stock price was assisted after being upgraded to 'overweight' from 'equal-weight' by Morgan Stanley, which also increased its target price to $30.50 from $23.25, representing a 15% upside to its price at the time of the upgrade. The stock was further supported later in the month as Bank of America initiated coverage of the stock, assigning a 'buy' recommendation with a target price of $34.30, representing a 25% upside.
The overweight position in online betting and gaming provider Flutter Entertainment Plc (+9.5%) contributed to relative performance. The stock price was supported by reports that the company has begun approaching candidates to replace chairman Gary McGann and hopes to name McGann's replacement later in 2023 with senior independent director Holly Keller Koeppel leading the search. Sources note that McGann would no longer be deemed independent by the end 2023 given that he joined Flutter's board in Nov 2014.
The overweight position in commercial real estate investment manager Charter Hall Group (+14.9%) contributed to relative performance. The stock price was assisted after being upgraded to a 'buy' rating from 'neutral' by Citi, and its target price increased to $14.50 from $13.90, representing a 14% upside to its price at the time of the upgrade. This stock was further boosted during the month following a rally in the Real Estate sector, supported by expectations of a slowdown in the pace of the RBA's interest rate tightening cycle.

The overweight position in French gambling operator La Francaise des Jeux SA (+2.2%) detracted from relative performance. Despite ending the month higher, the stock failed to keep up with the benchmark in the absence of any price-sensitive news. In November, the company announced that it had finalised the acquisition of Aleda, a France-based company specialising in point-of-sale systems and processing solutions.
The overweight position in insurance provider Insurance Australia Group Ltd (+3.2%) detracted from relative performance. Despite ending the month higher, the stock underperformed the benchmark after reporting that recent storms and flooding in Auckland may result in an upward review of its FY2023 natural peril costs estimate. As of 30 January 2023, IAG had received more than 5,000 claims across its AMI, State, and NZI brands. The number of claims is expected to rise further as the event unfolds and customers identify damage to their property.
The overweight position in dairy producer a2 Milk Company (-0.9%) detracted from relative performance. The stock reversed its prior positive momentum and finished marginally lower despite the absence of any price-sensitive announcements released by the company in January.

OUTLOOK

Economic conditions will continue to evolve, and uncertainty will continue to manifest in markets. The central banks' aggressive attempt to rein in inflation expectations will cause unintended consequences in both economies and the markets. Because central banks have no influence on the supply of goods and materials, they also cannot influence the willingness of companies to invest in expanding supply in response to higher prices. This hesitancy is mostly due to companies seeing this as a significant pull forward of demand from fiscal and monetary largesse. We see the only influence central banks can have is on demand, and to achieve a reduction in demand, we will see a tightening in liquidity and financial conditions. This will force many companies to face up to this new reality with many early phase/profitless companies not surviving.

We have long believed that markets are poised for further rotation to a more value-oriented investment environment as COVID-19 disruptions, waning stimulus, and war combine to keep consumer price inflation at high levels. However, we must also be willing to pivot the portfolio when the markets are pricing in overly aggressive rate expectations. With fear of a deep and long recession, this will be factored into markets, providing opportunities to redeploy capital. In these conditions, our focus on value-style investing and 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

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