

Perpetual Investment Funds

PERPETUAL INDUSTRIAL SHARE FUND

February 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

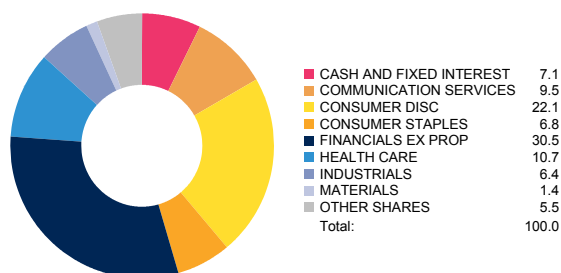
APIR: PER0046AU

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

Stock Holding	% of Portfolio
Commonwealth Bank of Australia	8.9%
CSL Limited	7.1%
Suncorp Group Limited	6.6%
Flutter Entertainment Plc	6.1%
ANZ Banking Group Ltd.	4.4%
National Australia Bank Limited	4.4%
Westpac Banking Corporation	4.4%
Telstra Group Limited	4.4%
Goodman Group	3.6%
EVT Limited	3.1%

NET PERFORMANCE - periods ending 28 February 2023

	Fund	Benchmark #	Excess
1 month	-1.19	-1.07	-0.12
3 months	0.34	0.42	-0.08
FYTD	16.90	11.69	+5.20
1 year	8.79	4.59	+4.20
2 year p.a.	9.23	6.90	+2.33
3 year p.a.	8.49	5.00	+3.49
4 year p.a.	7.50	6.84	+0.66
5 year p.a.	6.07	6.26	-0.19
7 year p.a.	7.53	8.06	-0.53
10 year p.a.	7.29	7.89	-0.60
Since incep.	9.60	8.80	+0.80

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

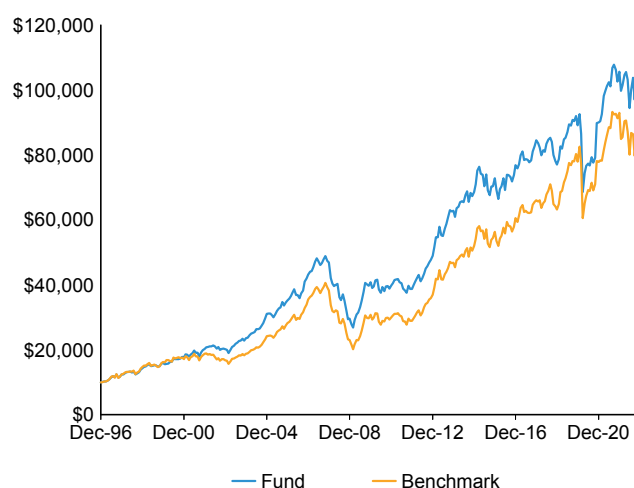
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	16.8	17.5
Dividend Yield*	3.8%	4.0%
Price / Book	2.1	2.0
Debt / Equity	40.0%	51.1%
Return on Equity*	12.5%	11.9%

[^] 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 ended February lower, remaining on the back foot throughout the month as early-year optimism gave way to concerns of a more drawn-out interest rate tightening cycle stemming from a loss of traction behind the disinflation narrative. A mixed set of first-half corporate earnings contributed to the ASX's weakness. Sector performance was varied, with Utilities the strongest performer, while Materials recorded the largest decline.

The February RBA minutes indicated that Board members considered a 50-basis point rate hike amid concerns of high inflation becoming persistent and increasing the risk of a price-wage spiral. These also highlighted how strong demand is contributing to inflation while the labour market is still experiencing very high job vacancies. However, the Board settled on a 25 bp increase, citing an expectation that inflation has peaked, and pointing out that rates have already increased substantially, lessening the need for more aggressive action.

RBA Governor Philip Lowe reiterated that further rate hikes are to be expected but noted that the extent of the tightening will depend on global economic developments, the evolution of household spending, and the outlook for the labour market and inflation. The prospect of a longer tightening cycle was seen as increasing the risk of a bumpier landing for the Australian economy. Markets are now factoring in at least three more RBA rate increases, further stoking the recessionary narrative. Westpac revised its terminal cash rate forecast upwards, noting that a 4.1% cash rate would be deeply contractionary and lead to economic stagnation in the second half of 2023.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Flutter Entertainment Plc, EVT Limited, and Suncorp Group Limited. 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 online betting and gaming provider Flutter Entertainment Plc (+9.2%) contributed to relative performance. The stock benefitted during the month after announcing that it will commence shareholder consultation on an optimal share listing structure based on the Board's view that an additional US listing will yield several long-term strategic and capital market benefits, including; enhancing the group's profile in the US, better enabling the recruitment and retention of US talent, providing access to deeper capital markets and to new US domestic investors, providing greater overall liquidity, and optionality to pursue a primary US listing (one of the criteria for access to US indices).

The overweight position in lotteries and Keno operator Lottery Corporation Limited (+10.4%) contributed to relative performance. The market reacted positively to a stronger-than-expected first-half financial result by the company, reporting an NPAT of \$207.3M (vs consensus of \$190M) from revenue of \$1.92B (vs consensus \$1.93B) and an EBITDA of \$409.4M (vs consensus of \$384.4M). This followed an 8c per share fully franked interim dividend and a fully franked special dividend of 1c per share.

The overweight position in automotive dealership manager Eagers Automotive (+19.9%) contributed to relative performance. The company impressed with an FY underlying operating profit before tax of \$405.2M (vs consensus \$397.6M), revenue of \$8.54B (vs consensus \$8.62B), and an underlying NPAT of \$283.1M (vs consensus \$273.6M). The company noted it had commenced FY2023 with a solid foundation for the year ahead. Demand for new vehicles continues to outstrip supply as the company transitions to a new normal under which the industry operates with a sustainable order bank.

The overweight position in Omni Bridgeway (-25.0%) detracted from relative performance. The stock sold off after its CEO and Managing Director Andrew Saker announced his retirement after more than eight years in the role. Mr Saker will step down after the company's annual general meeting on October 26, with Raymond van Hulst named as his replacement. The company says Mr van Hulst is an experienced executive, "highly regarded within the global legal risk asset management industry". This came as the company reported an FY2023 first-half NPAT loss of \$30.1M (vs year-ago loss of \$8.7M) from total revenue of \$170.2M (up 34% from last year).

The overweight position in hospitality and leisure company EVT Ltd. (-7.0%) detracted from relative performance. Despite reporting a normalised NPAT of \$39.4M (up 103% from a year ago), investors were dissuaded by the company's market outlook. Management noted that headwinds are anticipated in the second half of FY2023, stemming from the ongoing impact of energy cost increases, general inflationary cost increases - including salaries and wages, food and beverage, cinema rents - and from recent extreme weather events in New Zealand.

Not holding insurance provider QBE Insurance Group (+9.8%) detracted from relative performance. The company reported full-year earnings with NPAT significantly ahead of consensus forecast (FY adjusted cash NPAT of \$847M vs consensus of \$691.4M). Most of the earnings beat was attributed to higher-than-expected investment income, propelled by stronger fixed-income yields from rising cash rates across the globe. Several sell-side institutions expect this trend to continue over the course of FY2023, despite persisting volatility in markets.

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.

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MORE INFORMATION

Adviser Services 1800 062 725

Investor Services 1800 022 033

Email investments@perpetual.com.au

www.perpetual.com.au

