Perpetual Investment Funds

PERPETUAL INDUSTRIAL SHARE FUND

March 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

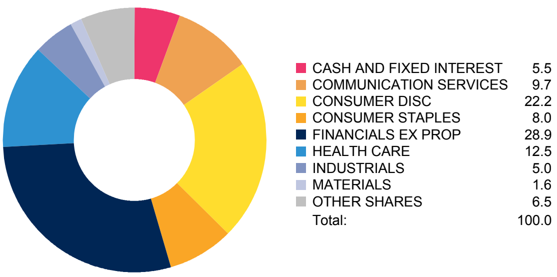
Provides investors with the potential for capital growth and consistent, tax effective income through the active management of quality industrial shares. Investors have been benefitting from this strategy since 1966.

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:	$1,053.20 million as at 31 Mar 2023
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	9.4%
Flutter Entertainment Plc	7.1%
CSL Limited	7.1%
Suncorp Group Limited	6.4%
Telstra Group Limited	4.6%
Westpac Banking Corporation	4.4%
Goodman Group	4.3%
ANZ Group Holdings Limited	4.2%
National Australia Bank Limited	3.7%
Wesfarmers Limited	3.2%

NET PERFORMANCE - periods ending 31 March 2023

	Fund	Benchmark #	Excess
1 month	-1.71	-2.15	+0.44
3 months	2.67	2.34	+0.34
FYTD	14.89	9.29	+5.61
1 year	3.73	-3.20	+6.93
2 year p.a.	5.15	3.64	+1.51
3 year p.a.	16.54	13.03	+3.51
4 year p.a.	7.26	6.15	+1.11
5 year p.a.	6.31	6.57	-0.26
7 year p.a.	6.57	7.05	-0.49
10 year p.a.	7.11	7.69	-0.58
Since incep.	9.50	8.68	+0.82

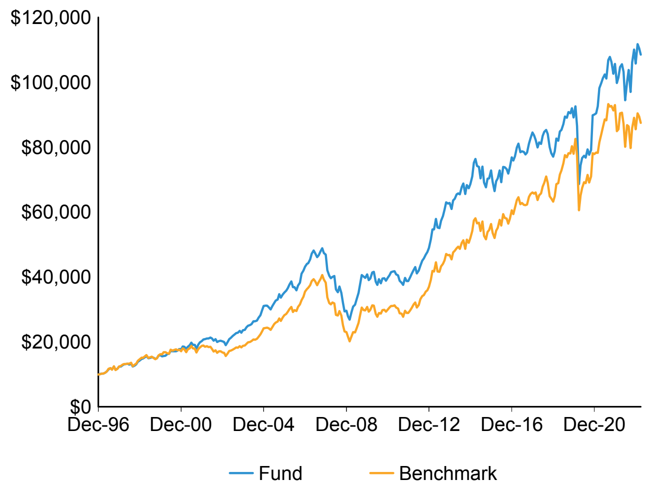
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	16.5	17.2
Dividend Yield*	3.8%	4.1%
Price / Book	2.0	2.0
Debt / Equity	37.3%	52.2%
Return on Equity*	12.4%	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



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

MARKET COMMENTARY

The Australian equity market strengthened over the March quarter, boosted by strong January performance, which was assisted by the traction behind the disinflation narrative, a rise in expectations for a soft landing, and hopes for a near-term Federal Reserve pause anticipated later in 2023. Investor sentiment was also buoyed by the reopening of China's economy following signs that the latest COVID wave had peaked. However, a mixed set of first-half corporate earnings resulted in weakness across the ASX.

The collapse of Silicon Valley Bank and Credit Suisse in March triggered a bank-led equity sell-off and remained a significant driver of volatility towards the end of the quarter. Meanwhile, Australian retail sales growth slowed notably from January's outsized gain, indicating weakness amid cost-of-living pressures and rising interest rates. Despite these challenges, the ASX rebounded in the final week of March, aided by stabilising bond volatility, easing credit market tensions, and a softer CPI print. Among the sectors, Consumer Discretionary and Communication Services performed the best, while Energy posted the largest decline. Commodity producers fared well, with materials tracking gains in the metals markets and iron ore producers underpinning the sector's strength.

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 (+34.9%) contributed to relative performance. The stock benefitted during the quarter 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 (+16.3%) contributed to relative performance. The market reacted positively to a stronger-than-expected first-half financial result released 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 (+28.9%) 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 dairy producer a2 Milk Company (-15.6%) detracted from relative performance. The stock price fell following the completion of the company's on-market 21.7M share buyback at an average price of NZ$6.87/share. The buyback equated to 2.9% of the issued capital with a total consideration of ~NZ$149M. The stock was subsequently downgraded to 'hold' from 'buy' at Bell Potter after the buyback, with its target price cut to A$6.80 from A$7.65.
Not holding diversified retailer Woolworths (+14.4%) detracted from relative performance. Management reported its first-half results, with sales in line with forecasts and a slight beat in bottom-line profit. Its Australian food business showed the strongest momentum, attributed to effective cost management and the unwinding of Covid costs. Analysts anticipate growth to slow over the balance of FY23 and into FY24 as food price inflation is expected to unwind. Some analysts also expect top-line earnings momentum for the group in FY24 due to potential volume improvements and inflation, while others are concerned about increased competition against the backdrop of cost-of-living increases for consumers.
The overweight position in Omni Bridgeway (-26.5%) 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).

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

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