

Perpetual Investment Funds

PERPETUAL CONCENTRATED EQUITY FUND

September 2023

FUND FACTS

Investment objective: Aims to provide long-term capital growth and income through investment predominantly in quality Australian industrial and resource shares.

FUND BENEFITS

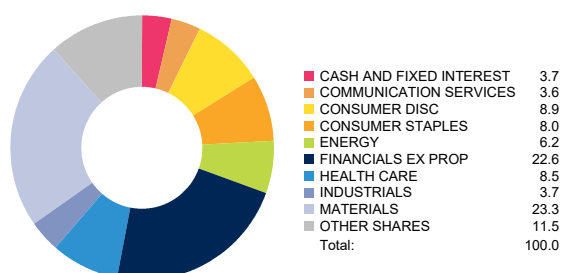
Provides investors with higher potential returns, through the active management of a portfolio of fewer stocks but with higher conviction, than our core Australian equity funds. This concentration may lead to increased short term volatility.

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 Accum. Index
Inception Date:	August 1999
Size of Portfolio:	\$370.40 million as at 30 Jun 2023
APIR:	PER0102AU
Management Fee:	1.10%*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Five years or longer

PORTFOLIO SECTORS



TOP 10 STOCK HOLDINGS

	% of Portfolio
BHP Group Ltd	9.7%
Insurance Australia Group Ltd	6.7%
Commonwealth Bank of Australia	5.6%
Orica Limited	4.6%
National Australia Bank Limited	4.6%
Santos Limited	4.3%
Origin Energy Limited	4.1%
Goodman Group	3.9%
Endeavour Group Ltd	3.8%
Westpac Banking Corporation	3.4%

NET PERFORMANCE - periods ending 30 September 2023

	Fund	Benchmark #	Excess
1 month	-2.77	-2.89	+0.11
3 months	-1.39	-0.84	-0.55
FYTD	-1.39	-0.84	-0.55
1 year	12.00	12.92	-0.92
2 year p.a.	4.94	1.93	+3.01
3 year p.a.	15.88	10.78	+5.10
4 year p.a.	6.33	5.19	+1.14
5 year p.a.	6.31	6.62	-0.31
7 year p.a.	7.55	7.99	-0.44
10 year p.a.	6.85	7.40	-0.55
Since incep.	10.16	7.96	+2.21

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

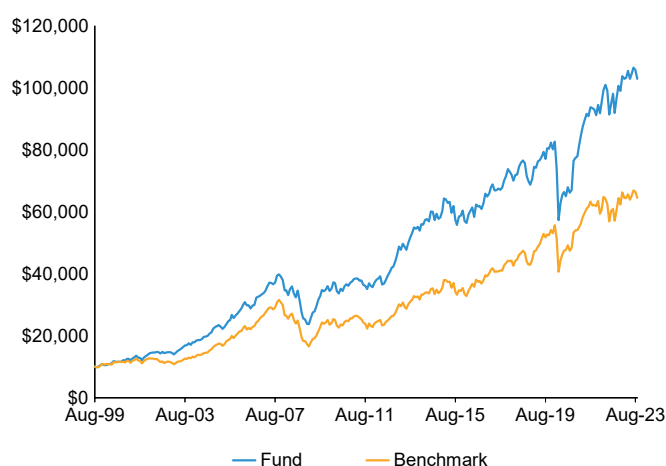
PORTFOLIO FUNDAMENTALS*

	Portfolio	Benchmark
Price / Earnings*	15.4	15.3
Dividend Yield*	4.0%	4.3%
Price / Book	1.8	1.9
Debt / Equity	28.9%	34.5%
Return on Equity*	12.2%	12.6%

* 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 S&P/ASX300 Accumulation Index fell -2.89% during September. Bond yields continued their steady ascent, crippling equity markets. Conversely, the Australian dollar continued its steady descent against the USD. The Australian cash rate remained unchanged for the quarter at 4.10%, with newly installed governor Michelle Bullock seeing no need to act at her debut meeting. Recent data suggests inflation is past the peak but well above the desired range. Energy was the best performing sector, with the sector rising +2.2% as oil and coal prices rose. Real Estate Investment Trusts (-8.5%), Information Technology (-7.7%) and Healthcare (-6.4%) all fell sharply in response to rising rates.

PORTFOLIO COMMENTARY

The portfolio's largest overweight positions include Insurance Australia Group Ltd, Orica Limited and Origin Energy Limited. Conversely, the portfolio's largest relative underweight positions include ANZ Group Holdings Limited, Macquarie Group Ltd (not held) & Commonwealth Bank of Australia.

The overweight position in mining royalty firm Deterra Royalties Ltd (+7.64%) contributed to relative performance. Deterra Royalties performed strongly as Iron ore prices remained resilient through the month defying other commodities which in large ended the month lower. Despite BHP's Q3 operational review reporting a decrease in production of 3.9% compared to the prior quarter, in general MAC continues to ramp up as expected with full production expected to be reached by end FY24. The company receives an ongoing royalty of 1.232% of Australian dollar-denominated quarterly free on board revenue from the MAC royalty area. The business has growth levers through M&A however they are yet to execute on any to date.

Santos contributed to performance in the month (+3.00%) as the price of oil rallied. In addition, Santos sold an initial of 2.6% of PNG LNG (Papua New Guinea Liquefied Natural Gas) to Kumul with an option for Kumul to acquire another 2.4%. The total consideration from the 2.6% is \$576 million cash and the assumption of approximately \$160 million of project finance debt. Santos is our favoured oil and gas producer with material growth prospects that are attainable. Santos is a global energy company with strategic assets across Australia, Papua New Guinea, Timor Leste and the United States of America that aims to play a key role in helping the world decarbonise to reach net-zero emissions through reliable, affordable and sustainable energy.

The overweight to Healius detracted from performance in September (-17.86%) as the market continued to speculate that the bid by smaller rival ACL could be blocked by the ACCC. Healius' assets have attracted interest from private equity and there are activist investors on the register. With the combined value of Healius' radiology and pathology businesses estimated to be around \$2.6 billion this represents a substantial uplift from the current market capitalisation of \$1.7 billion. We are encouraged with the progress Healius has made with improvements in their radiology business under new leadership. Pathology segment continues to track below what the business could achieve given in person GP visits are still around 20% below pre pandemic, which leads to lower pathology requests. We believe some of the co-pay introduction are deterring GP visits, consumers continue to defer and there are evidence that primary care screenings are being deferred. We believe GP visits and Pathology volumes will re-bounce in the future and that we will start to see pathology segment margins improve from here.

The overweight position in casino operator Star Entertainment Group (-34.02%) detracted from relative performance. The stock ended the month lower after the casino operator engaged the equity markets to raise \$750m priced at \$0.60 a share following Star also recently securing a \$450 million debt package with the aim of paying off Star's existing loans and handling costs at Queens Wharf in Brisbane. The raise has provided further clarity on the balance sheet and we are still seeing value in Star's conservatively stated net tangible asset value.

OUTLOOK

The importance of interest rates on valuation cannot be understated - it is the fundamental driver of valuation. Yet as the yield curve has moved steadily higher over 2023 the equity market has taken a peculiar response, acknowledging the impact of rising discount rates in some sectors but not others. Pockets of growth stocks remain completely oblivious to the move in yields. Goldman Sachs strategist Matt Ross recently highlighted that many Australian growth stocks have held up better than offshore peers and continue to trade at elevated multiples. This could all be rendered irrelevant if the recent move in bonds is indeed an aberration, inflation plummets and yields settle lower. But if we are in a higher for longer world, there could yet be more pain to come for the "expensive defensives" and growth stocks that have been the darlings of the market in the last decade. The psychological temptation to buy a high quality company that has fallen 20% is ever present but if yields remain here, or even march higher, then there is every chance that this valuation unwind is far from complete.

The Ordinaries benchmark prior to 1/4/2000 was the ASX All Ordinaries Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX 300 Accumulation Index.
This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL No 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.
The PDS for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in that fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website www.perpetual.com.au. No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of any investor's capital. Total return shown for the fund(s) have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for contribution or withdrawal fees or taxation (except in the case of superannuation funds, as applicable). Past performance is not indicative of future performance.

MORE INFORMATION

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

