

Perpetual Investment Funds

PERPETUAL CONCENTRATED EQUITY FUND

September 2022

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

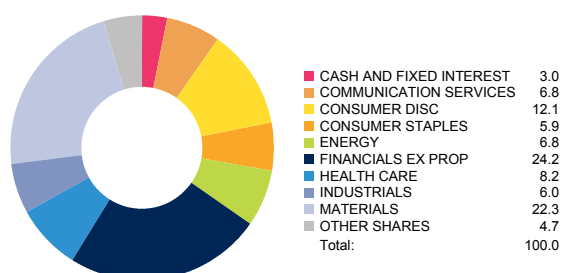
Provides investors with higher potential returns, through the active management of a portfolio of fewer stocks but with higher conviction, than our core Australian equity funds. This concentration may lead to increased short term volatility.

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:	\$390.88 million as at 30 Sep 2022
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
Insurance Australia Group Limited	8.7%
Santos Limited	5.5%
Wesfarmers Limited	4.7%
National Australia Bank Limited	4.6%
Brambles Limited	4.5%
Orica Limited	4.4%
Commonwealth Bank of Australia	4.4%
Telstra Corporation Limited	4.4%
Westpac Banking Corporation	4.3%
Iluka Resources Limited	4.3%

NET PERFORMANCE - periods ending 30 September 2022

	Fund	Benchmark #	Excess
1 month	-6.34	-6.29	-0.05
3 months	0.49	0.45	+0.04
FYTD	0.49	0.45	+0.04
1 year	-1.67	-8.00	+6.32
2 year p.a.	17.87	9.73	+8.15
3 year p.a.	4.50	2.73	+1.77
4 year p.a.	4.94	5.10	-0.17
5 year p.a.	6.27	6.83	-0.56
7 year p.a.	7.40	8.07	-0.67
10 year p.a.	8.52	8.38	+0.14
Since incep.	10.08	7.75	+2.34

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

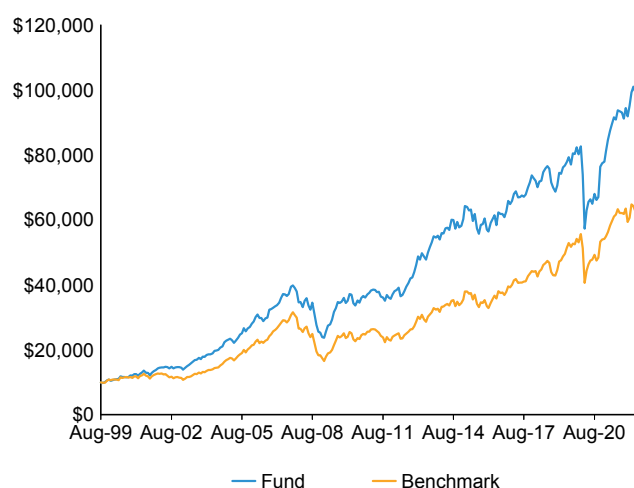
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	13.3	12.8
Dividend Yield*	4.4%	5.1%
Price / Book	1.7	1.7
Debt / Equity	36.1%	30.5%
Return on Equity*	13.2%	14.2%

[^] 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



MARKET COMMENTARY

The Australian equity market finished the September quarter marginally higher after returning most of its earlier gains in the latter half. Energy and Health Care sectors were the standouts, whereas Utilities and REITS were significant laggards. The Energy sector rallied amid the prospect of OPEC+ announcing more production cuts, while mining producers impressed despite underlining concerns about the outlook for steel demand. The Resources sector outperformed on stronger-than-expected results, spurred by M&A activity and record cash flows over the past year, despite significant declines in commodity markets and crude oil trading at its lowest since January. Consumer Staples ended worse after results from food and grocery companies confirmed prevailing headwinds from inflation. All in all, this allowed Value stocks to slightly edged-out Growth stocks over the quarter.

Market sentiment was supported early in the quarter by an unexpected rebound in business confidence and conditions, suggesting that demand had remained resilient in the face of economic headwinds. This came as Australian employment rebounded in August, despite the jobless rate unexpectedly rising for the first time in 10 months. This strengthened the case for the RBA to slow the pace of tightening in October and acknowledge that rates are nearing a normal setting. Investors, however, remained alert to the more significant market issues, including the outlook for monetary policy after central bankers emphasised that they are a long way from a policy pivot. This came after three consecutive cash rate rises over the quarter, totalling 150 basis points. Sentiment was weighed down later in the quarter by an increasingly hawkish central bank rate outlook, tightening financial conditions, and volatility in FX and bond markets. Furthermore, concerns of a surge in utility prices and the expiration of the fuel excise cut are expected to put more upward pressure on inflation over the December quarter. Europe's energy crunch, UK policy uncertainty, China's Covid lockdowns, and speculation of a global recession further contributed to a deteriorating outlook for global growth and consensus earnings estimates, which stoked September-quarter local market volatility.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Santos Limited, Insurance Australia Group Limited, and Orica Limited. Conversely, the Fund's largest relative underweight positions include BHP Group Ltd, CSL Limited, and ANZ Bank.

The overweight position in copper and gold miner Oz Minerals (+45.6%) contributed to relative performance. The stock rose sharply after receiving an unsolicited, conditional, and non-binding indicative proposal from BHP Group to acquire 100% of its shares for \$25.00 per share in cash via a scheme of arrangement. The Oz Minerals board, however, has unanimously determined that the Indicative Proposal significantly undervalues the company and is not in the best interests of its shareholders. The company noted that it has a unique set of copper and nickel assets, all with strong long-term growth potential in quality locations and that it does not consider that the proposal from BHP sufficiently recognises these attributes.

The overweight position in insurance provider Insurance Australia Group Ltd (+6.7%) contributed to relative performance. The stock rallied hard late in the quarter to recover most of its earlier losses incurred leading up to the release of its preliminary full-year financial results. While IAG's growth of 5.7% was in line with its mid-single digit growth guidance, its reported insurance profit margin came in at 7.4%, down 6.1% year-on-year and missing its 10% to 12% guidance. Management blamed the miss on its net natural peril costs of \$1.119B, which were \$354M above the original allowance of \$765M.

The overweight position in dairy producer A2 Milk Company (+23.0%) contributed to relative performance. During the quarter, the company reported a 19.8% increase in its full-year FY2022 revenue to NZ\$1.446.2M, leading to a 42.3% jump in net profit after tax to NZ\$114.7M and beating the market consensus estimate of NZ\$113.9M. This was driven mainly by double-digit infant formula sales growth from both its China and English label products, reflecting A2's significant increase in marketing investment, which prompted further gains in brand health metrics and record market shares. Investors were further pleased with the announcement of a NZ\$150M on-market share buyback.

The overweight position in explosives and blasting systems manufacturer Orica Ltd. (-16.2%) detracted from relative performance. The stock fell during the quarter following its successful \$650M equity capital raise to partly fund the acquisition of geospatial tools manufacturer Axis Mining Technology in a deal worth up to \$350M for an up-front cash consideration of \$260M. The excess capital raised will be used to fund incremental trade working capital requirements arising from global supply chain dislocations and to help strengthen its balance sheet.

The overweight position in healthcare services and hospital operator Ramsay Health Care (-21.2%) detracted from relative performance. The stock fell after the KKR-led consortium confirmed that it had ceased discussions with Ramsay regarding a potential acquisition. Ramsay's board advised KKR to increase its offer to \$88 per share for due diligence to be granted. However, the consortium advised that it would not proceed with an alternative proposal on the belief that the business had materially deteriorated over the past six months. Ramsay indicated that it remains open to engaging in talks relating to a change of control.

OUTLOOK

We have long believed that markets are poised for further rotation to a more value-oriented investment environment as Covid disruptions, waning stimulus, and war combine to keep consumer price inflation at high levels. Until June this year, equity markets were resilient in the face of the rate hikes, but bond markets have priced in tighter monetary policy much more aggressively. Historically, when the bond market and equity market disagreed, the bond market was usually correct. In our view, rising bond yields will eventually lead overpriced growth stocks into a more sustained and overdue correction, challenging investors with large growth exposures. We think, in the years ahead, 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. 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.

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.

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