

## Perpetual Investment Funds

# PERPETUAL CONCENTRATED EQUITY FUND

October 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

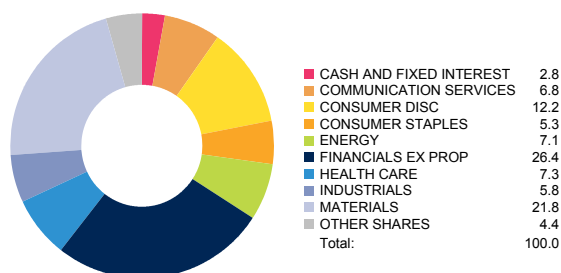
Provides investors with higher potential returns, through the active management of a portfolio of fewer stocks but with higher conviction, than our core Australian equity funds. This concentration may lead to increased short term volatility.

### 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.

<b>Benchmark:</b>	S&P/ASX 300 Accum. Index
<b>Inception Date:</b>	August 1999
<b>Size of Portfolio:</b>	\$390.88 million as at 30 Sep 2022
<b>APIR:</b>	PER0102AU
<b>Management Fee:</b>	1.10%*
<b>Investment style:</b>	Active, fundamental, bottom-up, value
<b>Suggested minimum investment period:</b>	Five years or longer

### PORTFOLIO SECTORS



### TOP 10 STOCK HOLDINGS

	% of Portfolio
Insurance Australia Group Limited	8.4%
Santos Limited	5.9%
Westpac Banking Corporation	5.1%
Commonwealth Bank of Australia	5.1%
National Australia Bank Limited	4.9%
Wesfarmers Limited	4.7%
Brambles Limited	4.7%
Orica Limited	4.6%
Telstra Group Limited	4.2%
Iluka Resources Limited	3.8%

### NET PERFORMANCE - periods ending 31 October 2022

	Fund	Benchmark #	Excess
1 month	5.18	5.96	-0.78
3 months	1.84	0.46	+1.38
FYTD	5.70	6.44	-0.74
1 year	3.88	-2.61	+6.49
2 year p.a.	20.07	11.90	+8.17
3 year p.a.	6.35	4.86	+1.49
4 year p.a.	7.80	8.34	-0.54
5 year p.a.	6.65	7.23	-0.58
7 year p.a.	7.44	8.30	-0.85
10 year p.a.	8.70	8.69	+0.01
Since incep.	10.28	7.99	+2.30

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

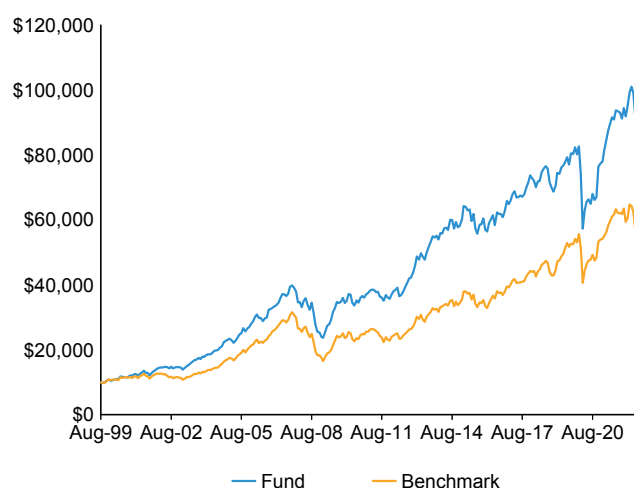
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	14.1	13.6
Dividend Yield*	4.2%	4.8%
Price / Book	1.8	1.9
Debt / Equity	36.7%	31.1%
Return on Equity*	13.1%	14.2%

<sup>^</sup> 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

Australian equities rallied over October following the RBA's smaller-than-expected 25 bp rate hike to 2.60%. The decision underpinned market views that the RBA's front-loading of rate hikes has ended, and that future tightening is expected to be in 25 bp increments. While the RBA reiterated its determination to continue tightening, it signalled that it is becoming more mindful of policy trade-offs and is broadening its focus beyond just controlling inflation. The October RBA meeting minutes revealed that the central bank sees the possibility of more substantial wage growth, just as other economies have experienced, and was also wary of credibility damage if upside risk to inflation materialised. This came as headline inflation accelerated to a 32-year high during the September quarter, with food prices being a significant contributor, spurred by rising input costs and crop damage from the recent floods. Underlying inflation pressures were also evident, driven by housing-related categories such as input shortages, supply chain issues and building cost pass-through, pushed up the price of furnishings and new dwellings. Gas and other fuels have risen the most since 2012, while rental inflation climbed further due to falling vacancy rates.

There were notable moves among the sectors over the month, with Financials being the top performer, led by the major banks. A-REITs significantly outperformed amid a sharp fall in bond yields and after the budget outlined plans to build one million new homes. Utilities also stood out following the government's plans to invest more in green energy and build new transmission lines. Energy also continued to rise sharply, despite the government threatening unprecedented regulatory intervention in the power market to curb price rises. Consumer staples underperformed as continued cost inflation pressures weighed on grocery retailers, whereas Materials were also among the decliners, reflecting weakness among the major miners on the back of falling iron ore prices.

## 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 underweight position in iron ore miner BHP Group (-3.0%) contributed to relative performance. The stock price came under pressure during October, with headwinds coming from falling iron ore prices (down 5.4% over the month) and sinking to a two-year low. The iron ore weakness was primarily driven by falling demand from China, which struggled with renewed lockdowns due to its COVID-zero strategy and waning real estate market.

The overweight position in Entertainment, hospitality and leisure company EVT Ltd. (+15.2%) contributed to relative performance. The stock was boosted by its first-quarter trading update, reporting normalised EBITDA (ex-AASB 16 leases) of A\$70.6M (vs a \$15.5M loss from a year-ago). Normalised EBITDA from its Entertainment businesses (including CineStar Germany) increased to A\$10.0M from A\$5.3M in Q1 FY19, Thredbo normalised EBITDA rose +41.7% from Q1 FY19, and Hotels EBITDA rose +5.7% from Q1 FY19. Consolidated revenue was down (0.3%) on the pre-COVID FY19 year, and Thredbo revenue was up +27.7% vs Q1 FY19.

Not holding Iron ore miner Fortescue (-12.6%) contributed to relative performance. The stock also fell on the back of weakening iron ore prices over the month as demand for the steel-making ingredient from China slowed. Increasingly bearish sentiment from the broker community also impacted the stock after Fortescue released its decarbonisation plans for the Pilbara and aims to reach net zero emissions by 2030, which is considered to impact its dividend payments over the coming years.

The overweight position in mineral sands miner Iluka Resources (-4.5%) detracted from relative performance. The miner reported Zircon production of 69.7 Kt vs quarter-ago 80.4 Kt, Rutile 24.9 Kt (vs quarter-ago 48.3 Kt), Synthetic Rutile 59.2 Kt (vs quarter-ago 59.8 Kt), and Ilmenite 150.9 Kt (vs quarter-ago 170.7 Kt). Mineral sands revenue of \$357.3M fell from \$540.9M a quarter ago despite robust zircon demand from Iluka customers. Sales were also impacted by production and logistics constraints, softness in the Chinese ceramics market, and high energy costs affecting tile production.

The underweight position in Commonwealth Bank of Australia (+15.4%) detracted from relative performance. The stock rose sharply following an upbeat Annual General Meeting. Although it didn't provide any details on its performance during the current quarter, CEO Matt Comyn indicated that overall, the bank remains fundamentally optimistic about the medium to long-term opportunities for Australia, as well as its capacity to provide support in the immediate future for its customers. It was also announced that the bank would continue to invest in its core retail, business, and institutional banking franchises to reinforce its proposition and extend its digital leadership.

## OUTLOOK

Volatility remains the order of the day. Markets are seemingly hanging on to every word from Fed governors looking for some signs of a "pivot" on interest rate rises and trading in big swings on monthly inflation prints. Such a macro-driven market creates a lot of choppiness and single-stock opportunities for patient investors. As the market trades lower, the opportunity set continues to grow, and several new quality names are being added to the watch list that has not looked appealing for many years. In the years ahead, we think 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. Valuation discipline remains critical though, and in light of comments around persistent valuation dispersion, we are doing the work, but moving forward with some degree of caution. 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.

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# 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](http://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](mailto:investments@perpetual.com.au)  
[www.perpetual.com.au](http://www.perpetual.com.au)

